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Institutional Framework and The Performance of SMEs In Uganda: The Mediating Role Of Competitive Advantage

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Abstract

The purpose of this study was to establish the direct influence of institutional framework and competitive advantage on small and medium enterprises (SME) performance and to examine the mediating role of competitive advantage in the relationship between institutional framework and performance of SMEs. This study employed structural equation modelling to determine if competitive advantage significantly mediates the relationship between institutional framework and SMEs' performance using Analysis of Moments Structures (AMOS), as recommended by Hair et al. (2022) and Baron and Kenny (1986). Study findings revealed that competitive advantage fully mediates the relationship between the institutional framework and SME performance. As such, institutional framework is only relevant in fostering SME performance if it goes through competitive advantage to attain improved performance, rather than its direct impact. This paper confirmed that competitive advantage fully mediates the association between the institutional frameworks and performance of SMEs using evidence from Uganda's manufacturing sector, unlike extant studies that explored the direct relationships between the study variables in predicting SME performance.

Keywords: Institutional framework, competitive advantage, SME Performance, Manufacturing Sector, Uganda

Introduction

Globally, developing economies recognise the performance of small and medium enterprises (SMEs) as a strategic pathway for fostering socio-economic transformation. SMEs specifically create employment opportunities, distribute income, unlock the innovative potential of local entrepreneurs, promote full utilization of resources, and eventually contribute to government revenue (Sendawula *et al.,* 2023; Mayanja *et al.,* 2024). This has prompted the government of Uganda to develop and implement policies as well as interventions aimed at sustaining SMEs' contributions to national development. These include Uganda's industrial policy of 2008 (MTIC, 2008), which aimed at strengthening local manufacturing and making it more competitive. In 2007, the government created industrial parks to facilitate efficient and low-cost production of goods and services both for local consumption and for export (Goobi, 2021) and more recently, the Buy Uganda Build (BUBU) initiative was launched in 2014 to develop a vibrant, dynamic and competitive private sector by promoting the consumption of locally manufactured goods (Ministry of Trade, Industries and Cooperatives, 2015).

Despite the above mentioned interventions, the potential of SMEs especially in Uganda's manufacturing sector is still unrealized (Guloba *et al.,* 2021). This is because SMEs in the

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sector primarily engage in low end-product assembly and raw materials processing, producing mainly low-quality goods that are less competitive locally and internationally (Goobi *et al.,* 2017). In addition, the sector is characterized by low output levels ranging from 234.67 to 285.91 from 2016 to 2020 respectively (UBOS, 2021) that results into a low contribution to GDP of 8.5 percent that has stagnated over the last decade. Moreover, 30% of SME failures occur prior to their third birthday (Orobia *et al.,* 2020). As a result of the poor performance, the sector only contributes 20% to the national gross domestic product (GDP), despite being the largest in the economy (Turyahebwa *et al.,* 2013).

A review of existing literature presents a number of factors that have been interrogated in regards to the performance of SMEs. For example; entrepreneurial competencies and firm capabilities (Kisubi *et al.,* 2022); digitization (Al-Ajlouni, Hijazi, & Nawafleh, 2024), marketing analytics capability (Abrokwah-Larbi, 2024), networking capabilities, knowledge worker productivity, and digital innovation (Tariq et al., 2024), entrepreneurial networking and innovation (Sendawula *et al.,* 2023) and green supply chain adoption (Namagembe et al., 2019). It is important to note the most of the above-mentioned studies are conducted in contexts that are outside Uganda. For the few Ugandan based studies, they have focused on general SMEs (Kisubi *et al.,* 2022) while Sendawula *et al.* (2023) investigated only the small businesses. As such, SMEs in Uganda's manufacturing sector have received less attention. Yet the manufacturing sector is a key engine for economic transformation in both developed and developing countries (Walter et al., 2020). In addition, the performance of the manufacturing sector has become an area of major concern in most of the Sub-Saharan African countries (Gathungu & Bitange, 2021). For Uganda, the government is currently looking at the sector as being core in fostering the Uganda's aspiration of catalyzing sustainable industrialization for inclusive growth, employment and sustainable wealth creation (Uganda National Development Plan, 2020).

