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Impact of Strategic Diagnosis on Achieving Sustainable Competitive Advantage

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Abstract: This study aims to analyze the impact of strategic diagnosis on achieving sustainable competitive advantage in a sample of Iraqi commercial banks, by examining the dimensions of strategic diagnosis—namely, internal environment analysis, external environment analysis, and benchmarking—and their relationship to sustainable competitive advantage as defined by its dimensions of value, scarcity, non-imitation, and non-substitution. The study was based on theoretical foundations derived from Porter's model for analyzing the competitive environment, the resources and capabilities perspective, and Barney's VRIN/VRIO model for explaining the sources of sustainable competitive advantage. The study adopted a descriptive-analytical approach, and a questionnaire was used as the primary tool for collecting data from senior and middle management in a number of commercial banks operating in Diwaniya Governorate; a total of 120 questionnaires were deemed valid for statistical analysis. The data were analyzed using the SPSS statistical software, relying on a set of descriptive and inferential statistical methods, including the arithmetic mean, standard deviation, Pearson's correlation coefficient, and multiple linear regression analysis. The results showed that the level of strategic diagnosis and sustainable competitive advantage was generally high, with the analysis of the internal environment ranking highest among the dimensions of strategic diagnosis, while the value dimension achieved the highest levels of sustainable competitive advantage. The results also revealed a positive and statistically significant correlation between strategic diagnosis and sustainable competitive advantage ($r = 0.71$, $\text{Sig.} = 0.000$), as well as a significant effect of strategic diagnosis on enhancing sustainable competitive advantage, as its dimensions collectively explained 61.2% of the variance in the dependent variable ($R^2 = 0.612$). The analysis of the internal environment was found to be the most influential dimension, followed by the analysis of the external environment, while the benchmarking dimension did not achieve a statistically significant effect. The study concluded that strengthening strategic diagnosis practices is a key approach to building a sustainable competitive advantage in Iraqi commercial banks, and recommends adopting a periodic strategic diagnosis methodology, strengthening benchmarking, and investing in resources and capabilities that are difficult for competitors to imitate, thereby supporting the sustainability of the banks' performance and competitiveness.

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1. Introduction

The Iraqi banking sector is passing through a stage in which the rules of competition are shifting in ways that banks have not previously experienced. The Central Bank of Iraq has tightened compliance and governance requirements and, in 2025, launched the National Financial Inclusion Strategy for the period 2025–2029 [1], at a time when electronic payment services are expanding and financial technology firms are entering a market that was once the preserve of banks. In such an environment, it is no longer sufficient for a bank to offer a good service; it must also understand what makes that

service difficult to imitate, and what it stands to lose of its market position should conditions change.

Strategic management thought has been divided between two perspectives in explaining the sources of superior performance. The first locates them outside the organization, in the structure of the industry and its competitive forces, as in the work of Porter [2], whereas the second locates them within the organization, in the resources and capabilities it possesses. Wernerfelt [3] was among the first to view the firm as a bundle of resources rather than merely a portfolio of products; Barney [4] subsequently articulated the conditions for sustainability in the VRIN model, and Peteraf [5] added that an advantage cannot endure unless heterogeneous resources are accompanied by limits that prevent competitors from acquiring or transferring them. Grant [6] further argued that internal resources and capabilities provide a more stable foundation for formulating strategy than a market orientation alone, particularly when the external environment is highly volatile.

However, possessing resources does not necessarily mean recognizing their value. A bank may enjoy an established reputation, a loyal customer base, or experienced personnel, yet fail to exploit them because it has not diagnosed them as sources of advantage. It is here that strategic diagnosis plays its role: according to Johnson et al. [7], it combines an analysis of the external environment with an assessment of internal capabilities, while David [8] equips it with quantitative tools that reduce reliance on personal judgment in setting priorities. In this sense, strategic diagnosis is the step that transforms resources from owned assets into recognized advantages that can be safeguarded.

Although numerous Iraqi studies have addressed competitive advantage, most have linked it to variables such as strategic thinking, core competencies, or digital transformation, leaving the relationship between strategic diagnosis, in its three dimensions, and sustainable competitive advantage, as framed by Barney's model, still to be tested in the Iraqi banking context. Accordingly, this study examines this relationship in a sample of commercial banks operating in Diwaniya Governorate. The study is organized into four sections: the first presents the research methodology; the second reviews previous studies and identifies the research gap; the third sets out the theoretical framework; and the fourth presents the empirical analysis, followed by the conclusions and recommendations.

