The Mediation Effect of Competitive Advantage on Managerial Competencies-Financial Performance Nexus of Microfinance Institutions in Uganda

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Abstract

Purpose: This study examined the mediating effect of competitive advantage in the relationship between managerial competencies and financial performance of Microfinance Institutions (MFIs) in Uganda.

Materials and Methods: Adopting a cross-sectional design and a quantitative approach, the study covered 94 Ugandan microfinance institutions, which are members of the Association of Microfinance Institutions in Uganda (AMFIU) in all regions of Uganda. A sample size of 76 MFIs was utilized to collect questionnaire data. The mediating effect of competitive advantage was tested using Hierarchical regression while

Findings: The study established that competitive advantage partially mediates the relationship between managerial competencies and the financial performance of MFIs in Uganda. The study also concluded that MFIs that survive competition are only those that nourish their competitive strategies and refine their strategic direction, thus improving their financial performance.

Implications to Theory, Practice and Policy: The study recommends MFIs design policies aimed at attracting competent managers with the relevant skills, knowledge, and abilities. Besides investment in physical capital, MFIs should devise deliberate competitive strategies aimed at enhancing their ability to develop attributes that allow them to outperform their competitors.

Keywords: Microfinance Institutions, Mediation Effect, Managerial Competencies, Competitive Advantage, Financial Performance (JEL – G21)
1.0 INTRODUCTION

Microfinance institutions (MFIs) worldwide have been identified as critical institutions in nations’ quest for solutions to the development challenge (Helmya & Wiwoho, 2020). The evolution of microfinance institutions globally was a direct response to the failure of past attempts by government and donor-funded rural credit programs to reach poor families and landless households within rural areas (Gachuru, 2020). Moreover, the small-scale business people targeted by Microfinance institutions do not have the traditional collateral which is the basis for loan acquisition to the formal banking sector (Martina, Hana, and Jiri, 2012). However, microfinance institutions’ struggles for sustainable performance have taken center stage and turned out to be perpetual phenomena threatening their survival. Despite the market-oriented approach (providing services mostly demanded by the market), the financial performance of MFIs in Uganda continues to decline (Kamukama, Kyomuhangi, Akisimire, and Orobia, 2017; Kisubi, Aruo, Wakibi, Mukyala, & Ssenyange, 2022). For example, MFIs’ loans-to-deposits ratio (LTR) increased to 126% in 2019 compared to 69.1% in 2018 and 67% in 2017 (Bank of Uganda, 2019).

Besides, MFIs experienced negative return on assets (ROA) in 2015 (-0.2%), 2016 (-0.3%) and 2017 (-0.1%). Notwithstanding a mild improvement in 2018, the ROA has remained stagnant at 0.5% in 2018 and 2019, respectively (Bank of Uganda, 2019). The above statistics confirm that most MFIs in Uganda cannot meet their business obligations. They are characterized by rapidly deteriorating and volatile loan portfolio quality (increased non-performing loans), hence poor financial performance (Arthur, Turyahebwa, Byamukama, and Novembrieta, 2013; Orobia, Nakibuuka, Bananuka, and Akisimire, 2020). It is worth noting that MFIs play a potent role in the economic development of Uganda by providing employment opportunities, and tax revenue, and alleviating poverty among the economically active poor (Arthur et al, 2013). Their continued poor financial performance if not addressed may negatively affect the entire economy (Orobia et al, 2020).

Despite the widely accepted notion that managerial competencies are vital in the financial sector and the growth of MFIs, existing studies (Kamukama et al., 2017; Liridon & Mimoza, 2017; Helmya & Wiwoho, 2020) were found deficient. Besides investigating developed economies, scholars ignored the mediating effect of other predictors like competitive advantage in the relationship hence the urgency for this study. Frey (2010) argued that competent managers can devise credit management systems that enhance loan repayments, increasing MFIs’ financial performance. Besides, managerial competencies such as knowledge and skills enable the firm to stand out and generate a competitive advantage that MFIs can utilize to improve their financial performance (Porter, 1985). Competitive advantage sustained over time leads to higher performance and positive returns” (Peteraf & Barney, 2003). Newbert (2008) noted that firms that attain competitive advantage yield excellent financial performance than those that cannot. Congruently, this study posited that managerial competencies enhance a firm’s competitive advantage, and so does competitive advantage improve financial performance. Given the structure under which MFIs operate (i.e. the management team, the board and the general meeting), managerial characteristics of team members at every level are of paramount importance. In addition, the utilization of the MFIs resources may invariably influence performance.

This study was therefore premised on the Upper echelon theory (Hambrick & Mason, 2007), and Resource-based view (Barney, 1991). The upper echelon theory suggests that managerial characteristics such as experience and education predict organizational strategies and performance.
levels (Nielsen, 2010 & Bolo; Muchemi & Ogutu, 2011). The theory therefore attributes the firm’s financial success to a competent management with considerable discretion in determining the strategic direction of a firm (Bolo et al., 2011). This argument is further strengthened by the Resource-based view which suggests that a firm’s resources and ability to convert these resources to provide sustainable competitive advantage determine superior performance (Barney, 1991). Firm resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge that a firm uses to improve its efficiency and effectiveness (Daft, 1983). The relevance of RBV to this study is premised on the theory’s assumption that sustainable firm performance is a function of a competitive advantage that stems from a business’s unique offerings and the development of this uniqueness over time through nurturing the firm’s core competencies (Barney, 1991).

