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The moderating role of transformational leadership in the relationship between competitive advantage and operational sustainability among rural banks in Oriental Mindoro, Philippines

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18 August 2026**Accepted:** 19 August 2026**Available Online:** 20 August 2026**Volume 1 (2026), Issue 3, P-ISSN – 3116-3785; E-ISSN - 3116-3793**<https://doi.org/10.63498/ijabms8>**Abstract**

Aim: This study examined the moderating role of transformational leadership in the relationship between competitive advantage and operational sustainability among rural banks in Oriental Mindoro, Philippines. Specifically, it assessed competitive advantage in terms of cost leadership, differentiation, focus, and responsiveness; operational sustainability in terms of financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability; and transformational leadership in terms of inspirational motivation, intellectual stimulation, and individualized consideration.

Methodology: A quantitative descriptive-correlational design was employed. Using stratified random sampling with proportional allocation, 361 employees from 17 branches of 14 BSP-registered rural banks in Oriental Mindoro were selected. Data were collected using a validated structured questionnaire adapted from established measures and analyzed through descriptive statistics, multiple regression, and Partial Least Squares Structural Equation Modeling (PLS-SEM) moderation analysis.

Results: Rural banks demonstrated high levels of competitive advantage, operational sustainability, and transformational leadership. Competitive advantage significantly predicted operational sustainability ($R = .957$, $R^2 = .916$, $p < .001$). Cost leadership, differentiation, and responsiveness significantly predicted operational sustainability, whereas focus did not have a significant independent effect. Transformational leadership significantly moderated the relationship between competitive advantage and operational sustainability ($R = .917$, $R^2 = .841$, interaction $\beta = -.7487$, $p < .001$), indicating that the positive effect of competitive advantage on operational sustainability weakened as transformational leadership increased within the observed sample.

Conclusion: The findings suggest that rural banks should view competitive strategy and leadership development as interdependent organizational capabilities rather than separate managerial concerns. The results have implications for strategic planning, employee development, governance, operational sustainability, and management decision-making among rural banks, as well as for regulators and policymakers seeking to strengthen resilient and inclusive financial services.

Keywords: transformational leadership; competitive advantage; operational sustainability; rural banks; moderation analysis

INTRODUCTION

The global banking industry is undergoing rapid transformation driven by digitalization, fintech competition, artificial intelligence (AI), changing customer expectations, and increasing dependence on information and communication technology (ICT). These developments create opportunities for banks to improve efficiency and service delivery but also increase competitive, cybersecurity, regulatory, and operational risks. The Basel Committee on Banking Supervision has emphasized that digitalization, fintech, ICT risks, and operational resilience are increasingly important to the stability and competitiveness of financial institutions (Bank for International Settlements [BIS], 2021, 2024b, 2026). Consequently, banks must strengthen their competitive capabilities while maintaining reliable, resilient, and sustainable operations.

These global developments are also evident in the Philippine banking sector, where digital banking, fintech competition, regulatory requirements, and changing customer expectations continue to influence the competitive

environment. The Bangko Sentral ng Pilipinas (BSP) has promoted digital financial transformation while strengthening financial-system resilience and stability (BSP, 2024b, 2025b). For smaller financial institutions, these developments require greater efficiency, responsiveness, innovation, and organizational adaptability.

Rural banks remain important to financial inclusion because they serve agricultural households, micro, small, and medium enterprises, and communities with limited access to formal financial services. In the Philippines, rural banks continue to provide substantial financing to barangay micro business enterprises and agriculture, fisheries, and rural development, demonstrating their importance to local entrepreneurship and economic activity (BSP, 2024a). However, rural banks must increasingly balance their community-based role with digital transformation, fintech competition, regulatory compliance, risk management, and the need for efficient and reliable operations.

In this environment, competitive advantage becomes important not only for market performance but also for organizational sustainability. Cost leadership, differentiation, focus, and responsiveness can help rural banks manage resources efficiently, provide distinctive services, address specific market needs, and respond to changing conditions. Recent research suggests that organizational agility and digital transformation can strengthen sustainable competitive advantage when aligned with organizational capabilities and strategic management (Probojakti et al., 2024; Rothaermel, 2024).

Leadership is also important in translating competitive strategies into sustainable organizational practices. Transformational leadership, characterized by inspirational motivation, intellectual stimulation, and individualized consideration, can support employee commitment, innovation, adaptation, and strategic change (Northouse, 2022). However, limited empirical research has examined whether transformational leadership moderates the relationship between competitive advantage and operational sustainability, particularly among rural banks in provincial settings.

The research gap was therefore located at the intersection of competitive strategy, operational sustainability, and leadership. Existing studies and industry discussions had commonly examined bank performance, capitalization, efficiency, regulation, or digital transformation as separate concerns. Less attention had been given to whether transformational leadership changed the strength of the relationship between competitive advantage and broader operational sustainability among rural banks operating in a provincial Philippine setting. The present study addressed this gap by testing competitive advantage as an organizational antecedent and transformational leadership as a moderating capability rather than treating leadership only as a direct predictor.

Academic Significance, Contribution to Business Knowledge, and Managerial Innovation

The study contributed to accountancy, business, finance, and management knowledge by connecting strategic competitive positioning with operational sustainability and leadership behavior in a regulated financial-service environment. Academically, the study extended the application of the Resource-Based View and dynamic capabilities perspective to rural banking by examining whether leadership influenced the conversion of competitive resources into sustainable operational outcomes. The findings supported the view that competitive resources created value when they were embedded in organizational routines, human capabilities, and managerial processes rather than considered as isolated market strategies (Barney, 1991; Rothaermel, 2024).

The study also contributed practical knowledge to financial management and organizational performance. Its findings indicated that cost leadership, differentiation, and responsiveness were significant predictors of operational sustainability. This suggested that rural banks could connect cost management, service design, customer responsiveness, and operational controls with financial stability and continuity rather than evaluate competitive strategy only through short-term profitability. The results were also relevant to human resource management because leadership behavior formed part of the mechanism through which strategic initiatives were implemented.

The managerial innovation of the study was the integration of competitive strategy, transformational leadership, and operational sustainability into a single empirical framework for provincial rural banking. Rather than recommending competitive positioning and leadership development as separate programs, the study indicated that strategic planning, employee capability development, service innovation, risk management, and compliance should be coordinated. This integrated perspective could assist rural bank executives in making decisions that balance efficiency, customer value, employee capability, regulatory responsibility, and long-term organizational resilience.

The findings were also relevant to policymakers and regulators because rural banks contributed to financial inclusion and local enterprise development. A stronger understanding of how competitive capabilities and leadership interacted could inform management development, institutional strengthening, and sustainability-oriented interventions for smaller financial institutions. The study therefore advanced business and management research by providing context-specific evidence from rural banks in Oriental Mindoro and by empirically testing leadership as a moderator of the strategy-sustainability relationship.

Review of Related Literature and Studies**Competitive Advantage as a Strategic Driver for Operational Sustainability**

Competitive advantage refers to an organization's ability to create superior value relative to competitors through distinctive resources, capabilities, strategic positioning, and effective execution. Contemporary strategic management recognizes that competitive advantage increasingly depends on an organization's ability to develop, combine, and reconfigure resources in response to changes in the external environment (Rothaermel, 2024). In financial services, this perspective is particularly important because banks operate in an environment characterized by technological disruption, changing customer expectations, regulatory requirements, cybersecurity risks, and increasing competition from both traditional and technology-enabled financial-service providers.