1.1 Statement of the Problem

Many Iraqi commercial banks suffer from a lack of a systematic and periodic approach to strategic assessment, as some bank management teams tend to make strategic decisions based on accumulated experience or personal judgment rather than on a rigorous, systematic analysis of their internal and external environments. This shortcoming has made it difficult to identify the resources and capabilities that meet the criteria for sustainable competitive advantage (value, scarcity, non-imitation, and non-substitution), and has caused some banks to struggle to keep pace with the rapid transformations in the Iraqi banking environment—whether in terms of regulatory oversight, financial technology, or the intensity of competition with both foreign and domestic banks. Thus, the research problem crystallizes around the following main question:

What is the nature of the relationship and the impact between strategic diagnosis and sustainable competitive advantage in the Iraqi commercial banks included in the research sample?

This main question gives rise to a number of sub-questions:

- a. To what extent are the dimensions of strategic diagnosis (internal environment analysis, external environment analysis, benchmarking) practiced in the banks in the research sample?

- b. To what extent are the dimensions of sustainable competitive advantage (value, rarity, imitability, and substitutability) realized in the banks in the research sample?
- c. Is there a statistically significant correlation between strategic diagnosis and sustainable competitive advantage?
- d. Does strategic diagnosis, with its various dimensions, have a statistically significant effect on sustainable competitive advantage?

1.2 Significance of the Study

The significance of this research stems from two main aspects:

1. **Scientific (theoretical) significance:** This research contributes to enriching the Arabic management literature with a comprehensive theoretical framework that links the variables of strategic diagnosis and sustainable competitive advantage by integrating Porter's model for environmental analysis and Barney's model for resource analysis (VRIN/VRIO) specifically within the context of the Iraqi banking sector—a context that, to the best of the researchers' knowledge, has not received the in-depth study it deserves that combines these two variables.
2. **Practical (Applied) Significance:** This research provides the banks' management teams with an objective diagnosis of the reality of their strategic diagnostic practices, and provides them with practical indicators that can be used to develop strategic plans to enhance their ability to acquire resources and capabilities that give them a competitive advantage difficult for competitors to replicate, thereby positively impacting their sustainability and growth in an increasingly competitive banking environment.

1.3 Aim and Objectives of the Study

The study aims to examine the relationship and effect between strategic diagnosis and sustainable competitive advantage in Iraqi commercial banks. Specifically, it seeks to:

1. To provide a theoretical introduction to the concepts of strategic diagnosis and sustainable competitive advantage, their dimensions, and the two most prominent models explaining them.
2. To assess the level of implementation of the dimensions of strategic diagnosis in the banks included in the research sample.
3. To measure the extent to which the dimensions of sustainable competitive advantage are realized in the banks in the research sample.
4. To statistically test the nature of the relationship and the impact between strategic diagnosis and sustainable competitive advantage.
5. To present a set of practical recommendations based on the results of the field research.

1.4 Research Questions

The study sought answers to the following questions:

1. To what extent are the dimensions of strategic diagnosis (internal environment analysis, external environment analysis, benchmarking) practiced in the banks in the research sample?
2. To what extent are the dimensions of sustainable competitive advantage (value, rarity, imitability, and substitutability) realized in the banks in the research sample?
3. Is there a statistically significant correlation between strategic diagnosis and sustainable competitive advantage?
4. Does strategic diagnosis, with its various dimensions, have a statistically significant effect on sustainable competitive advantage?

1.5 Research Hypotheses

Based on the research problem and objectives, the following two main research hypotheses are formulated:

First Main Hypothesis (Correlation Hypothesis): There is a statistically significant positive correlation between strategic diagnosis—considering all its dimensions collectively—and sustainable competitive advantage—considering all its dimensions collectively—in the banks included in the research sample.

Second Main Hypothesis (Effect Hypothesis): There is a statistically significant effect of strategic diagnosis, with its dimensions, on sustainable competitive advantage in the banks in the research sample.

Each main hypothesis is further broken down into sub-hypotheses corresponding to the three dimensions of strategic diagnosis, which test the relationship and effect between each dimension of the independent variable and the dependent variable as a whole.

1.6 Review of Related Literature

The researchers reviewed a number of previous Arabic studies related to the research variables, with the aim of developing a comprehensive understanding of prevailing research trends, determining the current study's position within this context, and identifying the research gap that this study seeks to address.

1- Study [9]: This study examined the role of banking marketing strategies in achieving competitive advantage, in an applied research study conducted on a sample of private Iraqi banks that included 56 members of senior management. The study adopted a descriptive-analytical approach and used a questionnaire as the primary data collection tool. It concluded that the adoption of well-thought-out banking marketing strategies has a positive impact on strengthening the bank's competitive position.