This study therefore hypothesized that when managers of MFIs possess managerial competencies, they can translate them into a competitive advantage, leading to robust financial performance. However, there is an increasing convergence of literature on the complexity of the relationship between the possession of managerial competencies and firm performance (Krajcovicova, 2012). Empirically, the financial performance of MFIs has attracted significant attention, with several scholars investigating the phenomenon. Nevertheless, studies ignored managerial competencies but instead employed different predictors such as governance and risk-taking (Mollah, Hassan, Al Farooque, and Mobarek, 2017) and Entrepreneurial orientation (Kraus, 2012) in explaining financial performance. Despite the RBV theoretical underpinnings supporting the mediating effect of competitive advantage in the managerial competencies-financial performance matrix (Barney, 1991 & Newbert, 2008), there is still scanty literature. Scholars have mainly mediated their models with other variables such as inventory management (Orobia et al., 2020), distinctive management competencies (Ahmad et al., 2017), risk management (Bilal, 2013), and Board governance (Nkundabanyanga, 2016). For those that assessed the mediating effect of competitive advantage, the focus was on other types of organizations such as commercial banks in Uganda (Kamukama et al., 2017) and SMEs in Ghana (Martina, Hana, and Jiri, 2012) which operate in different environments.

Study Limitations: The study was cross-sectional, limiting trend analysis in the financial performance of MFIs and changes in perceptions and beliefs. The study investigated perceptions of only senior management, leaving out external stakeholders who could have highlighted more diverse perspectives of MFIs.

Problem Statement

With the rapid changes and increasing competition in the financial sector (Kisubi et al., 2022), MFIs are designing strong management control systems to achieve leading financial performance positions (Arthur et al., 2018). However, the financial performance of MFIs in Uganda continues to dwindle (Kamukama et al., 2017). Despite the widely accepted notion that managerial competencies positively relate to financial performance, extant studies are methodologically deficient, leaving the matter inconclusive. Scholars have seemingly ignored the mediating effect of a competitive advantage besides mainly concentrating on developed countries such as Pakistan (Khan, 2015), Malaysia (Chye, Tat, Osman, and Rasli, 2010, and Indonesia (MdDaud, Ahmad, Ahmad and Azwardi, 2014).
A handful of studies (Kamukama et al., 2017 & Orobia et al., 2020, Kisubi et al. 2022) conducted in Uganda concentrated on other areas like commercial banks and listed companies. Moreover, Jose (2013) posits that a study without testing for mediation ends up with inclusive results, limiting the understanding of the mechanism by which variables are related. From the above empirical gaps in extant studies, this paper explores the mediating effect of competitive advantage on the relationship between managerial competencies and the financial performance of MFIs in Uganda.

2.0 LITERATURE REVIEW

Theoretical Foundation

Upper Echelon Theory

The upper echelon theory was introduced by Hambrick and Manson in 1984 and later improved by Hambrick in 2007 (Nielsen, 2010). The theory proposes that organizational strategies and performance levels are a function of managerial characteristics such as experience, education, and other socioeconomic variables (Nielsen, 2010; Bolo, Muchemi, and Ogutu, 2011). The theory suggests that the senior management team has substantial discretion in determining the future strategic direction of a firm (Bolo et al., 2011). Additionally, the theory posits that education and experience form the skills base, predicting receptivity to innovation. These competencies translate to more creative solutions, hence positive decision-making (Chung, Kedia, and Wright, 2013; & Bolo et al., 2011). However, the Upper echelons theory does not identify the intervening mechanisms through which organizational performance is affected by managerial characteristics. Echelon studies have successfully generated causal descriptions rather than causal chain explanations, leaving the mediation mechanism unexplored. Nevertheless, the present study found it relevant owing to its description of managerial characteristics that predict performance in organizations. Consequently, this study additionally adopted the RBV theory to fill this gap for a more comprehensive assessment of how managerial competencies influence financial performance among MFIs.

Resource-Based View (RBV)

Introduced by Barney in 1991, the resource-based view (RBV) draws attention to the firm’s internal environment as a driver for competitive advantage. It emphasizes the resources firms have developed to compete in the environment (Wang, 2014). The theory is based on the premise that a firm’s resources and its capability to convert these resources to provide sustainable competitive advantage explain its superior performance (Barney, 1991; Grant, 1991; Wernerfelt, 1984). The key element of RBV is the concept of a rare resource or a bundle of resources that would be costly or impossible to imitate. The resources must be valuable (they enable the firm to implement strategies that improve its efficiency and effectiveness), rare (not available to other competitors) and imperfectly imitable (not easily implemented by others). Firm resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge that a firm uses to devise and practicalize its plans to improve its efficiency and effectiveness, hence improving its financial performance (Daft, 1983). Barney (1991) stated that a firm’s resources could provide a sustainable competitive advantage only if they are valuable, rare, inimitable, and not substitutable. In the context of this study, it was postulated that when managers of MFIs possess the required resources (managerial competencies), they can create a competitive advantage, which, in turn, leads to better financial performance.
Accordingly, the RBV is of great relevance to this study as it posits that competencies should be viewed as sources of competitive advantage (Barney, 1991). Moreover, researchers have used terms like core competencies (Barney, 1991; Prahalad & Hamel, 1994), distinctive competencies (Papp & Luftman, 1995), and strategic assets (Amit & Shoemaker, 1993; Markides & Williamson, 1994) to indicate the strategically important resources and competencies, which provide a firm with a potential competitive edge. Additionally, other researchers (Del Canto & Gonzalez, 1999; Lockett & Thompson, 2001; Ray et al., 2004) distinguished between tangible and intangible resources and concluded that intangible resources typical of managerial competencies are the most important and are more likely to be a source of sustained competitive advantage than tangible ones.

