The Effect Of The Relationship Between Strategy And Competitive Advantage To Improve The Financial Performance In The Iraqi Banking Sector

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Abstract

Institutions have taken into consideration the rapid shifts in the business environment, which made them consider implementing various strategies to face fierce worldwide market competition and reduce adverse repercussions on financial performance.
Such a competitive situation has become increasingly challenging for many organizations, in general, and particularly banks.
This paper aims to explore how the effect of the relationship between strategy and competitive advantage in improve financial performance in the Iraqi banking sector by evaluating the mediating function of competitive advantage in the association between strategy and financial performance.
A quantitative approach is used to obtain data from a survey (questionnaire) consisting of 60 items with a five-point Likert scale. A total of 132 managers participated in the Iraqi banking sector in the study. (a 83.6% response rate). The data analysis was conducted using Smart PLS 3.2.9.
The findings of the path analysis of partial least squares (PLS) support variables in their hypothesized direct relationships with financial performance.
The empirical findings show that competitive advantage partially mediates the relationship between strategy and financial performance.
The paper advances several recommendations that can be beneficial for researchers to conduct further studies in this area as well as policymakers and managers in their efforts to enhance the financial performance of organizations in the future.

Keywords: Competitive Advantage (CA), Financial Performance (FP), Iraqi Banking Sector, Strategy (ST).

1. Introduction

Financial globalization has been a most dynamic component of the world over the last ten years. These developments are likely to increase in the coming years in the light it and the implementation of the Financial Services Liberalization Agreement. These developments will

undoubtedly show significant influences on banks of the future of the challenges ahead.

The global environment in which Iraqi banks are operating has changed entirely and in a way that has not been taken into account. This development will not stop, but it is a continuous process under which the fierceness of competition and continuously diversifying their instruments and increasing the movements of capital in search of profit and safety (Hashem, 2019).

Institutions in total and the banking industry especially those who seek to achieve competitive advantage and supremacy in one or more competitive areas, face problems and barriers (Alalie, 2018).

Omran (2015) noted that vulnerability factors for banks in the Iraqi sector are poorly developed banking industries in Iraq, the superiority of government banks, inadequate financial infrastructure, poor governance, reduced rate of reforms, and the challenging operating environment.

also, the current situation in the Middle East of wars and threats of terrorism and natural disasters, and other risks weaken the proportion of performance (Steven Minsky & Fox, 2015).

CBI (2019) From those mentioned above, The Central Bank of Iraq's actions in addressing problems were dependent on a procedure of analysis of the banking industry's internal and external environment and identifying strengths, shortcomings, opportunities, and vulnerabilities. A strategic plan was developed aimed at building an efficient, effective, and competitive banking sector. The main objectives of the strategic plan Support and achieve financial stability, the development of the organizational structure and organizational structure, the development of human capital, and activate and integrate internal and external relations.

The original purpose of this paper is to explore how competitive advantage mediates the association between the strategy and the financial performance of the Iraqi banking sector. Until now, researchers have not investigated such an influence. It is regarded in the literature as a noticeable gap.

Consequently, the objective of this paper is to fill this gap by contributing significantly to the body of knowledge.

The remaining part of this study is structured as follows: Section 2 provides an extant literature review on strategy, competitive advantage, and financial performance.

Section 3 deals with the model specification and data collection method. Section 4 the findings of the study, while Section 5 focuses on the conclusions.

2. Literature Review

2.1 Iraqi Banking Sector

The banking sector in Iraq has in recent years appreciated exponential development in products offering, growth in deposits, and asset profitability ascribed to the mechanization of services and branch organizations both locally and regionally. Also, The Iraqi Banks Sector provides to its clients a package of facilities, such as deposits, loans, and finance on different ventures, and other services to the market in Iraq (Alalie, Harada, & Noor, 2019).

In Iraq, the banking system is comprised of 80 banks, split into 7 public banks and 73 private banks, according to the (CBI, 2018). Banks that are private were founded to deliver financial services to the Iraqi market, as a free dependence entity in the private sector.

All national (public and private) and financial institutions that are foreign operating in Iraq are officially licensed and under the direct supervision of the Central Bank of Iraq, including banks that are specialized and Islamic.