The banking industry has experienced significant structural changes as a result of financial technology (FinTech), digital platforms, artificial intelligence, cloud computing, and other emerging technologies. The Bank for International Settlements (BIS, 2024b) reported that digitalization is transforming the banking sector and creating new opportunities and risks associated with artificial intelligence, application programming interfaces, cloud computing, and other technologies. These developments have intensified competition and changed traditional banking value chains, requiring banks to develop capabilities that combine technology, operational efficiency, customer service, innovation, and risk management.

International empirical evidence further indicates that technological competition can influence the strategic and risk environment of banks. Elekdag et al. (2025), using a database covering more than 10,000 financial institutions and global FinTech activities, found that greater FinTech presence was associated with increased risk-taking among financial institutions. However, the relationship varied according to bank-, industry-, and country-specific characteristics, suggesting that institutional strength and regulatory conditions can influence how financial institutions respond to technological competition.

The findings of Elekdag et al. (2025) are important to the present study because they demonstrate that competition generated by technological innovation can affect not only market positioning but also financial and operational stability. Thus, competitive advantage in contemporary banking needs to be considered together with risk management, institutional resilience, and the capacity to maintain sustainable operations.

Probojakti et al. (2024) examined sustainable competitive advantage in the banking sector and found that organizational agility played an important mediating role in the relationship between transformational leadership, digital transformation, and sustainable competitive advantage. Their findings suggest that leadership and digital transformation do not automatically produce competitive advantage; rather, these resources become strategically valuable when organizations possess the ability to respond to changing environmental conditions.

More recent evidence by Probojakti et al. (2025) further demonstrated the importance of transformational leadership, digital transformation, organizational agility, and corporate resilience in developing sustainable competitive advantage. This body of evidence suggests that competitive advantage is increasingly dependent on an organization's ability to transform leadership and technological resources into adaptive and resilient organizational capabilities.

For rural banks, competitive advantage may therefore depend on the ability to combine traditional strengths, such as community relationships and local market knowledge, with operational efficiency, customer responsiveness, digital capabilities, innovation, and effective leadership. Competitive advantage can consequently be viewed not merely as a market outcome but as an organizational capability that supports the continuity and sustainability of banking operations.

Cost Leadership, Differentiation, Focus, and Responsiveness**Cost Leadership**

Cost leadership refers to an organization's ability to provide products or services efficiently while controlling operating costs and maintaining acceptable levels of quality. In banking, cost leadership may be achieved through efficient processes, appropriate technology, employee productivity, effective resource allocation, and streamlined service delivery.

Digital transformation has created opportunities for banks to improve cost efficiency through automation, electronic transactions, digital customer service, data analytics, and process integration. However, cost reduction should not be pursued independently of service quality, internal controls, employee capacity, cybersecurity, and regulatory compliance. The BIS (2024b) emphasized that digitalization can generate efficiency and innovation benefits while also introducing new operational and technological risks. Consequently, sustainable cost leadership requires a

balance between efficiency, resilience, and risk management.

For rural banks, cost leadership is particularly relevant because smaller institutions generally operate with fewer resources and smaller market bases than large commercial banks. Efficient resource utilization may allow rural banks to maintain competitive pricing and service accessibility while preserving their capacity to invest in employee development, technology, risk management, and regulatory compliance.

Differentiation

Differentiation involves creating distinctive value that customers recognize as superior or different from competing alternatives. In banking, differentiation may be achieved through service quality, personalized relationships, accessibility, product innovation, convenience, reliability, and customer experience.

Rural banks possess potential differentiation advantages because of their close relationships with local communities. Their understanding of agricultural households, microenterprises, local entrepreneurs, and community economic conditions may enable them to offer more personalized services than highly standardized financial institutions. In the Philippine context, the Bangko Sentral ng Pilipinas (BSP, 2025a) continues to emphasize the importance of financial access and inclusion, particularly among underserved populations.

However, the increasing presence of FinTech and digital banking has changed customer expectations. Customers increasingly expect faster transactions, convenient digital access, personalized services, and reliable financial platforms. The BIS (2024b) noted that technology-enabled financial services are changing the traditional banking value chain and increasing competition among financial-service providers.

Hidayat-ur-Rehman (2025) likewise examined the relationship among FinTech adoption, competitiveness, digital transformation, and sustainable bank performance. Their work illustrates how technology adoption and competitiveness are increasingly connected to sustainability outcomes in banking.

Therefore, differentiation in contemporary rural banking may require a combination of relationship-based service and appropriate digital capabilities.

Focus

Focus strategy involves concentrating organizational resources on specific customer groups, geographic markets, or market segments. For rural banks, this strategy is particularly relevant because their operations are closely connected to local communities.

Agricultural households, microenterprises, small entrepreneurs, and underserved communities represent potentially important market segments. A focused strategy allows banks to develop specialized knowledge of customer needs and local economic conditions. This may support more appropriate credit products, relationship management, financial education, and community-based services.

The importance of focused strategies is reinforced by the continuing financial-inclusion agenda in the Philippines. BSP (2025a) reported continuing efforts to expand access to financial products and services among underserved and geographically dispersed populations. Such conditions create opportunities for rural banks to leverage local knowledge and community relationships as strategic resources.

Nevertheless, a focus strategy must remain adaptive. Digital financial services allow customers to access products from institutions beyond their immediate geographic locations. Consequently, rural banks must continuously assess whether their selected market segments remain strategically viable and whether their services continue to meet changing customer expectations.

Responsiveness

Responsiveness refers to an organization's capacity to recognize and respond promptly to customer expectations, technological developments, market changes, competitive threats, and regulatory requirements. In an increasingly uncertain banking environment, responsiveness is closely associated with organizational agility. Probojakti et al. (2024) demonstrated that organizational agility played an important role in translating leadership and digital transformation into sustainable competitive advantage. This finding suggests that responsiveness is not simply an operational characteristic but an important strategic capability.

For rural banks, responsiveness may be reflected in the speed with which management responds to customer concerns, regulatory changes, technological developments, competitive actions, and operational disruptions. Thus, responsiveness can contribute to service continuity, customer satisfaction, innovation, and long-term operational sustainability.

FinTech Competition and Digital Transformation in Banking

FinTech has significantly changed the competitive environment of financial services. FinTech firms and Big Tech companies have entered areas traditionally dominated by banks, including payments, lending, digital financial services, and other forms of financial intermediation. The BIS (2024b) emphasized that digitalization has changed the structure of financial services and increased the interaction between banks and technology-based financial-service providers.

The effects of FinTech competition are not uniformly positive or negative. Elekdag et al. (2025) found that greater FinTech presence was associated with heightened risk-taking among financial institutions in their global sample, although the strength of the relationship varied according to institutional and country characteristics. This finding indicates that technological competition can promote innovation while simultaneously creating challenges for financial stability and risk management.

Research by Hu et al. (2024) also examined FinTech development and risk-taking among commercial banks in China, providing additional evidence that technological development can influence bank risk behavior. These findings demonstrate the importance of considering digital transformation together with risk management and organizational resilience.

Digital transformation can nevertheless provide substantial opportunities for banking institutions. Digital platforms can improve accessibility, transaction speed, process efficiency, customer communication, data analysis, and service innovation. Hidayat-ur-Rehman (2025) examined FinTech adoption, green finance, competitiveness, digital transformation, and sustainable bank performance, highlighting the increasing integration of technology, competitiveness, and sustainability in banking research.