The RBV therefore gives a more insightful understanding of the linkage between managerial competences, competitive advantage and financial performance. This is achieved by way of explaining how resources may be exploited to lead to competitive advantage and subsequently financial performance.

Empirical Literature Review

The Mediating Effect of Competitive Advantage in the Relationship between Managerial Competencies and Financial Performance

Juan et al. (2018) noted that competitive advantage is an organization's ability to develop or acquire a set of attributes (or execute actions) that allow it to outperform its competitors. Juan et al. argued that competitive advantage is a crucial determinant of superior performance. It is posited that the resources of a firm are its primary source of competitive advantage. Thus, ultimately, firms that can leverage resources to implement a value-creating strategy not simultaneously implemented by any current or potential competitor can achieve a competitive advantage (Saedi et al., 2018).

Researchers subscribing to the RBV argue that only strategically essential and valuable resources and competencies should be viewed as sources of competitive advantage (Kamukama et al, 2017). They have used terms like core competencies (Cheraghalizadeh & Tumer, 2017), distinctive competencies (Bayo, & Red-well, 2020), and strategic assets (Wirda et al., 2019), innovation capabilities (Hwang et al., 2019) to indicate the strategically important resources and competencies, which provide a firm with a potential competitive edge.

Studies (Cheraghalizadeh & Tumer, 2017 & Kamukama, et al, 2017) underscored human resources as the most valuable type of resource and a source of competitive advantage. Cheraghalizadeh and Tumer (2017) argued that these human resources should not be ‘locked’ inside a business unit but should be available for reuse by other parts of the firm wherever a potential use yielding higher returns can be identified. Moreover, Hwang et al., (2019), contend that firm performance is about having better resources and making better use of the available resources. Based on the Resource-Based View (RBV), companies' superior performance with a competitive advantage is due to their resources meeting the criteria of value, rareness, inimitable, and non-substitutability (Wijayanto et al., 2019).

Consequently, competitive advantage has attracted scholars to investigate its direct effect on financial performance and its mediating effect on an organization's managerial competencies and financial performance matrix. For example, Juan et al. (2018) investigated the relationships between the firms' competitive strategy, resources, and capabilities, analyzing their technological and managerial capabilities with business performance. Three hundred thirty-nine companies of
the wine sector in Spain were studied, differentiating between individual firms, cooperatives, and mercantile companies. The results revealed that resources, capabilities, and strategies define competitive advantage, but their relationship and importance are different for each company. Similarly, Wirda et al. (2019) set out to determine the influence of entrepreneurial competency on business performance with a competitive advantage as a mediating variable. They sampled 213 business managers of the creative industry in the craft sector in West Sumatra-Indonesia. Data were collected through questionnaires and analyzed by Structural Equation Modeling (SEM) using AMOS software. The results of the research showed that competitive advantage posed a mediating effect on entrepreneurial competency and business performance relationships.

Additionally, Hwang et al. (2019) investigated how organizational innovation capabilities mediate entrepreneurial competencies at the individual and firm levels in Korea. They found that the indirect effects of entrepreneurial competencies through corporate innovation capabilities are much stronger than their direct effects on competitive advantage. Hwang and colleagues noted that organizational innovation capabilities are required to sustain a firm’s superior position, mediating the relationship between entrepreneurial competencies and competitive advantage. Likewise, Ferreira et al. (2019) employed a dynamic capability perspective to examine the relationships among strategic orientation (SO), innovation capability (IC), managerial capabilities (MC), and exploration and exploitation capabilities on competitive advantage (CA) and firm’s performance. Modeling structural analysis was used to test the hypotheses in a sample of 387 Portuguese SMEs. The empirical findings indicated that innovation capability, managerial capabilities, and strategic orientation positively mediate the relationship between exploration and exploitation capabilities and performance. In contrast, strategic direction affects competitive advantage and performance.

More so, Cheraghalizadeh and Tumer (2017) investigated the effects of organizational human and physical resources on customer relationship quality. They also investigated the effect of market and environmental dynamism as external factors in these associations. Additionally, this study evaluated the mediation effect of customer relationship quality between applied resources and competitive advantage. The study was conducted in North Cyprus on 297 hotel employees with a response rate of 85%, selected by convenience sampling. Findings indicated that managerial competence, employees' trait competitiveness, and physical resources positively affect customer relationship quality. There is also a positive relationship between customer relationship quality and competitive advantage. Results showed that customer relationship quality fully mediates the relationship between managerial competence and competitive advantage; it also partially mediates the relationship between trait competitiveness and competitive advantage and between physical resources and competitive advantage.