All these banks shall have the license to carry on their business under the terms of the Central Banking Law of Iraq and the Banking Law No. 56 of 2004, Article 40, section 8, and the Banking Law No. 94 of 2004, Article 4 (CBI, 2019).

2.2 strategy

The concept of strategy is a complex one (Hernández-Perlines et al., 2016). Strategy is developing and communicating the firm's unique position, making trade-offs, and forging fit among activities (Falah et al., 2021). The strategy is the pattern of objectives, purpose, goals, and major policies and plans for achieving these goals stated in such a way so as to define what business the firm is in or is to be and the kind of company it is or is to be (Hernández-Perlines et al., 2016).

Gareth (2010) mentioned that strategy is an indispensable tool for organization success, as it helps a company to be more proactive than reactive in molding its own future; it makes an organization initiate and affects activities so that it can exert control over its own destiny.

Akintunde et al., (2017) opined that strategy generates greater commitment to achieve objectives, to implement strategies, to work hard, strategy well-implemented aids improvement in sales, profitability, and productivity. It can also improve understanding of competitors' strategies. However, a good SWOT analysis can help us to understand the difference with our competitors, including the awareness of threats; it helps to reduce resistance to change and to objectively define management problems. Fadeyi et al., (2015) concluded that strategy provides a framework for an organization to coordinate and control its activities and enhances communication among the employees and managers.

Gareth (2010) and Johnson et al., (2009) mentioned the different contributing elements of a strategy statement as explained thus: The term is related to goals and refers to the domineering purpose of the organization. The mission is often defined in terms of the seemingly simple but challenging question: 'What business are we in?' Hence, mission statement enables top executives to emphasize the essential area of their strategy.

This term also is connected to organizational goals and refers to the anticipated future state of the organization. Vision is an aspiration that can help mobilize the energy and passion of organizational members.

The vision statement, therefore, should answer the question: 'What do we want to achieve?' The term "objective" is a more clear-cut and quantifiable statement of the organization's goals over some period of time.

This may refer to profitability or increased market share targets for a private firm. Objectives introduce discipline to strategy.

This part of a strategy statement describes how the organization will achieve the objectives it has set for itself in its chosen domain.

In competitive environments, this is referred to as the competitive advantage: for example, how a particular organization will achieve its goals in the face of competition from other organizations. In order to achieve a particular goal, the organization needs to be better than others seeking the same goal.

2.3 competitive advantage

The last two decades have seen liberalization which has prompted hardened rivalry in numerous divisions of the economy and has rolled out firms improvement by taking certain activities with a specific end goal to survive, The competition has affected banks, and they have had to create strategies to react to the rivalry, protect their niche and to enlarge their market share of the overall industry Zhao, Meng, He, and Gu (2019) Competitive advantage has developed into one of the fields that attract significant consideration in administrative literature, in previous research and analysis, owing to the significance of reaching organizational growth to lift the standard of performance and the capacity of banks to engage strategically in the realization of their productivity targets and visions and objectives; Survival and longevity in the business sector through dominance in delivering quality, competitive and time-based services (Hasan & Kawan, 2017).

The competitive advantage is basically how much an organization can bring a proper stance against its competitiveness (Porter, 1985).

A competitive advantage is a technique for value-adding where future rivals cannot adopt and could hardly be replicated (Mnjala, 2014). Every company that has a competing business or a resource that a company has insight is particularly useful as a comparing desire (David & David, 2017).

There are several approaches to boost competitive advantages, including expense, development, reliability, quality, timeliness, new product releases, product line width, filling volume, customer service, effective capital deployment, distribution dependability and availability (Kwak, Seo, & Mason, 2018).

Valuable resources should allow a company either to decrease its vulnerabilities or supremacy over its rivals by following a value-creating strategy (Rezaee, 2015). In other terms, a business's specialised resources are long-lasting, competitively challenging, incompletely transferable, challenging to duplicate, and directly managed and regulated by the company (Proof, Indexes, Rahman, & Yazid, 2015).

If a company has a competitive advantage and prohibits rivals from imitation, the outcome becomes apparent to avoid erosion and to maintain a competitive advantage. Nevertheless, it is not enough to avoid imitation. To optimize its competitive benefit, the company must make attempts to postpone this occurrence (Rezaee & Jafari, 2015) to gain competitive advantages through constant adaptation and successful tactics development, application and assessment of shifts in the external developments and activities and internal capacities, expertise and resources (David & David 2017).