For rural banks, digitalization can enable smaller institutions to expand their reach and improve efficiency without requiring the same physical infrastructure as large banks. However, increased technological dependence can also expose institutions to cybersecurity threats, system disruptions, third-party risks, and regulatory challenges. Digital transformation must therefore be implemented within a broader framework of operational resilience and sustainability.

Transformational Leadership and Strategy Execution

Transformational leadership emphasizes leadership behaviors that inspire employees, encourage intellectual engagement, communicate a compelling organizational direction, model appropriate values, and provide individualized support (Northouse, 2022). Such behaviors are particularly relevant in organizations experiencing technological, regulatory, and market changes because successful strategic implementation depends on employee participation and organizational adaptation.

Hughes et al. (2022) emphasized that leadership is influenced by the interaction among leaders, followers, and situational conditions. This perspective is relevant to rural banking because leadership effectiveness may depend on how managers respond to specific institutional conditions, employee capabilities, customer expectations, technological changes, and regulatory requirements.

Recent banking research provides empirical support for the relationship between transformational leadership and organizational capability. Probojakti et al. (2024) found that transformational leadership contributed to organizational agility, which subsequently supported sustainable competitive advantage. The study suggests that leadership may create competitive value by strengthening an organization's ability to sense environmental changes and respond effectively.

Probojakti et al. (2025) likewise found that transformational leadership and digital transformation were associated with organizational agility and corporate resilience, further demonstrating the importance of leadership in helping banking organizations respond to environmental changes.

Chukwuma (2022) also reported a significant relationship between transformational leadership and organizational performance among selected deposit money banks. Although the institutional context differs from rural banks in the Philippines, the findings provide additional empirical support for investigating transformational leadership within financial-service organizations.

Transformational leadership may therefore be particularly important in rural banking because competitive strategies require employee cooperation and effective execution. Leaders must communicate strategic priorities, support innovation, develop employee capabilities, encourage problem solving, manage organizational change, and maintain service quality while responding to competitive and regulatory pressures.

Organizational Agility as a Strategic Capability

Organizational agility refers to the capacity of an organization to sense changes, make timely decisions, and

reconfigure resources and processes in response to changing environmental conditions. It has become increasingly important in industries characterized by technological disruption, uncertainty, and rapidly changing customer expectations.

In banking, organizational agility enables institutions to respond to FinTech competition, changing regulations, cybersecurity threats, customer expectations, and market disruptions. Probojakti et al. (2024) demonstrated that organizational agility significantly contributed to sustainable competitive advantage and served as an important mechanism connecting transformational leadership and digital transformation with competitive outcomes. Probojakti et al. (2025) provided further evidence that organizational agility contributes to corporate resilience and sustainable competitive advantage. These findings indicate that leadership and technology create stronger strategic outcomes when organizations possess the ability to translate them into timely operational responses.

Organizational agility is therefore relevant to all four competitive advantage dimensions examined in the present study. Cost leadership requires continuous process improvement; differentiation requires innovation and customer responsiveness; focus requires continuous understanding of target markets; and responsiveness requires rapid adjustment to environmental changes. Agility consequently provides an important conceptual link between competitive advantage and operational sustainability.

Operational Sustainability in Rural Banking

Operational sustainability in the present study refers to the capacity of rural banks to maintain stable, efficient, compliant, reliable, adaptive, and human-resource-supported operations over time. The construct includes six dimensions: financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability.

This multidimensional conceptualization is consistent with the broader movement in sustainability research away from a narrow focus on financial performance toward organizational resilience, responsible governance, operational continuity, stakeholder value, and long-term organizational capability.

Financial Stability

Financial stability represents the institution's capacity to maintain adequate financial resources, manage risks, absorb disruptions, and continue essential operations. Financial stability remains a fundamental condition for sustainable banking because financial weaknesses may limit an institution's ability to invest in technology, employees, service improvements, and risk-management systems.

The World Bank (2024) emphasized the importance of financial-sector resilience and stability, particularly in emerging and developing economies. In the Philippine context, BSP (2024b) likewise highlighted developments in the Philippine financial system, including risks and conditions affecting the stability and resilience of financial institutions. For rural banks, financial stability is particularly important because smaller institutions may have fewer resources with which to absorb operational disruptions or sudden changes in market conditions.

Operational Efficiency

Operational efficiency concerns the ability to provide banking services with appropriate levels of resource utilization, accuracy, speed, and productivity. Efficient operations can reduce unnecessary costs, improve customer experience, minimize errors, and strengthen institutional competitiveness.

Digital banking and automation have created new opportunities to improve operational efficiency. However, technological efficiency must be accompanied by effective controls and employee competencies. Efficiency achieved without adequate risk management may create vulnerabilities that ultimately undermine operational sustainability. Hidayat-ur-Rehman (2025) provide support for examining the connection between FinTech adoption, digital transformation, competitiveness, and sustainable bank performance. Their study reflects the growing recognition that technological and operational capabilities can influence sustainability outcomes in banking.

Regulatory Compliance

Regulatory compliance refers to the institution's ability to consistently meet applicable banking laws, regulations, supervisory expectations, internal policies, and risk-management requirements. Compliance is an important sustainability dimension because banking institutions operate within a highly regulated environment.

The Basel Committee on Banking Supervision (BIS, 2024a) emphasizes effective governance, risk management, supervisory oversight, and resilience as important components of sound banking. The revised Basel Core Principles likewise strengthen the emphasis on operational resilience, risk management, and institutional capacity to respond to disruptions.

For Philippine rural banks, compliance with Bangko Sentral ng Pilipinas requirements is therefore an important component of long-term operational sustainability (BSP, 2024b, 2025b).

Service Continuity and Reliability

Service continuity and reliability refer to the capacity of a bank to maintain essential services despite operational disruptions. Customers depend on continuous access to deposits, withdrawals, payments, credit services, and other financial activities.

The Bank for International Settlements (BIS, 2021) emphasizes operational resilience and the ability of banks to continue delivering critical operations during disruption. The framework highlights governance, business continuity, information and communication technology resilience, third-party dependencies, incident management, and recovery capabilities.

This literature provides a strong basis for including service continuity and reliability as a dimension of operational sustainability. A bank may remain financially viable in the short term but still face serious sustainability problems if it cannot reliably provide critical services.

Adaptability and Innovation

Adaptability refers to an organization's ability to modify strategies, processes, products, and practices in response to environmental changes. Innovation involves developing or adopting new products, technologies, processes, and approaches that improve organizational performance and customer value.

The rapid transformation of financial services demonstrates the importance of adaptability. FinTech, digital banking, artificial intelligence, data analytics, and changing customer expectations require banks to continuously reconsider how services are delivered.

Probojakti et al. (2024, 2025) demonstrate the importance of organizational agility in transforming digital and leadership capabilities into competitive and resilient outcomes. This supports the inclusion of adaptability and innovation as a core component of operational sustainability.

For rural banks, adaptability may involve adopting appropriate digital services, improving internal processes, developing community-responsive products, and adjusting strategies to changing regulatory and market conditions.

Human Resource Sustainability

Human resource sustainability concerns the institution's ability to maintain a capable, motivated, adaptable, and adequately supported workforce over time. Employees remain essential to banking operations despite increasing automation and digitalization because they perform functions involving customer relationships, compliance, risk management, problem solving, decision making, and service recovery.

Digital transformation changes employees' roles and competency requirements. Employees may therefore require continuous training in digital technologies, customer service, risk management, cybersecurity, data handling, and regulatory compliance.