Additionally, Mwesigwa et al. (2014) investigated the relationship between corporate governance, accountability and managerial competencies, and commercial banks' financial performance in Uganda. Their study was motivated by commercial banks' poor performance in Uganda despite the government's number of interventions. This study adopted cross-sectional and quantitative designs where 25 commercial banks operating in Uganda were considered. The research established that corporate governance, accountability, and managerial competencies significantly relate to commercial banks’ financial performance in Uganda. However, corporate governance was found to be the most significant predictor of financial performance. On the contrary, Wakaisuka-Isingoma et al. (2016) reviewed existing literature on corporate governance, firm characteristics, external environment, and financial institutions' performance in Uganda. Using the CAMEL model
to measure financial performance, the researchers found that financial institutions' financial performance in Uganda was predicted by corporate governance, firm characteristics, and the external environment.

Furthermore, Orobia et al. (2020) set out to (1) establish the relationship between inventory management, managerial competence, and financial performance and (2) test whether inventory management mediates the relationship between managerial competence and financial performance among SMEs in Uganda. They employed cross-sectional and correlational research designs. A questionnaire survey of 304 small businesses in Uganda was utilized. Hypotheses were tested using a bootstrap analysis technique with Analysis of Moments Structures (AMOS) software. Results indicated that inventory management and managerial competence are significantly associated with the financial performance of small businesses. Furthermore, inventory management partially mediates the relationship between managerial competence and financial performance.

Besides, Saeidi et al. (2018) studied sustainable competitive advantage, reputation, and customer satisfaction as three probable mediators in the relationship between corporate social responsibility (CSR) and firm performance. The findings from 205 Iranian manufacturing and consumer product firms revealed that the link between CSR and financial performance is a fully mediated relationship. CSR’s positive effect on firm performance is due to CSR’s positive effect on competitive advantage, reputation, and customer satisfaction. The final findings show that only reputation and competitive advantage mediate the relationship between CSR and firm performance. Wijayanto et al. (2019) studied the effect of competitive advantage on financial performance and firm value of manufacturing firms in Indonesia. The study was conducted on 30 manufacturing firms in Indonesia by analyzing the company's financial statements from 2010 to 2016. Data were analyzed using Generalized Structured Component Analysis (GSCA). They concluded that competitive advantage has a positive and significant effect on financial performance and firm value. The financial performance also showed a substantial and positive effect on firm value. More so, Anwar (2018) examined the importance of business model innovation (BMI) in SME performance and the mediating role of competitive advantage.

Data were collected through structured questionnaires using a sample size of 303 manufacturing SMEs operating in Pakistan's emerging market. Hypotheses were tested through Structural Equation Modeling (SEM) using AMOS.21. The results indicated that BMI significantly predicted competitive advantage and SME performance. Competitive advantage partially mediates the relationship between BMI and SME financial performance.

Besides, Leonidou et al. (2015) examined the external and internal determinants of green export business strategy and its effects on export competitive advantage and performance. Their findings confirm the instrumental role of external forces (i.e., foreign environmental public concern and competitive intensity) and internal factors (i.e., top management green sensitivity and organizational green culture) in crafting an environmentally friendly export business strategy. Such a strategy was more prevalent among larger firms and more experienced exporters and firms producing industrial goods, high technological intensity, and exporting to developed countries. This strategy was also found to affect firms’ export product differentiation advantage positively but did not affect export cost leadership advantage. Besides, export product differentiation advantage was positively associated with both export market performance and export financial

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performance. However, no such link with these performance dimensions appeared for export cost leadership advantage.

In a related case, Nkundabanyanga et al. (2019) examined the relationship among firm characteristics, innovation, financial resilience, and financial institutions' survival in Uganda. The researchers employed a cross-sectional research design, and responses from 143 officers of 40 financial institutions were analyzed using Statistical Package for Social Sciences (SPSS). The authors used ordinary least squares regression in testing the hypotheses. The authors established that firm characteristics of size, age, innovation, and financial resilience have a predictive force on the survival of public interest firms such as financial institutions. However, although firm characteristics and financial resilience are significant, innovation explains more of the variances in financial institutions' going concern appropriateness.

Although previous studies have attempted to explain the financial performance of organizations while considering the mediating effect of competitive advantage, their critical examination revealed several methodological and contextual gaps, making their conclusions imprecise. For instance, extant studies have mainly concentrated on other types of organizations such as manufacturing firms (Leonidou et al., 2015; Wijayanto et al., 2019), Art and craft firms (Wirda et al., 2019), hotels (Cheraghalizadeh & Tumer, 2017), general SMEs (Orobia et al., 2020 & Martina et al., 2012), ignoring MFIs. Besides, researchers mainly studied firms in developed countries such as Spain (Juan et al., 2018), Indonesia (Wirda et al., 2019), and Korea (Hwang et al., 2019). Even when some researchers studied the financial performance of firms in Uganda, they focused on other types of firms such as commercial banks (Mwesigwa et al., 2014), whose results cannot be generalized to MFIs given the different regulations, size and operations of commercial banks in Uganda compared to MFIs (Bank of Uganda, 2019). Additionally, besides using biased sampling methods like convenience sampling that are widely discouraged (Cheraghalizadeh & Tumer, 2017), extant studies used different predictors in examining the mediating effect of competitive advantage such as strategic orientation (SO) (Ferreira et al., 2019), market and environmental dynamism (Cheraghalizadeh & Tumer, 2017), corporate governance and accountability (Mwesigwa et al., 2014; Wakaisuka-Isingoma et al., 2016). This has left the causal chain of management competencies and competitive advantage on financial performance largely unexplored.

