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Nexus; Empirical Evidence from Microfinance
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Bernard Wakabi Muhangi, Professor BadarAlam Iqbal & Dr.

Saturninus Kasigi Malindang



The Interaction Effect of Stakeholder Engagement on Managerial Competencies- Financial Performance Nexus; Empirical Evidence from Microfinance Institutions in Uganda

 Bernard Wakabi Muhangi¹, Professor BadarAlam Iqbal² & Dr. Saturninus Kasozi-Mulindwa³

¹Mountains of the Moon University, Uganda & Uganda Management Institute, Uganda

bmuhangia@gmail.com (corresponding author)

ORCID: 0000-0002-8433-1442

badar.iqbal@fulbrightmail.org²

²Monarch Business School, Switzerland

smkasozi@umi.ac.ug

³Uganda Management Institute, Uganda



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Abstract

Purpose: This study examined the moderation effect of stakeholder management on the relationship between managerial competencies and financial performance of MFIs in Uganda.

Materials and Methods: The study used a cross-sectional design, adopting a quantitative approach. This design was preferred because it does not require follow-up on the respondents as would be the case with a longitudinal design. The study used a structured self-administered questionnaire to collect data from the senior managers of 76 MFIs in Uganda. MFIs were selected using stratified simple random sampling while purposive sampling was applied to select senior management. Hierarchical multiple regression analysis using SPSS was employed to test the hypothesis. Hierarchical regression was preferred to other techniques because of its capacity to indicate what happens to the model as different predictor variables are introduced.

Findings: Empirical findings from this study revealed that the financial performance of MFIs in Uganda is explained by managerial competencies and the relationship is moderated by stakeholder

management. The results concretize that managerial competencies and stakeholder management fuse to influence financial performance. The study revealed that managerial competencies ($\beta = .65, p < .001$) and stakeholder management ($\beta = .61, p < .001$) are significant antecedents, accounting for a substantial 58% of the variance in the financial performance of MFIs ($R^2 = .58, p < .001$).

Implications to Theory, Practice and Policy:

The present study has confirmed that managerial competencies are a multidimensional predictor comprising of skills, knowledge, and abilities of the management team. It emerged that stakeholder management is a potent predictor with the potential to strengthen the effect of managerial competencies on financial performance. The study addresses mixed findings in the literature on financial performance and confirms upper-echelons and the stakeholder theory.

Keywords: *Managerial Competences, Financial Performance, Stakeholder Management, Microfinance Institutions, Interaction Effect (JEL – G21)*

1.0 INTRODUCTION

The financial performance of financial institutions has continuously attracted the interest of academicians and policymakers across the globe over several decades because of its implications on businesses' financial health and ultimate survival (Orobia, Nakibuuka, Bananuka, and Akisimire, 2020; Helmya & Wiwoho, 2020; Zacca & Dayan, 2018). Financial performance reflects management effectiveness and efficiency in using a company's resources, which, in turn, contributes to the country's economy (Kamukama, Kyomuhangi, Akisimire, and Orobia, 2017). However, "Several businesses have collapsed in Africa due to poor financial performance (Orobia Nakibuuka, Bananuka, and Akisimire, 2020). For example, over 70% of small businesses in South Africa collapse within the first five years of operation (Solomon, 2022), about 70% of small and medium enterprises (SMEs) in Africa collapse within 24 months (Aladejebi, 2019). In Kenya alone, about 46% of SMEs close within the year of founding, and another 15% in the year after that (Kangethe, Simiyu, Gacheru, & Gacheru, 2022). In Uganda, poor financial performance is evident where 30% of private companies do not survive to celebrate their third anniversary (Afunadula, 2018). Despite the market-oriented approach adopted by MFIs in Uganda, their financial performance is still poor (Kamukama et al., 2017). For example, the nonperforming loans for credit institutions increased from Ugx.13.7 billion in 2018 to Ugx.25.6 billion in 2019. Furthermore, MFIs' loans-to-deposits ratio (LTR) increased to 126% in 2019 compared to 69.1% in 2018 and 67% in 2017 (Bank of Uganda, 2019). This is an indication of poor financial performance among MFIS in Uganda.

Existing literature underscored the role of developing and managing strategic human capital on firms' financial performance" (Becker & Huselid, 2006). Strategic human capital is the determination of the right mix of human capital for organization based on workforce planning data and talent management systems and programs. Congruently, this right will reinforce managerial competences. The empirical investigations indicate that managerial competence is vital in the financial sector and the growth of MFIs (Kamukama et al., 2017 & Bhardwa, 2023). From the MFIs' perspective, the limited financial availability causes these firms to be heavily dependent on human capital, particularly the top management competencies (MdDaud, 2014). Frey (2010) argued that competent managers could devise sound credit management systems to enhance loan repayments, increasing MFIs' profitability and financial sustainability. Similarly, Martina, Hana, and Jiri, (2012) opined that the dynamic business environment requires managerial competencies to achieve strategic organizational goals. Moreover, Liridon and Mimoza (2017) noted that every business organization needs effective managers to succeed in today's highly competitive and dynamic business environment. Liridon and Mimoza emphasized the need for a business organization to identify, develop, and retain talented managers. This resonates with Crook et al, (2011), who argued that every successful and effective manager possesses several competencies that enable him to perform efficiently and effectively at different managerial levels.