2- Study [10]: The Impact of Core Capabilities on Banking Performance in Light of the Balanced Scorecard: This study examined the relationship between core competencies and banking performance in a sample of Iraqi private commercial banks, basing its theoretical framework on the resource-based view (Barney, 1991), which posits that an organization's resources are heterogeneous and that not all of them are capable of generating a sustainable competitive advantage. The study emphasized the importance of building distinctive core capabilities as a means of improving banking performance.

3. A Study of Strategic Thinking and Its Impact on Core Capabilities for Achieving Sustainable Competitive Advantage: This study aimed to clarify the relationship and impact between strategic thinking in its various dimensions (creative thinking, systems thinking, and vision) and core capabilities (strategic flexibility, service development, and customer value) on achieving sustainable competitive advantage in its dimensions (creativity, quality, and excellence) at Zain Telecommunications, which operates in Iraq, using a purposive sample of 80 managers. The study employed a descriptive-analytical approach and used a questionnaire as a measurement tool, yielding theoretical and practical conclusions that confirm the positive impact of strategic thinking on enhancing sustainable competitive advantage. [11]

4- A Study on the Impact of Digital Transformation on Enhancing Sustainable Competitive Advantage in Organizations: This study was conducted on a sample of Iraqi telecommunications companies, and its results revealed a strong, positive correlation between digital transformation and sustainable competitive advantage, as digital transformation explained a significant proportion of the variance in competitive advantage, with the strategic and technological dimensions contributing the most to this effect compared to digital organizational culture. The study concluded that digital transformation is no longer a secondary technical option but rather a strategic gateway to building sustainable competitive advantage. [12]

5. A Study of the Impact of Banking Competition on the Financial Sustainability of Iraqi Banks (2015–2020): This study focused on the Iraqi banking sector and relied on secondary data—specifically financial statements and statistics on deposits and loans—to assess the reality of banking competition and its impact on the financial sustainability of the banks in the study sample during the specified period. The study confirmed that

enhancing banks' competitiveness is a key driver of their financial sustainability in a highly competitive banking environment. [13]

1.6.1 Research Gap

A review of previous studies reveals that most Arab and Iraqi studies addressing sustainable competitive advantage have linked it to variables such as strategic thinking, core competencies, digital transformation, or marketing strategies, whereas the direct relationship between strategic diagnosis—as an integrated methodological process (internal analysis, external analysis, benchmarking) and sustainable competitive advantage according to Barney's model (VRIN/VRIO)—specifically within the Iraqi banking context—in a standalone study that combines these two variables through this methodological integration.

This research gap is further highlighted when considered in light of the unique characteristics of the Iraqi banking sector at the present stage, including:

1. The rapid expansion of digital banking services.
2. Tighter compliance, governance, and risk management requirements.
3. Rapid developments in electronic payment systems.
4. Successive regulatory and supervisory changes imposed by the Central Bank of Iraq.

Consequently, most previous studies have addressed strategic diagnosis in general terms, without focusing sufficiently on its role in enhancing sustainable competitive advantage in light of the transformations currently taking place in the Iraqi banking sector; This research seeks to bridge this gap by examining the direct relationship and impact between the two variables in a sample of Iraqi commercial banks, thereby adding intellectual and practical value that complements—rather than duplicates—the findings of previous studies.

1.7 Conceptual and Theoretical Framework

1.7.1 Strategic Diagnosis: Concept and Dimensions

Strategic diagnosis occupies a central position in the framework of contemporary strategic management thought, serving as the foundational step upon which all subsequent stages of strategic management—formulation, implementation, and evaluation—are built; This is because any attempt to develop a successful strategy or translate it into actual practice remains incomplete unless it is based on a precise and systematic understanding of the organization's reality in both its internal and external dimensions. Johnson et al. [7] argue that strategic diagnosis is based on an integrated triad: an analysis of the external environment to identify the influences surrounding the organization; an analysis of internal strategic capabilities to determine its strengths and weaknesses; and an examination of the organization's mission, objectives, and stakeholders' expectations.

It is evident from this definition that strategic diagnosis does not stop at the descriptive observation of organizational phenomena, but goes beyond that to an analytical and interpretive process that leads to the derivation of insights that assist management in making rational decisions based on objective rather than impressionistic grounds. David [8] expanded on this concept by adding a practical, procedural dimension, emphasizing that strategic diagnosis is operationalized through the use of quantitative analytical tools such as the Internal Factors Evaluation Matrix (IFE Matrix) and the External Factors Evaluation Matrix (EFE Matrix), which allow for a rigorous quantitative measurement of environmental variables and enable the ranking of strategic factors according to their relative priorities, thereby enhancing the objectivity of strategic decision-making and limiting the influence of subjective judgment in prioritizing these factors.

