

**THE IMPACT OF COMPETITIVE STRATEGY DIMENSIONS (COST
LEADERSHIP AND INNOVATIVE DIFFERENTIATION) ON BANKS'
PROFITABILITY¹**

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ABSTRACT

The primary objective of this study is to investigate the impact of competitive strategy dimensions cost leadership and innovative differentiation on the profitability of banks in the Iraqi. The sample includes 113 top managers (CFOs and CEOs) from financial instantiations (banks) listed with the Central Bank of Iraq. A quantitative research approach was adopted, and data collection occurred in two phases. In the first phase, 135 usable survey was retrieved from the 152 distributed. Partial Least Squares (PLS) analysis was used to test the research constructs. The findings revealed that innovative differentiation has a significant and positive impact significant on banks' profitability. However, the cost leadership strategy showed no significant effect on profitability.

Keywords: Profitability; Competitive Strategy; Banks; Cost Leadership and Innovative Differentiation.

¹ This study is derived from the PhD thesis titled "The impact of business strategy and accounting information system on financial performance of Iraqi banks: Quality of accounting information as a mediating variable", authored by Nashwan Ghazi Hameed ALDOURY under the supervision of Essia Ries Ahmed ABU RIES at Karabuk University

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REKABETÇİ STRATEJİ BOYUTLARININ (MALİYET LİDERLİĞİ VE YENİLİKÇİ FARKLILAŞMA) BANKALARIN KÂRLILIĞI ÜZERİNDEKİ ETKİSİ

ÖZ

Bu çalışmanın temel amacı, rekabetçi strateji boyutları olan maliyet liderliği ve yenilikçi farklılaşmanın, Irak'taki bankaların kârlılığı üzerindeki etkisini incelemektir. Örnekleme, Irak Merkez Bankası'na kayıtlı finansal kuruluşlarda (bankalarda) görev yapan 113 üst düzey yöneticiyi (CFO ve CEO) kapsamaktadır. Araştırmada nicel araştırma yaklaşımı benimsenmiş ve veri toplama süreci iki aşamada gerçekleştirilmiştir. İlk aşamada, dağıtılan 152 anketten 135'i geçerli olarak geri elde edilmiştir. Araştırma yapılarını test etmek amacıyla Kısmi En Küçük Kareler (PLS) analizi kullanılmıştır. Bulgular, yenilikçi farklılaşma stratejisinin bankaların kârlılığı üzerinde anlamlı ve pozitif bir etkiye sahip olduğunu göstermektedir. Buna karşılık, maliyet liderliği stratejisinin kârlılık üzerinde anlamlı bir etkisi bulunmamıştır.

Anahtar Kelimeler: Kârlılık; Rekabetçi Strateji, Bankalar, Maliyet Liderliği ve Yenilikçi Farklılaşma.

INTRODUCTION

The success of competitive strategies in enhancing organization performance has been commonly acknowledged (Komakech et al., 2024). The business strategies of organizations have advanced in enhancing profitability to strive for and achieve a desirable position in the marketplace (Anwar & Li, 2021). However, in the current era, beyond profitability, there is a growing emphasis on accountability of environment, which can significantly enhance both competitiveness and profitability (Gölgeci et al., 2019). The choice and implementation of competitive strategies play a necessary role in fostering and shaping an institution's dynamic capability (Ju et al., 2024). However, institutions, particularly in developing countries, face significant challenges in selecting and implementing appropriate competitive strategies due to rising operational costs (Rokhim, 2024). As a result, firms and banks must adapt to survive and sustain their competitive advantage (Löfving et al., 2014). In many cases, some firms and banks struggle to adopt strategies aligned with their unique operational characteristics, leading to a lack of strategic alignment (Chapman & Hyland, 2000). This confusion in choosing and applying suitable strategic practices remains a critical issue, especially among firms operating in developing economies.