On the other hand, some scholars used different mediator variables like inventory management (Orobia et al., 2020). Others like Nkundabanyanga et al. (2019) completely omitted the possibility of a mediator in their studies despite existing theoretical underpinnings (Barney, 1991) that competitive advantage mediates the managerial competencies-financial performance nexus. Moreover, Baron and Kenny (1986) cautioned that a study that concentrates on merely direct effects cannot unmask the fundamental mechanism by which the predictor and criterion variables are linked. This is typical of most extant studies that are characterized by spurious relationships. Other researchers such as Wirda et al. (2019), and Cheraghalizadeh and Tumer (2017) based their studies on individual respondents other than firms as the unit of analysis thus, making their conclusions imprecise and hard to generalize to well-defined organizations like MFIs in Uganda.

Therefore, the above studies and congruent empirical gaps were an urgent call for this study as managerial competencies and financial performance mediated by competitive advantage were still elusive. In line with the above debate, this study hypothesized as follows:

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H_{01}: Competitive advantage mediates the relationship between managerial competencies and financial performance of MFIs in Uganda.

3.0 METHODOLOGY

Research Design, Study Population, Sample Size and Sample Selection

The study was cross-sectional and responses were sought at a single point in time. A cross-sectional study is a research design in which data is collected from different objects (individuals) at a single point in time. This design was preferred because it does not require follow-up on the respondents as would be the case with a longitudinal design. Moreover, the data concerning the variables under study could be obtained from the MFIs and a single point in time. It enabled the researcher to obtain data in a short time, generalizing results to a larger population within defined boundaries (Tuckman & Harper, 2012).

The population comprised 94 MFIs that are registered with the Association of Microfinance Institutions (AMFIU) (AMFIU, 2019). The unit of analysis was microfinance institutions while senior managers (i.e., General Manager, Accountant, and Credit manager) formed the unit of inquiry. A sample of 76 MFIs was used as determined using the Krejcie and Morgan table (Krejcie & Morgan, 1970). MFIs were selected using stratified simple random sampling technique based on region, district, and then categories AMFIU categorization (AMFIU, 2019). Purposive sampling was used to select senior management due to their perceived knowledge about MFI operations (Sekaran & Bougie, 2010). Seventy-two (72) MFIs returned the questionnaires, representing a response rate of 95% which is above the minimum rate of 70% (Amin, 2005).

Data Quality Control

Validity and Reliability

To ascertained content validity, subject matter specialists were engaged in ascertaining the appropriateness of the questionnaire (Amin, 2005). The researcher determined the content validity index (CVI) using the formula by Sekaran and Bougie (2010) as indicated below. Ambiguous questions were either re-phrased or removed (Earl-Babbie, 2013). The CVIs for all variables were greater than the minimum 0.7, as recommended by Sekaran and Bougie (2010) and Garson (2012). Furthermore, Straub et al. (2004) noted that the rule of thumb is that the average variance extracted must be 0.7 and above for each construct for convergent validity to be deemed tenable. Consequently, the average variance extracted (AVE) for all constructs from the exploratory factor analysis met the minimum 0.7, which confirmed convergent validity (Smith, 2011). Furthermore, discriminant validity was assessed from each construct's average variance extracted (AVE) (Fornell and Larcker,1981). Straub et al. (2004) noted that the square root (Sqrt) of AVE for a construct should be higher than its correlation with other constructs to exhibit discriminant validity. Results indicated that the square root for the AVEs for all constructs was above their correlations with other constructs, confirming the discriminant validity of the questionnaire (Straub et al., 2004). Additionally, the study conducted a reliability analysis using Cronbach’s Alpha Reliability test. Results revealed that each variable generated the minimum alpha coefficient of 0.7 (Amin, 2005), confirming internal consistency.

\[
CVI = \frac{\text{Number of items rated relevant}}{\text{Total Number of items}} \times 10
\]

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Control for Common Methods Bias

The study controlled for common methods bias to avoid false internal consistency (Field, 2006). First, the respondent’s anonymity was protected to align their responses with the study’s purpose. Thirdly, to minimize social desirability, data was collected from different sources (Podsakoff et al., 2003). Respondents were expressly assured that there was no right or wrong answer as long as the responses were honest, limiting social desirability (Orobia et al., 2020). Consequently, Herman’s single factor test results indicated that no single component accounted for more than 50% of the total variance explained, thus, confirming the absence of common methods bias in the study results (Hartman et al., 2010 & Podsakoff et al., 2003).