2.4 Financial Performance

Despite the essential importance of financial sustainability, the financial performance assessment has not been subject to a number of methodologies and choices (Al-basheer and Shawaqfeh 2015).

There was also the view that the majority of financial institutions in this sector were unsustainable (Solomon et al. 2012). Studies have shown that this is primarily related to risk perception and lending of micro borrowers and the small loans economies of scale Because of demonstrated viability and low operating costs, microfinance has attracted lending agencies. Liquidity tests the company's ability to fulfill its financial commitments when they occur without affecting the company's usual continuing operations (Bushara, Ahmed, and Elzebair 2018).

Structural and operating liquidity can be measured. Structural liquidity refers to the budget (assets while liabilities), and cash flow measures refer to operating liquidity (Kurdi, Naji, and Naseef 2019). On the other Gadzo et al. (2019) indicated that solvency measures the amount of borrowed capital used by the business relative to the amount of owners' equity capital invested in the business.

In other terms, solvency indicators reflect the ability of the corporation to repay the debt once all assets have been sold. Solvency metrics can provide an indicator of the business' risk tolerance capacity to continue its business activities after significant financial adversity by supplying information about its ability to continue operating (Al-basheer and Shawaqfeh 2015). Profitability measures to assess the degree to which a business produces profit from production factors: labour, management, and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business (Abeysekara 2019).

The rates of return on assets, the equity rate (ROE), the margin of operating profit, and net corporate income are four useful indicators of corporate profitability. The ROA calculates the return on all company assets and is often used as a profitability index and the higher the value, the more profitable the company will be.

The ROE calculates the return rate on the equity of the owner working in the business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a profitable return on their borrowed money (Gadzo et al. 2019).

3. Methodology

In this paper, an attempt was made to study the relationship between strategy, competitive advantage and the financial performance within the sector of banking in Iraq.

A quantitative methodology was taken in which the data collected were separated into two sections by a survey. The first section focuses on the general features of the subjects, including age group, occupation, educational level, and career. In the second section, measuring the components of strategy, competitive advantage, and financial performance was our interest.

A representative sample is crucial if evidence from the sample is being used to make generalizations about the larger population from which the sample was

selected. The study was applied to a sample of (132) executives and heads of departments from the Iraqi banking sector. The participants were invited to give their opinions on a Likert-scale (1-5) ranged from "Extreme Disagreement" to "High Agreement to analyze data obtained using a Smart pls 3. Partial least square structural equational modeling is used to test the hypothesis. PLS-SEM technique is superior to other statistical methods in many ways such as effective for statistical model building along with forecasting, no sample size restriction, and suitable especially in case of mediation and precise and accuracy in estimation, soft modeling assumptions doesn't require normality of data (Hair Jr., Matthews, Matthews, & Sarstedt, 2017).

3.1 Conceptual Framework

The conceptual framework of (Bani, Nordin, & Hanafi, 2018) has an essential part in research in explaining the methodology used for the study. Thus, to direct this research into its aim, a conceptual framework is necessary. As can be seen in "Fig. 1", the author has developed a clear conceptual framework for this paper.
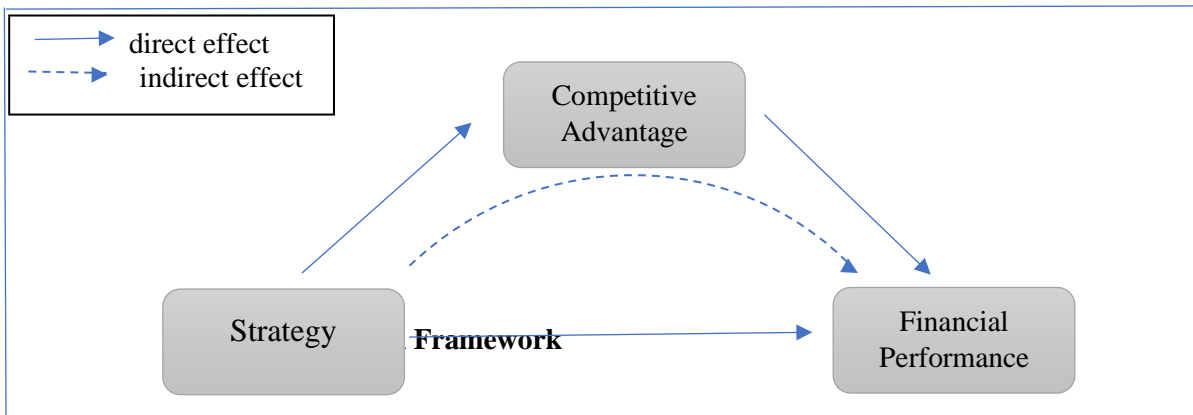
4. Results and Discussion