The banking sector continues to grow in spite of globalization's challenges, intense rivalry, and evolving technological breakthroughs (Bao et al., 2024). In this era of globalization, technology evolves rapidly, intensifying competitiveness in the marketplace. The Iraqi banking sector has experienced persistent underperformance due to economic instability, technological backwardness, and inadequate infrastructure, issues further intensified by the COVID-19 pandemic (Ali, 2020; Al-mamoorey & Al-Rubaye, 2020). Therefore, Iraqi banks have struggled to apply effective business strategies to improve financial performance. The limited implementation of competitive strategies particularly cost leadership and innovative differentiation has impeded their ability to enhance decision-making processes and operational efficiency (Ciptadi et al., 2014). Thus, the main objective this research to

test the effect of competitive strategy dimensions cost leadership and innovative differentiation on the profitability of Iraqi banking sector.

The current study will be useful to academics and scholars since it adds fresh perspectives and new sources for learning crucial details about the bank's profitability. Given that the study reveals the competitive strategies on banks' profitability, which can be expanded in future studies. This study aims to explore the impact of competitive strategy dimensions (cost leadership and innovative differentiation) on banks' profitability.

COMPETITIVE STRATEGY

Porter (1980) proposed four competitive strategies: differentiation, cost leadership, innovative differentiation focus, and cost focus. The strategic weapons that determine the ultimate clarity of competitive benefit are differentiation strategy and cost leadership strategy. The focus strategy is an optional addition that businesses make to other strategies by conducting in-depth research on their customers or markets, even if it is not a stand-alone method. Despite the fact that several studies have examined the significance of various tactics, Porter's competitive strategy is still useful for conceptualizing and elucidating real-world situations in both Europe and Asia (Anwar, & Shah, 2021). Popular of strategic management scholars believe in Porter's competitive strategy as a key to a business profitability (Lechner & Gudmundsson, 2014). In an developing market, both the strategies are significant to configure a business profitability (Anwar, 2018). For businesses, establishing a competitive position is crucial since it can provide several advantages (Schulz & Flanigan, 2016).

COST LEADERSHIP STRATEGY

Businesses need to reduce production costs through their strategies which affect both operational processes and supply chain management and product design to gain better market competitiveness and increased share (Kharub et al., 2018). Cost leadership strategy adoption by firms leads them to search for eco-friendly

technological solutions that decrease production expenses while preserving environmental influences which aids innovation sustainability. The firms that choose cost leadership typically operate without enough financial backing and might face financial limitations (Banker et al., 2014). By optimizing operational efficiencies and minimizing waste, firms pursuing cost leadership can enhance profit margins and improve market share, enabling them to compete effectively against big firms with more excellent financial resources (Kharub et al., 2018).

INNOVATIVE DIFFERENTIATION STRATEGY

Being innovative is one of the most essential top management techniques since it can significantly improve a firm's profitability (Adomako, 2017). The innovative differentiation strategy, one of Porter's competitive strategies, focuses on developing distinctive goods or services that are thought to be better or more appealing than those provided by rivals (Komakech et al., 2024). This method often demands investments in innovation, and quality enhancements, branding, enabling businesses to command high pricing and build a strong presence in the market (Kharub et al., 2018).

LITERATURE REVIEW AND HYPOTHESES

Cost leadership strategy has been widely recognized as a key driver of business performance across various sectors. A review of earlier research on strategic management techniques is provided in this section, with a focus on cost leadership and differentiation strategies and their influence on business profitability. The impact of these competitive strategies on business performance in diverse industries and economic circumstances has been the subject of numerous scholarly studies. Zairbani, and Jaya Prakash (2025) demonstrate that the strategic differentiation method builds up management practice components and strategic positioning elements as well as product prices and organizational performance features. According to Ha, Nguyen, Luan, and Tam (2024) research findings established that green product innovation