However, studies (Lorenzo et al., 2018; Deegan & Unerman, 2011) noted that stakeholder management moderates the relationship between managerial competencies and financial performance. Today's organizations therefore cannot be considered an island (Minoja, 2012). Instead, Organizations are a nexus of social and economic contracts that represent the relationship between the organization and its stakeholders (Lorenzo et al., 2018). According to Deegan and Unerman (2011), stakeholders are any identifiable individuals or groups that can affect or be affected by attaining a firm's objectives. Stakeholders can affect the organizations' achievements,

as they can determine the value and, consequently, firms' performance. Therefore, the key driver for a company's long-term survival is value creation for the stakeholders (Minoja, 2012; Hillman & Keim, 2011; Coombs & Gilley, 2015). Stakeholder management is therefore a strategy for the firm to ensure value creation for the stakeholders. Thus, a management team's success in improving an organization's financial performance depends on its ability to devise strategic approaches to manage the interests of many stakeholders (Parmar, Freeman, Harrison, Wicks, de Colle, and Purnell, 2010).

Benabou and Tirole (2010) noted that a business that engages in stakeholder management with profit-oriented strategic objectives may incur short-term costs but yield net social benefits and the firm's long-term profit. Congruently, Greenley and Foxall (2013) posited that MFIs aim to achieve certain levels of performance; henceforth, successful stakeholder management enhances their performance. From the above debate, this study posits that the relationship between managerial competencies and financial performance is contingent on how the organization handles its relationship with stakeholders. Narvanjas (2009) asserted that for MFIs to attain sustainable competitive advantage continuously and more significant financial performance, they need to count more on their internal core managerial competencies and create value for stakeholders.

Different theories have been advanced to explain the link between managerial competencies and financial performance, moderated by stakeholder management. This study is premised on the Upper echelon theory (Hambrick & Mason, 2007), and the stakeholder theory (Freman, 1984). The upper-echelon theory posits that managerial background characteristics such as functional track and education predict organizational strategies and performance levels (Nielsen, 2010 & Bolo et al., 2011). The theory suggests that 1) executives act based on their personalized interpretations of their strategic situations. These interpretations are a function of their experiences, values, and personalities and 2) Top management team has substantial discretion in determining the future strategic direction of a firm. The theory assumes that education and experience (functional track and other career experiences) form the knowledge-and skills-base, positively predicting receptivity to innovation. Therefore, the theory attributes the firm's financial performance to its top management team's characteristics (Hambrick & Mason, 1984). Moreover, Kamukama et al. (2017) recognized that innovative financial institutions tend to be managed by more educated teams with diverse expertise concerning their functional areas of expertise.

It, therefore, suffices to note that individual top managers heavily influence organizational outcomes by the choices they make, which are in turn affected by the manager's characteristics. However, there is an increasing convergence of literature on the complexity of managerial competencies and financial performance nexus. The adoption of a competency approach to organizational success is not a straightforward process but rather necessitates changes in employee skills, attitudes, and behavior, intending to improve performance across the organization to match the demands of stakeholders, and this has been ignored by the upper echelon's theory (Krajcovicova, 2012). Moreover, the upper echelons theory ignored the open fact that financial institutions do not operate in a vacuum but rather amidst multiple stakeholders that greatly influence their financial performance (Minoja, 2012). The stakeholder theory is therefore also adopted in this study to explain the moderating effect of stakeholder management in the managerial competencies-financial performance matrix. The stakeholder theory supports the contention that "companies and society are interdependent, and therefore, the corporation serves a broader social purpose than its responsibilities to shareholders" (Kiel & Nicholson, 2013). Thus, financial

institutions should be socially responsible entities managed in the community's interest (Mayer & Frank, 2011). Berman, Wicks, Kotha, and Jones (2015) documented that the management of MFIs should adopt a strategic stakeholder model to address stakeholders' concerns to improve company performance. Similarly, Wright (2010) argued that in managing their relationship with stakeholders, management must rely on a culture of accountability and transparency. Therefore, the stakeholder theory focuses on building good relationships between firms and various internal and external stakeholders in the broader environment. This study therefore posits that a competent management team's success in improving the financial performance of MFIs depends on how they manage their relationship with the stakeholders of the MFIs.