4.1 Demographic profile

Table 1 shows the general characteristics of respondents, including gender, age, educational level, years of service and Position:

Table 1: Profile of population

Variable	Category	Frequency	Percentage %	Total sampling
Gender	Male	78	59.1	132
	Female	54	40.9	
Age	30-20	9	6.8	132
	40-31	32	17,4	
	50-41	69	52.2	
	50 And over	22	16.6	

Educational	Diploma	15	11.3	132
	Bachelor	76	57.5	
	Master	30	22.7	
	Ph.D.	11	8.3	
Years of service	More Than 5-10	24	18.1	132
	More Than 10 - 15	35	26.5	
	More Than 15-20	49	37.1	
	20 And over	24	18.1	
Position	Executive Manager	28	21.3	132
	Department Director	104	78.7	

4.2 Convergent validity

Convergent validity is defined as "subcategories of construct validity" and is assessed to validate the measurement model.

Average Variance Extracted (AVE) is used to calculate the proportion of the Variance described by way of metrics for calculation errors.

Based on the PLS analysis, the lowest recommended level of reliability is 0.7 (Hair et al., 2017), and the lowest acceptable level of Average Variance Extracted (AVE) is 0.5.

As seen in Table 2, composite reliability and Cronbach's Alpha are deployed to evaluate the internal consistency reliability of each dimension. If the overall Cronbach's alpha coefficient of all the items of a construct exceeds 0.7, the items are deemed highly reliable (Kannan & Tan, 2005). The items were considered highly reliable because the individual Cronbach's alpha coefficients of constructs were all more than 0.7.

Table 2: The result of convergent validity

Variables	Cronbach's Alpha	Composite Reliability	AVE
Strategy	0.810	0.912	0.765
Competitive Advantage	0.832	0.903	0.773
Financial Performance	0.799	0.922	0.754

As shown in Table 3, the correlation of latent variables and discriminant validity (Fornell-Larcker) the squared correlations between the factors were smaller than the corresponding AVE estimates. This result shows that the

constructs had a stronger relationship to their respective indicators; the result

indicated that the measure had adequate discriminant validity.

Table 3: Correlation of latent variables and discriminant validity

Construct	Strategy	Competitive Advantage	Financial Performance
Strategy	**0.798**		
Competitive Advantage	0.555	**0.801**	
Financial Performance	0.710	0.560	**0.845**

4.3 Coefficient of Determination (R2)

The coefficient of determination or what is known as R^2 is one of the central criteria in the evaluation of the structural model by PLS-SEM. R^2 value represents the portion of the variation in the endogenous variable(s) that can be explained by one or more exogenous variables. Hair et al. (2011) Chin (2010), suggested that values of R2 more than 0.67 are considered high, while values ranging from 0.33 to 0.67 are considered moderate, whereas values between 0.19 to 0.33 are considered weak and any R2 values less than 0.19 are unacceptable. Thus, based on the results, all values of R2 have fulfilled Chin's (2010) criteria. Table 4 presents the R-Square (R2) of the endogenous latent variables.

Table 4: R-Square of the Endogenous Latent Variables

Latent Construct	R2	Result
ST ⟶ CA	0.540	Moderate
ST & CA ⟶ FP	0.701	High

4.4 The Effect Size (f²)

According to Cohen's (1988) suggestions, the operational definition for multiple regressions, this represents criteria to determine if a predictor's exogenous variables have no, small, medium or large f². Accordingly, values of f² more than 0.35 are considered to be a large f² while values ranging from 0.15 to 0.35 are considered medium, values between 0.02 and 0.15 considered small and lastly any values less than 0.02 are considered not to affect. The effect sizes for the present study are calculated as per the above formula and are provided in Table 5.