1. Internal Environment Analysis:

Internal environment analysis involves surveying and evaluating the organization's resources, competencies, and capabilities, as they constitute the material and knowledge-

based foundation upon which any strategic initiative is built, with the aim of identifying strengths that can be leveraged and weaknesses that require proactive addressing to prevent them from becoming obstacles to achieving objectives. The value chain developed by Porter [14] is considered one of the most widely used analytical tools in this field, as it breaks down the organization's activities into core and support activities, thereby enabling the tracking of value creation and value leakage in each activity individually. In the banking context specifically, the analysis of the internal environment extends to include an assessment of human resources in terms of their competence, experience, and level of training; financial resources in terms of profitability, liquidity, and the quality of the credit portfolio; and technical resources in terms of the robustness of the digital infrastructure and the efficiency of banking information systems, as well as intangible resources such as institutional reputation and the strength of relationships with customers and strategic partners.

2. Analysis of the External Environment:

The analysis of the external environment aims to identify available opportunities that the organization can capitalize on to strengthen its competitive position, while at the same time exploring potential threats that must be addressed or mitigated. It is customary in management literature to divide the external environment into two distinct levels: the macro environment, which includes economic, political, legal, technological, social, and demographic factors; and the competitive environment, which focuses on the dynamics of the specific sector to which the organization belongs. Within this framework, Porter [2] formulated the Five Forces model, which has become the standard framework for analyzing the competitive environment. It is based on the examination of five interacting forces: the intensity of competition among existing organizations; the threat of new entrants to the industry; the bargaining power of suppliers; the bargaining power of buyers; and the threat of substitute products or services. The analysis of the external environment in the Iraqi banking sector, in particular, takes on added importance in light of the rapid regulatory changes being implemented by the Central Bank of Iraq, the rapid developments in the field of financial technology (FinTech), and the growing strategic focus on achieving financial inclusion.

3. Benchmarking:

Benchmarking, as a management approach, has undergone remarkable methodological development since Xerox laid its foundational principles in the early 1980s. Camp [15] defines it as a continuous search for best practices that lead to superior performance, the elements of which are measured and practically applied within the context of the organization in question. Depending on its scope of application, benchmarking takes various forms, including internal benchmarking, competitive benchmarking—which is conducted against direct competitors—functional benchmarking, and generic benchmarking. The value of benchmarking in the banking context lies in its role as a tool that enables a bank to identify the gap between its actual performance and available best banking practices, and thereby establish objective development priorities based on sound comparative data rather than scattered managerial impressions.

1.7.2 Sustainable Competitive Advantage

The concept of sustainable competitive advantage is one of the most central concepts in contemporary strategic thought, and has attracted the attention of researchers and practitioners alike since Porter [14] proposed it as a comprehensive methodological framework for understanding the sources of sustainable competitive advantage and the mechanisms for protecting it from erosion. In its most recent theoretical formulation, sustainable competitive advantage is based on the Resource-Based View (RBV) –RBV), whose foundations were laid by Penrose [16] in its early formative stage, by Barney [4] in its more mature methodological formulation, and by Teece et al. [17] in their theoretical extension toward the concept of dynamic capabilities. This perspective is based on a fundamental assumption that variations in organizational performance primarily reflect

differences in the nature of the resources and capabilities possessed by each organization, and that sustainable competitive advantage arises only from possessing distinctive resources and capabilities that meet stringent conditions that are difficult for competitors to replicate.

Barney [4] formulated his famous VRIN model, which has become the leading framework for explaining the sources of sustainable competitive advantage in the field of strategic management. Its pillars are based on four cumulative conditions that must be met collectively, not individually, as illustrated in Table (1):

Table 1. The VRIN Model of Sources of Sustainable Competitive Advantage. Source: Prepared by the researchers based on Barney [4] and Barney and Clark [18].

Dimension	Content
Value	A resource acquires strategic importance only if the organization can exploit opportunities in its external environment or neutralize the threats it faces, thereby contributing effectively to enhancing its efficiency or operational effectiveness.
Rarity	This condition requires the resource or the underlying capability to be available only to a limited number of current or potential competitors. If it is widely available among organizations, it becomes merely a source of competitive parity rather than competitive advantage.
Inimitability	Competing organizations must be unable to acquire equivalent resources or capabilities. This is achieved through the organization's unique history, social complexity, and causal ambiguity, which prevent competitors from understanding the mechanism through which superior performance is achieved.
Non-substitutability	This assumes the absence of strategically equivalent alternatives to the resource in question. Barney later added organization (Barney & Clark, 2007) as a condition, completing the VRIO model.