generates positive results for environmental outcomes as well as financial achievements in organizations. Market competition reduces the relationship between earning manipulation methods and applied differentiation strategies for firms operating in Indonesia as well as those operating in South Korea. The results from the study maintain stability after adding profitability variables, particularly in the Indonesian market Fedora, Rudiawarni, Sulistiawan, and Gümrah (2025). Alnoor and Wah (2023) revealed that organizations can achieve high-quality strategic advantages which include price levels alongside delivery speed and flexibility and innovation through the fusion of differentiation and cost leadership strategies. A study conducted by Ali and Anwar (2021) demonstrates the cost leadership strategy provides maximum effectiveness for businesses that operate within the real estate industry. The current situation compels real estate firms to initiate acquisition initiatives to stop any potential bankruptcy or liquidation of their banking institutions. Yusuf et al. (2020) confirmed that supply chain management together with intellectual capital create substantial financial performance effects. The strength and effect of cost leadership strategy upon supply chain management's financial performance relationships receive additional support through moderating effects. Ilyas et al. (2018) proved the cost leadership strategy generates positive and significant effects on the financial performance of textile sector listed companies in Pakistan. Evidence shows that Ali and Zehir (2016) discovered the linkage between cost leadership method and practices of total quality management alongside firms profitability. Banker et al. (2014) determined that differentiation strategies and cost leadership strategies produce favorable results for current performance. The percentage of growth of sales demonstrates positive correlations with the sales-to-capital-expenditure ratio in businesses that follow a cost leadership strategy according to Birjandi et al. (2014). Erbil experiences a major economic and financial crisis at the present time. Research by Valipour et al. (2012) confirmed positive relationships between leverage together with cost leadership strategy and dividend payout and their impact on organizational performance in strategic management. A number of earlier studies are consistent in

indicating that both cost leadership and differentiation strategies have a positive impact on organizational performance in all industries and indicate consistent associations with profitability, innovation, and operational efficiency. But they are contextually focused; some focus on the result of environmental or green innovation, others moderate factors, including market competition, leverage, or supply chain, yet others focus on particular sectors, including real estate or textiles. Thus, the hypotheses will be as following:

H1: There is a positive relationship between cost leadership strategy and profitability.

H2: There is a positive relationship between Innovative differentiation strategy and profitability.

STUDY FRAMEWORK

The present research proposes a conceptual framework for a competitive strategy grounded in two key dimensions: cost leadership and innovative differentiation. This framework is developed through a comprehensive review of established literature and relevant theoretical models. The study focuses on bank performance, with profitability serving as the primary dependent variable. As illustrated in Figure 1, the proposed theoretical model outlines the relationship between competitive strategy and profitability, offering a foundation for empirical testing and hypothesis development.

