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Competitive advantage

Mediator of managerial competence and financial performance of commercial banks in Uganda

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Abstract

Purpose – The purpose of this paper is to examine the mediating role of competitive advantage in the relationship between managerial competence and financial performance of commercial banks in Uganda.
Design/methodology/approach – A cross-sectional survey was employed using 22 fully licensed and operational commercial banks in Uganda. Data were analyzed using descriptive statistics, zero order correlation and hierarchical regression analyses. Further, the bootstrap method was used to test the mediation effect of competitive advantage. All the analyses were performed using SPSS v21.
Findings – The findings reinforce the important position of managerial competence on financial performance of commercial banks. First, managerial competence enhances firms' competitive advantage. Second, managerial competence has an indirect effect on financial performance through competitive advantage. Overall, managerial competence and competitive advantage are strong predictors of financial performance of commercial banks.
Research limitations/implications – The study employed only a single research methodological approach, therefore future research could be undertaken using a mixed approach and triangulate to compare findings. Furthermore, the findings from the present study are cross-sectional, considering the limitations there in, a longitudinal approach should be explored.
Practical implications – Emphasis should be put on improving the knowledge and skills of managers so as to attain a competitive edge in the market and thus register increased profits. This will help practitioners make legitimate decisions and conclusions that can foster business growth.
Originality/value – A mediation effect of competitive advantage in the relationship between managerial competence and financial performance was tested; previous studies have tended to test the direct effects.

Keywords Financial performance, Uganda, Competitive advantage, Commercial banks, Managerial competence

Paper type Research paper

1. Introduction

This study furthers our understanding of financial performance of commercial banks. Precisely, we mainly report on the mediating role of competitive advantage in the relationship between managerial competence and financial performance of commercial banks in Uganda, a developing economy where literature is currently scarce. Commercial banks provide the fulcrum around which the economy turns (Matama, 2008; Turyahebwa, 2013; Mugume, 2010). This underpins the efficient allocation of capital stock, provision of essential transaction and intermediation services and funds the development of new businesses and technologies in the wider economy (Harper and Chan, 2003). Since the financial crisis of 2008, the banking sector has continuously faced a fragile financial performance paradigm which has seen many investors lose lump sums of money (Chabrak and Daidj, 2007). Statistics indicate that in USA alone, over 500 banks have collapsed since 2008 to date. This has raised a lot of debate worldwide (Şener and Karaye, 2014; World Bank Annual report, 2013).

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In Uganda, the banking industry has recently undergone significant restructuring through transformation of electronic and internet based banking, all with an aim of improving bank performance (Matovu *et al.*, 2015). Nonetheless, financial performance of banks continues to dwindle as indicated by the increasing non-performing loans (NPLs) from 6.2 percent in 2012 to 8.12 percent at the end of 2013 (Bank of Uganda, 2013). In addition, profitability levels have continued to reduce which has in fact led to closure of several commercial banks, the most recent being Global Trust Bank which was closed on July 25, 2014 partly due to accumulated losses of up to UGX60 billion (Bank of Uganda, 2014). It is widely accepted that survival of commercial banks greatly depends on their financial performance (Cull *et al.*, 2009). This means that if the current trend is left unchecked, it could lead to the eventual collapse of several other banks. Thus, factors that may improve the situation need to be explored.

Frey (2010) observes that financial performance of enterprises can be boosted by competent management. In Frey's explanation, managers who are competent are able to come up with good credit policies that can boost loan repayments hence increasing the company's profitability and sustainability. Managerial competences have long been considered significant for effective management and organizational performance. Martina *et al.* (2012) observed that, the dynamic business environment requires managerial competencies to achieve strategic organizational goals. These competencies in the form of knowledge and skills discriminate the firm and generate unique advantage. Magala (2010) also notes that the underlying resources and capabilities of each company can translate into competitive advantages that boost business excellence. In line with this, Hitt *et al.* (2001) adds that intangible resources are more likely than tangible resources to breed a firm's competitive advantage, which translates into superior financial performance. It is argued that for firms to continuously strive to attain sustainable competitive advantage, they need to count more on their internal distinguished strengths to provide more added customer value, strong differentiation and extendibility as well as other core competences (Narvanjas, 2009). In another study conducted by Newbert (2008), it was concluded that there is a positive relation between competitive edge and organizational success and that competitive edge is able to significantly predict the variance in the performance of the organization.

Besides, a firm's internal resources, capabilities and competences are the primary source of competitive advantage much more than tangible resources (Hitt *et al.*, 2001). Similarly, Wang and Changa (2005) acknowledge that competences are a fundamental determinant of firm's current and future competitiveness as well as firm's value growth. On the other hand, earlier learning shows that competition is at the core of the firm's success and it determines the appropriateness of a firm's activities that can contribute to its performance (Porter, 1985). Competitive advantages that are sustained over time lead to higher performance and positive returns (Peteraf and Barney, 2003). Thus, it is expected that the performance of firms that are able to attain competitive advantages will be greater than the performance of those firms that cannot (Newbert, 2008). Owing to this background, it is arguably patent that managerial competence boosts a firm's competitive advantage and so does competitive advantage improve financial performance. However, there is very scanty literature regarding the mediating effect of competitive advantage in the relationship between managerial competence and financial performance of commercial banks. Even then, while there are considerable efforts to understand this financial performance challenge as predicted by managerial competence in commercial banks, most strands of this research have concentrated mainly in developing economies. This study therefore undertakes to explain this phenomenon by highlighting holistic and contextual aspects in a developing economy perspective. Therefore scholars and practitioners will get a thorough understanding of the importance of improving their managers' skills and abilities which will give them an edge above the rest and thus foster better returns financially.

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The rest of this paper is structured as follows: the next covers literature review. This is followed by the approach that was used in the study. The results, discussion, conclusion and implications follow, respectively.

2. Literature review

2.1 The concept of financial performance

According to Pike and Roos (2004), financial performance is the ability of firms to operate efficiently, profitably, to survive, grow and react to the environmental opportunities and threats. In fact, it is widely accepted that financial performance is a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Bititci *et al.*, 2007). In a typical commercial bank setting, financial performance has often been considered using attributes of profitability, loan portfolio and liquidity. According to Samiloglu and Demirgunes (2008), firm's profitability is generally regarded as an important precondition for long-term firm survival and success; moreover, the variable significantly affects the firm's achievement of other financial goals thus financial performance cannot be analyzed in its exception. Loan portfolio as another attribute, refers to the total amount of money given out in different loan products, to the different types of borrowers. According to Heracleous (2001), survival of most financial institutions depends entirely on any successful lending program that revolves on funds and loan repayments made to them by the clients. This is because it is the main asset and the main source of revenue for financial institutions. Loan portfolio performance is necessary among firms as it increases firm's ability to become more profitable attracting more investors on board. On the other hand, liquidity measures a company's ability to pay off its short-term obligations. Liquidity is crucial for financial institutions because they are particularly vulnerable to unexpected and immediate payment demands. Thus, in this study, financial performance is taken to be the profitability, liquidity and loan portfolio levels. Numerous theories have been advanced to explain general financial performance. In the following section we present the theories in line with the current study explanatory variables.

2.2 The upper echelon theory

The genesis of understanding the upper echelon perspective roots from March and Simon's (1958) notion that, managers bring their own set of "Given's" such as values and cognitive bases to the decision-making situation. Implying that, strategic choices by managers made are not on the basis of actual "real" situations but rather on manager's competences and perceptions. In fact, Grant (2005) suggests that companies with stable consensus regarding dominant logic and competences are better able to achieve a fit between resources, strategy, structure and style. According to the theory, organizations become a reflection of their top executives and managerial backgrounds and capabilities are antecedents to firm success (Finkelstein *et al.*, 2009). The theory simply attributes the performance outcome of the firm to the characteristics of their top management teams and its associates (Carpenter *et al.*, 2004; Hambrick and Mason, 1984). Based on this, Carpenter *et al.* (2004) and Hambrick and Mason (1984), add that top managers' personal competences can directly influence the organizational outcomes. For instance, Bantel and Jackson (1989) reported that innovative banks are managed by more educated teams who have diverse expertise with respect to their functional areas of expertise. The theory acknowledges that individual top managers heavily influence organizational outcomes by the choices they make, which are in turn affected by the managers' characteristics. Hambrick and Mason (1984) further postulated that the characteristics of the upper echelons and their strategic choices help to explain an organization's performance. These characteristics which Boyatzis (1982) called managerial competences discriminate the firm and generate competitive advantage. In order to cause

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sustainable competitive advantage; a competence ought to be vital, extraordinary and difficult or costly to duplicate. As a result, it offers a new notion into strategic leadership, decision making and many other factors as well as processes involved in the operations of the firms (Heracleous, 2001). This means that; if the upper level cadres are good strategist, they would ultimately be in position to make good strategies and give a firm the utmost competitive edge. For this reason, it is worth justifying that the success or failure of the firm is determined by the quality of upper echelons or management teams. This is further strengthened by the competitive advantage theory by Porter (1985).

2.3 *Competitive advantage theory*

According to Porter (1985), a company pursues competitive advantage across its chosen market scope through cost leadership, differentiation or focus. Competitive advantage is dependent on the valuable, rare and hard-to-imitate resources that reside within an organization (Barney, 1991; Stiles and Kulvisaechana, 2004). The theory assumes that, even with the endowments, an economy can only be competitive if it creates new factors improve the existing ones (Porter, 1985). According to Porter (1985), the more complex and dynamic the economic environment of the country is, the more like is for some firms to fail if they cannot create a robust competitive edge. The business environment today has indeed increasingly become very competitive thus making the business organizations to also become more dynamic and aggressive in identifying and adopting competitive strategies which enable profitable existence (Newbert, 2008). The researcher points out that for competitive advantage to be achieved and sustained, managers need to examine an organization's internal processes and competences so as to allow for efficiency and cost effectiveness. Therefore, competences are the skills that empower a firm to provide a fundamental value and customer benefit which leads to customer loyalty.

2.4 *Managerial competences, competitive advantage and financial performance*

Review of extant literature indicates that firm financial performance depends on market imperfections and managerial decisions about resources (Amit and Schoemaker, 1993; Chye *et al.*, 2010; Turyahebwa, 2013). For instance, Opler and Titman (2004) assert that the efficient use of resources depends on the decisions of the management team. Pablos (2006) also contends that firm performance is not about having better resources but rather the ability to make better use of the available resources. Similarly, Enders (2004) added that firm differences are therefore outcome of superior management. Dittmar and Mahrt-Smith (2007) also noted that better managed firms generate almost double returns than poorly managed ones. Furthermore, Kyereboah-Coleman and Biekpe (2006) observed that poorly managed firms have more sustainability issues than better managed ones. In other words the quality of management is an important driver of firm performance. On the other hand, Stokes and Oiry (2012) noted that managerial competence is important to any institution irrespective of the industry. They highlighted that whenever the institution is performing well, it directly implies that it has competent staff that make wise decisions to see the institution moving.

Nevertheless, Turyahebwa (2013) suggested that firms have recognized today that formal education alone is not enough to ensure competence. Now days, companies have resorted to human resource development, that is competence development as well as the formal education to achieve better performance for the firm. In a survey that was conducted by Chye *et al.* (2010), it was concluded that most financial institutions that collapsed, operations were largely linked to the competence of managers. Findings are also consistent with Brown *et al.* (2004), who found that better governed firms are more profitable, more valuable than poorly governed firms and offer better returns to their shareholders. Jay (2010) also brings out the impact of management efficiency on financial performance and contends that management usually has greater control over operating expenses than

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they do over revenues therefore can keep a low operating expense ratio which implies greater profit for the firm. In addition, managers are required to maintain a clean portfolio by defining how much is appropriate for clients and that those who have borrowed pay on time to reduce rate of arrears and recovery costs to increase the operating efficiency ratio of firms. For this to be possible, a firm should have well experienced and skilled managers that create a robust competitive edge.

Besides, Carmeli (2004) views competitive advantage as the aspect of the company which is hardly imitable, maintained in the future, that positions it above its competitors and leads to better business performance. Much of the research on competitive advantage focused on competences as a major source of that advantage, for example, highly skilled people are able to perform more efficiently their job and consequently they can reduce their unitary cost. Grant (1996) noted that knowledge is the significant competitive asset that a firm possesses. Fiol (2001) added that competencies include the particular set of skills and resources a firm possesses as well as the way those resources are used to produce outcomes. A competence or characteristic of an individual or organization is a source of competitive advantage if it is able to answer questions, related with value, rareness, inimitability and non-substitutability (Barney, 1991; Wright *et al.*, 2001). Managerial competence is unique because people cannot be separated from their knowledge, skills or values in the way they can be separated from their physical assets. In addition, Seubert *et al.* (2001) noted that sustainable competitive advantage is no longer rooted in physical assets and financial capital, but in effective channeling of intellectual capital. Such advantage is developed over time and cannot easily be imitated.

Martina *et al.* (2012) explain that outstanding performance is a reflection of the competence that an executive has, and these competences lead to competitive advantage, for example, SMEs in the Ghanaian industrial environment are incapable of achieving competitive advantage due to the inability of their executives to exhibit the requisite managerial competences that can help motivate and increase their employees' performances. This view builds from Boyatzis (1982), and Lucia and Lepsinger (1999) that competencies are characteristics that result in effective and outstanding performance. Competences are the skills that empower a firm to provide a fundamental value and customer benefit which leads to customer loyalty. Customer loyalty and customer retention are the most important challenges faced by most of the CEOs across the world. Therefore, managerial competence contributes toward cultivating loyal customers which can lead to increased sales and customer share, lower costs and higher prices (Alrubaiee and AI-Nazer, 2010). In fact, Wang and Changa (2005) acknowledged that competences are a fundamental determinant of firm current and future competitiveness as well as firm value growth.

Drawing from the fore mentioned, we hypothesized that:

H1. Managerial competence and financial performance of commercial banks in Uganda are positively related.

H2. Managerial competence and competitive advantage of commercial banks in Uganda are positively related.

H3. Competitive advantage mediates the relationship between managerial competence and financial performance of commercial banks in Uganda.

3. Methodology

3.1 Research design

This study utilized a cross-sectional and quantitative research design based on a sample of 22 out of 25 fully licensed and operational commercial banks in Uganda as per the Bank of Uganda (2014). A simple random sampling technique was applied to select the sample.

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Whereas the unit of analysis was at firm level, the general manager, an accountant, a board member, a credit and finance personnel formed the units of inquiry; meaning that there were five respondents per bank surveyed. Nonetheless, the data collected was aggregated to allow firm level analyses. The sample characteristics are presented in Tables AI and AII in the Appendix. Going by exception, the results in Table AI show that majority of the respondents were male (72 percent), within the 25 years to 29 years age bracket (33 percent), married (60 percent) and had a bachelor's degree (65 percent). Table AII shows that majority of the banks surveyed had been in operation for about ten years (23 percent), were financed by both equity and loans (57 percent), were foreign owned, had less than 20 branches and had management serving on the board (82 percent).

3.2 Operationalization and measurement of variables

The main study variables were measured on a continuous scale using items developed and tested by previous scholars. These were anchored on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree):

- Managerial competence was measured in terms of knowledge, skill and experience of staff (Kereta, 2007) ($\alpha = 0.95$).
- Competitive advantage was measured using the generic aspects by Porter (1985) of cost leadership, differentiation and focus ($\alpha = 0.85$).
- Financial performance was measured in terms of profitability, liquidity and loan portfolio performance (Singh and Davidson, 2003) ($\alpha = 0.84$).

3.3 Data analysis

The hypothesized mediation model was estimated using Hayes and Preacher's (2014) indirect SPSS macro, which provides bootstrap estimates with bias corrected (BC) confidence intervals of the indirect effects of the independent variable on the dependent variable through the proposed mediator. Thus, the bootstrap estimates used in this study are based on 1,000 bootstrap samples, with a 95 percent BC confidence intervals. The method was preferred because of its ability to cater for small samples and the weaknesses cited of the Baron and Kenny (1986) approach in Hayes and Preacher (2014).

4. Results

4.1 Correlation analysis

Correlation analysis was performed to establish the associations between managerial competence, competitive advantage and financial performance, respectively. The results are presented in Table I.

	1	2	3	4	5	6	7	8	9
Managerial competence (1)	*1*								
Knowledge (2)	0.849**	1							
Experience (3)	0.741**	0.429**							
Skill (4)	0.878**	0.713**	0.409**	1					
Competitive advantage (5)	*0.573***	0.582**	0.179	0.645**	*1*				
Cost leadership (6)	0.428**	0.361**	0.178	0.497**	0.813**	1			
Differentiation (7)	0.176	0.351**	−0.053	0.165	0.567**	0.16	1		
Focus (8)	0.614**	0.593**	0.213*	0.695**	0.791**	0.420**	0.341**	1	
Financial performance (9)	*0.648***	0.609**	0.255*	0.718**	*0.705***	0.472**	0.300**	0.765**	*1*

Note: *,**Significant at $p < 0.05$ and $p < 0.001$, respectively

Table I.
Correction results

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Results in Table I show the significant positive associations between the main study variables. Specifically, the results reveal a positive and significant relationship between managerial competence and competitive advantage ($r = 0.573$, $p < 0.05$), managerial competence and financial performance ($r = 0.648$, $p < 0.05$), and competitive advantage and financial performance ($r = 0.705$, $p < 0.05$). These results mean that positive changes in managerial competence and competitive advantage, respectively, are associated with positive changes in financial performance of the selected banks under study.

4.2 Regression analysis of financial performance

A hierarchical regression analysis was performed to ascertain the contribution of the confounding variables (business age and source of finance), managerial competence and competitive advantage in explaining the variations in financial performance of commercial banks. The results are summarized Table II.

The following regression equations define the models in Table II:

$$\text{Model 1: FPerf} = \beta_0 + \beta_1\text{BA} + \beta_2\text{FS} + \varepsilon$$

$$\text{Model 2: FPerf} = \beta_0 + \beta_1\text{BA} + \beta_2\text{FS} + \beta_3\text{MC} + \varepsilon$$

$$\text{Model 3: FPerf} = \beta_0 + \beta_1\text{BA} + \beta_2\text{FS} + \beta_3\text{MC} + \beta_4\text{CA} + \varepsilon$$

where FPerf is the financial performance, $\beta 0$ a constant, $\beta 1$BA the unstandardized *B* coefficient of bank age, $\beta 2$FS the unstandardized *B* coefficient of finance source, $\beta 3$MC the unstandardized *B* coefficient of managerial competence, $\beta 4$CA the unstandardized *B* coefficient of competitive advantage ε is the error term.

The results in Table II indicate that in Model 1, the confounding variables (bank age and finance source) have an insignificant explanatory power of 0.4 percent. This seems to suggest that the effect of bank age and source of finance on financial performance is inconsequential. Model 2 shows that the addition of managerial competence to the equation, accounts for an extra 4 percent of the variance explained by the model. The model also reveals a statistically significant relationship between managerial competence and financial performance of commercial banks ($f\Delta = 24.78$; $p < 0.001$); thus providing support for *H1*. The addition of competitive advantage in Model 3, reveals an extra 13 percent of variability in financial performance ($f\Delta = 11.13$, $p < 0.001$). More so, there is a positive and significant relationship between competitive advantage and performance of commercial banks; thus

	Model 1 β	Model 2 β	Model 3 β
Bank age	−0.080	0.022	0.075
Finance source	0.257*	0.091	0.042
Managerial competence		0.665**	0.330*
Competitive advantage			0.506**
R	0.261	0.690	0.777
R^2	0.068	0.476	0.603
Adj. R^2	0.045	0.456	0.583
R^2 change		0.408	0.127
F-Statistic	3.0	24.78	30.75
Sig. *F*-Change		0.000	0.000

Note: *,**Significant at the 0.01 level ($p < 0.05$) and 0.01 level ($p < 0.001$)

Table II. Hierarchical regression results

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supporting *H2*. The results show that when controlling for competitive advantage, the direct effect of managerial competence in financial performance dropped from $\beta = 0.665$** to $\beta = 0.330$*, indicating a partial mediation. Lastly, the variables entered in the regression model explain an overall of 58 percent (Adj. R^2) of the variance in financial performance of financial banks.

4.3 Mediation results

Mediation test in this study was performed using bootstrapping method. The results are presented in Table III.

The bootstrap results confirm that the direct relationship between managerial competence and financial performance is significant ($\beta = 0.689$, $p < 0.05$), the effect reduced though remained significant ($\beta = 0.342$, $p < 0.05$), upon inclusion of competitive advantage implying a partial mediation effect. This is not far from the earlier indication of the hierarchical regression results. The bootstrap results further confirm that competitive advantage has a significant mediation effect on the relationship between managerial competence and financial performance of commercial banks ($\beta = 0.347$, $p = 0.001$, $z = 3.677$); thus providing evidence in support of *H3*.

5. Discussion and conclusions

The purpose of this study was to investigate the mediation role of competitive advantage in the relationship between managerial competence and financial performance of commercial banks.

First, considering the direct relationship between managerial competence and financial performance of commercial banks in Uganda, the association actually exists and is significant. Managerial competence in this study was measured in terms of knowledge, skills and experience of the management team. This therefore implies that managers that are skillful and knowledgeable are in position to take well thought through decisions that will enable the banks to register better performance. Such decisions may take the form of which credit policy to put in place in order to eradicate bad debts and also reduce the NPLs. It can also be noted that managers who have served for a longer time know how best to maintain a clean portfolio by setting how much is appropriate for clients and ensuring that those who have borrowed pay in time to reduce arrears and recovery costs that eventually increase operational efficiency ratio of the firm. With experience, the management team has learnt the various avenues of increasing income while reducing their expenditure.

Table III.
Total, direct and indirect effects

		Product coefficients		Bootstrap BC 95% CI		
Paths	Boot estimates	SE	*Z*	Lower bounds	Upper bounds	*p*-value
Total effect						
MC → CA	0.697	0.069	10.101	0.565	0.796	0.003
MC → FP	0.689	0.067	10.284	0.560	0.781	0.003
CA →FP	0.491	0.118	4.161	0.307	0.695	0.002
Direct effects						
MC → CA	0.697	0.069	10.101	0.565	0.796	0.003
MC → FP	0.347	0.121		0.138	0.535	0.011
CA → FP	0.491	0.118	4.161	0.307	0.695	0.002
Indirect effects						
MC → FP	0.342	0.093	3.677	0.223	0.531	0.001

Notes: MC, managerial competence; CA, competitive advantage; FP, financial performance; SE, standard errors; BC, bias corrected; CI, confidence level

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The results obtained are in support of the previous researchers such as Stokes and Oiry (2012) who highlighted that whenever the institution is performing well it directly implies that it has competent staff that makes wise decisions to see the institution moving. Findings are also consistent with Brown *et al.* (2004), who found that better governed firms are more profitable, more valuable than poorly governed firms and offer better returns to their shareholders. Similarly, Jay (2010) observed that management usually has greater control over operating expenses than they do over revenues therefore can keep a low operating expense ratio which implies greater profit for the firm.

Second, the relationship between competitive advantage and financial performance of commercial banks in Uganda was found to be positive and significant. Competitive advantage in this study was measured in terms of cost leadership, differentiation and focus. This implies that banks which run at a low cost stand higher chances of reporting higher profits than the others. It also implies that banks which have a wider national coverage and also diverse products attract more clients who in turn increase the banks' portfolio which is their main asset and source of income. The more clients a bank has the more liquid it is and therefore can reliably meet its obligations. The results obtained support the findings of earlier researchers like Peteraf and Barney (2003) who noted that competitive advantages that are sustained over time lead to higher performance and positive returns. In a similar voice, Porter (1985) and Newbert (2008) stated that companies that adopt generics of superior cost or differentiation lead to a larger market share, which in turn leads to higher profitability.

Lastly, these findings indicate that competitive advantage has a partial significant mediating effect in the relationship between managerial competence and financial performance of commercial banks in Uganda. The results mean that the specific mechanism or pathway by which the relationship between managerial competence and financial performance occurs is direct, although competitive advantage takes away part of the contribution. This means that management team of banks with unique skills and knowledge stand a chance of attaining competitive advantage which in turn increases financial performance. Therefore banks should consider more experienced skillful and knowledgeable staff if they are to attain a position above the rest and thus register better performance.

The findings in relation to the mediating effect are not strongly supported by literature though it is indicated that development of competitive advantage in an organization helps to bring about superior performance. In line with this, it needs to be noted that this competitive advantage, which manifests in either new technology, better methods of managing costs or even improved processes, can be realized in an entity if there is good management. The aspect of managerial competence therefore comes in clearly to influence the existence of competitive advantage. This way, the mediating effect of competitive advantage is displayed from literature point of view.

This finding links well with the theory of competitive advantage which postulates that the presence of assets that are difficult to imitate are associated with the firm's competitive position (Barney, 1991). Similarly, Hitt *et al.* (2001) also noted that intangible resources are more likely than tangible resources to breed a firm's competitive advantage, which translates into superior performance.

6. Conclusion and implications

The findings and discussion above lead to the conclusion that, competitive advantage is a strong mediator in the relationship between managerial competence and financial performance of commercial banks in Uganda. From the theoretical perspective, the key contribution this study makes, relates to the observation earlier made that there has been insufficient knowledge in the empirical research focusing on factors explaining financial performance in commercial banks. In this regard, this study extends the predominantly

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financial performance studies to the financial institution sector. Nonetheless, future studies need to replicate the findings of this study in different contexts to test the robustness of the model. At managerial level, the study provides empirical evidence indicating competitive advantage as a strong predictor of financial performance of commercial banks. In addition, this competitive advantage can be derived from high quality managerial competence. Therefore, commercial banks should consider these factors when determining possible changes to enhance financial performance.

The study limitations can be seen as fruitful avenues for future research under the same theme. First, this study lacks cross-validation. The extant literature is replete with studies on factors explaining financial performance of commercial banks, more so in African countries. Consequently, the limited literature available, especially in a developing country context, deprived the study of the opportunity to cross-validate the present study findings. Future studies should be conducted to confirm these results. Second, a cross-sectional survey design was employed and thus, the study is limited to a particular occasion of measurement. Given that perceptions and beliefs change over time, there is need for a longitudinal study. In addition, the approach did not allow making clear causal attributions for the observed relationships. Therefore, the results must be interpreted with caution. Lastly, the model herein explained 58 percent of the variance in financial performance. Future studies should explore other probable factors.

This is the list of selected commercial banks in Uganda that participated in this study:

(1) ABC Bank
(2) Bank of Africa Uganda Limited
(3) Bank of Baroda
(4) Bank of India
(5) Barclays Bank of Uganda
(6) Cairo International Bank
(7) Centenary Bank
(8) Citibank Uganda
(9) Commercial Bank of Africa
(10) Crane Bank
(11) Diamond Trust Bank
(12) Ecobank Uganda
(13) Equity Bank Uganda Limited
(14) Guaranty Trust Bank
(15) Housing Finance Bank
(16) KCB Bank Uganda Limited
(17) NC Bank Uganda
(18) Orient Bank
(19) Stanbic Bank Uganda Limited
(20) Standard Chartered Uganda
(21) Tropical Bank
(22) United Bank for Africa

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(The Appendix follows overleaf.)

Appendix

Variable	Category	Frequency	%
Gender	Male	62	72.1
	Female	24	27.9
Age	25-29	28	32.6
	30-34	31	36
	35-39	16	18.6
	40-44	9	10.5
	45-49	2	2.3
Marital status	Married	52	60.5
	Single	34	39.5
Education	Diploma	1	1.2
	Degree	56	65.1
	Masters	28	32.6
	Others	1	1.2

Note: $n = 86$

Table AI. Individual demographics

Variable	Category	Frequency	%
Years of operation	Less than 5 years	4	18.2
	5-10 years	5	22.7
	10-15 years	2	9.1
	15 years and above	11	50
Financed by	Equity only	8	36
	Equity and Loans	13	57
	Others	1	5.8
Ownership	Local	3	13.6
	Foreign	14	63.6
	Dual	5	22.7
Branches	Less than 20	11	50
	20-30	4	18.2
	30-50	4	18.2
	50 and above	3	13.6
Management serving onboard	Yes	18	81.8
	No	4	18.2

Note: $n = 22$

Table AII. Bank characteristics

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