Table 5: Effect Sizes of the Latent Variables

Constructs	F Square	Effect Size
ST -- CA	0.825	Large
CA -- FP	0.765	Large
ST -- FP	0.240	Medium

4.5 Predictive Relevance of the Model (Q²)

Predictive relevance (Q²) is another criterion to assess the quality of the structural model to predict (Hair et al., 2017). According to Saunders, Lewis, and Thornhill, (2016) suggestion, if the value of cross-validity redundancy is above zero, this indicates that predictive relevance while a value of Q² less than zero means that the model lacks predictive relevance. Table 6 shows the results of the Q² of the endogenous latent variables.

Table 6: Predictive relevance of the endogenous latent variables

Construct	Validated Redundancy (Q2)	Results
CA	0.454	Q2> 0 Explanatory variable provides predictive relevance
FP	0.408	Q2> 0 Explanatory variable provides predictive relevance

4.6 Hypotheses Testing (Path Coefficient)

The final step in evaluating the structural model is examining the research hypotheses through assessing the path coefficient. The smaller the p-value, the stronger the significance of the relationship will be (Hair et al., 2017). Table 7 shows below the direct relationship results of the structural model, the relationship between hypothesis as H1, H2, H3.

Table 7: Direct results of hypotheses

Hypothesis	Path Coefficient (β)	Std. Error	T-value	P-value	Inference	Decision
H1 - ST> CA	0.679	0.067	11.315	0.000	Significant **	Supported
H2 - CA> FP	0.604	0.061	9.795	0.000	Significant **	Supported
H3 - ST> FP	0.344	0.068	5.029	0.000	Significant **	Supported

4.7 Testing the Mediation Relationship (Indirect Effects)

The theoretical design of this study provides a unique opportunity to test whether competitive advantage mediate the relationship between strategy and financial performance. Hayes, (2009),

define the mediator as a variable that accounts for all or part of the relationship between a predictor and outcome. The predictor in this study is strategy while the outcome is the competitive advantage. Table 8 displays the findings of the specific indirect effect for the mediating variable.

Table 8: Results of the Specific Indirect Effects (Mediation Test)

Hypothesis	Path Coefficient (β)	Std. Error	T-value	P-value	Inference	Decision
H4 – ST > CA > FP	0.411	0.061	7.598	0.000	Significant **	Supported

The important information presented in Tables 10,11 of transactions is the statistical significance of each dependent variable. The value of t and the value of p tell us if the coefficients of the variables are zero in the population. If p is less than 0.005, We may conclude that the variables are statistically significant. In our case, we may see from the table that all independent variables have a positive effect and that the p-values for all independent variables are less than 0.001. Hence, a reasonable conclusion can state that a significant and positive impact, and we reject our empty assumptions and thus support the assumptions: H1: There is a positive relationship between Strategy and Competitive Advantage. H2: There is a positive relationship between Competitive Advantage and Financial performance. H3: There is a positive relationship between strategy and financial performance. H4: There is a positive relationship between strategy indirectly affects financial performance through competitive advantage an intermediate variable.

5. Conclusion

Directing the attention toward the bank's Competitive Advantage enhances the performance of individuals, organizations, and the financial aspect as well.

This paper dealt with variables of Strategy, Competitive Advantage, and Financial Performance in the Iraqi banking sector. It is concluded that competitive advantage is a crucial element of the country's economic development, and it is crucial for Iraqi economic development.

Directing the attention toward the banking sector's competitive advantage enhances the performance of individuals, organizations, and the financial aspect as well. Competitive advantage can enhance customer satisfaction, which is crucial in the Iraqi banking sector. Competitive advantage in the Iraqi banking sector can be improved through the Build a clear strategy.

The findings revealed that strategy and competitive advantage play a key role in improving Financial Performance. Also, Competitive advantage positively contributes to Improving the Financial performance of the banks.

More importantly, Competitive advantage mediates the relationship between strategy and financial performance, in which both direct and indirect effects do exist and point in the

same direction (i.e., a positive relationship). Hence, the higher the level of strategy implementation, the higher the Competitive advantage and performance.

Author Contributions

The manuscript, collection of data, study, interpretation of data and reading, and acceptance of the final manuscript was also contributory to all authors. In addition, both writers affirm that the agreement must be made responsible for all aspects of work in ensuring adequate investigation and resolution of questions relating to the quality or credibility of any part of the work.

Disclosure statement

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