As such, institutional frameworks have received less attention in explicating SME performance. Yet Mack and Mayer, (2016) urged that effective institutional support promotes entrepreneurial and improved performance of firms in both developed and developing nations. For studies that have interrogated institutional frameworks (Bertheussen, 2021; Kurtulmuş, Katrinli, & Warner, 2020; Badewi, 2022), the focus has is on the direct relationship with performance with less focus on how it indirectly explicates SME performance using evidence from Uganda's manufacturing sector. It is important to note that supportive institutions promote competitive advantage by creating an enabling environment that allows SMEs to access critical resources and capabilities at reduced prices which reduces their operational costs and thus charge competitive prices and also improve the quality of goods produced (North, 1990). Upon that background, the main of this paper is to establish the mediating effect of competitive advantage in the relationship between institutional framework and performance of SMEs in sub-Saharan Africa with data collected from Uganda's manufacturing sector.

Literature Review

Theoretical Foundation

This study is anchored on the institutional theory by North, (1990) in order to develop feasible strategies to enhance the performance of SMEs in Uganda. According to North (1990), institutions are the "rules of the game" in a society that guide human interaction. The author

categorized institutions into formal and informal institutions whose combination is coined as "institutional framework". Formal institutions are written policies, laws and regulations, including political rules, economic rules and contracts (Sahasranamam, & Nandakumar, 2020). These formal institutions exhibit a hierarchy: from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts (Kafouros *et al.,* 2022). On the other hand, informal institutions are codes of conduct, norms of behaviour and conventions emanating from a society's culture (Mondolo, 2019). North (1990) contends that the concept of promoting firm performance goes beyond the establishment of formal and informal institutions for SMEs. To him, institutions that prioritize competitive advantage enables firms reduce production costs and thus improve the quality of goods produced. Therefore, efficient formal and informal institutions reduce uncertainties thereby providing an enabling environment for the manufacturing sector to produce quality goods at low costs which are vital ingredients in achieving improved performance (Sardeshmukh *et al.,* 2019).

Institutional Framework and Performance of SMEs

The institutional framework refers to a collection of regulations that are necessary to establish a level and equitable business environment for all participants in the economy (Iskandar *et al.,* 2022). In this framework, key stakeholders, including the government and its agencies, provide financial, non-financial and technical support to the SME community (Urbano, Aparicio, & Audretsch, 2019). Thus, firms get resources from different institutions that are critical to their operations and performance (Shu *et al.,* 2015). Accordingly, Escandon-Barbosa and Salas-Paramo (2023) indicate that both formal and informal institutions determine the success and profitability of a firm. As a result, support from the government and its agencies allows firms to interpret policies and programmes correctly, thereby decreasing business environmental uncertainty (Zhang *et al.,* 2015). Engagement with extant literature presents mixed findings on institutional frameworks and firm performance. For example, Duran et al. (2019) established that firm performance is contingent on local institutional conditions, and that performance is high when formal constraining institutions are less developed and suitable when informal enabling institutions are present. In the same vein, Marlon et al. (2019) confirmed that formal institutions have positive influences on internationalization because they provide learning, networking, and intelligence about foreign markets while reducing costs. This learning and networking also enable small and medium enterprises to operate in a way that is acceptable to both formal and informal institutions as a strategic pathway for improved performance. Teresa et al. (2022) further discovered that entrepreneurship can develop in an environment where regulations and practices allow for a variety of choices and where a country's social, political, and economic processes and procedures are not rigid. This flexibility creates a conducive environment for the SME community to develop innovative products, services and systems that are vital to attaining greater performance.

Therefore, policy initiatives should focus on eliminating bottlenecks, reducing taxes for local manufacturing SMEs, and ensuring transparency and accountability among public officials responsible for SMEs regulation (Mwasiaji, 2019). According to empirical evidence, the development of well-functioning institutions by governments in low-income countries directly contributes to their economic success (Boari *et al.,* 2019). This implies that well-functioning institutions like those involved in business registration, tax collection and financing can potentially provide the support mechanisms needed for SMEs to improve their performance.

However, studies have linked the poor economic performance of many less-developed countries to weak institutions that fail to foster business improvement and growth (Puffer & McCarthy, 2011). Therefore, it is widely acknowledged that institutional development determines whether firms can access resources and knowledge to develop and realize better performance (Deng & Zhang, 2018). However, poorly designed institutions can lead to detrimental effects such as excessive bureaucracy, strikes, the creation of legal trade barriers, inadequate technical expertise, high taxes, and partiality (Youssef, Boubaker, & Omri, 2018). It is believed that formal institutions mostly benefit large producers, leaving out SMEs (Zhang, 2020). The foregoing discussion presents mixed findings, which necessitates the current study to validate existing findings using evidence from a context where empirical studies are scarce. Thus, we hypothesise that:

H_1: Institutional framework is associated with the performance of SMEs in Uganda.

Competitive Advantage and Performance of SMEs

Scholars view competitive advantage differently. For example, Chahal and Bakshi (2015) describe it as an advantage one firm has over a competitor or group of competitors in a given market, strategic group, or industry. Competitive advantage is also a state that enables a company to operate in a more efficient or otherwise higher-quality manner in comparison to its competitors, resulting in benefits accruing (Chukwuemeka & Onuoha, 2018). Furthermore, Jabir (2019) defines competitive advantage as anything that distinguishes an organisation or what it produces or markets from its contemporaries. This study conceptualizes competitive advantage as the capabilities that allow small and medium enterprises (SMEs) to differentiate themselves from their competitors. This enables SMEs to create a defensible position over their competitors (Porter, 1985). According to Ghosh, Kumuthadevi and Jublee (2016) competitive advantage can be gained by offering more value to the customers in comparison to competitors that translate into improved performance. This shows that SMEs that offer unique products and services at affordable prices are likely to performance better than their counterparts. This is in agreement with Suhong Li *et.al* (2004) who reported that competitive advantage has a direct positive impact on Organisational performance using evidence from 196 firms in US. This implies that provision of superior products and continuous revamping of customer value propositions enhance customer satisfaction as competitive strategies promote performance of SMEs. In addition, Ong and Ismail (2012) documented that competitive advantage attained through differentiation has a positive impact on firm performance. This rhymes well with Novitasari and Agustina (2022) who indicated that competitive advantage has a positive effect on firm performance using evidence from Indonesian registered Companies. Despite the growing literature on competitive advantage and firm performance, less is documented about SMEs from a developing context like Uganda where empirical studies are limited. As such, we hypothesize that:

H_2: Competitive advantage is associated with the performance of SMEs in Uganda.

Mediating Effect of Competitive Advantage

A review of existing literature shows that a number of scholars have interrogated the mediating effect of competitive advantage. As a result, Insee and Suttipun (2023) reported that competitive advantage positively mediates the association between research and development

spending and private firms' performance in Thailand. Wirda and Rivai (2019) also revealed that competitive advantage mediates the relationship between entrepreneurial competency and business performance of the creative industry in the craft sector in West Sumatra, Indonesia. Furthermore, Aalyan, Attar, and Abdul-Kareem (2022) found that sustainable competitive advantage mediates the association between innovation and the performance of SMEs in Turkey. Similar results are reported Kiyabo and Isaga (2020) who revealed that competitive advantage partially mediates the association between entrepreneurial orientation and performance of SMEs in Tanzania. Despite the foregoing discussion that presents competitive advantage as a significant mediator, other scholars reported contradicting findings. In particular, Setyawati *et al.* (2017) reported that competitive advantage doesn't mediate the relationship between innovation and the performance of SMEs in Indonesia. This disagreement presents a need for further studies to interrogate the mediating effect of competitive advantage. In addition, there seems to be no study that has examined the mediation of competitive advantage in the relationship between institutional framework and the performance of SMEs using evidence from Uganda, where empirical studies are still scarce, especially in the manufacturing sector. Therefore, this study aims to fill the aforementioned gaps by proposing the following hypothesis:

H_3: Competitive advantage mediates the relationship between institutional framework and Performance of SMEs.

Methods and Design

Design, Population, Sample, and Data Collection

The study utilised a cross-sectional and explanatory research approach to gather and analyse data. The study population was 1,300 manufacturing SMEs from the membership of the Uganda Manufacturers' Association (UMA, 2022). From which a sample size of 297 SMEs was drawn using the Raosoft sample size calculator. Out of the 297 self-administered questionnaires, a total of 274 questionnaires were received without errors, presenting a response rate of 92 percent that was sufficient to address the research hypotheses. The units of analysis for this study were the manufacturing SMEs in Uganda, whereas the units of inquiry were the owners or managers of SMEs in manufacturing who were selected purposefully. The choice of owners and managers as final respondents was based on previous scholars such as Ngoma (2009) and also on the fact that business owners and managers are well informed about how both formal and informal institutions influence the competitive advantage and performance of their businesses.

Respondent Characteristics

In this study, respondents' position, gender, education level and year of business experience were captured to understand their characteristics as presented in Table 1. Study results show that most of the respondents were managers (52%), and directors (48%). This shows that most SMEs have recently started to hire experts to manage their affairs with the goal of enhancing their performance. In addition, most respondents are male (53%), with 47% being female, showing that a significant number of women are now involved in the management and operation of SMEs, with the potential to enhance their performance as it is for their male counterparts. This study also reveals that the majority of respondents have a diploma as their highest level of education (33%), followed by respondents with a degree (26%). This

demonstrates that the respondents had the knowledge and skills required to provide accurate information about their businesses' performance. Lastly, most respondents have experience of 6–10 years (44%) in managing and operating SMEs, denoting that they have a clear understanding of how their businesses have been performing over the years.

Table 1: Respondent characteristics

Respondents' Position	**Frequency**	**Percent**
Director	131	48
Manager	143	52
Gender		
Male	144	53
Female	130	47
Educational level		
Secondary	49	18
Vocational training	45	16
University Education – Diploma	91	33
University Education – Degree	70	26
Post-graduate – Masters	19	7
Years of business Experience		
Less than one year	18	7
1 – 5 years	85	31
6 – 10 years	123	44
10 years and above	48	18
n=274		

Source: Authors work

Measurement and Operationalization of The Study Variables

In this study, SME performance is the dependent variable and this was measured using non-financial measures such as sales growth, employment and output growth (Calabrese *et al.,* 2019). The institutional framework, on the other hand, was operationalized in terms of formal and informal institutions. As such, formal institutions captured business licensing and permits, tax administration, manufacturing regulations and labour regulations while informal institutions captured society's perceptions of entrepreneurship, social norms, entrepreneurship culture and trust. Lastly, competitive advantage was measured using cost advantage and product quality (Reed et al., 2000). We used a 5-point Likert scale (DESS & Robinson, 1984) to gauge owners' and managers' agreement with the performance and competitive advantage of their businesses, and a 7-point scale to gather responses on institutional frameworks (WEF, 2013). We employed different Likert scales as a strategy to manage method common bias, as recommended by Podsakoff *et al.* (2003).

Data Collection

We collected data using self-administered questionnaires that included closed-ended questions adapted from previous scholars. The questionnaire was composed of five sections that contained items on firm characteristics, respondents' characteristics, institutional framework, competitive advantage and SME performance, respectively. Before conducting the final survey, a pre-test was conducted to establish the validity of the instrument. As such, experts in

the field of entrepreneurship and policymakers were engaged to assess the relevance, wording and correctness of items in the instruments (Rodriguez-salvanés et al., 2009; Cohen et al., 2007). Thus, the Content Validity Index (CVI) and Cronbach alpha were computed, and all were above 0.7 (see Table 2), rendering the instrument valid as recommended by Amin (2005).

Table 2: Reliability and Validity

Variable	Cronbach Alpha	Items	Content Validity Index
Formal Institutions	.892	06	.833
Informal Institutions	.767	04	.750
Competitive Advantage	.805	15	.933
SME Performance	.962	31	.903

Source: Authors work

Data Analysis

The data analysis involved using the AMOS computer program to construct measurement and structural models using confirmatory factor analysis (CFA) and structural equation modeling (SEM) techniques. Additionally, we employed a bootstrap method to generate 200 data samples, aiming to determine the direct impact of the institutional framework on SME performance, the direct influence of competitive advantage on SME performance, and the indirect impact of the institutional framework on the performance of SMEs through competitive advantage. We evaluated significance levels at a 5% threshold of significance and assessed the bias corrected (BC) 95% confidence interval (CI) levels for each effect. As per Cepeda, Nitzl and Roldán's (2018) guideline with zero exclusion, the bias-adjusted 95% confidence interval provides evidence of a significant mediation effect.

Study Results

Confirmatory Factor Analysis (CFA)

The CFA technique was employed to evaluate the factor loadings, establish correlations, and provide model fit indices for the created models based on the performance of small and medium-sized enterprises (SMEs). The following sections will now introduce the measuring models.

Measurement Model for Institutional Framework

The choice of measures for the study variable was done through theoretical reviews and empirical speculation. As presented in the theoretical and conceptual framework, we identified an independent variable, which is the institutional framework. Which is composed of formal institutions and informal institutions (Stam and Ven, 2021; WEF, 2013). A confirmatory factor analysis (CFA) was carried out to test whether the dimensions of a theoretically grouped model of variables fitted in the study data based on model fit indices (Williams *et al*., 2010) and to confirm whether the factors extracted converged as manifest variables of the latent variable, whereby Chi square = 15.526, Degree of Freedom (DF) = 8, Probability (P) = .050, Incremental Fit Index (IFI) = .971, Tusker Lewis Index (TLI) = .944, Comparative Fit Index (CFI) =.970, and Root Mean Square Error of Approximation (RMSEA) = .059. It is clear that the results from the fit indices indicate a good model fit between the model and observed data. Two critical dimensions were observed: formal institutions and informal institutions, where formal institutions had two indicators or manifest variables with loadings of 0.70 and 0.61 and

informal institutions had four manifest variables with loadings ranging from 0.37 to 0.78, as presented in Figure 1.

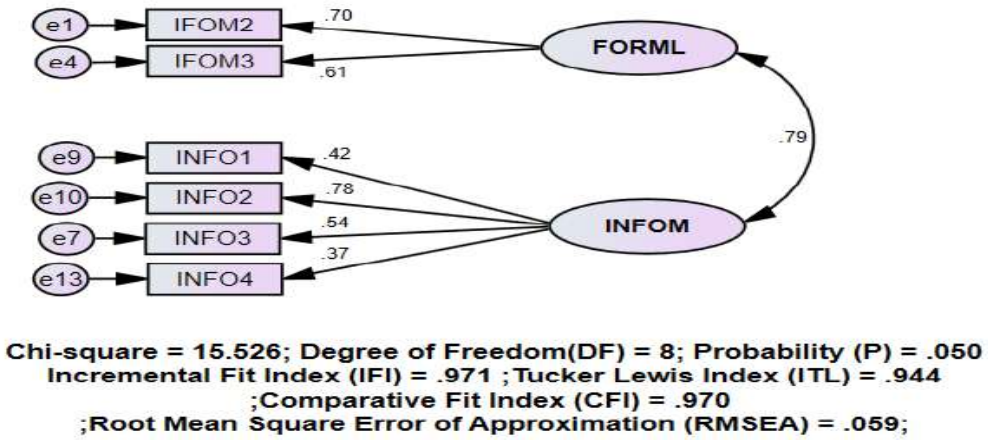


Figure 1: CFA for Institutional Frameworks

Measurement Model for Competitive Advantage

Competitive advantage reflected as a mediating variable in this study. Here respondents were tasked to rate the quality of products they produce and the costs incurred in the production process. It was measured using cost advantage and product quality. Where product quality had four manifest variables with loadings ranging from 0.63 to 0.87. While cost advantage on the other hand had eight indicators with loadings ranging from 0.64 to 0.84. The CFA for competitive advantage had a good model fit; Chi-square = 145.819, Degree of freedom = 63, Probability = .000, Incremental Fit Index = .961, Tusker Lewis Index = .951, Comparative Fit Index = .960 and Root Mean Square Error of Approximation = .069. It is quite evident that all the model indices were above the threshold of .95 and RMSEA of .069 implying the retained items explained well the latent variable as indicated in Figure 2.

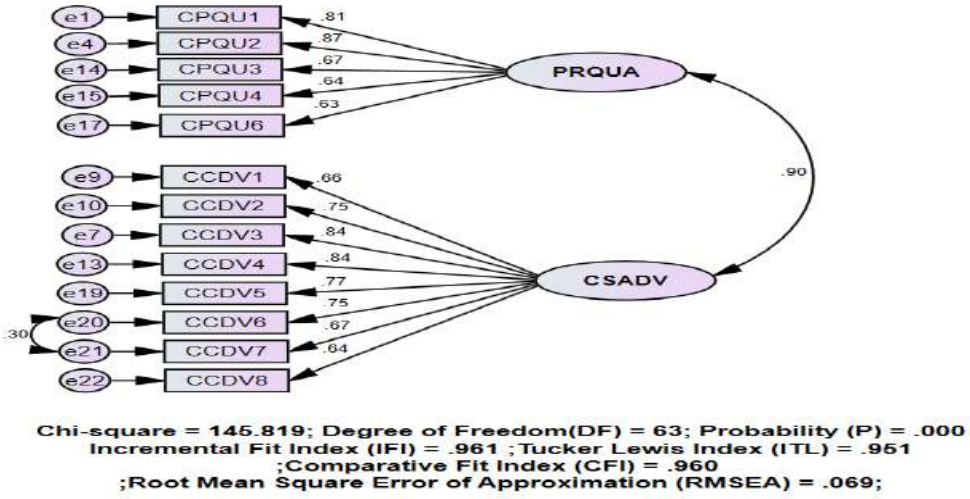
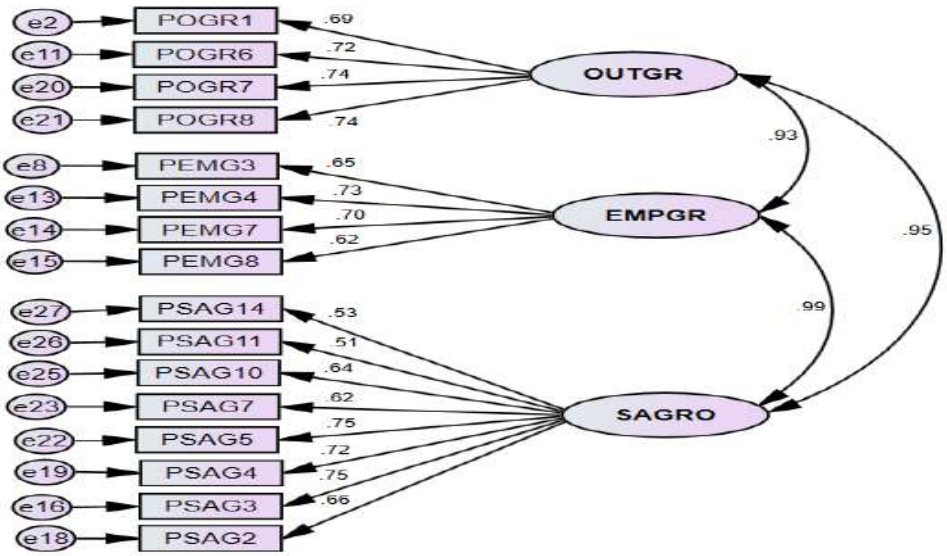


Figure 2: Measurement Model

Measurement model for SME performance

Performance of SMEs in the manufacturing sector was the dependent variable of this study. It was measured using sales growth, output growth and employment growth. Output growth had four indicators with loadings ranging from 0.69 to 0.74; employment growth also had four indicators with loadings ranging from 0.62 to 0.73; and sales growth had eight indicators with loadings ranging from 0.51 to 0.75. The CFA for SME performance indicated a good model fit; Chi-square = 218.892, Degree of freedom = 101, Probability = .000, Incremental Fit Index = .942, Tusker Lewis Index = .930, Comparative Fit Index = .941 and Root Mean Square Error of Approximation = .065. Therefore, the results indicated a good model fit according to the several model fit indices that were above 0.90 as presented in Figure 3.



Chi-square = 218.892; Degree of Freedom(DF) = 101; Probability (P) = .000
Incremental Fit Index (IFI) = .942 ;Tucker Lewis Index (ITL) = .930
;Comparative Fit Index (CFI) = .941
;Root Mean Square Error of Approximation (RMSEA) = .065;

Figure 3: CFA for SME Performance

Hypotheses Testing

A path analysis was performed with the assistance of AMOS computer software in order to ascertain the influence of institutional framework on SME performance and the influence of competitive advantage on SME performance. In addition, bootstrapping was run to determine the mediating effect of competitive advantage on the association between institutional framework and the performance of SMEs. Figure 4 is the structural model for SME performance. Results show that institutional framework has an insignificant influence on SME performance ($\beta = .164$, $p<.05$). Therefore, a positive change in the institutional framework is not associated with a positive change in the performance of SMEs in the manufacturing sector of Uganda, and as such, H1 was not supported. For H2, study results show that competitive advantage is positively and significantly associated with SME performance ($\beta = .994$, $p<.05$). Thus, a positive change in competitive advantage is translated into a positive change in the performance of SMEs in the manufacturing sector of Uganda, and as a result, H2 was supported.

Table 4: Results on the Direct Paths

Hypothesis			B	S.E.	B	C.R.	p	Verdict
CPADV	◄—	INSFR	.823	.401	.306	2.053	.040	Supported
SMEPE	◄—	INSFR	.341	.179	.164	1.901	.057	Not Supported
SMEPE	◄—	CPADV	.771	.071	.994	10.806	***	Supported

*** p<.001

Source: Primary data

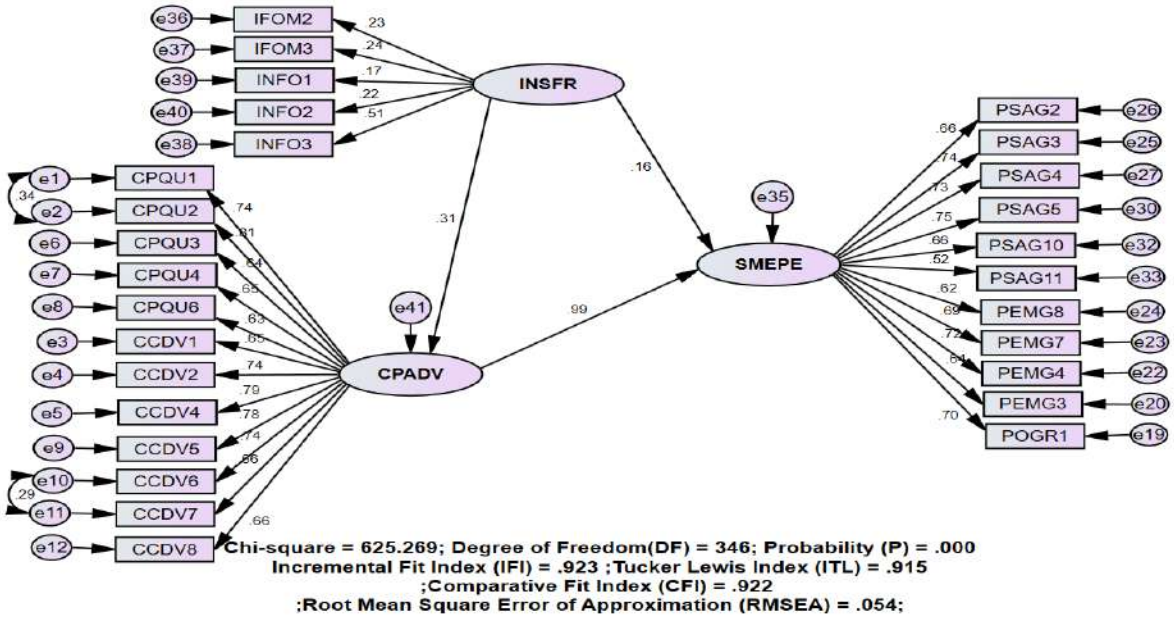
Regarding **H_3,** study results show that competitive advantage fully mediates the relationship between the institutional framework and the performance of SMEs in the manufacturing sector, and thus, the hypothesis was supported. This means that developing institutions alone is not a sufficient condition to enhance the performance of SMEs in the manufacturing sector; rather, what is required are institutions that enable SMEs to gain a competitive advantage that can enhance the performance of SMEs.

Table 5: Total, Direct and Indirect effects (Beta coefficients)

Study variable	Institutional Framework	p-value	LCI	UCI
Competitive advantage	.000			
SME Performance	β = .304	.017	.107	.791

Source: Primary data

Figure 4: Structural model for prediction of SME Performance



Discussion

As postulated by the institutional theory, the study interrogated the influence of institutional framework and competitive advantage on SME performance and also examined the mediating role of competitive advantage in the relationship between the study variables. In line with **H1**, our results indicate that institutional framework is not significantly associated with SME

performance. This means that both formal and informal rules and regulations are not sufficient to boost the performance of the small and medium enterprises (SMEs) in Uganda. Our results are not surprising since there are many taxes that SMEs have to pay as a way of complying with government fiscal policies that eventually lowers their performance. This is in agreement with prior findings of Biru et al. (2023) and Audretsch et al. (2021) (Puffer et al., 2010; Puffer and McCarthy, 2011) who contend that development of institutions alone is not a sufficient condition to enhance the performance of SMEs. This is further supported by Teresa *et al.* (2022) who argued that entrepreneurship can only develop in an environment when its regulation and practices permit a variety of choices and where a country's social, political and economic processes and procedures are not rigid This is because such countries are characterized with weak institutions, political and economic instabilities, high levels of corruption and ambiguous laws. Weak formal institutions constrain businesses with unnecessary procedures and frequent, sudden changes in rules and regulations that increase operational costs which affect SME performance. This implies that SME owner / managers will overcome the hurdles of stringent formal institutions by using bribes and pay offs to maneuver. Consequently, these firms either charge a higher price for the goods produced or reduce on the quality of goods produced so as to get a profit. This affects their competitive advantage against their competitors in the market. However, the study findings contrast findings from researchers like; Marlon *et al*. (2019) who argue that formal institutions positively influence firm performance.

Regarding **H_2,** the study established that competitive advantage in terms of cost advantage and product quality is positively and significantly associated with SME performance. This means that positive alterations in competitive advantage result into improved SME performance. Specifically, study findings show that SME owners and managers need to develop and implement measures that reduce the cost of business operations while producing on large scale in order to enjoy economies of scale that are vital in offering high value to customers at affordable prices. In the same vein, business owners and managers need to offer high quality products to enable them attract and retain customers as a strategic pathway for improved performance. Our findings are in agreement with Ghosh et al. (2016) who revealed that competitive advantage gained by offering more value to the customers in comparison to competitors that translate into improved performance. This demonstrates that small and medium-sized enterprises (SMEs) who provide distinctive products and services at reasonable costs are more likely to achieve superior performance compared to their competitors. This is also supported Novitasari and Agustina (2022) who indicated that competitive advantage has a positive effect on firm performance using evidence from Indonesian registered Companies. As such, when SMEs differentiate themselves by producing unique quality products that are inimitable and charge affordable price while offering high value to customers who will eventually be retained as a strategy for better performance.

Regarding **H_3**, the study confirmed that competitive advantage fully mediates that relationship between institutional framework and SME performance. This implies that in the absence of competitive advantage, institution framework is irrelevant in providing support mechanisms needed to boost SME performance. As such, formal and informal institutions need to put in place rules, regulations and programmes that make it easy for SMEs to operate efficiently and effectively in order to produce quality products that should be offered at low prices as a conduit

for improved performance. This is in agreement with Kafouros *et al.* (2022) who contended that firms that operate under well-developed and supportive institutions incur less costs in manufacturing due to low levels of corruption, less rigid manufacturing regulations and low taxes which reduces on the costs incurred in the production processes. This enables SMEs gain a competitive advantage over their competitors and consequently improve their performance. The findings of the study make a unique contribution since there seems to be no study that has investigated the mediating role of competitive advantage in the association between institutional framework and SME performance. This is because previous studies explored the competitive advantage as a mediator in other variables such as innovation (Aalyan et al., 2022) and entrepreneurial orientation (Kiyabo & Isaga, 2020).

Conclusion, Implications and Research Direction

The purpose of this study was to establish the direct influence of institutional framework and competitive advantage on SME performance and to examine the mediating role of competitive advantage in the relationship between institutional framework and performance of SMEs. This was achieved through a cross-sectional and explanatory research approach in which data was gathered from the manufacturing SMEs. From this study, it can be concluded that SME performance can be improved by enhancing their competitive advantage. However, institutional framework was found to insignificantly foster SMEs performance. This suggests the current rules, regulations and policies in the country have not created a conducive environment for the SMEs to register better performance. Accordingly, whereas institutions are very essential in guiding and regulating business operations, it is also clear that developing institutions alone is not sufficient enough to enhance the performance of SMEs but rather institutions that promote competitive advantage for improved SME performance.

Theoretical, Practical and Policy Implication

This study offers both theoretical, practical and policy implications. Theoretically, the study contributes to the existing body of knowledge on the direct influence of institutional framework and competitive advantage on SME performance. In addition, the study provides initial empirical evidence on the mediating role of competitive advantage in the association between the study variables that is has received less attention in extant literature. As such, it evident that for SME to register improved performance, both formal and informal institutions should be able to create an environment that makes SMEs attain competitive advantage through cost reduction and product quality than directly interfacing with the business community. For the SME fraternity, our findings imply that they can attain improved performance by making products that; satisfy specific customer needs, are easy to use, versatile, unique and widely accessible. In addition, manufacturing SMEs should use cost effective means of production, use low-cost raw materials, exercise tight cost control measures in the production process, employ modern technology in the production processes and produce on large scale with the goal of enjoying economies of scale. This will enable the business community to offer high value to the customers at affordable prices that will result into improved performance.

Policymakers especially the Ministry of Trade Industries and Cooperatives (MTIC) should initiate and implement policies and programmes that are friendly with the goal supporting the SME community to register greater performance. Specifically, the government should enact policies that are not rigid and offer the business community an opportunity to increase the

volume of production, develop new and significantly improved products as well as deploying efficient technology that is vital in attaining improved performance. In addition, the government should develop programmes for enhancing the capacity of the entrepreneurs and their employees in order to equip them with skills, knowledge and competencies that are vital in ensuring effective and efficient business performance.

Limitations and Research Direction

Despite the significant contribution of this paper, it also presents some limitations and opportunities for future researchers. First, the study explored SME performance with a focus on output growth, sales and employment creation. As such, future studies can investigate other performance indicators that include environmental and social aspects of the SMEs. The study further focused on the contribution of the competitive advantage and institutional framework as global variables in predicting SME performance. It is therefore recommended that future studies should investigate how dimensions of the study variables explain SME performance. Moreover, the study was mainly quantitative and this limited the researcher's ability to capture the views, knowledge and experience of the business owners / managers regarding the contribution of institutional framework and competitive advantage in predicting the study phenomena. Hence, future studies can adopt either a qualitative or mixed approach to validate and strengthen the current results.

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