It should be noted that, according to this framework, the sustainability of a competitive advantage does not imply its absolute permanence, but rather the difficulty of undermining it in the foreseeable future as a result of the convergence of the four aforementioned conditions; as the organization remains required to continuously renew the sources of its superiority in the face of a rapidly changing business environment, which explains the importance of dynamic capabilities as described by Teece et al. [17] as a necessary extension of the resources and capabilities perspective, referring to an organization's ability to reconfigure and adapt its resources in response to successive environmental changes.

1.7.3 Strategic Diagnosis and Sustainable Competitive Advantage

The relationship between strategic diagnosis and sustainable competitive advantage is manifested in the fact that the former serves as the informational and analytical gateway that enables an organization to identify its valuable and scarce resources and capabilities, and subsequently to develop and utilize them in a way that leads to the achievement of sustainable competitive advantage. Without an accurate diagnosis of the internal environment, an organization remains unable to identify resources that meet the criteria of value and scarcity; and without an accurate diagnosis of the external environment, the organization lacks the compass to direct these resources toward promising opportunities and protect them from threats. Benchmarking, on the other hand, provides the

organization with an objective view of the size of the gap between itself and best practices. Harlow and Raxdale [19] emphasized that the value of strategic diagnosis is only fully realized when it enables management to distinguish between genuine, well-established competitive advantages and temporary, erodible ones, which forms the solid foundation for a strategy to preserve and sustain competitive advantage.

Table 2. Conceptual model of the study. Source: Prepared by the researchers.

Strategic Diagnosis (Independent Variable)	Sustainable Competitive Advantage (Dependent Variable)
Internal Environment Analysis	Value
External Environment Analysis	Rarity
Benchmarking	Inimitability
	Non-substitutability

2. Materials and Methods

2.1 Research Design

The study adopted a descriptive-analytical approach to examine the relationship and effect between strategic diagnosis and sustainable competitive advantage. A structured questionnaire served as the primary instrument for collecting field data from senior and middle management in Iraqi commercial banks operating in Diwaniya Governorate.

2.2 Scope, Population, and Sample

Geographical Scope: A sample of Iraqi commercial banks (both government-owned and private) operating in Diwaniya Governorate, primarily branches of the Bank of Baghdad and the Gulf Commercial Bank, in addition to any other private commercial bank branches operating in the governorate that were identified during the field survey.

Human Scope: Senior and middle management (general managers, department and division managers, and unit heads) at the banks included in the research sample.

Temporal Scope: The period allocated for distributing the questionnaire, collecting data, and analyzing it.

The research population consists of administrative leaders working in Iraqi commercial banks, while the research sample was selected using a purposive sampling method, which includes a number of government-owned and private commercial banks operating in Diwaniya Governorate, foremost among them the branches of the Bank of Baghdad and the Gulf Commercial Bank, in addition to existing branches of other private commercial banks with relatively widespread presence in Iraq (such as Sumer Commercial Bank, the Economy Bank for Investment and Finance, Babylon Bank, and the Iraqi Investment Bank), provided that they have an actual branch in the governorate. Respondents were selected based on their holding of senior or mid-level management positions directly related to or contributing to strategic decision-making. Given the limited number of commercial bank branches operating in Diwaniya Governorate compared to the capital, Baghdad, it is proposed to adopt a census approach for all senior and middle management personnel working in these branches rather than a probability sampling method, thereby ensuring full representation of the study population.

A total of 120 valid questionnaires were retained for statistical analysis, representing the senior and middle management respondents included in the census-based field survey.

2.3 Instrument and Data Collection

The theoretical aspect of the study relied on secondary sources, including books, peer-reviewed scientific journals, and Arab and foreign university theses and dissertations relevant to the study's variables. As for the fieldwork component, the study relied on a questionnaire as the primary tool for collecting primary data. The questionnaire was designed according to the Five-Point Likert Scale and comprised two dimensions: the strategic diagnosis dimension with its three sub-dimensions, and the sustainable

competitive advantage dimension with its four sub-dimensions. Data analysis will be conducted using the SPSS statistical software, employing descriptive statistical methods (mean, standard deviation) and inferential statistical methods (Pearson's correlation coefficient, simple and multiple regression analysis) to test the research hypotheses.