Transformational leadership may support human resource sustainability by encouraging employee development, intellectual stimulation, participation, innovation, and commitment to organizational goals. Probojakti et al. (2024) provide empirical support for the role of transformational leadership in developing organizational agility, reinforcing the importance of leadership and employee capabilities in adapting to changing banking environments. Consequently, human resource sustainability provides an important connection between leadership and the operational capacity of rural banks.

Operational Resilience, Business Continuity, and Banking Sustainability

Operational resilience has become a central concern in contemporary banking because disruptions may arise from cyberattacks, technology failures, natural disasters, pandemics, human error, third-party providers, and other external events.

The Basel Committee on Banking Supervision (2021) established principles for operational resilience that emphasize a bank's ability to deliver critical operations through disruption. The framework includes governance, operational risk management, business continuity, mapping of interdependencies, third-party dependency management, incident management, information and communication technology resilience, and cyber resilience.

The revised Basel Core Principles further reinforce operational resilience as an important component of effective banking supervision (BIS, 2024a). These developments demonstrate that sustainability in banking requires more than maintaining profitability. Banks must also possess the capacity to absorb disruptions, maintain critical functions, recover operations, and learn from disruptive events.

Third-party dependence has become increasingly relevant because banks increasingly rely on technology providers, cloud services, payment systems, and other external infrastructure. The BIS (2024c) emphasized the importance of managing third-party risk because dependence on external service providers can create operational and concentration risks.

For rural banks, these issues are particularly relevant because smaller institutions may rely more heavily on external technology vendors and shared infrastructure. Operational sustainability therefore requires effective contingency planning, vendor management, technology governance, cybersecurity, employee preparedness, and service-recovery mechanisms.

Synthesis of the Review and Research Gap

The reviewed literature indicated that competitive advantage, organizational agility, leadership, and sustainability were closely connected. However, the literature provided less empirical evidence on how transformational leadership changed the relationship between competitive advantage and operational sustainability among rural banks in provincial Philippine settings. Existing studies frequently examined financial performance, digital transformation, organizational agility, or leadership as separate variables. The present study addressed this gap by integrating four competitive advantage dimensions, six operational sustainability dimensions, and three transformational leadership dimensions within a single moderation model.

Conceptual Framework

The study was anchored primarily on the Resource-Based View (RBV) and supported by the dynamic capabilities perspective. The RBV proposed that organizational resources and capabilities could generate sustained value when they were valuable, rare, difficult to imitate, and effectively organized (Barney, 1991). In rural banking, localized customer relationships, service capabilities, employee knowledge, strategic routines, and responsive processes could represent resources that supported competitive positioning.

The dynamic capabilities perspective complemented the RBV by emphasizing the capacity of organizations to sense environmental changes, seize opportunities, and reconfigure resources and processes. Contemporary strategic management continued to emphasize the importance of organizational adaptation in uncertain environments (Rothaermel, 2024). In the present study, competitive advantage represented strategic capabilities, operational sustainability represented organizational outcomes, and transformational leadership represented a managerial capability that could alter how effectively competitive capabilities were converted into sustainable operations.

Conceptually, competitive advantage comprised cost leadership, differentiation, focus, and responsiveness. Operational sustainability comprised financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability. Transformational leadership comprised inspirational motivation, intellectual stimulation, and individualized consideration. The proposed relationship, presented in Figure 1, was that competitive advantage would positively predict operational sustainability and that transformational leadership would moderate this relationship.

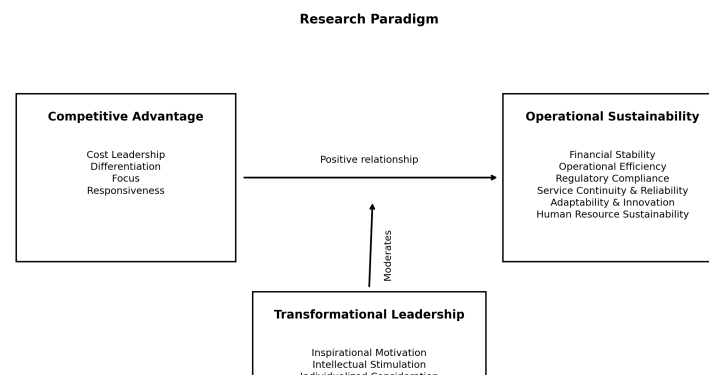


Figure 1
Research Paradigm

Note. The diagram presents competitive advantage as the predictor, operational sustainability as the outcome, and transformational leadership as the moderating variable.

Statement of the Problem

Rural banks in Oriental Mindoro operate in an increasingly competitive and technology-enabled financial environment while continuing to serve local communities and comply with extensive regulatory requirements. These conditions require rural banks to strengthen their competitive strategies while maintaining efficient, reliable, compliant, and sustainable operations. Although competitive strategies may improve resource utilization, customer value, service responsiveness, and organizational performance, the extent to which competitive advantage translates into sustained operational outcomes remains insufficiently established in provincial rural banking.

Transformational leadership may influence how effectively competitive strategies are implemented because leaders shape strategic communication, employee development, organizational adaptation, innovation, and responses to changing environmental conditions. However, the extent to which transformational leadership changes the relationship between competitive advantage and operational sustainability remains insufficiently examined among rural banks in provincial Philippine settings.

Consequently, an empirical assessment is needed to determine the relationship between competitive advantage and operational sustainability and to establish whether transformational leadership significantly moderates this relationship among rural banks in Oriental Mindoro, Philippines.

Research Objectives**General Objective**

To examine the moderating role of transformational leadership in the relationship between competitive advantage and operational sustainability among rural banks in Oriental Mindoro, Philippines.

Specific Objectives

1. To describe the competitive advantage of rural banks in terms of cost leadership, differentiation, focus, and responsiveness.
2. To evaluate the operational sustainability of rural banks in terms of financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability.
3. To describe the transformational leadership of rural bank managers in terms of inspirational motivation, intellectual stimulation, and individualized consideration.
4. To analyze the relationship between competitive advantage and operational sustainability among rural banks.
5. To determine whether transformational leadership significantly moderates the relationship between competitive advantage and operational sustainability among rural banks.

Research Questions

1. How may the competitive advantage of rural banks be described in terms of cost leadership, differentiation, focus, and responsiveness?
2. How may the operational sustainability of rural banks be described in terms of financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability?
3. How may the transformational leadership of rural bank managers be described in terms of inspirational motivation, intellectual stimulation, and individualized consideration?
4. Does competitive advantage significantly relate to operational sustainability among rural banks?
5. Does transformational leadership significantly moderate the relationship between competitive advantage and operational sustainability among rural banks?

Hypotheses

H01: There is no significant relationship between competitive advantage and operational sustainability among rural banks in Oriental Mindoro, Philippines.

H02: Transformational leadership does not significantly moderate the relationship between competitive advantage and operational sustainability among rural banks in Oriental Mindoro, Philippines.

METHODS**Research Design**

A quantitative, nonexperimental descriptive-correlational research design was employed. Descriptive statistics were used to assess the observed levels of competitive advantage, operational sustainability, and transformational leadership. Multiple regression analysis was used to determine the independent contribution of the four competitive advantage dimensions—cost leadership, differentiation, focus, and responsiveness—to overall operational sustainability. PLS-SEM was used to evaluate the measurement model and assess the structural model, including the moderating effect of transformational leadership on the relationship between competitive advantage and operational sustainability. Thus, multiple regression and PLS-SEM served distinct but complementary analytical purposes in addressing the study objectives.