Measurement of Study Variables

The study used a five-point Linkert scale for managerial competencies, and competitive advantage. Managerial competencies were scaled in terms of knowledge (i.e., the extent to which information is developed or learned through experience, education, or investigation), skills (which are a result of repeatedly applying knowledge or ability), and abilities (i.e., natural potential to perform mental and physical actions or tasks) of the top management team (Kamukama et al., 2017 & Orobia et al., 2020). Additionally, Competitive advantage was scaled following the guidance of Porter (1985) and Barney (1991). This study conceptualized competitive advantage in terms of focus (offering a specialized service in a niche market), differentiation (creating uniquely desirable products and services) and cost leadership (increasing profits by reducing costs while charging industry-average prices) (Kamukama et al., 2020; Cheraghalizadeh & Tumer, 2017; Mwesigwa et al., 2014; Wakaisuka-Isingoma et al., 2016 & Nkundabanyanga et al., 2019). Besides, the study financial reports to determine financial ratios of profitability (ROA and ROE), liquidity, and net worth to measure the financial performance of MFIs (Kamukama et al., 2017; Ouma & Kilika, 2018).

Data Management

Data were subjected to a thorough cleaning before hypothesis testing. Specifically, data screening for missing value analysis and management of outliers was done using SPSS version 21. Furthermore, parametric tests for normality, linearity, homogeneity, and serial correlation were confirmed, as recommended by Field (2005). Missing value analysis was performed as recommended by Field, (2005), Tabachnick and Fidell (2001). Fortunately, there were no scenarios of missing values because the researcher, explained to the respondents the importance of having a completed questionnaire. The study generated box plots to identify univariate outliers and then inspected Mahalanobis distance and Cooks distance in identifying multivariate Outliers following the procedure suggested by Tabachnick and Fidell (2001) and Allen and Bennett (2010). Outliers resulting from errors were removed while genuine values were changed to less extreme values (winzorised) hence including such cases in the analysis but not allowing outlying scores to distort results (Tabachnick & Fidell, 2001). Besides, Principal component analysis (PCA) was performed to reduce the items to a manageable set of factors (Hair et al., 2010 & Pallant, 2015). The study retained only items with factor loadings equal to or greater than 0.5 (Garson, 2012). Only factors with Eigenvalues greater than one were retained (Kaiser, 1960) and a KMO above 0.6 with a significant Bartlett’s test of sphericity (p < 0.01) were retained (Pallant, 2020 & Field, 2009).
4.0 FINDINGS

Testing the Mediation Effect of Competitive Advantage on the Relationship between Managerial Competencies and Financial Performance of MFIs in Uganda. The study tested the mediation effect of competitive advantage in the relationship between managerial competences and the financial performance of MFIs in Uganda. This aimed at examining the mechanism by which managerial competencies influence financial performance among MFIs in Uganda. The present study postulated that competitive advantage mediates the relationship between managerial competencies and financial performance of MFIs in Uganda. Baron and Kenny (1986) suggested four conditions for a mediation test to be conducted. 1) The independent variable should significantly affect the dependent variable, 2) the predictor variable should significantly influence the mediating variable, 3) the mediating variable should substantially influence the dependent and, 4) the effect of the independent variable on the dependent variable should reduce when the mediating variable is introduced in the model. As recommended by Jose (2013) and Baron and Kenny (1986), these assumptions were checked and confirmed through standard regression (for the first three assumptions) and hierarchical regression analysis for the fourth assumption respectively. Besides, sobel z-value was generated through the Med Graph programme as suggested by Jose (2013), to ascertain the significance of the indirect effect of competitive advantage.

Consequently, the following regression models were tested;

FP = b0+b1MC + e…………………………. i
CA = b0+b1MC + e…………………………ii
FP = b0+b1CA + e…………………………. iii
FP = b0+b1MC +b2CA + e…………………iv

Where;
FP represents financial performance; b0, constant; b1MC, coefficient of managerial competencies; b1CA, coefficient of competitive advantage and e is the error term.
Table 1: Hierarchical Regression Results for the Mediation Effect of Competitive Advantage on the Relationship between Managerial Competencies and Financial Performance

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Financial Performance</th>
<th>Competitive Advantage</th>
<th>Financial Performance</th>
</tr>
</thead>
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<td><strong>Predictors</strong></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
</tr>
<tr>
<td></td>
<td>Standardized Coefficients (β)</td>
<td>Standardized Coefficients (β)</td>
<td>Standardized Coefficients (β)</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-3.18</td>
<td>-6.13</td>
<td>2.62</td>
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<tr>
<td>Managerial Competencies</td>
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<td>.43**</td>
<td></td>
</tr>
<tr>
<td>Competitive Advantage</td>
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<td></td>
<td>.73**</td>
</tr>
<tr>
<td>Managerial Competencies</td>
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<tr>
<td>Competitive Advantage</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>R</td>
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<td>.73</td>
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<td>R-Square</td>
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<td>.54</td>
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<td>N/A</td>
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<tr>
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<td>.001</td>
<td>.001</td>
</tr>
</tbody>
</table>

Note: **p<.01, n =72

Type of mediation: Partial Mediation, Significant

Sobel z-value: 3.558135, p =0.000373

Effective Size measures
Standardized Coefficients
Total: 0.700
Direct: 0.469
Indirect: 0.229
Indirect to Total ratio 0.327

Note: The numerical values in parentheses are beta weights taken from the second regression and the other values are zero order correlations.

Figure 1: Med Graph Results Depicting the Mediation Effect of Competitive Advantage on the Relationship between Managerial Competencies and Financial Performance

Note: **p <.01 Level, n =72

Source: Primary Data
The standard regression results revealed that managerial competences significantly influenced financial performance ($\beta=.70, p<.01$) in model 1. This means that a unit change in managerial competencies leads to a change of 0.70 units in financial performance. In model 2, the effect of managerial competences on competitive advantage was significant ($\beta=.43, p<.01$), implying that a unit change in managerial competencies leads to a change of 0.43 units in competitive advantage. Furthermore, competitive advantage significantly affected financial performance ($\beta=.73, p<.01$) in model 3. By implication, a unit change in competitive advantage leads to a change of 0.73 units in financial performance.

The results in model 1 showed that managerial competencies significantly influenced financial performance. However, with the introduction of the mediator (competitive advantage) in model 4, the influence of managerial competence on financial performance reduced from $\beta=.70, p<.01$ to $\beta=.47, p<.01$. However, it remained statistically significant ($p<.01$), thus confirming partial mediation (Jose, 2013) by competitive advantage. From the hierarchical multiple regression results and med graph analysis (Table 1 and Figure 1), a ratio index given by $[(.70-.47)/.70]*100$ indicated that 33% of the influence of managerial competence on financial performance was explained through competitive advantage and 67% of the effect was direct. Moreover, results from the Med Graph (Figure 1) indicated a statistically significant Sobel z-value of 3.56 ($p<.001$), thus, further confirming the existence of the partial mediation effect of competitive advantage (Jose, 2013). Moreover, the predictive power ($R^2$ square) of the mediation model 4 improved from 49% ($R^2 = .49$) (in model 1 without the mediator) to 71% ($R^2 = .71$) (in model 4, with a mediator), representing a significant $R^2$-square change of 22%.

These results, therefore, indicated conformity to mediation assumptions by Baron and Kenny (1986), and supported the hypothesis that “competitive advantage mediates the relationship between managerial competencies and the financial performance of MFIs in Uganda”. This means that whereas managerial competencies can influence financial performance, MFIs can achieve greater performance if the management team pursues competitive advantage in cost leadership, differentiation, and focus, hence improving financial performance.

**Discussion of Findings**

To establish the mechanism through which managerial competencies influence financial performance, the study investigated the mediating role of competitive advantage in the relationship between managerial competencies and financial performance among MFIs in Uganda. It should be noted that a study that does not address the mediating mechanism ends up with facts but with an incomplete understanding of the relationship. Therefore, this study hypothesized that competitive advantage mediates the relationship between managerial competencies and the financial performance of MFIs in Uganda. Results in model 4 (Table 1) indicated that the effect of managerial competencies on financial performance reduced albeit remained significant with the introduction of competitive advantage (the mediating variable) in the model compared to its main effect. Moreover, results from the Med Graph (Figure 1) indicated a statistically significant Sobel z-value thus, further confirming the existence of the partial mediation effect of competitive advantage.

Therefore, given that all mediation conditions, as suggested by Baron and Kenny (1986), were met, it confirmed that competitive advantage partially mediates the relationship between managerial competencies and the financial performance of MFIs in Uganda. This means that the
The relationship between managerial competencies is indirect, where managerial competencies influence competitive advantage, which in turn, influences financial performance.

The study findings are in line with the arguments of Saeidi et al., (2018) who noted that firms that can leverage resources to implement a value-creating strategy not simultaneously implemented by any current or potential competitor can achieve a competitive advantage. Similarly, Juan et al. (2018) posited that competitive advantage enables a firm to acquire a set of attributes that allow it to outperform its competitors. Juan et al. argued that competitive advantage is a crucial determinant of superior performance. It is posited that a firm’s resources are its primary source of competitive advantage. More so, numerous scholars (Cheraghizadeh & Tumer, 2017; Kamukama, et al, 2017) underscored human resources as the most valuable type of resource and a source of competitive advantage. In the same vein, Cheraghizadeh and Tumer (2017) argued that human resources should not be ‘locked’ inside a business unit but should be available for reuse by other parts of the firm wherever a potential use yielding higher returns can be identified.

The study findings further corroborate the conclusions by other studies in the extant literature. For instance, Wirda et al. (2019) examined the influence of entrepreneurial competency on business performance of the craft sector in West Sumatra-Indonesia, with a competitive advantage as a mediating variable. The research results showed that entrepreneurial competency has a positive and significant effect on competitive advantage, competitive advantage has a positive and significant effect on business performance, and competitive advantage has a mediating impact on entrepreneurial competency and business performance relationship. On the other hand, Hwang et al. (2019) investigated how organizational innovation capabilities mediate entrepreneurial competencies among firms in Korea. They found that the indirect effects of entrepreneurial competencies through corporate innovation capabilities are much stronger than their direct effects on competitive advantage. Hwang et al noted that organizational innovation capabilities are required to sustain a firm’s superior position, mediating the relationship between entrepreneurial competencies and competitive advantage. Furthermore, Orobia et al. (2020) confirmed that the effect of managerial competencies on financial performance is indirect. They established the relationship was mediated by inventory management among SMEs in Uganda.

Besides, Saeidi et al. (2018) studied sustainable competitive advantage, reputation, and customer satisfaction as three probable mediators in the relationship between corporate social responsibility (CSR) and financial performance of the manufacturing firms in Iran. The findings showed that only reputation and competitive advantage mediate the relationship between CSR and firm performance. Similarly, Anwar (2018) examined the importance of business model innovation (BMI) in SME performance and the mediating role of competitive advantage. The Structural Equation Modeling (SEM) results indicated that competitive advantage partially mediates the relationship between BMI and SME financial performance.

Theoretically, the present study findings support the preposition of the upper echelon and RBV theories. The upper echelons theory advocates that resources like managerial competencies that are valuable and difficult to imitate, enable firms to attain superior financial performance (Kamukama et al., 2017). Additionally, the theory suggests that managerial background characteristics such as functional track, other career experience, and formal education predict organizational strategies and performance levels (Nielsen, 2010; Bolo et al., 2011). In the same vein, the study also supports the assumptions of the RBV theory. The RBV theory is based on the premise that a firm’s resources and capability to convert them to provide sustainable
competitive advantage explain its superior performance. Barney (1991) stated that a firm’s resources could provide a sustainable competitive advantage only if they are valuable, rare, inimitable, and not substitutable. Thus, in the context of this study, it was postulated that when managers of MFIs possess the required competencies, they can create a competitive advantage, which, in turn, leads to better financial performance. This resonates with the notion of core competencies as a critical category of resource that determines a firm’s capabilities. Congruently, the upper echelons and RBV theories are of boundless relevance to this study findings as they posit that only strategically essential and valuable resources like managerial competencies should be viewed as sources of competitive advantage among MFIs in Uganda.

5.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The study established that competitive advantage plays a mediating role in the relationship between managerial competencies and financial performance. It was observed that competitive advantage weakens the influence of managerial competencies hence indicating partial mediation. However, the significant direct effect of corporate governance on financial performance demonstrates that despite competitive advantage, managerial competencies play a critical role in influencing the financial performance of MFIs though it is not sufficient enough without competitive advantage.

Study Implications

Theoretical Implications

The theoretical implications for this study were drawn from mainly the perspective of; i) whether or not the study findings support the assumptions of the theory and, ii) whether study outcomes filled the theoretical gaps. The study has also addressed empirical issues that had not been discussed in the literature, specifically as regards the Microfinance sector in Uganda. From the perspective of upper echelons and RBV theories, the study findings revealed that competitive advantage partially mediates the relationship between managerial competencies and the financial performance of MFIs in Uganda. It has been confirmed that managerial competencies influence competitive advantage, in turn, influencing financial performance.

In a nutshell, from the study findings, it can be deduced that the financial performance of MFIs is a complex phenomenon that cannot be explained vividly by a single theory. Due to the absence of a unifying theory, the present study advocates that; i) a multi-theoretical approach that involves upper echelons, and RBV theories provides a vivid explanation to the financial performance of MFIs in the context of Uganda. ii) Central to the study findings, it suffices that managerial competencies are not sufficient in explaining financial performance. The final position is that the relationship between managerial competencies and financial performance is mediated by competitive advantage. Following the findings and implications of the study, it has been accurately pointed out that estimating a model without accounting for the mediation effect does not vividly explain the accurate relationship.

Managerial Implication

The study has brought out the inevitable role competitive advantage plays in explaining the management competence-financial performance nexus in MFIs. Thus, besides investment in physical capital, MFIs should devise competitive strategies such as focus, differentiation and cost

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leadership. They should invest in programs aimed at enhancing MFIs’ ability to develop or acquire a set of attributes (or execute actions) that allow them to outperform their competitors. Moreover, the findings ultimately demonstrated that firms that can leverage resources to implement a value-creating strategy not simultaneously implemented by any current or potential competitor can achieve a competitive advantage that in turn improves financial performance.

**Policy Implications**

Regulations such as financial institutions Act and the Money Lenders Act should be revised regularly to incorporate emerging needs and changes in the global business environment. For instance, emphasis can be exerted on the need to embrace managerial competencies which have been found significant in the competitiveness of MFIs. Besides, this study argues that a model should be developed for MFIs in Uganda, depicting elements such as those reflected in the mediated model (Figure 1) for the present study. The model in this study has been developed and confirmed based on study findings, international systems, and practices of MFIs. This should be reviewed regularly to provide for the latest developments.

**Recommendation**

Following the empirical findings of the study and reviewed literature, for the success of MFIs in Uganda, the study recommends MFIs to recognize the need to have competent managers with high-end competencies for competitiveness. Additionally, from the upper echelons and RBV theoretical perspective, given the predictive power of the mediation model that has been confirmed in this study, is suggested that managers of MFIs should pay more attention to enhancing competitive strategies such as focus, service differentiation, and cost leadership.

**Limitations of the Study**

The study was cross-sectional, limiting trend analysis in the financial performance of MFIs as a function of managerial competencies and competitive advantage, and changes in perceptions and beliefs. There is, therefore, a need for longitudinal studies to capture trends in consideration of the time factor. Nevertheless, the study has provided a clear insight into the relevance of managerial competencies through competitive advantage in the financial performance of MFIs. In a related case, the study investigated perceptions of only senior management, leaving out external stakeholders such as customers, shareholders, government agencies, and the general public who could have highlighted more diverse perspectives of MFIs.
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