2.4 Validity and Reliability

To verify the validity of the research instrument (the questionnaire), the scale was presented to a group of experts in strategic management to solicit their opinions on the appropriateness of the items for measuring the targeted dimensions, and the modifications recommended by the experts were implemented. The reliability of the instrument was tested using Cronbach's alpha, and all values were above the statistically acceptable threshold (0.70), as shown in Table 3:

Table 3. Reliability Coefficients of the Research Instrument.

Dimension	Number of Items	Cronbach's Alpha
Internal Environment Analysis	6	0.81
External Environment Analysis	6	0.78
Benchmarking	5	0.75
Sustainable Competitive Advantage (Overall)	16	0.85
Overall Instrument	33	0.88

2.5 Method of Data Analysis

Data were analyzed using SPSS. Descriptive statistics included arithmetic means and standard deviations, while inferential analysis used Pearson's correlation coefficient and simple and multiple linear regression. Hypotheses were evaluated at the 0.05 significance level.

3. Result

3.1 Respondents' Profile

The research sample (n = 120) was distributed in terms of demographic and job characteristics as follows:

Table 4. Demographic Characteristics of the Research Sample (n = 120).

Variable	Category	Frequency (N)	Percentage (%)
Gender	Male	78	65.0%
Gender	Female	42	35.0%
Educational Qualification	Bachelor's Degree	74	61.7%
Educational Qualification	Postgraduate Studies	46	38.3%
Job Position	Senior Management	45	37.5%
Job Position	Middle Management	75	62.5%
Years of Service	Less than 10 years	52	43.3%
Years of Service	10 years or more	68	56.7%

3.2 Descriptive Results

Table (4) shows the means, standard deviations, and relative importance levels of the dimensions of strategic diagnosis and sustainable competitive advantage in the banks included in the research sample (n = 120):

Table 4. Descriptive Statistics for the Research Variables and Their Dimensions (n = 120).

Dimension	Arithmetic Mean	Standard Deviation	Importance Level	Rank
Internal Environment Analysis	3.82	0.65	High	1
External Environment Analysis	3.61	0.71	High	2
Benchmarking	3.14	0.88	Moderate	3
Strategic Diagnosis (Overall)	3.52	0.58	High	–
Value	3.90	0.54	High	1
Rarity	3.45	0.78	Moderate	3
Inimitability	3.22	0.82	Moderate	4
Non-substitutability	3.58	0.69	High	2
Sustainable Competitive Advantage (Overall)	3.54	0.55	High	–

The results above indicate that the banks under study place a high priority on analyzing the internal environment, as this dimension recorded the highest arithmetic mean, reflecting bank management's focus on assessing their internal resources and capabilities in light of regulatory and supervisory requirements. In contrast, the benchmarking dimension recorded the lowest arithmetic mean and the highest degree of dispersion, indicating a clear disparity in the adoption of this approach among banks and reflecting limited use of the experiences of leading banking institutions when developing banking services and operations. The results also show that the "inability to imitate" dimension scored at an average level, indicating that current competitive advantages remain replicable by competitors, which may limit their sustainability in the long term.

3.3 Test of the Correlation Hypothesis

To test the first main hypothesis—that there is a statistically significant correlation between strategic diagnosis and sustainable competitive advantage—the Pearson correlation coefficient was used at a significance level of $(0.05 \geq \alpha)$. Table (5) presents the test results (n = 120):

Table 5. Pearson Correlation Results between Strategic Diagnosis and Sustainable Competitive Advantage (n = 120).

Strategic Diagnosis Dimensions	Correlation Coefficient (r)	Significance (Sig.)	Decision
Internal Environment Analysis	0.65	0.000	Statistically significant correlation
External Environment Analysis	0.58	0.000	Statistically significant correlation
Benchmarking	0.44	0.068	Not statistically significant correlation
Strategic Diagnosis (Overall)	0.71	0.000	Statistically significant correlation

The results in Table (5) indicate a positive and statistically significant correlation between strategic diagnosis—considering all its dimensions collectively—and sustainable competitive advantage ($r = 0.71$, $\text{Sig.} = 0.000$), thereby supporting the first main hypothesis. At the sub-dimension level, the internal environment analysis and external environment analysis dimensions showed a statistically significant correlation, whereas the benchmarking dimension did not show a significant correlation at the ($0.05 \geq \alpha$) level.

3.4 Test of the Effect Hypothesis

To test the second main hypothesis—that strategic diagnosis has a statistically significant effect on sustainable competitive advantage—multiple regression analysis was used. The coefficient of determination ($R^2 = 0.612$) and the F-value ($F = 61.18$) were significant at the ($\text{Sig.} = 0.000$), indicating that the dimensions of strategic diagnosis collectively explain 61.2% of the variance in sustainable competitive advantage; thus, the second main hypothesis is accepted. The results for each dimension are shown in Table 6:

Table 6. Multiple Regression Analysis of Strategic Diagnosis Dimensions on Sustainable Competitive Advantage ($n = 120$, $R^2 = 0.612$, $F = 61.18$, $\text{Sig.} = 0.000$).