Population and Sampling

The accessible population consisted of 736 employees and officers of rural banking institutions operating in Oriental Mindoro, MIMAROPA (Region IV-B), Philippines. A sample of 361 respondents was selected using stratified random sampling with proportional allocation. Respondents were drawn from 17 branches representing 14 Bangko Sentral ng Pilipinas (BSP)-registered rural banks operating in Calapan City, Baco, Naujan, Victoria, Socorro, Pinamalayan, Gloria, Bansud, Bongabong, Roxas, Mansalay, Bulalacao, Pola, and Puerto Galera.

The sampling procedure involved 15–20 respondents per branch, including managers, assistant managers, department heads, and senior staff. The sample allocated to each bank or branch was determined proportionally based on its share of the accessible population. The inclusion criteria were employees and officers who were currently employed in one of the participating BSP-registered rural banks in Oriental Mindoro; had been employed in the institution for at least six months; held a managerial, supervisory, or senior staff position; and voluntarily agreed to participate in the study and provided informed consent. Employees who were probationary, newly hired with less than six months of service, contractual or outsourced personnel, and those who were on extended leave or unavailable during the data-collection period were excluded from participation.

Research Instrument

A structured questionnaire informed by the established measures developed by Owaga (2020) served as the basis for instrument development in the present study. The original instrument was not reproduced verbatim. Instead, the researchers substantially revised, reworded, contextualized, and refined the measures to suit the operational characteristics and practices of rural banks in Oriental Mindoro, Philippines. Items that were not applicable to the rural banking context were removed, while the retained items were modified to reflect the activities, services, customer relationships, operational processes, regulatory requirements, and organizational practices of rural banks. Owaga (2020) is acknowledged as the source informing the development and adaptation of the measures, while the final questionnaire administered in this study represents a researcher-adapted and context-specific instrument.

The final questionnaire consisted of 62 items covering three major constructs: competitive advantage, operational sustainability, and transformational leadership. Competitive advantage was measured through four dimensions: cost leadership (5 items), differentiation (4 items), focus (4 items), and responsiveness (5 items), for a total of 18 items. Operational sustainability was assessed through six dimensions: financial stability (5 items), operational efficiency (5 items), regulatory compliance (5 items), service continuity and reliability (4 items), adaptability and innovation (6 items), and human resource sustainability (6 items), for a total of 31 items. Transformational leadership was assessed through three dimensions: inspirational motivation (5 items), intellectual stimulation (4 items), and individualized consideration (4 items), for a total of 13 items. Thus, the final questionnaire administered in the study comprised 62 items.

Prior to final administration, the questionnaire underwent content validation by five validators with expertise in business administration, banking and financial management, research methodology, and management-related disciplines. Their recommendations were incorporated into the final version of the questionnaire. A pilot test involving 30 participants was subsequently conducted to assess the clarity, reliability, and contextual appropriateness of the questionnaire items.

The reliability and validity of the measurement instrument were evaluated using Partial Least Squares Structural Equation Modeling (PLS-SEM). Indicator reliability was assessed through outer loadings, while internal consistency reliability was evaluated using Cronbach's alpha (α), rho_A, and composite reliability (rho_C). Convergent validity was assessed using the average variance extracted (AVE), while discriminant validity was evaluated using the

Fornell–Larcker criterion, following established PLS-SEM measurement-model procedures (Hair et al., 2022). The corresponding measurement-model results are presented in the appendices.

Reliability and Validity of the Instrument

The reliability and convergent validity results of the measurement model are presented in Table 1.1.

Table 1.1

Reliability and Convergent Validity of the Measurement Model

Construct/Dimension	No. of Items	Cronbach's Alpha (α)	Composite Reliability (ρ_A)	Composite Reliability (ρ_C)	AVE
Competitive Advantage					
Cost Leadership	5	0.929	0.935	0.947	0.784
Differentiation	4	0.859	0.878	0.906	0.706
Focus	4	0.939	0.959	0.957	0.845
Responsiveness	5	0.910	0.929	0.933	0.738
Operational Sustainability					
Financial Stability	5	0.946	0.952	0.958	0.822
Operational Efficiency	5	0.936	0.937	0.952	0.797
Regulatory Compliance	5	0.943	0.960	0.958	0.821
Service Continuity and Reliability	4	0.931	0.948	0.949	0.790
Adaptability and Innovation	6	0.886	0.895	0.913	0.639
Human Resource Sustainability	6	0.969	0.976	0.975	0.868
Transformational Leadership					
Inspirational Motivation	5	0.875	0.886	0.910	0.670
Intellectual Stimulation	4	0.910	0.940	0.936	0.786
Individualized Consideration	4	0.794	0.806	0.864	0.614

Note. α = Cronbach's alpha; ρ_A = Dijkstra–Henseler's reliability; ρ_C = composite reliability; AVE = average variance extracted.

The results indicate strong internal consistency reliability across all 13 dimensions. Cronbach's alpha values ranged from 0.794 to 0.969, ρ_A values ranged from 0.806 to 0.976, and composite reliability (ρ_C) values ranged from 0.864 to 0.975. These results demonstrate that the indicators within each dimension consistently measured their respective constructs.

Convergent validity was also established based on the AVE results. The AVE values ranged from 0.614 to 0.868, with all dimensions exceeding the 0.50 criterion. This indicates that each dimension explained more than half of the variance in its respective indicators. Human Resource Sustainability obtained the highest AVE (0.868), whereas Individualized Consideration obtained the lowest (0.614), with both exceeding the acceptable threshold.

Overall, the measurement model demonstrated acceptable internal consistency reliability and convergent validity across all 13 dimensions. The findings provide empirical support for the reliability and convergent validity of the adapted instrument used to assess competitive advantage, operational sustainability, and transformational leadership among rural banks in Oriental Mindoro. Indicator reliability and discriminant validity were further assessed through outer loadings and the Fornell–Larcker criterion, respectively, with the corresponding results presented in Tables 1.2 and 1.3.

Measurement Model Assessment Using PLS-SEM

Table 1.2

Summary of Factor Loadings of the Measurement Model

Construct/Dimension	Number of Indicators Retained	Range of Factor Loadings	Interpretation
Cost Leadership	5	0.772–0.939	Excellent Indicator Reliability
Differentiation	4	0.755–0.928	Excellent Indicator Reliability
Focus	4	0.902–0.942	Excellent Indicator Reliability
Responsiveness	5	0.716–0.934	Acceptable Indicator Reliability
Financial Stability	5	0.897–0.934	Excellent Indicator Reliability
Operational Efficiency	5	0.871–0.915	Excellent Indicator Reliability
Regulatory Compliance	5	0.903–0.909	Excellent Indicator Reliability
Service Continuity and Reliability	4	0.884–0.901	Excellent Indicator Reliability
Adaptability and Innovation	6	0.763–0.852	Good Indicator Reliability
Human Resource Sustainability	6	0.926–0.939	Excellent Indicator Reliability
Inspirational Motivation	5	0.794–0.857	Good Indicator Reliability
Intellectual Stimulation	4	0.865–0.904	Excellent Indicator Reliability
Individualized Consideration	4	0.768–0.801	Good Indicator Reliability
Total Indicators Retained	62	0.716–0.942	Satisfactory Indicator Reliability

Note. Factor loadings of 0.70 and above indicate satisfactory indicator reliability. All retained indicators met the recommended threshold and were retained in the final measurement model.

All retained indicators achieved factor loadings above the recommended threshold of 0.70, ranging from 0.716 to 0.942, indicating satisfactory indicator reliability. Focus recorded the highest retained loading, whereas Responsiveness had the lowest retained loading. Overall, the results confirm that all indicators adequately represented their respective dimensions and were retained in the final measurement model.