Empirically, microfinance institutions' financial performance has attracted significant attention, with several scholars investigating the phenomenon. However, scholars have primarily ignored managerial competencies but instead employed different predictors such as behavioral biases (Nyakundi, 2017), governance and risk-taking (Mollah, Hassan, Al Farooque, and Mobarek, 2017), Entrepreneurial orientation (Kraus, 2012), mergers and acquisitions (Akben-Selcuk & Altio-k-Yilmaz, 2011) in explaining the financial performance of MFIs. Besides, extant studies have remained silent about stakeholder management's moderating effect on the relationship between managerial competencies and financial performance. The stakeholder theory suggests that management's success in improving companies' financial performance depends on how they handle their relationship with stakeholders (Freeman, 1984). It is worth noting that management often devises strategies that result from the firm's efforts to meet stakeholders' demands (Concepcion et al., 2012). Studies (Sharma & Henriques, 2005; Buysse & Verbeke, 2003; Cervantes et al., 2023) found that firms have different environmental responses within this theoretical framework. Moreover, such reactions are designed according to the stakeholders that they believe are the most important (Adomako, & Tran, 2022). This argument points to the moderating role of stakeholder management in the managerial competence-financial performance matrix that has remained unexplored in the context of microfinance institutions in Uganda, where stakeholder pressure on financial institutions is of great significance.

Based on the theoretical underpinnings and existing literature, the present study examined the moderating effect of stakeholder management on the relationship between managerial competencies and financial performance among MFIs in Uganda. This study broadened the extant knowledge by providing empirical evidence in such a little-explored field of research. Although a handful of studies analyzed how managerial competencies and stakeholder management independently affect firm performance, it is challenging to find studies that empirically examined their Interaction effect among Mfis in Uganda.

Problem Statement

With the rapid changes and increasing competition in the financial sector (Matovu et al., 2015), MFIs are designing strong management control systems to achieve leading financial performance positions (Arthur et al., 2018). However, the financial performance of MFIs in Uganda continues to dwindle (Kamukama et al., 2017). For instance, according to the Bank of Uganda financial stability reports, the credit institutions' non-performing loans (NPL) ratio stood at 12% in 2021, up from 10.8% in 2020, 4.2% in 2019, and 4.1% in 2018. Besides, MFIs experienced negative return on assets (ROA) in 2015 (-0.2%), 2016 (-0.3%) and 2017 (-0.1%). Notwithstanding a mild improvement in 2018, the ROA has remained stagnant at 0.5% in 2018 and 2019, respectively. Additionally, the liquid assets-to-deposits ratio for microfinance deposit-taking institutions

(MDIs) declined to 63.4% in 2019 compared to 68.9% in 2018. Their total loans to total deposits ratio stood at 77.4% in 2019, way below the 85% prudential limit (Bank of Uganda, 2019). The above statistics confirm that most MFIs in Uganda cannot meet their obligations and are characterized by rapidly deteriorating and volatile loan portfolio quality, hence poor financial performance (Arthur et al., 2013; Orobias et al., 2020).

Despite the widely accepted notion that managerial competencies positively relate to financial performance, extant studies are methodologically deficient, leaving the matter inconclusive. Scholars have seemingly ignored the moderating effect of stakeholder management besides mainly concentrating on developed countries such as Pakistan (Khan, 2015), Malaysia (Chye et al., 2010), and Indonesia (Md-Daud et al., 2014). Besides concentrating on other sectors (i.e. banks and listed companies), a handful of studies (Kamukama et al., 2017 & Orobias et al., 2020, Kisubi et al. 2022) conducted in Uganda remained silent on stakeholder management's moderating effect. Moreover, theoretical underpinnings (Freeman, 1984) and existing literature (Minoja, 2012; Sharma & Henriques, 2005, Adomako, & Tran, 2022, Laplume et al. 2022) suggest that management's success in improving a firm's financial performance depends on how they handle their relationship with the stakeholders of an organization.

The presence of mixed findings, characteristic of existing studies (Krajcovicova et al., 2012) implies that another variable(s) moderates the relationship which warrants a test for complementary effect. From the above empirical gaps in extant studies, this study established the stakeholder management's moderating effect on the relationship between managerial competencies and the financial performance of MFIs in Uganda.

2.0 LITERATURE REVIEW

Theoretical Foundation

This study multi-theoretic approach to explain financial performance owing to the absence of a terminal point in the individual application of extant theories. The study therefore applied the Upper Echelon Theory (Hambrick & Mason, 1984) and stakeholder theory (Freeman, 1984).

Upper Echelon Theory

Hambrick and Mason first introduced the upper echelon theory in 1984 and it was later improved by Hambrick in 2007 (Nielsen, 2010). The theory suggests that managerial background characteristics such as functional track, other career experience, formal education, social-economic variables, and others predict organizational strategies and performance levels (Nielsen, 2010; Bolo *et al.*, 2011). The theory suggests that 1) executives act based on their personalized interpretations of the strategic situations they face, and these interpretations are a function of their experiences, values, and personalities 2) the top management team has substantial discretion in determining the future strategic direction of a firm (Bolo, Muchemi, and Ogutu, 2011). