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Optimizing Loan Portfolio Quality through Strategic Financial Controls: Modeling Managerial Competence as a Contextual Catalyst in Uganda's Microfinance Sector

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Abstract

Purpose: This study examines the relationship between financial management practices and loan portfolio quality among non-deposit-taking microfinance institutions (NDFIs) in Uganda's Rwenzori region. It also investigates the moderating influence of managerial competence on this relationship.

Design/methodology/approach: A cross-sectional quantitative survey design was deployed across all 8 registered NDFIs within the region. Primary data were gathered from a stratified random sample of 228 financial staff, including accountants, credit analysts, and branch managers. Hypotheses were tested using Pearson correlation and hierarchical multiple regression analyses in SPSS.

Findings: Financial management practices and managerial competencies both exhibit strong, significant positive relationships with loan portfolio quality. Hierarchical regression confirms that managerial competencies significantly moderate the financial practices–portfolio quality nexus, expanding the explanatory variance by an additional 6.5%.

Research limitations/implications: The empirical scope is constrained by a cross-sectional timeframe and localized focus on the Rwenzori region. Future studies should prioritize a longitudinal design and evaluate structural institutional mediators like corporate governance or digital underwriting platforms.

Practical implications: Microfinance executives must actively pair structural credit appraisal controls with continuous management training. Implementing robust technical budgeting and proactive cash-flow tracking reduces localized borrower default.

Keywords: *Loan Portfolio Quality (*G21**),** *Financial Management Practices (*G32*);* *Managerial Competence (*M10)

INTRODUCTION

The quality of loan portfolio in non-deposit-taking financial institutions remains a highly debated and contentious issue, sparking intense interest among scholars and industry experts worldwide (Agasha et. al. 2020; Komezusenge, 2024; Sawe & Makori, 2022; Wangai & Mungai, 2019; Stephen Kosgei et. al. 2019; Nkundabanyanga et. al. 2017). The quality of a loan portfolio is vital for Microfinance Institutions, as it reveals the overall performance of their loans, enables proactive risk management, and ultimately enhances their operational efficiency, profitability, and long-term sustainability (Agasha et. al. 2020). She further points out that a high-quality loan portfolio is characterised by a low proportion of non-performing loans, minimal portfolio risk, and a low likelihood of borrower default. Bananuka et al. (2019) assert that, despite their growth, adaptability, and significant role in Uganda's financial sector, Microfinance Institutions still struggle with declining loan portfolio quality.

Worldwide, Microfinance Institutions (MFIs) have been facing growing concerns over the declining quality of their loan portfolio. For instance, the gross Non-Performing Assets (NPA) ratio for Indian MFIs stood at 6.4% as of March 2022 way above the industrial average of 3% (Microfinance Institutions Network (MFIN) 2022). According to the MFIN report (2022), Indian Microfinance Institutions (MFIs) faced significant loan losses, with provisions increasing to ₹4,300 crore ($570 million USD) in FY2022, up from ₹2,500 crore ($330 million USD) in FY2021. There was a notable rise in loan loss provisions among South American Microfinance Institutions (MFIs), from $350 million in 2019 to approximately $430 million in 2020 (Microfinance Information Exchange report, 2020). According to an International Finance Corporation (IFC) (2020) study, Nigerian Microfinance Institutions (MFIs) reported a Portfolio-at-Risk (PAR) ratio of approximately 20.6% in 2020. On average, across Uganda, MFIs in East Africa made loan-loss provisions of approximately $150 million in 2020, up from $100 million in 2019 (Microfinance Information Exchange, 2020).

Research indicates that the quality of loan portfolios among non-deposit-taking microfinance institutions is largely influenced by their financial management practices. For instance, Nayan and Gupta (2022) in India, Wangai & Mungai (2019) in Kenya, Abdulai et. al. (2020) in Nigeria, and Sawe & Makori (2022) in Kenya. Effective financial management practices can significantly enhance an entity's competitiveness by strengthening its profitability and resilience, enabling it to better navigate uncertain market conditions (Sawe & Makori, 2022). According to Gitman (2010), cited in Nkundabanyanga et al. (2017), financial management practices refer to the strategic use of capital and careful selection of funding sources to help an organisation achieve its objectives. Frank Nana (2023) points out that financial management practices have a positive impact on organisational performance, enhancing efficiency and overall success. Financial management practices encompass the systematic administration of an organisation's financial resources, incorporating key activities such as budgeting, accounting, financial reporting, and risk management (Nkundabanyanga et al., 2017). Nyongesa et al. (2017) assert that effective financial management practices play a crucial role in determining the financial performance (FP) of an organisation. According to Dwangu and Mahlangu (2021), financial management practices are a vital component of managing financial resources and informing financial decision-making. Effective financial management practices are essential for maintaining financial stability and ensuring the long-term profitability of an institution (Farooq, 2019).

Existing Studies have also shown that managerial competencies moderate the relationship between financial management practices and loan portfolio quality among non-deposit-taking microfinance institutions (Naseer & Siddiqui, 2023) in Pakistan, Paul Kwasi et. al. (2022) in Ghana, Kijjambu and Kyomuhendo (2022) in Uganda, Fozia Taj et. al. (2019) in Pakistan, and Orobia et. al. (2020) in Uganda. Fozia Taj et. al. (2019) argued that managerial competencies refer to the essential traits, skills, and qualities that managers need to possess in order to drive exceptional organisational performance. Furthermore, Kijjambu and Kyomuhendo (2022), while studying internal controls, managerial competence, and financial performance of ABU SACCO, concluded that internal controls and managerial competence explain 58.4% of the variations in the financial performance of ABU SACCO. Orobia et al. (2020), in their study on inventory management, managerial competence, and financial performance of small businesses, pointed out that managerial competence is significantly associated with financial performance. Similarly, Fozia Taj et. al. (2024), while studying the role of managerial competencies and risk-taking behaviour in financial service outreach of microfinance banks in Pakistan, confirmed that managerial competencies, along with risk-taking behaviour, are the key drivers of financial service outreach of MFBs.

Extant studies also suggest that the moderation effect of managerial competence on the financial management practices and loan portfolio quality nexus among Non-Deposit taking institutions in the Rwenzori Region can also be explained by the Upper Echelon theory and the Camel's model (Paul Kwasi et. al. 2022; Komezusenge, 2024; Rwakihembo et. al. 2024). The Upper Echelon theory suggests that the experiences, values, and personalities of top executives play a crucial role in shaping organisational decisions and performance (Rwakihembo et. al. 2024). Paul Kwasi et. al. (2022) argued that the Upper Echelons theory assumes that top executives have significant discretion in making strategic decisions, which can impact organisational outcomes. At its core, the upper echelons theory posits that executives' experiences, values, and personalities significantly shape their perceptions of situations and ultimately inform their decision-making (Rwakihembo et. al. 2024). On a similar note, studies have pointed out the Camels model can explain the relationship between financial management practices and loan portfolio quality. The CAMEL model is a framework used to evaluate the financial health and stability of banks and other financial institutions. The model assumes that the institution has sufficient capital to absorb potential losses and maintain investor confidence. For instance, Komezusenge (2024) explains that loan portfolio management directly impacts several components of the CAMEL framework. He goes ahead to emphasize that the CAMELs model is widely used by banking regulators and supervisors around the world to assess the financial health and stability of banks. However, the model has its limitations. For instance, it relies heavily on subjective judgments and evaluations by regulators, which can lead to inconsistencies and biases. The model places significant emphasis on capital adequacy, which may lead to over-capitalization and reduced lending activity. Notwithstanding, it's important to note that, despite its limitations, the model is still relevant in this study due to its key assumptions. This study therefore adopted a metatheoretic approach to leverage the complementary strengths of each of the above theories.

Despite the several studies conducted on financial management practices and the loan portfolio quality nexus, there are still several gaps in existing literature. For instance, studies which examined the moderating effect of managerial competence did not assess its effect on the relationship between financial management practices and loan portfolio quality. They looked at the moderating effect in relation to other variables. For instance, Kijjambu and Kyomuhendo (2022) examined the moderating effect of internal controls on Financial Performance at Abu

Sacco, and Taj et al. (2019) examined the moderating effect of Risk-Taking Behaviour on Financial Service Outreach in Microfinance Banks. This study examined the moderation effect of managerial competence on the relationship between financial management practices and loan portfolio quality. Other studies were conducted in developed economies (Nayan Jain & Debarshi Gupta, 2022) in India, (Naseer & Siddiqui, 2023) and (Fozia Taj et. al., 2019) in Pakistan. Developed economies often have well-established institutions, such as regulatory bodies, they often have more advanced infrastructure which is well diversified and sophisticated, thus, their findings many not be generalized to the Ugandan economy (Herman, 2020). Abdulai et. al. (2020) focused on financial management practices and microfinance banks in Nigeria. Sawe & Makori (2022) looked at Financial Management Practices and Performance of Commercial and Services Companies Listed at Nairobi Securities Exchange, Kenya.

This study, therefore, closed the empirical gaps in the existing literature by assessing the moderation effect of managerial competencies on the relationship between financial management practices and loan portfolio quality among non-deposit-taking MFIs in the Rwenzori region.

Problem Statement

The government has implemented several initiatives to improve the loan portfolio quality of Microfinance Institutions (MFIs). In 2003, the Microfinance Deposit-Taking Institutions (MDIs) Act was enacted to regulate the operations of MFIs, including their lending activities. This was followed by the Microfinance Institutions (Amendment) Act, 2016, to strengthen the regulatory framework for MFIs, enhancing their governance, risk management, and loan portfolio management (Uganda Parliament 2016). The government further established the Microfinance Support Centre to provide technical assistance, training, and capacity-building programs for MFIs. Notwithstanding all these interventions, there has been a declining loan portfolio quality performance among non-deposit microfinance institutions in the Rwenzori Region. For instance, according to the Microfinance Industry Report (2023), by the end of September 2023, the average Portfolio at Risk (30 days) stood at 9.61% among MFIs in the Rwenzori region. The score was below the industry standard of 3%. The risk coverage ratio among MFIs stood at 64% by the end of 2023 against the industrial average of 120%. Loan Loss Ratio among MFIs stood at 1.13% higher than the industrial standard of <1%. There was also a drop-in portfolio yield from 65.97% in 2021 to 57.31% in 2022 among MFIs in the Rwenzori region (Microfinance Industry Report 2023).

The extant literature on financial management practices and loan portfolio quality among non-deposit-taking institutions poses some gaps. For instance, studies which examined the moderating effect of managerial competencies did not assess their effect on the relationship between financial management practices and loan portfolio quality; they explored other variables (Rwakihembo et. al., 2024; Kijjambu & Kyomuhendo, 2022; Taj et. al., 2019). Several studies were also conducted in developed economies (Nayan Jain and Debarshi Gupta (2022) in India, Naseer and Siddiqui (2023) in Pakistan, Fozia Taj et. al. (2019) in Pakistan). These economies are more structured and well-developed than Uganda. Sawe & Makori (2022) focused on companies listed on the Nairobi Securities Exchange. Their findings cannot be easily generalized to an unlisted MFIs operating in an upcountry environment.

This study, therefore, filled the existing empirical gaps in the literature by examining the relationship between financial management practices and loan portfolio quality while examining

the moderating effect of managerial competencies among non-deposit-taking MFIs in Fort Portal tourism City.

Conceptual Framework

This study aimed to examine the relationship between financial management practices and loan portfolio quality while assessing the moderating effect of managerial competencies among non-deposit-taking microfinance institutions in the Rwenzori region. The conceptual framework (Figure 1) was developed based on the theories and empirical literature explaining the loan portfolio quality of non-deposit-taking microfinance institutions.

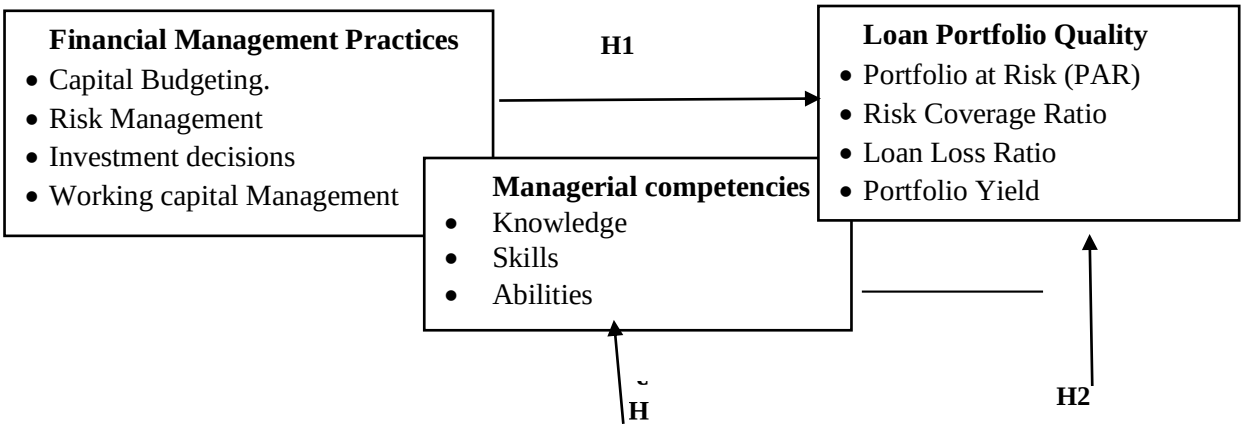

Figure 1: Conceptual Framework

Source: The conceptual framework has been developed from the reviewed literature (Rwakihembo et. al., 2024; Microfinance Industry Report 2023; Komezusenge, 2024; Agasha et. al., 2020; Wangai & Mungai, 2019; Bananuka et al., 2019; Nkundabanyanga et. al., 2017)

Explanation of the Model

This study hypothesized financial management practices in the form of budgeting, risk management and working capital management as a predictor of loan portfolio quality among non-deposit taking institutions in the Rwenzori region (Agasha, et. al. 2020; Wangai & Mungai, 2019; Nkundabanyanga et. al. 2017). MFIs in Uganda can overcome loan performance challenges while maintaining financial and operational sustainability (Nkundabanyanga et. al. 2017). Besides, this study also hypothesized that managerial competencies moderate the relationship between financial management practices and loan portfolio quality. Rwakihembo et. al. (2024) argued that a skilled and experienced management team leverages its expertise to anticipate future trends and prepare the organisation for potential changes, ultimately striving to achieve superior financial performance, maximise firm value, and deliver returns to stakeholders.

Literature Review and Hypothesis Development

Theoretical Review

This study investigated the relationship between financial management practices and loan portfolio quality among Non-Deposit Taking Financial Institutions (NDFIs) in the Rwenzori region, with

managerial competence as a moderating factor. The theoretical support for the study was drawn from the Upper Echelon theory and the Camel's theory/model, as cited in previous studies (Komezusenge, 2024; Paul Kwasi et al., 2022). These theories provide a framework for understanding the association between financial management practices and loan portfolio quality, which was explicitly applied to NDFIs in the Rwenzori region.

Upper Echelon Theory

The Upper Echelons Theory (UET) was first put forward by Hambrick and Mason (1984) in an attempt to provide a new perspective on the two prevailing questions of organizational theory: firstly, why organizations act as they do, and secondly, why organizations perform the way they do. Simon (1958), as cited from Paul Kwasi et. al. (2022), argued that "strategic decisions made by managers are not based on 'real' situations but rather on the skills and opinions of the manager." He further points out that the theory acknowledges that individual executives significantly impact organizational outcomes through decisions shaped by personal characteristics and management style. At its core, the upper echelons theory posits that executives' experiences, values, and personalities significantly shape their perceptions of situations and ultimately inform their decision-making (Rwakihembo et. al. 2024). The Upper Echelons Theory (UET) focuses on the role of influential individuals within organizations, emphasizing the need to analyze their biases, dispositions, and actions. According to UET, the decisions and behaviours of top executives are shaped by their unique experiences, personalities, and values, which in turn influence their interpretation of the organisational context and inform their strategic choices (Hambrick & Mason, 1984). However, the upper echelons theory does not clearly explain the role of financial management practices; thus, it was used in this study alongside the CAMEL model.

The CAMEL Theory/Model

The CAMEL model is a framework used to evaluate the financial health and stability of banks and other financial institutions. The model assumes that the institution has sufficient capital to absorb potential losses and maintain investor confidence (Federal Reserve System 1979). For instance, Komezusenge (2024) explains that loan portfolio management directly impacts several components of the CAMEL framework. He goes ahead to emphasise that the CAMELs model is widely used by banking regulators and supervisors around the world to assess banks' financial health and stability. However, the model has its limitations. For instance, it relies heavily on subjective judgments and evaluations by regulators, which can lead to inconsistencies and biases. The model places significant emphasis on capital adequacy, which may lead to over-capitalization and reduced lending activity. Notwithstanding its limitations, the model remains relevant in this study due to its key assumptions.

Empirical Literature Review

Financial Management Practices and Loan Portfolio Quality

Studies suggest that financial management practices significantly influence the quality of loan portfolios among Non-Deposit Taking Financial Institutions (NDFIs). For instance, Stephen Kosgei et. al. (2019), while studying Portfolio Quality and Financial Sustainability of Microfinance Institutions in Kenya, recommended that MFIs managers devise good collection policies to improve portfolio quality while lessening loan default rate. The portfolio quality may improve the overall profitability and enhance investor confidence in their strategic decision-

making on refinancing. Using an explanatory research design, the researcher collected data from 30 microfinance institutions from 2010 to 2018.

Additionally, Wangai and Mungai (2019) studied the relationship between financial management practices and loan performance in microfinance institutions in Nairobi, Kenya. Using a descriptive research design and SPSS analysis, they found a significant positive correlation between the two variables. The study recommended that microfinance institutions train their managers on the importance of effective financial management practices to enhance loan performance.

Similarly, Abdulai et. al. (2020) examined the effects of corporate governance and credit policies on delinquency management of microfinance banks in Nigeria. Data was obtained from the Annual Financial Statements of respective microfinance banks over seven (7) years from 2012 to 2018. The data analysis utilised static panel regression estimation, incorporating various techniques such as pooled regression, fixed effects estimation, and random effects estimation. The Hausman test was also employed to determine the most suitable estimation method. The study found that credit standards had a positive and significant effect on the loan portfolio at risk and the default rate of microfinance, which affected banks in Nigeria. The study also found that credit terms positively and significantly affected the loan portfolio at risk and default.

Relatedly, Sawe & Makori (2022) concluded that effective working capital management, cash budgeting, and fixed asset management significantly and positively impact the financial performance of commercial and service companies. In contrast, capital structure has a negative but insignificant effect. They studied financial management practices and the performance of commercial and service companies listed on the Nairobi Securities Exchange, Kenya. The study employed an explanatory research design to gather data from eight commercial and service companies listed on the Nairobi Securities Exchange (NSE) that operated between 2009 and 2020. The data analysis involved descriptive and inferential statistics to examine the relationships and trends.

Furthermore, Agasha et al. (2020), while examining Loan Portfolio Quality of Microfinance Institutions in Uganda: A Qualitative Assessment, also concluded that funding, funding pricing, client/borrower engagement, and social capital influence loan repayment. The study adopted an exploratory research design, collecting data from 16 managers after achieving a point of saturation. The data was analysed using content analysis techniques, facilitated by NVivo version 12 software. Additionally, verbatim tests were employed to provide further insight and elaborate on the emerging themes.

Although numerous studies have investigated the relationship between financial management practices and loan portfolio quality, the findings have been inconsistent, leaving a knowledge gap that warrants further research on this topic, particularly in the context of Non-Deposit Taking Financial Institutions (NDFIs). For instance, studies conducted on financial management practices have been geared towards the performance of microfinance in general (Agasha et. al., 2020; Abdulai et. al., 2020; Wangai & Mungai, 2019). This study examined the relationship between financial management practices and loan portfolio quality among NDFIs. Sawe & Makori (2022) explored financial management practices among listed companies; the structural composition of these listed institutions is very different compared to the target MFIs in the Rwenzori region. Therefore, this study bridged the gaps in existing literature by investigating the relationship between financial management practices and loan portfolio quality among NDFIs in the Rwenzori region. It is thus hypothesized that:

H1: There is a positive relationship between financial management practices and loan portfolio quality among non-deposit-taking institutions in the Rwenzori region.

Managerial Competencies and Loan Portfolio Quality

Extant studies have consistently demonstrated that managerial competencies are crucial in determining loan portfolio quality among Non-Deposit Taking Financial Institutions (NDFIs) in the Rwenzori region, with studies revealing a positive correlation across various dimensions. For instance, Sweta and Koustab (2020), while examining Organizational sustainability and performance improvement in microfinance institutions (MFIs): managerial insights of what, why and how, found out that the shareholders, employees and customers are equally important for the sustainability of the MFIs. This qualitative study gathered primary data through in-depth interviews with senior managers of various Indian Microfinance Institutions (MFIs). Thematic analysis was used to identify factors affecting MFI sustainability. The findings were enriched through a comprehensive systematic literature review. The identified factors were then analyzed using the Balanced Scorecard (BSC) approach to develop a framework for assessing the performance of MFIs in similar contexts. Stephen Kosgei et. al. (2019), while studying how portfolio quality influences the financial sustainability of Microfinance Institutions in Kenya, recommended that MFIs managers should devise good collection policies to improve portfolio quality while lessening the loan default rate. The portfolio quality may improve the overall profitability and enhance investor confidence in their strategic decision-making on refinancing. Using an explanatory research design, the researcher collected data from 30 microfinance institutions from 2010 to 2018. Relatedly, Mohammad Delwar et. al. (2021), while assessing the effects of board independence on microfinance institutions' performance in Bangladesh, concluded that independent directors and board size facilitate MFIs to become financially sustainable. This study analyzed a panel dataset of 80 Microfinance Institutions (MFIs) in Bangladesh from 2005 to 2018. The research used panel data regression to examine the relationship between MFI performance and board independence, leveraging a comprehensive dataset of 80 MFIs over 13 years. On a similar note, Hasanudin, et. al. (2021) found out that there is a positive and significant influence of the human resource competency variable on the performance of MFI. The study looked at the Effect of Revolving Funds, Competence of Human Resources, Working Capital, and Credit Risk on The Performance of Microfinance Institutions (Agribusiness (MFI-A) moderated by Risk Management Training. Data was collected from 145 MFI from three regions, namely Central Java, West Java and Banten. In another instance, Paul Kwasi et. al. (2022), found out that managerial competence has a positive and significant effect on value-based financial performance. The study examined the Effect of Managerial Competence on Value-Based Financial Performance of Banks. Using a correlational research design, data were collected from four acquirer banks listed on the Ghana Stock Exchange and analyzed using a Multiple regression model using Statistical Package for Social Sciences (SPSS).

The Empirical evidence highlights the significant impact of managerial competence on the loan portfolio quality. Nonetheless, the studies primarily focus on only formal financial institutions, with little attention paid to NDFIs, which may have different characteristics and challenges (Paul Kwasi et. al. 2022). Other studies also focused on microfinance in general (Hasanudin et. al., 2021; Mohammad Delwar et. al., 2021; Stephen Kosgei et. al., 2019; Sweta & Koustab, 2020). Therefore, this study filled the gaps in existing literature by examining the relationship between managerial competence and loan portfolio quality among NDFIs in the Rwenzori region. This study thus hypothesizes that;

H2: Managerial competencies are positively associated with loan portfolio quality among NDFIs in the Rwenzori region.

The moderating effect of managerial competence on the relationship between financial management practices and loan portfolio quality.

Existing studies (Kijjambu & Kyomuhendo, 2022; Fozia Taj et al., 2019; Rwakihembo et al., 2024; Orobia et al., 2020) have consistently shown that financial management practices are a key predictor of financial performance among NDFIs. However, it is worth noting that the effectiveness of these practices depends on the level of managerial competence possessed by the owners and managers of these Non-Deposit Taking Financial Institutions (NDFIs). Fozia Taj et al. (2019) found that managerial competencies and risk-taking behavior are the key drivers of financial service outreach of microfinance banks in Pakistan. The study collected primary data from 36 branches of microfinance banks in nine cities. The data was used to calculate descriptive statistics, correlation and regression. Relatedly, Kijjambu and Kyomuhendo (2022), while examining Internal Controls, Managerial Competence and Financial Performance of ABU Sacco, revealed a significant positive relationship between managerial competence and financial performance at ABU SACCO. The study adopted a cross-sectional design based on a population comprised of ABU SACCO coverage in her six branches. Data was collected from 35 by the use of a questionnaire, and audited financial statements of the SACCO and management reports were analysed over the four years 2014 to 2017. SPSS ver. 21 was used to test for correlation and regression analysis. Similarly, Paul Kwasi et. al. (2022) found that managerial competence has a positive and significant effect on value-based financial performance. The study examined the Effect of Managerial Competence on Value-Based Financial Performance of Banks. Using a correlational research design, data were collected from four acquirer banks listed on the Ghana Stock Exchange and analysed using a Multiple regression model using Statistical Package for Social Sciences (SPSS).

In spite of studies examining the moderating role of managerial competences, most studies focused on other variables ignoring the effect of managerial competence on the relationship between financial management practices and loan portfolio quality among NDFIs. For instance, Paul Kwasi et. al. (2022) focus on value-based financial institutions, Kijjambu and Kyomuhendo (2022) examined managerial competencies concerning internal controls and financial performance. Rwakihembo et al. (2024) focused on corporate governance and financial performance. Even Fozia Taj et al. (2019), who seemed to focus on microfinance institutions, only assessed the Risk-Taking Behaviour in Financial Service Outreach of Microfinance Banks in Pakistan. This study, therefore, filled the gaps in existing literature by assessing the moderation effect of managerial competencies on the relationship between financial management practices and loan portfolio quality among NDFIs in the Rwenzori region. The study thus hypothesized that;

H3: Managerial competencies moderate the relationship between financial management practices and loan portfolio quality among NDFIs in the Rwenzori region.

Research Methodology

Research Design and Approach

This study employed a cross-sectional research design to investigate the relationship between financial management practices and the loan portfolio quality of NDFIs, collecting data at a single point in time (Saunders et al., 2007; Sekaran, 2003). This design is suitable given the relative

stability of the variables over the short data-collection period (Rwakihembo et al., 2024). The cross-sectional design was chosen for its efficiency, allowing for simultaneous comparison of variables without additional costs (Oso & Onen, 2018). A quantitative approach was employed to gather data explaining the correlation among financial management practices, managerial competencies, and the loan portfolio quality of NDFIs. According to Watson (2015), a study is considered quantitative when examining a phenomenon using data collected through a questionnaire. This approach was preferred for its effectiveness and efficiency in data collection and analysis (Rahman, 2020).

Study Population and Sample Size

The study population comprised 8 NDFIs in the Rwenzori region (Microfinance Industry Report, 2023). The scope was considered suitable because the microfinance annual report is produced by the Association of Microfinance Institutions in Uganda (AMFUI), which maintains a record of all the MFIs in the country, ensuring data reliability. The study used a census approach for the unit of analysis, surveying all 8 NDFIs in the Rwenzori region since they were below a threshold of 30, which is appropriate for sampling according to the central limit theorem (Rahman, 2020). Nevertheless, the sample size for the unit of inquiry was 228 respondents, determined using the formulae Yamane (1973) used for sample size computation, as indicated below.

$$n = \frac{\mathrm{N}}{1 + \mathrm{N}(e)^2}$$

Where n is the sample size, N is the population, and e is the tolerable error (5%).

Table 1: Sampling Frame

Staff Categories	Population	Sample	Sampling Technique
Accountants	16	7	Stratified random sampling
Credit Analysts	11	5	Stratified random sampling
Branch managers	29	12	Stratified random sampling
Credit Supervisors	30	13	Stratified random sampling
Credit officers	445	191	Stratified random sampling
Total	**531**	**228**	

Source: Microfinance Industry Report (2023)

Sampling Method and Sample Selection Technique

The study employed a probability sampling method. First, respondents in each NDFI were categorized based on their respective departments and positions (strata). Second, respondents were selected from each category (stratum) using simple random sampling, ensuring each member had an equal chance of selection to minimize sampling bias (Wang & Cheng, 2020). This stratification of respondents was conducted to deliberately select the most relevant and informative respondents, thereby maximising the quality and relevance of the feedback obtained (Rahman, 2020).

Unit of Analysis and Unit of inquiry

The study considered a population of 8 NDFIs registered with AMFIU in the Rwenzori region (Microfinance Industry Report, 2023; Hofokam Annual Report 2023; UMRA Annual Report, 2023). The study included 228 respondents from eight non-deposit-taking microfinance institutions (NDIFIs). From each institution, questionnaires were distributed to credit analysts, accountants, credit supervisors, and credit officers, who were selected because, according to earlier research (Komezusenge, 2024; Agasha et al., 2020), they are the most knowledgeable and involved in the daily financial and credit activities of NDFIs.

Data Collection Methods, Instruments and Procedure

The study used a survey with a self-administered, structured questionnaire with closed-ended questions, ideal for high response rates, easy summarisation, reduced bias, and low cost. Orobia et al. (2020) note that closed-ended questions limit personal expression but are easier to process and code, with responses scaled on a five-point Likert scale from 5 (Strongly Disagree) to 5 (Strongly Agree). This scale improves response quality and engagement, as supported by Creswell (2009) and validated by Park and Park (2019). Data was collected with permission from the management. Participants completed questionnaires voluntarily after providing informed consent, either in person or via email for remote respondents. The researcher obtained authorisation from the companies, emphasising confidentiality and academic use.

Data Quality Control

Content Validity

Content validity was ensured by verifying that the questionnaire was carefully structured, accurately, and consistently measured intended concepts (Nielsen, 2021). Expert validation was sought from microfinance operations experts to review each item against the theorised constructs. The Content Validity Index (CVI) was calculated using a threshold of 70% (Earl-Babbie, 2011), indicating satisfactory validity. The Content Validity Index (CVI) of the questionnaire was determined with reference to four relevance scores: 1= irrelevant, 2= somewhat relevant with major revision, 3= relevant with minor revision, and 4= relevant (Fajarini & Rahayu, 2020). The researcher determined the content validity index (CVI) from their responses using the formula below (Munisamy et al., 2021).

$$CVI = \frac{\text{Number of items rated relevant}}{\text{Total Number of items}} \; X \; 100$$

Questions found to be ambiguous were rephrased, and others were deleted (Safdari et al., 2022). Consequently, the instrument was considered valid since the CVI for all constructs (Table 3.2) was equal to or greater than 0.7, as Earl-Babbie (2011) recommended.

Table 2: Content Validity Index

Variable	CVI
Financial Management Practices	
Capital Budgeting	.75
Risk Management	.77
Investment Decisions	.81
Working capital management	.75
Managerial Competencies	
Knowledge	.73
Skills	.70
Abilities	.78
Loan Portfolio Quality:	79

Source: Primary Data (2025)

Data Reliability

A reliability analysis using Cronbach's Alpha was conducted to evaluate the reliability of the questionnaire items. Using SPSS version 21, Cronbach's alpha coefficients were calculated to assess the reliability of the instruments. Following Amin's (2005) guideline, a Cronbach's Alpha threshold of 0.7 or higher was considered acceptable for establishing reliability. All constructs yielded the accepted Cronbach's Alpha above 0.7 (Shrestha, 2021) as indicated in Table 3.3.

Table 3: Reliability Analysis Results

Variable	Cronbach's Alpha
Financial Management Practices	
Capital Budgeting	.77
Risk Management	.76
Investment Decisions	.84
Working Capital Management	.78
Managerial Competencies	
Knowledge	.83
Skills	.76
Abilities	.74
Loan portfolio Quality:	77

Source: Primary Data (2025)

Measurement of Variables

This study employed a five-point Likert scale to assess respondents' agreement levels with statements related to financial management practices (independent variable) and managerial competencies (moderator variable). Additionally, the study calculated ratios for the dependent variable using data from the companies' financial statements. Financial management practices (the independent variable) were operationalised as capital budgeting, risk management, investment decisions, and working capital management (Komezusenge, 2024; Agasha et al., 2020; Wangai & Mungai, 2019; Bananuka et al., 2019; Nkundabanyanga et al., 2017). Furthermore, loan portfolio quality (dependent variable) was measured using portfolio at risk (PAR), risk coverage ratio, loan loss ratio, and portfolio yield (Microfinance Industry Report, 2023). Managerial competencies were assessed in terms of knowledge, skills, and abilities (Rwakihembo et al., 2024; Kijjambu & Kyomuhendo, 2022; Paul Kwasi et al., 2022).

Descriptive Characteristics of Study Variables

After data collection, SPSS version 21 was employed to perform descriptive statistical analysis. Quantitative data were summarised using descriptive statistics, including means and standard deviations, to characterise the study's variables, as shown in Table 3.3a.

Table 4: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Management Practices	228	2.07	5.00	4.031	.496
Managerial Competencies	228	2.00	5.00	4.085	.573
Loan Portfolio Quality	228	1.78	4.00	3.168	.527
Valid N (listwise)	228				

Source: Primary Data (2025)

The descriptive statistics (Table 3.3a) offer valuable insights into financial management practices, managerial competencies, and loan portfolio quality. The mean scores are relatively modest: financial management practices (M = 4.031, SD = .496), managerial competencies (M = 4.085, SD = .573), and loan portfolio quality (M = 3.168, SD = .527). These scores indicate strong financial management practices and managerial competencies among NDFIs in the Rwenzori Region. The standard deviations, ranging from .496 to .573, are below the threshold of SD ≤ 1, indicating strong agreement among responses (Nkundabanyanga et al., 2017). A low standard deviation indicates that data points are closely clustered around the mean, reflecting consensus and consistency, implying that the mean is a reliable indicator of NDFIs' loan portfolio quality.

Data Processing and Management

Data was entered into SPSS for cleaning and analysis. Specifically, the process involved screening the data for missing values and effectively managing outliers before testing hypotheses (Pallant, 202). Quantitative data analysis was conducted using SPSS version 21. The analysis comprised data screening for missing values and outliers, and checking for compliance with parametric

assumptions. These included tests for normality, linearity, and multicollinearity (Pallant, 2020; Tabachnick & Fidell, 2007).

Management of Missing Values

A missing-value analysis was conducted following Tabachnick and Fidell's (2007) guidelines to evaluate the extent and pattern of missing data. Frequency distributions were generated to detect missing data. Furthermore, completed questionnaires were scrutinised to distinguish between respondent omissions and data-entry errors as causes of missing responses (Pallant, 2020). Consequently, the descriptive results (Table 3.4b) indicated that no missing data were identified. This was achieved by meticulously double-checking completed questionnaires to determine whether respondents made omissions or errors during data entry, and by conducting follow-ups with respondents as recommended by Mohammed et al. (2020).

Table 5 Descriptive Statistics for Missing Data

		Loan Portfolio Quality	Financial Management Practices	Managerial Competences
N	Valid	228	228	228
	Missing	0	0	0
Mean		3.168	4.031	4.083
Std. Deviation		.527	.496	.581
Minimum		1.78	2.07	1.75
Maximum		4.00	5.00	5.00

Source: Primary Data (2025)

Management of Outliers

The study generated box plots (Figure 3.1) in SPSS to identify outliers. With box plots, only extreme cases extending more than three box lengths from the edge of the box (indicated with an asterisk*) are considered outliers (Ur Rehman & Belhaouari, 2021). Outliers were removed due to errors during data entry. At the same time, genuine values were transformed to less extreme values, including such cases in the analysis, while preventing outlying scores from distorting the results (Smiti, 2020). As indicated in Figure 3.1, financial management practices and managerial competences had outliers for cases 1, 2, and 3 for financial management practices, and for cases 1, 3, 4, 5, 6, and 10 for managerial competences. However, these cases were retained because they were not flagged with asterisks, indicating they were not extreme and could not distort the results, as Rwakihembo John et al. (2024) suggested.

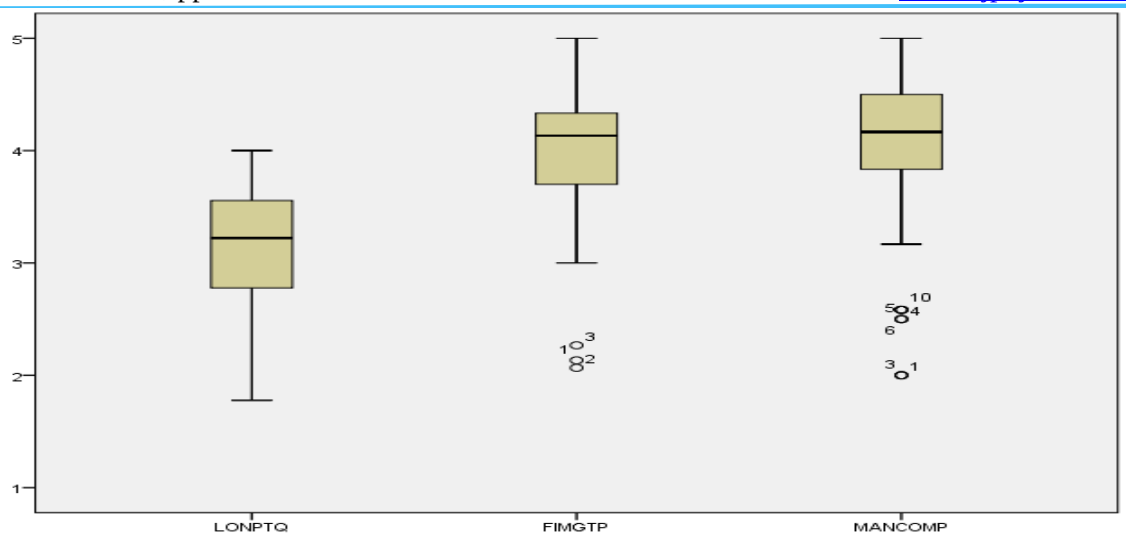

Figure 2: Box Plots

Source: Primary Data (2025)

Note: LONPTQ is Loan Portfolio Quality; FMGTP is Financial Management Practices, and MANCOMP is Managerial Competencies.

Test for Parametric Assumptions

Test for Normality of Data and Linearity of Variables

To assess data normality and linearity, histograms and normal probability plots were generated from regression-standardised residuals, as suggested by Hernandez (2021). The histogram (Figure 3.2) was symmetrical and bell-shaped, signifying normal distribution of the data. Additionally, the normal probability plot (Figure 3.3) confirmed normality and linearity of the data, as the points aligned roughly along a diagonal from the bottom-left to top-right corner, with minimal deviations, consistent with Rwakihembo John et al. (2024) and Hernandez (2021).

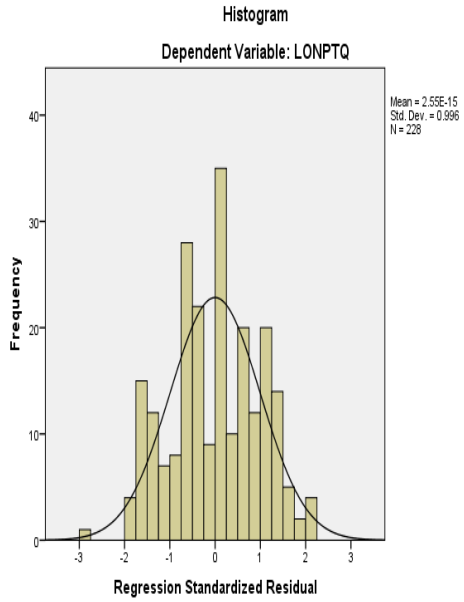

Figure 3: Histogram

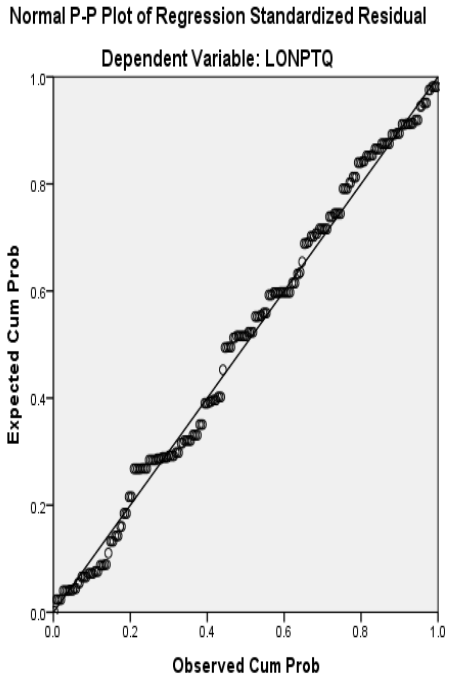

Figure 4: Normal Probability Plot

Source: Primary Data (2025)

Test for Multicollinearity

To ensure the robustness of the regression model, a multicollinearity assessment was conducted to examine correlations among the independent variables, as recommended by Hernandez (2021). The study conducted a regression analysis to determine the Variance Inflation Factor (VIF) values and tolerance levels for each independent variable. According to the guidelines provided by Karina et al. (2023), VIF values exceeding 10 and tolerance values below 0.1 indicate severe multicollinearity. The results of the collinearity analysis (Table 3.5) indicate that all VIF values are below 10 and all tolerance values are above 0.1, suggesting no evidence of severe multicollinearity, consistent with the standards set forth by Karina et al. (2023) and Pallant (2020).

Table 5: Collinearity Coefficients

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	Financial Management Practices	.521	1.920
	Managerial Competences	.521	1.920

Dependent Variable: Loan Portfolio Quality

Source: Primary Data (2025)

Data Analysis and Hypothesis Testing

Pearson Correlation Analysis

To achieve objectives one and two and to test hypotheses H1 and H2, a Pearson correlation analysis was conducted to investigate the relationships among financial management practices, managerial competencies, and loan portfolio quality among NDFIs in the Rwenzori region. Given its higher statistical power, Pearson correlation (a parametric test) was preferred over Spearman's rank correlation (a non-parametric test) to minimize Type I and Type II errors (Pallant, 2020).

Testing for the Moderation Effect of Tax Knowledge

To address the third objective and test hypothesis H3, this study investigated the moderating role of managerial competencies on the relationship between financial management practices and loan portfolio quality among NDFIs in the Rwenzori region. Following Jose (2008) and Baron and Kenny (1986), hierarchical multiple regression analysis was employed to examine this moderation effect. The independent and moderator variables were multiplied, and their interaction was generated to test for moderation (Pallant, 2020). Consequently, the following regression models will be tested;

$LPQ = \beta_0 + \beta_1 FMP + e$……...……i

$LPQ = \beta_0 + \beta_1 FMP + \beta_2 MC + e$……...……..ii

$LPQ = \beta_0 + \beta_1 FMP + \beta_2 MC + \beta_3 FMP * MC + e$……iii

Where;

LPQ represents Loan Portfolio Quality; b_0, constant; $b_1 FMP$, coefficient of Financial Management Practices; $b_2 MC$, coefficient of Managerial Competencies, $\beta_3 FMP * MC$, coefficient of the interaction term and e represents the error term.

Note: $"\beta"$ represents the standardised beta coefficient (Pallant, 2020)

Ethical Issues

The study addressed ethical issues such as honesty, objectivity, respect for intellectual property, social responsibility, confidentiality, non-discrimination, and others. The researcher obtained a letter of authorisation from the management of selected NDFIs in the Rwenzori region. A similar version of this letter was also provided to participants, requesting their informed consent to participate. The questionnaire included a brief introduction from the researcher and clearly stated that all collected data would be kept confidential and exclusively used for academic purposes.

Findings

Pearson Correlation Analysis Results

To fulfil study objectives one and two and to evaluate hypotheses H1 and H2, the research investigated the relationship between financial management practices, managerial competencies, and loan portfolio quality. Preliminary data analysis was conducted to ensure compliance with parametric assumptions, such as normality, linearity, and multicollinearity, as recommended by Pallant (2020). The study employed Pearson correlation analysis to assess the relationships between the variables. The selection of Pearson correlation, a parametric test, was supported by the recommendation of Podsakoff et al. (2012), who indicated that it possesses greater statistical

power than non-parametric alternatives. Accordingly, the following hypotheses were tested using Pearson's zero-order correlation.

H1: A positive relationship exists between Financial management practices and the loan portfolio quality among NDFIs in the Rwenzori Region.

H2: There is a positive relationship between managerial competencies and the loan portfolio quality of NDFIs in the Rwenzori Region.

The Pearson correlation results of the above hypotheses are indicated in Table 4.1 below.

Table 6: Pearson Correlation Analysis Results

		1	2	3
1	Financial Management Practices	1		
2	Managerial Competences	.692**	1	
3	Loan Portfolio Quality	**.699****	**.610****	**1**

** p<0.01 level (1-tailed), n=228

Source: Primary Data (2025)

There Is a Positive Relationship Between Financial Management Practices and The Loan Portfolio Quality Among NDFIs in the Rwenzori Region (Hypothesis H1).

The results of the Pearson correlation analysis (see Table 4.1) demonstrated a strong and positive association (r = .699, p < .01) between financial management practices and the loan portfolio quality of NDFIs in the Rwenzori Region. This finding suggests that improvements in financial management practices are associated with higher loan portfolio quality. NDFIs that adopt effective financial management strategies in budgeting, financing, investing, and risk management are likely to see improvements in loan portfolio quality, as evidenced by reductions in portfolio at-risk, higher risk coverage ratios, higher portfolio yields, and improved loan loss ratios. These findings substantiate hypothesis H1, which posits that "financial management practices are positively associated with the loan portfolio quality of NDFIs in the Rwenzori Region."

There Is a Positive Relationship Between Managerial Competencies and The Loan Portfolio Quality Among NDFIs in the Rwenzori Region (Hypothesis H2).

The Pearson correlation analysis further demonstrated a significant positive relationship (r =.610, p<.01) between managerial competencies and the quality of the loan portfolio among the Non-Deposit Financial Institutions (NDFIs) in the Rwenzori Region (see Table 4.1). The results indicate that enhancements in the skills, knowledge, and abilities of NDFI managers are associated with improvements in the quality of their loan portfolios. This implies that as managers acquire greater skills, knowledge, and abilities, NDFIS will likely achieve higher portfolio yields, along with reductions in portfolio at risk, the risk coverage ratio, and the loan loss ratio. Therefore, these findings substantiate the hypothesis that managerial competencies positively correlate with the loan portfolio quality among NDFIs in the Rwenzori region (Hypothesis H2).

Testing the Moderation Effect of Managerial Competences (Hypothesis H3)

Consistent with study objective three and hypothesis H3, the study examined whether the relationship between financial management practices and loan portfolio quality depends on managerial competencies among NDFIs in the Rwenzori Region. Consequently, the moderation effect was tested through hierarchical multiple regression analysis as explained in Chapter Three. Financial management practices and managerial competences were multiplied, and an interaction term was created from their product before the model estimation (Andersson et al., 2014). According to Jose (2013), the criterion for assessing and confirming the moderation effect is that the interaction term's effect on the dependent variable must be significant. The present study, therefore, hypothesised that managerial competencies moderate the relationship between financial management practices and portfolio quality among NDFIs in the Rwenzori Region*"* (Hypothesis H3). The results of the moderation analysis are indicated in Table 4.2 below.

Table 7: Hierarchical Multiple Regression Results for the Managerial Competencies Moderation Effect

	Model 1	**Model 2**	**Model 3**
	Beta (β)	Beta (β)	Beta (β)
Constant	.174	.019	.015
Financial Management Practices	.699**	.532**	.126**
Managerial Competencies		.242**	.113**
Interaction Term			.216**
Model Summary			
R	.699	.721	.765
R-Square	.489	.520	.585
R-Square Change	-	.031	.065
Sig. R Square Change	-	.01	.01
Sig. (ANOVA)	.01	.01	.01

Interaction term =

Fin mgt practices*Man; **p<.01

DV: Loan Portfolio Quality

Source: Primary Data (2025)

The results of the hierarchical multiple regression analysis (Table 4.2, model 2) showed that financial management practices (β = .532, p<.01) and managerial competencies (β = .242, p<.01) significantly influence loan portfolio quality, accounting for a substantial 52% of the variance among NFDIs in the Rwenzori region (R-squared = .520, p<.01). However, upon adding the interaction term in model 3, the model's predictive power increased by a significant 6.5% (from

R-squared = .520 in model 2 to R-squared = .585 in model 3). Notably, the significant positive effect of the interaction term in model 3 (β = .216, p<.01) indicates that managerial competencies (the moderating variable) enhance the impact of financial management practices on loan portfolio quality. This suggests that financial management practices are more effective in improving the loan portfolio quality for NFDIs with competent managers possessing the necessary knowledge, skills, and abilities.

Discussion of Results

Financial Management Practices and Loan Portfolio Quality

Drawing on theoretical foundations and the extant literature, the present study investigates the relationship between financial management practices and the quality of loan portfolios among non-deposit-taking financial institutions in the Rwenzori region. As delineated in Chapter Three, it was hypothesised that financial management practices positively correlate with loan portfolio quality (hypothesis H1). The study's results, as presented in Chapter Four (Table 4.1), indicate through Pearson correlation analysis that financial management practices are strongly and significantly positively associated with loan portfolio quality, thereby corroborating hypothesis H1. Conceptually, this suggests that NDFIs implementing effective strategies in financial management- encompassing budgeting, financing, investing, and risk management- are likely to observe enhancements in their loan portfolio quality. Such improvements may include reductions in portfolio at risk, increases in risk coverage ratios, higher portfolio yields, and better loan loss ratios. These findings substantiate hypothesis H1, which asserts that “financial management practices are positively associated with the loan portfolio quality of NDFIs in the Rwenzori Region".

The study results on the link between financial management practices and financial performance support findings from other scholars. For instance, Stephen Kosgei et al. (2019) examined the portfolio quality of microfinance institutions in Kenya and advised that MFI managers develop effective collection policies to improve portfolio quality and reduce loan default rates. Wangai and Mungai (2019) investigated the relationship between financial management practices and loan performance among microfinance institutions in Nairobi, Kenya, and found a significant positive correlation. The study recommended training managers on the importance of effective financial management to boost loan performance. Similarly, Sawe & Makori (2022) concluded that effective working capital management, cash budgeting, and fixed asset management significantly and positively impact the financial performance of commercial and service companies. Conversely, capital structure negatively yet insignificantly affects Services Companies listed on the Nairobi Securities Exchange, Kenya. Likewise, Agasha et al. (2020), while analysing the loan portfolio quality of Microfinance Institutions in Uganda, found that funding, pricing of funds, client/borrower engagement, and social capital influence loan repayment.

The findings also validate the assumptions of the CAMEL model. As CAMEL highlighted, strong financial management practices positively affect the quality of the loan portfolio. The CAMEL framework evaluates an institution's leadership and risk management effectiveness, both of which are vital for maintaining a high-quality loan portfolio. The CAMEL framework stresses the importance of identifying, measuring, monitoring, and controlling risks throughout the institution's operations. Specifically, managing the loan portfolio involves overseeing credit, interest rate, and liquidity risks. Significantly, efficient financial management enables firms to adapt to economic changes and tackle new challenges, improving their capacity to sustain a healthy loan portfolio.

Managerial Competencies and Loan Portfolio Quality

This study further examined the link between managerial skills and loan portfolio quality among NDFIs in the Rwenzori region. It was hypothesized that stronger managerial competencies are positively associated with better loan portfolio quality in this region (H2). The Pearson correlation analysis revealed a significant positive association between managerial skills and loan quality among Non-Deposit Financial Institutions (NDFIs), supporting H2 (Table 4.1). The findings suggest that enhancing the skills, knowledge, and abilities of NDFI managers leads to improved loan portfolios. This means that as managers develop these competencies, NDFIS are likely to realise higher portfolio yields, lower portfolio at-risk, and reductions in risk coverage and loan loss ratios, thereby boosting portfolio quality. These results confirm the hypothesis that managerial competencies are positively linked to loan portfolio quality among NDFIs in the Rwenzori region (H2).

The above results resonate with observations by other scholars. Existing studies have consistently demonstrated that managerial competencies are crucial to determining loan portfolio quality among Financial Institutions, with findings revealing a positive correlation across various dimensions. For instance, Hasanudin et al. (2021) found a positive and significant influence of human resource competency on the performance of MFIs in three regions: Central Java, West Java, and Banten. Additionally, Paul Kwasi et. al. (2022) established that managerial competence positively and significantly affects value-based financial performance of Banks in Ghana.

The positive findings on the relationship between managerial competencies and loan portfolio quality among non-deposit-taking financial institutions in the Rwenzori Region support the assumptions of the Upper Echelons Theory (UET). Notably, UET suggests that top-level managers' characteristics significantly influence an organisation's strategies and performance. The theory states that observable traits of managers, such as education, functional background, and tenure, serve as reliable indicators of their cognitive frameworks and values. These traits directly impact the strategic decisions they make.

In non-deposit-taking financial institutions (NDFIs), which depend mainly on their loan portfolios for revenue, the quality of these portfolios directly mirrors management's strategic choices and skills. Skilled managers tend to develop and supervise stronger client evaluation and credit risk assessment procedures. These strategies help reduce credit risk and lower the occurrence of non-performing loans. Additionally, executives' experience and competence are crucial to strategic decisions on the composition and diversification of the loan portfolio. This approach helps balance risk and returns, shielding the institution from economic downturns. The current study thus shows a positive link between managerial competencies and loan portfolio quality in NDFIS, supporting the core ideas of the Upper Echelons Theory (UET).

Moderation Effect of Managerial Competencies on the Relationship between Financial Management Practices and Loan Portfolio Quality

The study explored whether managerial competencies influence the relationship between financial management practices and loan portfolio quality. Jose (2013) emphasised the importance of testing for interaction effects between two or more predictor variables. He suggested assessing whether the effect of a predictor variable varies with the moderator's level to draw logical conclusions. Drawing on theoretical foundations and existing literature, the study hypothesised that managerial competencies moderate the relationship between financial management practices and loan portfolio quality among NDFIs in the Rwenzori region (H3). Furthermore, the regression results

(Table 4.2) demonstrated that: i) the interaction term exerted a statistically significant positive effect on the quality of the loan portfolio in regression model 3; ii) the inclusion of the interaction term markedly enhanced the predictive capability of the model. These findings suggest that the impact of financial management practices on loan portfolio quality is moderated by managerial competencies within NDFIs, thereby supporting hypothesis H3.

The above findings are in line with the extant literature. For instance, Usaini and Hooy (2023) studied the moderating role of CEO competency in the relationship between earnings management and financial performance, using a sample of deposit money banks in Nigeria. The study established that CEO competencies are important for reducing firms' discretionary accruals. Likewise, Fozia Taj et al. (2019), while assessing the interaction effect of managerial competencies and risk-taking Behaviour on the Financial Service Outreach of Microfinance Banks in Pakistan, found that managerial competencies, along with risk-taking behaviour, are the key drivers of financial service outreach of microfinance banks in Pakistan. Relatedly, Kijjambu and Kyomuhendo (2022), while examining Internal Controls, Managerial Competence and Financial Performance of ABU Sacco, revealed a significant positive relationship between managerial competence and financial performance at ABU SACCO. Similarly, Paul Kwasi et. al. (2022) found that managerial competence positively and significantly affects value-based financial performance. The study examined the Effect of Managerial Competence on Value-Based Financial Performance of Banks.

From the above results, it suffices to note that, while prior research specifically testing the moderation effect of managerial competencies on the relationship between financial management practices and loan portfolio quality was limited, this study provides evidence to construct a robust and logical answer. The consensus indicates a significant moderating effect of managerial competencies. It should be noted that higher managerial competencies strengthen the positive link between sound financial management practices and high-quality loan portfolios. The findings suggest that for a financial institution to fully benefit from its financial management practices, it must be led by competent managers. Even the most robust financial management practices may fail to produce optimal results without strong managerial oversight.

The results support the Upper Echelon Theory (UET), which posits that top managers' traits, such as their experience, values, and skills, play a crucial role in shaping organisational outcomes. This study's identification of a moderation effect further emphasises this idea by showing that managerial competence is essential for maintaining high-quality loan portfolios in non-deposit-taking financial institutions. The moderation effect suggests that managerial skills not only directly influence outcomes positively but also modify the strength of the relationship between financial management practices and loan portfolio quality. For instance, a non-deposit-taking financial institution (NDFI) might implement an advanced credit appraisal system (a financial practice). Nonetheless, its effectiveness depends on the manager's ability to interpret the system's data and make sound credit decisions. A less skilled or experienced manager might misinterpret the data, leading to poor lending results and weakening the positive link between financial practices and loan portfolio quality.

Conclusions

This study consistently finds a positive and significant relationship between effective financial management practices and loan portfolio quality among non-deposit-taking financial institutions

in the Rwenzori Region. This is particularly evident in the strong, positive, and significant Pearson correlation reported in Chapter Four.

Additionally, this study vividly affirms a positive and significant relationship between managerial competencies and loan portfolio quality among non-deposit-taking financial institutions in the Rwenzori region. It can, therefore, be inferred that a financial institution's management knowledge, skills, and abilities are critical drivers of its lending performance and, thereby, loan portfolio quality.

This study further concludes that the effectiveness of financial management practices is moderated by management competency within non-deposit-taking financial institutions. Chapter Four highlighted managerial competence, encompassing skills, knowledge, and abilities, as a rare and valuable resource. Such competency enhances the positive relationship between financial management practices and the quality of the loan portfolio by facilitating disciplined and strategic implementation of risk management and credit appraisal procedures. Moreover, it enables managers to make informed decisions based on their interpretation of financial data and market trends, consistent with the principles of the Upper Echelons Theory.

In summary, non-deposit-taking financial institutions need both strong financial management and capable leadership to sustain a high-quality loan portfolio. While financial management practices such as capital budgeting, financing, investment and risk management decisions directly enhance loan portfolio quality, their effectiveness hinges on a skilled management team executing them well. This study, therefore, concludes that combining sound financial management practices with a competent management team is crucial for reducing default risks and securing long-term financial stability and sustainability.

Recommendations

These studies, which confirmed the positive relationship between financial management practices and the moderating effect of managerial competencies and loan portfolio quality in non-deposit-taking financial institutions (NDFIs), suggest the following recommendations for practitioners and regulators.

Given the established positive correlation between financial management practices and loan portfolio quality, this study recommends that NDFIs improve their client screening and credit assessment procedures. It is crucial for NDFIs to consider all available client information during credit evaluations, including minor details, to facilitate better decision-making and minimise default risks. For clients relying on social capital rather than traditional collateral, it is essential to invest in understanding their social networks, reputation, and reliability within their community. In agricultural finance, assessing and predicting how market changes, such as fluctuations in crop yields, might affect a borrower’s capacity to repay is vital.

The Government of Uganda and umbrella organisations such as AMFIU should strengthen loan portfolio management policies for NDFIs and urge these institutions to implement effective strategies that encourage customer repayment and lower non-performing loans. Additionally, these financial institutions should be required to demonstrate strong financial and credit risk management practices as part of their regulatory oversight.

Encourage capacity-building initiatives among NDFIs. Collaborate with training providers, educational institutions, and industry associations to deliver standardised, subsidised training programmes for NDFI managers, particularly those in smaller or community-based institutions.

Moreover, NDFIs should promote peer learning by fostering networking and knowledge sharing among managers across NDFIs. This facilitates the exchange of best practices and solutions to shared challenges.

Policymakers and regulators ought to implement licensing requirements focused on competencies. They should ensure that senior managers of NDFIs fulfil strict standards, such as proven expertise in financial and risk management, rather than relying solely on a clean record. The Government and organisations such as AMFIU should also standardise and strictly enforce minimum educational qualifications and relevant experience requirements for managerial roles within NDFIs to enhance the sector's overall managerial competence.

Study Implications

Theoretical Implications

This study provides strong empirical support for the integration of behavior-driven management frameworks with traditional, ration-based financial appraisal models. By bridging the behavioral perspective of Upper Echelons Theory (UET) with the structural accounting dimensions of the CAMEL framework, the paper successfully validates how executive cognitive characteristics actively dictate underlying loan portfolio outcomes. The statistical confirmation of managerial competence as an active moderator highlights that technical financial controls—such as capital budgeting, credit tracking, and working capital limits—do not exist in an operational vacuum. Instead, their structural efficacy is directly expanded or constrained by the specific skills, insights, and data-interpretation capacities of senior management teams. This metatheoretic alignment advances microfinance literature by proving that corporate governance capabilities act as a critical operational catalyst for maximizing institutional compliance and asset health.

Practical & Managerial Implications

For microfinance practitioners and branch managers, the findings indicate that investing in complex credit screening mechanisms or software tools remains largely inefficient unless paired with highly competent oversight. NDFI leadership must transition from passive loan processing routines to proactive, data-driven borrower risk assessments. Organizations should institutionalize robust technical training programs focusing on cash flow projections, localized agricultural market indicators, and credit risk metrics. Managers must intentionally evaluate non-traditional borrower profiles relying on social capital networks, utilizing structured community qualitative evaluations to replace missing hard collateral. Ultimately, internal credit policies must ensure that the deployment of capital budgeting systems is directly matched by qualified personnel who can translate data trends into solid underwriting decisions.

Policy & Regulatory Implications

From a regulatory standpoint, supervisory bodies like the Uganda Microfinance Regulatory Authority (UMRA) and apex organizations like the Association of Microfinance Institutions in Uganda (AMFIU) should look beyond basic clean-record audits to establish competency-centered operating benchmarks. Policymakers should standardize licensing criteria by instituting mandatory technical certifications and explicit educational baselines for microfinance executives. Given the rising portfolio-at-risk (PAR) realities facing regional upcountry credit markets, regulators should develop and distribute subsidized financial management frameworks tailored to non-deposit entities. By formalizing minimum professional benchmarks and structural risk oversight policies,

regulatory interventions can successfully lower systemic non-performing loan default trends while systematically professionalizing the broader tier-four financial services sector.

Study Limitations and Areas for Future Research

Contextualizing findings: This study only examined the loan portfolio quality of non-deposit-taking financial institutions in the Rwenzori Region. Future studies could conduct comparative studies across different financial institution models (e.g., deposit-taking vs. NDFIs) and consider other geographical regions to identify how the relationship between managerial competencies and loan portfolio quality varies based on local context, regulatory environments, and economic conditions.

Investigate the long-term impact of competence: This study used a cross-sectional research design, limiting the trend analysis and analysis of the effect of the independent variables on the dependent variable over time. Future studies could use longitudinal data to explore the long-term effects of financial management practices and managerial competence on loan portfolio quality. This will provide a clearer picture of how these factors contribute to loan portfolio quality over time.

Mediating factors: The present study solely examined the moderating effect of managerial competencies on the relationship between financial management practices and loan portfolio quality. Future research should investigate the mediating role of other institutional factors, such as organisational culture, governance structures, and technology, in the relationship between financial management practices and managerial competencies to provide a comprehensive understanding of loan portfolio quality.

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Please Tick the Appropriate Box

1. Company size in shillings of millions
   - a. Less than 1 billion ☐
   - b. 1 billion to 2 billion ☐
   - c. 2.1 billion to 3 billion ☐
   - d. 3.1 billion to 4 billion ☐
   - e. Above 5 billion ☐
2. Years in operation
   - a. Below 5 years ☐
   - b. 6 - 10 years ☐
   - c. 11 - 15 years ☐
   - d. 16 - 20 years ☐
   - e. Above 20 years ☐
3. Ownership structure
   - a. Foreign owned ☐
   - b. Uganda Owned ☐

c. Foreign/Ugandan owned ☐

4. Age bracket

a. Below 30 years ☐ b. 30 - 39 years ☐

c. 40 - 49 years ☐ d. 50 - 59 years ☐

e. 60 and Above ☐

5. Education background

a. Diploma ☐ b. Degree ☐

c. Masters ☐ d. PHD ☐

e. Professional ☐ f. Others ☐

6. Experience on the job

a. Below 2 years ☐ b. 2 - 5 years ☐

c. 5 - 8 years ☐ d. 8 - 11 years ☐

e. over 11 years ☐

7. Position held in the company

a. Accountant ☐ b. Senior manager ☐

c. Loan supervisor ☐ d. Credit officer ☐

e. Branch manager ☐ f. Others ☐

Section B: Financial Management Practices

(*Please indicate your level of agreement with the following statements*)

Section B2: Capital Budgeting	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. Our institution performs cost-benefit analysis before launching new financial products or services.					
2. We assess the financial viability of opening new branches or service points.					
3. Investment in new technology (e.g., loan management systems) is based on thorough financial evaluation.					
4. We evaluate expansion projects based on their ability to enhance outreach and sustainability.					
5. We apply discounted cash flow methods when assessing long-term capital projects.					
6. Projected loan portfolio growth is considered when making capital budgeting decisions.					
7. We evaluate capital investments based on their potential to improve client service delivery.					
8. Management uses financial forecasting when approving major institutional projects.					

9. We analyze risks associated with capital investments before approval.					
10. Post-implementation reviews are conducted for major projects funded by the institution.					
Section B1: Risk Management	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. We have established credit risk assessment procedures for all clients.					
2. Loan default risks are regularly monitored and analyzed.					
3. We maintain a loan loss provision policy based on risk exposure.					
4. The institution conducts regular portfolio at risk (PAR) analysis.					
5. We have strategies to manage operational risks, including fraud and system failures.					
6. Client creditworthiness is verified through due diligence and credit history checks.					
7. Our institution reviews risk management policies periodically.					
8. We train staff on risk identification and mitigation strategies.					
9. We diversify our loan portfolio to manage credit concentration risks.					
10. Management regularly monitors compliance with internal risk management controls.					
Section B3: Investment Decisions	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. Investment decisions are made based on detailed financial analysis of returns and risks.					
2. We only invest in ventures aligned with our institutional mission and client needs.					
3. The institution evaluates investment options considering both financial and social returns.					
4. We invest in partnerships and networks that enhance institutional sustainability.					
5. Management consults financial experts before making major investment decisions.					
6. Investment risks are analyzed before allocating funds.					
7. Our institution prioritizes low-risk, stable-return investments.					
8. Investments are periodically reviewed for performance and compliance with objectives.					
9. The institution invests in capacity-building initiatives for staff and operations.					
10. We consider liquidity needs before committing to long-term investments.					
Section B4: Working Capital Management	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. We maintain adequate cash balances to meet daily operational needs.					
2. Loan disbursements are planned based on available working capital.					
3. The institution monitors loan repayments closely to ensure cash inflows.					
4. We have clear policies for managing overdue loan collections.					
5. Cash flow forecasts are prepared regularly to anticipate liquidity needs.					
6. Our institution controls operational expenses to maintain positive working capital.					
7. We monitor the balance between short-term assets and liabilities.					
8. The institution ensures timely payment of operational expenses and obligations.					
9. Management reviews working capital reports as part of financial planning.					
10. The institution has a buffer strategy (e.g., cash reserves) for unexpected working capital shortfalls.					

SECTION C: Managerial Competencies

(*Please indicate your level of agreement with the following statements*)

Section C1: Knowledge	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. I understand the regulatory framework that governs non-deposit MFIs					

in our country.					
2. I am knowledgeable about financial reporting standards relevant to microfinance institutions.					
3. I understand the credit assessment processes and loan portfolio management					
4. I am familiar with risk management concepts applicable to MFIs.					
5. I stay updated on industry trends, best practices, and innovations in microfinance.					
6. I have in-depth knowledge of budgeting, forecasting, and financial planning.					
7. I understand client protection principles in microfinance services.					
8. I possess adequate knowledge of performance measurement indicators in microfinance.					
9. I am well-informed about digital finance tools and technologies used in MFIs.					
10. I understand the strategic goals and objectives of our institution.					
Section C2: Skills	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. I can effectively interpret financial statements and reports					
2. I demonstrate problem-solving skills in addressing operational challenges.					
3. I possess strong communication skills for engaging staff and clients.					
4. I am capable of planning, organizing, and executing institutional activities.					
5. I effectively lead and manage team performance toward institutional goals.					
6. I am proficient in using financial software and digital tools relevant to microfinance.					
7. I adapt quickly to changes in technology and processes.					
8. I manage time efficiently to meet deadlines and responsibilities.					
9. I negotiate effectively with clients, partners, and stakeholders.					
10. I apply data and evidence to guide decision-making.					
Section C3: Attitude	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. I show a strong commitment to achieving the institution's mission and vision.					
2. I take initiative to improve work processes and service delivery.					
3. I maintain a positive attitude even under pressure.					
4. I treat colleagues and clients with respect and professionalism.					
5. I am open to feedback and willing to learn from others.					
6. I uphold ethical standards in all financial and managerial decisions.					
7. I demonstrate accountability and ownership of my tasks.					
8. I encourage teamwork and collaboration in the workplace.					
9. I stay motivated to deliver quality service regardless of challenges.					
10. I promote transparency and integrity in all areas of management.					

Section D: Loan Portfolio Quality

1. The firm's portfolio at risk (i.e. Outstanding loan balance of loans past due date to total outstanding loan portfolio) is;

a. 0 – 10% ☐ b. 11% - 20% ☐

c. 21% - 30% ☐ d. 31% - 40% ☐

e. Above 50% ☐

2. The firm's Risk Coverage Ratio (i.e. how much of the risky portfolio is covered by loan loss reserves) is:

a. 0 – 10% ☐ b. 11% - 20% ☐

c. 21% - 30% ☐ d. 31% - 40% ☐

e. Above 50% ☐

3. Portfolio Yield (on Gross Loan Portfolio) (i.e. Interest and fee income from loan portfolio to average gross loan portfolio) is:

a. 0 – 10% ☐ b. 11% - 20% ☐

c. 21% - 30% ☐ d. d. 31% - 40% ☐

e. Above 50% ☐

4. The firm's Non-Performing Loans (NPL) Ratio (i.e. Non-Performing Loans to total loan portfolio) is;

a. 0 – 10% ☐ b. 11% - 20% ☐

c. 21% - 30% ☐ d. 31% - 40% ☐

e. Above 50% ☐

5. The firm's Loan Loss Provision Ratio (i.e. Loan loss provisions to total loan portfolio) is;

a. 0 – 10% ☐ b. 11% - 20% ☐

c. 21% - 30% ☐ d. 31% - 40% ☐

e. Above 50% ☐