Construct Validity – Reliability

Table 1.3

Reliability and Convergent Validity of the Measurement Model

Construct/Dimension	No. of Indicators	Cronbach's Alpha	Composite Reliability (rho_C)	AVE	Interpretation
Cost Leadership (CL)	5	0.929	0.947	0.784	Excellent reliability and validity
Differentiation (Diff)	4	0.859	0.906	0.706	Very good reliability and validity
Focus	4	0.939	0.957	0.845	Excellent reliability and validity
Responsiveness	5	0.910	0.933	0.738	Excellent reliability and validity
Financial Stability (FS)	5	0.946	0.958	0.822	Excellent reliability and validity

Operational Efficiency (OE)	5	0.936	0.952	0.797	Excellent reliability and validity
Regulatory Compliance (RC)	5	0.943	0.958	0.821	Excellent reliability and validity
Service Continuity and Reliability (SCR)	4	0.931	0.949	0.790	Excellent reliability and validity
Adaptability and Innovation (AI)	6	0.886	0.913	0.639	Strong reliability and validity
Human Resource Sustainability (HRS)	6	0.969	0.975	0.868	Outstanding reliability and validity
Inspirational Motivation (IM)	5	0.875	0.910	0.670	Strong reliability and validity
Intellectual Stimulation (IS)	4	0.910	0.936	0.786	Excellent reliability and validity
Individualized Consideration (IC)	4	0.794	0.864	0.614	Acceptable reliability and validity
Total	62				

Criteria:

- Cronbach's Alpha ≥ 0.70 = Reliable
- Composite Reliability (ρ_C) ≥ 0.70 = Reliable
- AVE ≥ 0.50 = Convergent Validity Established

The results show that all 13 dimensions met the recommended criteria for reliability and convergent validity. Cronbach's alpha values ranged from 0.794 to 0.969, while composite reliability values ranged from 0.864 to 0.975, all exceeding the threshold of 0.70. Likewise, AVE values ranged from 0.614 to 0.868, exceeding the minimum requirement of 0.50. These findings indicate that the final 62-indicator measurement model demonstrated satisfactory internal consistency reliability and convergent validity.

The measurement model comprised 18 indicators for competitive advantage, 31 indicators for operational sustainability, and 13 indicators for transformational leadership, yielding a total of 62 retained indicators.

Data Collection

Data were collected over a six-week period from March to April 2026 from the participating rural banking institutions in Oriental Mindoro. Formal transmittal requests and administrative permissions were obtained from the management and branch heads of the participating institutions before data collection.

After permission was secured, the questionnaires were administered through face-to-face distribution and secure digital survey links. Participants were provided with information about the purpose of the study, voluntary participation, confidentiality, and their right to decline or discontinue participation. Completed questionnaires were screened for completeness, coded, checked against the sampling strata, and prepared for statistical analysis. A total of 361 complete and usable responses were obtained and included in the final analysis.

Data Analysis

Descriptive statistics were used to summarize the observed levels of competitive advantage, operational sustainability, and transformational leadership. Mean scores for the respective dimensions were used to describe the level of each construct and its dimensions.

Multiple regression analysis was used to examine the predictive relationship between competitive advantage and operational sustainability at the dimension level. Specifically, the four competitive advantage dimensions—cost leadership, differentiation, focus, and responsiveness—were entered as predictor variables, while the overall operational sustainability score was used as the criterion variable. This analysis was conducted to determine the extent to which each competitive advantage dimension independently contributed to operational sustainability.

PLS-SEM was used for the measurement-model assessment and moderation analysis at the construct level. The measurement model was evaluated to establish the reliability and validity of the indicators representing competitive advantage, operational sustainability, and transformational leadership. Indicator reliability was assessed through outer loadings; internal consistency reliability was assessed using Cronbach's alpha, ρ_A , and composite reliability (ρ_C);

convergent validity was assessed using average variance extracted (AVE); and discriminant validity was assessed using the Fornell-Larcker criterion.

Following the measurement-model assessment, PLS-SEM was used to test the moderating role of transformational leadership in the relationship between competitive advantage and operational sustainability. Competitive advantage was specified as the predictor construct, operational sustainability as the outcome construct, and transformational leadership as the moderating construct. The moderation analysis tested the interaction between competitive advantage and transformational leadership in predicting operational sustainability. Bootstrapping with 5,000 resamples was used to assess the significance of the direct and interaction effects using a two-tailed significance criterion of $p < .05$. The moderation effect was evaluated based on the estimated interaction coefficient, standard error, t-value, and p-value. The conditional effect of competitive advantage on operational sustainability at different levels of transformational leadership was also examined to determine the direction and nature of the significant interaction effect.

Ethical Considerations

Participation in the study was voluntary, and informed consent was obtained from all respondents before data collection. Respondents were informed of the purpose and procedures of the study, the voluntary nature of their participation, their right to decline participation or withdraw from the study at any time, and the measures implemented to protect the confidentiality of their information.

Respondents' identities and institutional affiliations were treated confidentially, and appropriate safeguards were implemented to minimize unauthorized disclosure of research data. Institutional permission was obtained from the participating rural banking institutions before the administration of the research instrument.

The study was conducted in accordance with the academic and institutional requirements of Tarlac State University-College of Business and Accountancy and was undertaken with the approval of the dissertation adviser and Dissertation Committee, as reflected in the approved dissertation documents. The dissertation was formally accepted upon the recommendation of the adviser and Dissertation Committee, with Dr. Limuel P. Pavico as Adviser and Dr. Elizabeth A. Amurao as Committee Chair, together with the committee members Dr. Jhonel C. Panlilio, Dr. Derick S. Figueroa, Dr. Henry D. Rufino, and Dr. Criselda A. Tonelada. The dissertation was accepted and approved in partial fulfillment of the requirements for the degree of Doctor of Business Administration.

Based on the institutional approval documents available for the study, no separate research ethics committee approval or ethics approval/reference number was required or issued for this research. Accordingly, no ethics approval number is reported in this manuscript. The study's ethical safeguards were implemented through informed consent, voluntary participation, confidentiality and data-protection measures, institutional permission from the participating rural banks, and compliance with the academic and institutional requirements governing the conduct and approval of the dissertation at Tarlac State University-College of Business and Accountancy.

RESULTS AND DISCUSSION

Competitive Advantage of Rural Banks

Table 2

Level of Competitive Advantage

DIMENSION	COMPOSITE MEAN	DESCRIPTION
Cost Leadership	4.54	Strongly Agree
Differentiation	4.62	Strongly Agree
Focus	4.44	Agree
Responsiveness	4.47	Agree
Overall Mean	4.51	Strongly Agree

Note. Composite mean values are based on the five-point Likert scale used in the study.

Table 2 presents the respondents' assessment of competitive advantage among rural banks in terms of cost leadership, differentiation, focus, and responsiveness. The results yielded an overall composite mean of 4.51, interpreted as Strongly Agree, indicating a high level of competitive advantage among the participating rural banks.

Differentiation obtained the highest composite mean of 4.62, followed by Cost Leadership at 4.54, Responsiveness at 4.47, and Focus at 4.44. The findings indicate that rural banks employ a combination of strategies to maintain competitiveness. This supports Rothaermel (2024), who emphasized that competitive advantage is developed through value creation, efficient resource utilization, innovation, and strategic positioning, while Grant (2022) highlighted the importance of combining internal capabilities with external opportunities.