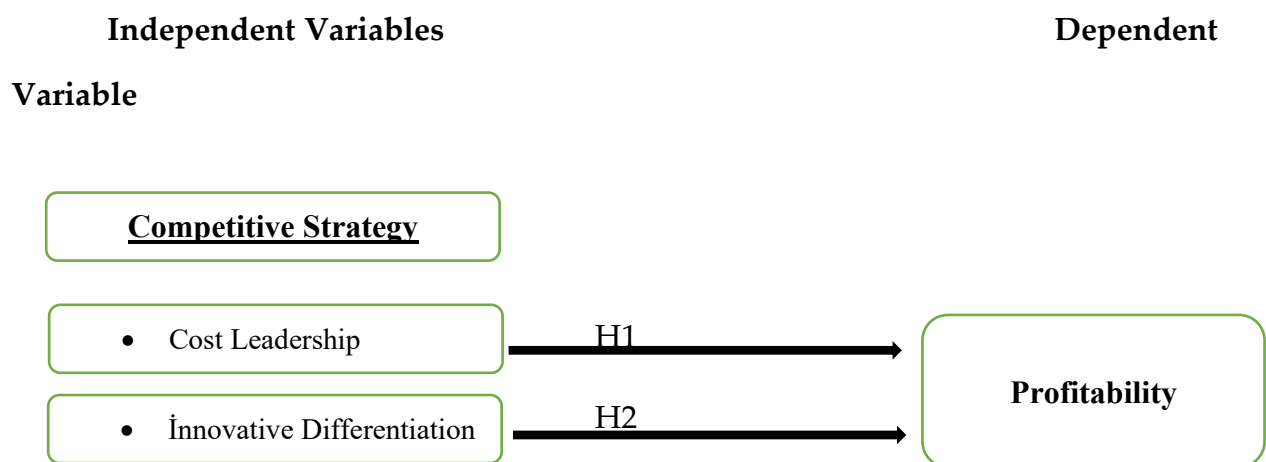


Figure 1: Schematic Diagram of Research Framework

METHODOLOGY

The current study employs a quantitative research method combined with a cross-sectional design, aligning with methodologies used in prior studies on competitive strategy and bank profitability. The target population consists of top managers from the Iraqi banks working at the headquarters, with participants selected from the Central Bank of Iraq's 2023 registry, which lists 76 operating banks. To determine the sample size, the study resulted in 152 participants ($76 \text{ banks} \times 2 = 152$). The sample includes 113 top managers (CFOs and CEOs) from financial institutions (banks) listed with the Central Bank of Iraq. A quantitative research approach was adopted, and data collection occurred in two phases. In the first phase, 135 usable surveys were retrieved from the 152 distributed. Data were evaluated using the Partial Least Squares (PLS) method, specifically with the SmartPLS 4.0 software, to examine the structural relationships in the proposed model. The survey instrument comprised three sections, each evaluating specific dimensions of the study framework using a 5-point Likertscale.

Table 1: Measures of variables

Variables	No.	Sources
1. Competitive Strategy	18-items	
Cost-Leadership Strategy	4-items	Reimann, Schilke, and Thomas (2010).
Innovative-Differentiation	14-items	Reimann, Schilke, and Thomas (2010).
2. Bank Profitability	8-items	Croteau and Bergeron (2001).
3. Data of Demographic	4-items	

RELIABILITY ANALYSIS

The research utilized Average Variance Extracted (AVE) and Composite Reliability (CR) and Cronbach's Alpha (CA) and Variance Inflation Factor (VIF) to verify

construct validity. This research used factor loadings exceeding 0.70 as per (Hulland, 1999) to validate the measurement indicators for proposed study constructs according to established study standards. Hair et al. (2017) identified CR coefficients for construct indicators must reach 0.70 while CA should exceed 0.70 as per Bagozzi & Yi (1988) and Vinzi et al. (2010). The assessment of convergent validity requires that AVE values should establish a minimum threshold at 0.50 according to Hair et al. (2017). The measurement of CR exceeding 0.60 (Fornell & Larcker, 1981) can validate the acceptability of AVE values below 0.50. The reliability analysis results appear in Table 3 according to Sekaran (2010) who states that CA plays a vital role in variable stability and internal consistency assessments during reliability testing. According to Sekaran (2010), reliability increases with higher CA values whereas values under 0.70 point toward inadequate reliability but values exceeding 0.80 indicate strong reliability. The reliability assessment of variables originates from the dataset of Iraqi banks that collaborate with the Central Bank of Iraq as presented within Table 3.

Table 3: Reliability analysis

Constructs	Item Code	VIF	Cronbach's Alpha	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Competitive Strategy -Coste Leadership Strategy	CS-CLS-1	1.455	0.753	0.843	0.574
	CS-CLS-2	1.561			
	CS-CLS-3	1.687			
	CS-CLS-4	1.536			
Competitive Strategy-Innovative Differentiation	CS-ID-1	1.880	0.802	0.850	0.372
	CS-ID-2	2.210			
	CS-ID-3	1.577			
	CS-ID-4	2.138			
	CS-ID-5	1.540			
	CS-ID-6	1.528			
	CS-ID-7	1.350			
	CS-ID-8	1.388			
	CS-ID-9	1.377			
	CS-ID-10	1.583			
Profitability	P-1	1.505	0.834	0.873	0.464
	P-2	1.759			
	P-3	1.770			
	P-4	1.533			
	P-5	1.525			
	P-6	1.782			
	P-7	1.656			
	P-8	1.565			

HYPOTHESES TEST

Researchers employ the mid-structure value between independent variables and dependent variable to determine predictive model significance when conducting tests on the structural model (Amene & Alemu, 2019). The predictive model assessment for determining structural model importance depends on the t-statistic values presented

in the path coefficient table of SmartPLS output. The Competitive Strategy -Coste Leadership Strategy variable demonstrates a significant positive effect on profitability according to Table 4 path coefficient measurements 0.026. The outcome of the study reveals significant findings because the p-value stands at 0.040 below 0.05 and the t-statistic reaches 0.349 below 1.96. The evaluation of Competitive Strategy-Coste Leadership Strategy variable as a significant contributor to profitability results in an accepted relationship between these variables. The path coefficient Table 4 shows a direct positive link between Competitive Strategy-Innovative Differentiation and profitability with 0.145 as the value. The analysis produces t-statistics of 2.617, which exceeds 1.96, and p-values of 0.058, which remains more than 0.05. The evidence shows that Competitive Strategy-Innovative Differentiation provides a negative connection to work performance.

Table 4: Hypotheses test

		Original-Value	Mean Value	Standarr-Deviation	T-statistics	P-Values	Results
H1	CS-CLS -> P	0.026	0.027	0.047	0.349	0.040	Accepted
H2	CS-ID -> P	0.145	0.157	0.053	2.617	0.058	Rejected

*p < 0.05, **p < 0. 01, *** P < 0. 001.

R SQUARE

R-squared represents the statistical proportion of variability in the dependent variable which the independent variables explain through a regression model. Statistically speaking the value of R2 ranges between zero and one. The statistical value of R-squared spans between 0 and 1. The statistical value range for R2 extends from complete minimum (0) to complete maximum (1). The R2 value serves as an indication for the quality of regression model fit against available data because it reveals what portion of the dependent variable variability the independent variables effectively

explain (Rights & Sterba, 2018). An R2 value near to 0 demonstrates an ineffective relationship between independent variables and dependent variable because the independent variables do not capture the dependent variable variability well. The examination of R2 value alone cannot establish the appropriateness or validity of a regression model because additional diagnostic measures are typically required. Table 5 below presents the measurement of the evaluation coefficient (R²). The regression results were conducted with (dependent variable) profitability and (independent variables) cost leadership strategy and innovative differentiation strategy. The R² value of 0.508 shows that 50.8 percent of the variance in profitability is explained by the combined effect of these two strategic dimensions. The 49.2% variation in the dependent variable (profitability) remains unexplained by the independent variables (competitive strategy dimensions) of the study. The adjusted R² value of 0.484 further confirms that, after accounting for model complexity, the predictors maintain a substantial explanatory power.

Table 5: R Square

	R square	R square adjusted
Profitability	0.508	0.484

DISCUSSION

IMPACT OF COST LEADERSHIP STRATEGY ON PROFITABILITY

A business strategy describes the organized blueprint that firms create to meet their organizational goals. This factor plays a critical role that generates competitive success (Habib, 2023). Different earlier studies validated how cost leadership strategies influence profitability while identifying that cost leadership capabilities form critical factors affecting profitability. Cost leadership strategy requires companies to enhance production efficiency through strategic cost management solutions which protects product quality and exhaustively utilizes all assets deployed for manufacturing (Agustia, Muhammad & Permatasari, 2020). A cost leadership strategy requires

companies to take well-integrated procedures that focus on creating standardized products and services at minimal costs by regularly assessing cost-saving methods. Organizations which follow cost leadership strive to deliver market-leading price efficiencies while setting competitive market rates to consumers and produce business gains (Dadzie, Winston & Dadzie, 2012). A positive value of 0.016 in the path coefficients demonstrates that business strategy-cost leadership Strategy produces a substantial influence on profitability. The obtained p-value equals 0.040 falling under 0.05 significance level with a t-statistic value of 0.339 lower than 1.96. The results demonstrate that H1 is supported because competitive strategy -cost leadership strategy generates both impact and significant relationships with profitability. The research findings (Habib, 2023) are in agreement with studies that investigated the cost leadership strategy-business destination relationship. According to Habib (2023) the implementation of profitability reduces bankruptcy risks through cost leadership strategies which supports the negative correlation between business strategies and bankruptcy chances. Dual strategies together with cost leadership strategies create larger implications on financial performance for foreign companies than domestic companies (Li, & Li, 2008). An extensive positive relationship exists between SME performance and both cost leadership strategies and market orientation (Dutse & Aliyu, 2018) while cost leadership strategies effectively boost organizational performance (Sun & Li, 2022).

IMPACT OF COMPETITIVE STRATEGY -INNOVATIVE DIFFERENTIATION ON PROFITABILITY

According to Andersen (2021) the differentiation represents how well a firm creates products that appear more valuable than competing alternatives for customers. The implementation of differentiation strategies enables businesses to enhance their performance levels (Danso et al. 2019). The obtained path coefficients show that business strategy-innovative differentiation has a significant influence on profitability

since the path coefficients measure comes out positively at 0.135. The statistical tests reveal the p-value 0.058 below 0.05 while the t-statistic reaches 2.607 above 1.96. The study demonstrates that business strategy-innovative differentiation factor creates a positive relationship with profitability which validates H2. Several research papers confirm this discovery because their findings support it. Hutahayan (2020) demonstrates that innovation strategy creates positive effects on profitability and maintains substantial worth. Differentiation strategy creates a substantial positive influence on innovation performance according to Cui (2020). Ngo (2022) discovered that differentiation strategy serves as a partial mediator between innovative culture and its performance results. The discovery sheds new light on how innovation cultures work to create differentiation strategies which enhance organizational profitability. The obtained results match previous research findings. This study demonstrates that business strategy plays a vital role in enhancing profitability within the Iraqi banking sector. Wherever the Iraqi banking sector is studied the findings demonstrate a dependable association between competitive strategy -innovative differentiation and profitability. The identification of innovative differentiation strategies in business planning enables bank leaders to make better decisions which improve profitability while ensuring sustainability of the Iraqi banking sector.

IMPLICATIONS

This research investigation enhances theoretical models regarding competitive strategy but specifically focuses on financial planning execution in authentic and digital settings. The research locates specific factors which impact financial planning through cost leadership strategies and innovative differentiation techniques while establishing their connection. These results provide essential knowledge for financial stakeholders who need to evaluate banking institutions in terms of regulatory compliance together with financial success. The analysis evaluates competitive strategy relationships with profitability within Iraqi banks using empirical methods

which generate useful guidance for managers. The essay indicates that executive management team members need to prioritize shareholder value creation as a path to financial performance improvement. This research shows that banks reach better profitability through the deployment of cost leadership and innovative differentiation as competitive strategies. Attractive operational costs result from cost leadership strategies together with innovation-based customer service improvements. Leaders should develop proactive approaches to deal with uncertainties as well as boost their competitive advantage. This research provides benefits to both academic scholars and practitioners since it introduces potential executive board policy implications.

CONCLUSION

The research provides experimental data which shows the connection between competitive strategy along with banks' profitability outcomes. The core theoretical points receive support from the study results together with the successful investigation of all the research questions. This research investigates and reconstructs missing information regarding the direct relationship between competitive strategy and banks' profitability backward from existing literature studies. This research tests the effects that different business strategies (innovative differentiation and cost leadership) have on profitability. The research data obtained information from 113 senior managers who work as CEOs and CFOs in Iraqi Central Bank listed banking institutions. Two stages of quantitative data collection took place for the research. To start with, the research obtained usable questionnaires from 135 managers out of 152 directly contacted at the highest level of these banks. The study applied the Partial Least Squares (PLS) statistical technique for evaluating the research constructs. The business strategies using cost leadership demonstrated no impact on the dimensions of financial performance according to the research data. The Competitive Strategy-Innovative Differentiation exhibits both positive influence and a significant statistical correlation with profitability. The research findings benefit investors and other

stakeholders by enabling them to check how banks maintain financial compliance and high-quality planning and profitability.

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