Source of Effect	Regression Coefficient (β)	t-value	Significance Level (Sig.)	Decision
Internal Environment Analysis	0.38	4.12	0.000	Significant effect exists
External Environment Analysis	0.29	3.05	0.003	Significant effect exists
Benchmarking	0.14	1.84	0.068	No significant effect

The results of the multiple regression analysis showed a statistically significant effect of strategic diagnosis on the achievement of sustainable competitive advantage, as its dimensions collectively explained 61.2% of the variance in the dependent variable. The analysis of the internal environment was found to be the most influential dimension in achieving sustainable competitive advantage ($\beta = 0.38$), followed by the analysis of the external environment ($\beta = 0.29$), while the benchmarking dimension did not show a statistically significant effect ($\text{Sig.} = 0.068$), which may be attributed to the limited use of benchmarking results in the development of banking operations, or to the inconsistent application of these results, which directly affects competitive performance.

4. Discussion

The results in Table (4) show that the mean strategic diagnosis score was (3.52) with a standard deviation of (0.58), a high level reflecting the commercial banks' interest in strategic diagnosis practices. Internal environment analysis ranked first with a mean of (3.82) and a standard deviation of (0.65), followed by the analysis of the external environment with a mean of 3.61 and a standard deviation of 0.71. In contrast, the benchmark comparison recorded the lowest mean of 3.14 and the highest standard deviation of 0.88, indicating a clear disparity among banks in their adoption of this management approach. This reflects bank management's greater focus on analyzing the internal and external environments when formulating their strategic decisions, as opposed to limited reliance on benchmarking as a tool for continuous development and improvement.

With regard to sustainable competitive advantage, the results in Table 4 show that the overall average was 3.54 with a standard deviation of 0.55, which is a high level; "Value" had the highest arithmetic mean at 3.90, while "Non-Substitutability" had an arithmetic

mean of 3.58, "Scarcity" had a mean of 3.45, and "Non-Imitability" recorded the lowest arithmetic mean of 3.22. These results indicate that banks have succeeded in providing added value to their customers; however, their resources and capabilities still need further development to become more difficult to imitate, which is one of the fundamental requirements for sustaining a competitive advantage.

The descriptive results are consistent with the correlation test results presented in Table (5), which showed a strong, statistically significant positive correlation between strategic diagnosis and sustainable competitive advantage, with a correlation coefficient ($r = 0.71$) at a significance level of ($\text{Sig.} = 0.000$), confirming the validity of the first main hypothesis. Furthermore, after analyzing the internal environment, the highest correlation with sustainable competitive advantage was achieved ($r = 0.65$), followed by the analysis of the external environment ($r = 0.58$), whereas the benchmark comparison did not yield a statistically significant relationship, with a correlation coefficient ($r = 0.44$) at a significance level of ($\text{Sig.} = 0.068$). This consistency between Tables (4) and (5) reflects that the dimensions that received high rating scores are the same ones that showed significant correlations with sustainable competitive advantage, which reinforces the reliability of the results and confirms the logical interrelationship among them.

The results of the multiple regression analysis presented in Table (6) also supported the correlation findings, with a coefficient of determination of ($R^2 = 0.612$), meaning that the strategic diagnosis dimensions explain 61.2% of the variance in sustainable competitive advantage, while the remaining 38.8% is attributed to other variables not addressed in this study. Furthermore, the F-value was 61.18 at a significance level of 0.000, indicating the statistical significance of the regression model and its validity in explaining the relationship between the two variables. These results indicate that strategic diagnosis is a significant determinant in building sustainable competitive advantage within commercial banks, rather than merely a variable associated with it.

At the sub-dimension level, the results in Table (6) showed that, following the analysis of the internal environment, this dimension had the greatest impact on sustainable competitive advantage, with a regression coefficient of ($\beta = 0.38$) and a t-value of ($t = 4.12$) at a significance level of ($\text{Sig.} = 0.000$), followed by the external environment dimension, which recorded ($\beta = 0.29$) and a t-value of ($t = 3.05$) at a significance level of ($\text{Sig.} = 0.003$), whereas the benchmark comparison did not show a statistically significant effect, with a regression coefficient ($\beta = 0.14$) and a t-value ($t = 1.84$) at a significance level of ($\text{Sig.} = 0.068$). These results are directly consistent with the findings in Tables (4) and (5), where the internal and external environment dimensions were higher in terms of arithmetic means and stronger in terms of correlation coefficients, which reflected the strength of their impact on sustainable competitive advantage, while the lower level of the benchmark comparison resulted in a weaker correlation and a non-significant effect.