The high assessment of competitive advantage also reflects the increasing importance of innovation, organizational agility, digital transformation, and customer responsiveness. Agazu and Kero (2024) emphasized that continuous innovation and adaptation to technological and environmental changes strengthen sustained competitiveness, while Moreira et al. (2024) showed that innovation capabilities comprise multiple dimensions that can support competitiveness and organizational performance. Specifically, Differentiation, with a mean of 4.62, suggests that rural banks effectively distinguish their services through customer-centered and relationship-based approaches, including personalized services, tailored financial products, and localized customer knowledge. Cost Leadership, with a mean of 4.54, likewise indicates strong implementation of cost-efficient practices, highlighting the importance of financial discipline, resource allocation, and expenditure management (Grant, 2022). Responsiveness obtained a mean of 4.47, reflecting the banks' ability to respond to customer needs and changing conditions, consistent with Organization for Economic Co-operation and Development (OECD, 2023) on the importance of responsiveness to customers, market trends, and technological developments.

Meanwhile, Focus obtained a mean of 4.44, indicating that rural banks continue to serve specific customer segments and communities through specialized knowledge and tailored financial services. Rothaermel (2024) noted that focus strategies can create competitive advantage by developing specialized expertise and stronger relationships within targeted markets. Overall, the findings demonstrate that the participating rural banks possess a high level of competitive advantage, with differentiation emerging as the strongest dimension. The results suggest that rural banks can further strengthen their competitive position by integrating customer-centered differentiation, cost efficiency, market focus, and responsiveness, consistent with the contemporary strategic-management perspective that competitive advantage increasingly depends on organizational capabilities, innovation, and responsiveness (Rothaermel, 2024; Agazu & Kero, 2024; Moreira et al., 2024).

Operational Sustainability of Rural Banks

Table 3

Level of Operational Sustainability

	COMPOSITE MEAN	DESCRIPTION
Financial Stability	4.48	Strongly Agree
Operational Efficiency	4.58	Strongly Agree
Regulatory Compliance	4.58	Strongly Agree
Service Continuity And Reliability	4.53	Strongly Agree
Adaptability And Innovation	4.59	Strongly Agree
Human Resource Sustainability	4.67	Strongly Agree
Overall Mean	4.57	Strongly Agree

Note. Composite mean values are based on the five-point Likert scale used in the study.

Table 3 presents the respondents' assessment of operational sustainability across six dimensions: financial stability, operational efficiency, regulatory compliance, service continuity and reliability, adaptability and innovation, and human resource sustainability. The overall composite mean of 4.57, interpreted as Strongly Agree, indicates that operational sustainability is highly evident among the participating rural banks. Human Resource Sustainability obtained the highest composite mean of 4.67, highlighting the importance of employee development, retention, supportive leadership, and workforce capability in sustaining banking operations. This finding is consistent with Northouse (2022), who emphasized that transformational leadership supports employee development and organizational learning. Adaptability and Innovation obtained a mean of 4.59, indicating the banks' capacity to respond to technological developments, changing customer expectations, and environmental changes. This supports Agazu and Kero (2024), who emphasized the importance of continuous innovation and adaptation for long-term

competitiveness, and Moreira et al. (2024), who highlighted the multidimensional nature of innovation capabilities and their relevance to organizational performance.

Operational Efficiency and Regulatory Compliance both obtained a mean of 4.58, indicating that rural banks are perceived to maintain efficient processes while meeting regulatory requirements. Operational efficiency enables banks to optimize available resources, while regulatory compliance supports institutional legitimacy, stability, and continuity. Service Continuity and Reliability obtained a mean of 4.53, suggesting that the participating rural banks are generally capable of maintaining dependable banking services. This is particularly important in rural communities where customers depend on accessible and reliable financial services. Consistent service delivery can strengthen customer confidence and organizational resilience. Meanwhile, Financial Stability obtained the lowest composite mean of 4.48, although it remained within the Strongly Agree category. This indicates that respondents generally perceive the rural banks as financially stable, while also suggesting the continuing importance of strengthening financial resilience amid changing economic, technological, and regulatory conditions.

Overall, the findings demonstrate that the participating rural banks maintain a high level of operational sustainability, with Human Resource Sustainability emerging as the strongest dimension. The results further indicate that sustainability extends beyond financial stability and encompasses operational efficiency, regulatory compliance, service continuity, adaptability and innovation, and human resource development. This multidimensional finding is consistent with the literature emphasizing that sustainable organizational performance depends on resilience, innovation, human capability, and the capacity to adapt to changing environments (Probojakti et al., 2025; Agazu & Kero, 2024; Moreira et al., 2024).

Transformational Leadership of Rural Bank Managers

Table 4

Level of Transformational Leadership

DIMENSION	COMPOSITE MEAN	DESCRIPTION
Inspirational Motivation	4.41	Agree
Intellectual Stimulation	4.47	Agree
Individualized Consideration	4.24	Agree
Overall Mean	4.37	Agree

Note. Composite mean values are based on the five-point Likert scale used in the study.

Table 4 presents the respondents' assessment of transformational leadership among rural bank managers. The overall composite mean of 4.37, interpreted as Agree, indicates that transformational leadership behaviors are generally evident among the managers of the participating rural banks. Among the three dimensions, Intellectual Stimulation obtained the highest mean of 4.47, followed by Inspirational Motivation at 4.41 and Individualized Consideration at 4.24.

The highest rating for Intellectual Stimulation indicates that rural bank managers are perceived to encourage critical thinking, innovation, continuous learning, and employee participation. This finding is consistent with Northouse (2022), who explained that leaders who stimulate employees intellectually encourage innovation, improve decision-making, and strengthen organizational learning. Probojakti et al. (2025) likewise demonstrated that transformational leadership, digital transformation, organizational agility, and corporate resilience are interconnected in banking.

Inspirational Motivation obtained a mean of 4.41, indicating that managers are generally perceived as capable of motivating employees and encouraging commitment to organizational goals. Transformational leaders communicate organizational vision and inspire employees to pursue shared goals. This interpretation is consistent with Northouse (2022), who emphasized the role of inspirational motivation in strengthening employee engagement and commitment.

Individualized Consideration obtained the lowest mean of 4.24, although it remained within the Agree category. The result indicates that managers generally provide employee support and recognize individual development needs, but there may be opportunities to further strengthen coaching, mentoring, personalized feedback, and career development. Northouse (2022) explained that individualized consideration involves recognizing followers' individual needs and supporting their personal and professional development.

Overall, the results indicate that rural bank managers demonstrate a favorable level of transformational leadership, particularly through intellectual stimulation and inspirational motivation. These leadership practices can

strengthen employee capability, organizational learning, innovation, and adaptability. The findings are consistent with contemporary leadership literature emphasizing transformational leadership as an important organizational capability for responding to technological change, innovation, and changing organizational environments (Northouse, 2022; Hughes et al., 2022; Probojakti et al., 2025).

Relationship Between Competitive Advantage and Operational Sustainability

Table 5

Regression Results for Competitive Advantage and Operational Sustainability

PREDICTOR	B	INTERPRETATION
Cost Leadership	0.3069	Significant Positive Predictor
Differentiation	0.4883	Significant Positive Predictor
Focus	0.0115	Not Significant
Responsiveness	0.1252	Significant Positive Predictor
R	0.957	
R ²	0.916	
Model Significance	P < .001	

Note. β = standardized regression coefficient; R = multiple correlation coefficient; R² = coefficient of determination.

Table 5 presents the regression results examining the relationship between competitive advantage and operational sustainability. The model yielded an R = .957, indicating a very strong relationship, while R² = .916 indicates that approximately 91.6% of the variance in operational sustainability is statistically explained by the competitive advantage dimensions. The model was statistically significant at $p < .001$, confirming that competitive advantage significantly predicts operational sustainability. This supports Rothaermel (2024), who emphasized the role of strategic positioning, innovation, and efficient resource utilization in creating competitive advantage, and Bueno et al. (2024), who associated competitive capabilities with operational efficiency, innovation, financial performance, and organizational resilience.

Among the predictors, Differentiation had the strongest positive effect ($\beta = .4883$), suggesting that distinctive and customer-centered products and services make the greatest unique contribution to operational sustainability. Cost Leadership also significantly predicted operational sustainability ($\beta = .3069$), highlighting the importance of cost efficiency, effective budgeting, and resource optimization, consistent with Grant (2022). Responsiveness significantly contributed as well ($\beta = .1252$), indicating that the ability to respond to customer needs and changing conditions supports sustainable operations, consistent with OECD (2023).

In contrast, Focus ($\beta = .0115$) was not statistically significant. This does not mean that focus is unimportant; rather, it indicates that after controlling for the other competitive advantage dimensions, focus did not make a significant unique contribution to operational sustainability in the regression model. Overall, the findings demonstrate that competitive advantage is a strong and significant predictor of operational sustainability, particularly through differentiation, cost leadership, and responsiveness (Rothaermel, 2024; Bueno et al., 2024; Moreira et al., 2024). Therefore, rural banks should prioritize these three strategies in strategic and operational planning to strengthen customer value, resource efficiency, service reliability, and adaptability.

Moderating Role of Transformational Leadership

Table 6

Moderation Analysis of Transformational Leadership on the Relationship Between Competitive Advantage and Operational Sustainability

Model Statistic / Effect	Result
R	0.917
R ²	0.841

Competitive Advantage × Transformational Leadership | $B = -.7487$

Significance

 $P < .001$

Note. R = multiple correlation coefficient; R^2 = coefficient of determination; β = interaction coefficient.

Table 6 presents the moderation analysis examining whether transformational leadership changes the relationship between competitive advantage and operational sustainability. The model yielded $R = .917$ and $R^2 = .841$, indicating that approximately 84.1% of the variance in operational sustainability is statistically accounted for by the moderation model. The interaction between Competitive Advantage and Transformational Leadership was statistically significant $\beta = -.7487$, $p < .001$, confirming that transformational leadership significantly moderates the relationship between competitive advantage and operational sustainability. The negative interaction coefficient indicates that the strength of the relationship changes as transformational leadership increases.

The relationship between competitive advantage and operational sustainability is stronger when transformational leadership is lower and becomes less pronounced as transformational leadership increases. This finding does not mean that transformational leadership negatively affects operational sustainability. Rather, it suggests that when transformational leadership is stronger, rural banks may become less dependent on competitive advantage alone because leadership capabilities can independently strengthen employee commitment, innovation, organizational learning, and strategic implementation. This interpretation is consistent with Northouse (2022), who emphasized that transformational leadership promotes learning, innovation, employee development, and adaptation. Similarly, Hughes et al. (2022) highlighted its relevance to innovation and employee behavior, while Probojakti et al. (2025) demonstrated the importance of leadership, digital transformation, organizational agility, and resilience in banking.

Overall, the moderation finding suggests that competitive advantage and transformational leadership function as complementary organizational resources. When transformational leadership is less evident, competitive strategies may play a more dominant role in explaining operational sustainability; when transformational leadership is stronger, leadership capabilities may reduce the relative dependence on competitive advantage alone. From a managerial perspective, rural banks should therefore integrate competitive strategy with leadership development, particularly by strengthening innovation, employee participation, continuous learning, and effective strategic implementation. This approach can help rural banks transform competitive strategies into stronger and more sustainable organizational capabilities.

Business, Financial, and Managerial Implications

The findings had several implications for business management. First, rural bank executives could treat cost management, service differentiation, and responsiveness as strategic capabilities directly connected with operational sustainability. Second, financial management decisions could incorporate operational efficiency and service continuity alongside traditional financial indicators. Third, human resource programs could align leadership development with strategy execution, employee capability, and organizational adaptation. Fourth, governance and compliance systems could be integrated into strategic planning rather than treated solely as regulatory functions. Finally, regulators and policymakers could consider capability-building interventions that strengthen the resilience of smaller financial institutions while preserving their role in inclusive local financing.

Conclusions

The study established that rural banks in Oriental Mindoro demonstrated high levels of competitive advantage, operational sustainability, and transformational leadership, indicating that the participating rural banks generally possessed strong strategic capabilities, sustainable operational practices, and transformational leadership characteristics. Competitive advantage was strongly and positively associated with operational sustainability, with the regression model indicating that 91.6% of the variance in operational sustainability was statistically explained by the competitive advantage variables included in the model. Among the dimensions of competitive advantage, cost leadership, differentiation, and responsiveness significantly predicted operational sustainability, whereas focus did not demonstrate a significant independent effect.

The study further established that transformational leadership significantly moderated the relationship between competitive advantage and operational sustainability. The negative interaction coefficient indicated that the positive effect of competitive advantage on operational sustainability weakened as transformational leadership increased within the observed sample. This finding suggests that the relationship between competitive advantage and operational sustainability was conditional rather than purely linear, emphasizing that the effectiveness of competitive

strategies depended partly on the level and manner of leadership implementation. Overall, the findings indicate that competitive advantage, operational sustainability, and transformational leadership are important and interconnected organizational capabilities among rural banks in Oriental Mindoro. Accordingly, sustainable performance may be strengthened not only through effective competitive strategies but also through the appropriate alignment and implementation of leadership practices with organizational strategies and operational objectives.

Recommendations

For Rural Banking Organizations

1. Rural bank management may integrate competitive strategy with annual operational and financial planning by establishing measurable indicators for cost efficiency, differentiated services, responsiveness, service continuity, and operational sustainability and reviewing these indicators regularly.
2. Rural banks may strengthen differentiation and responsiveness through community-based product development by using customer feedback, local economic information, and branch-level service data to refine agricultural, microenterprise, and other community-oriented financial products.
3. Rural banks may implement leadership development programs emphasizing strategic communication, employee development, innovation, and responsible change management, with leadership training connected to branch-level strategic priorities.
4. Rural banks may strengthen internal controls, risk management, and regulatory compliance as components of operational sustainability by integrating compliance considerations into performance monitoring and strategic decision-making.
5. Rural bank management may protect employee capacity during cost-reduction and process-improvement initiatives by assessing workload, training needs, role clarity, and potential service-quality effects before implementing major process changes.

For Policymakers and Regulators

6. Policymakers and regulators may support capability-building initiatives for rural banks that strengthen digital readiness, risk management, governance, compliance, and strategic management while preserving their role in financial inclusion.
7. Policymakers and regulators may consider evidence from provincial banking environments when designing interventions for smaller financial institutions because their resource constraints and community responsibilities may differ from those of large commercial and digital banks.

For Future Researchers

8. Future researchers may conduct longitudinal studies to determine whether the observed moderation pattern remains stable over time and across different economic and regulatory conditions.
9. Future researchers may replicate the study in other Philippine regions and compare rural banks with cooperative, thrift, and digital banks to determine whether the relationships differ across institutional types.
10. Future researchers may examine additional organizational variables such as digital transformation, organizational agility, employee engagement, risk management, organizational culture, and customer experience to develop a more comprehensive explanation of operational sustainability.

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