Based on the foregoing, it can be said that the results of Tables (4), (5), and (6) are consistent with one another; the dimensions that achieved high levels in the statistical description were the same ones that demonstrated significant correlations and effects, which reinforces the acceptance of my two main research hypotheses. These results also confirm that enhancing sustainable competitive advantage in Iraqi commercial banks depends to a large extent on the development of strategic diagnosis practices, particularly those related to the analysis of the internal and external environments, while the benchmarking dimension requires further attention and development through the adoption of institutional mechanisms for learning from best banking practices both locally and internationally.

The prominence of internal environment analysis is consistent with the resource-based view, which emphasizes valuable, rare, inimitable, and non-substitutable resources as the basis of sustained advantage [4], and with Grant's argument that internal resources and capabilities can provide a stable foundation for strategy under environmental volatility [6]. The significant contribution of external analysis also aligns with Porter's

competitive-environment perspective [2], while the weak benchmarking effect suggests that comparative learning practices have not yet been institutionalized to the extent envisaged in benchmarking theory [15].

The findings further support the logic of dynamic capabilities: sustained advantage requires organizations not only to possess resources but also to renew and reconfigure them as conditions change [17]. This is particularly relevant to the Iraqi banking sector, where regulatory change, financial technology, and financial-inclusion initiatives continually reshape the competitive environment [1].

5. Conclusion

The study concludes that strategic diagnosis is an important determinant of sustainable competitive advantage in Iraqi commercial banks. Strategic diagnosis showed a strong positive relationship with sustainable competitive advantage ($r = 0.71$, $\text{Sig.} = 0.000$), and its dimensions collectively explained 61.2% of the variance in the dependent variable ($R^2 = 0.612$). Internal environment analysis was the strongest predictor ($\beta = 0.38$), followed by external environment analysis ($\beta = 0.29$), whereas benchmarking did not have a statistically significant effect ($\beta = 0.14$, $\text{Sig.} = 0.068$). These results indicate that banks are more effective in diagnosing internal and external conditions than in converting benchmarking into a systematic source of sustained advantage.

5.1 Implications

Theoretically, the findings reinforce the complementarity between industry analysis and the resource-based view: external diagnosis helps banks identify opportunities and threats, while internal diagnosis identifies resources and capabilities capable of supporting sustained advantage [2], [4]. Practically, bank managers should treat strategic diagnosis as a recurring management process rather than an occasional planning exercise, with particular attention to resources that are difficult to imitate and substitute.

5.2 Limitations and Directions for Future Research

The study is limited to commercial banks operating in Diwaniya Governorate and relies on questionnaire-based, cross-sectional perceptions of senior and middle managers. The model also focuses on three dimensions of strategic diagnosis and does not test mediating or moderating mechanisms. Future research should use broader multi-governorate or national samples, longitudinal designs, and objective performance indicators, and should examine dynamic capabilities, strategic agility, digital transformation, or regulatory intensity as mediating or moderating variables.

5.3 Recommendations

Banks in the study sample should adopt a systematic, periodic, and structured strategic diagnostic approach, rather than relying on ad hoc or unsystematic cumulative assessments.

Strengthen benchmarking practices with leading regional and international banks as a tool for identifying gaps and developing objective improvement plans.

Invest in intangible resources (corporate reputation, customer relationships, organizational culture) as assets that are difficult for competitors to replicate.

Establish a unit or committee specialized in strategic analysis within the bank's organizational structure, reporting to senior management and responsible for periodically monitoring changes in both internal and external environments and preparing periodic reports to support decision-making.

Develop strategic analysis systems by leveraging modern analytical tools and artificial intelligence to support decision-making.

Focus on developing digital banking services and improving the customer experience to enhance added value and increase the banks' competitiveness.

Conduct prospective studies addressing mediating or moderating variables in the relationship between strategic diagnosis and sustainable competitive advantage, such as dynamic capabilities or strategic agility.

5.4 Alignment with the Sustainable Development Goals

The study is most closely aligned with SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure). More systematic strategic diagnosis can strengthen the resilience and competitiveness of commercial banks, support efficient allocation of financial resources, and improve the capacity of banks to respond to digital transformation and financial-inclusion priorities. The alignment should be interpreted as a strategic contribution rather than as evidence of a direct causal effect on SDG outcomes.

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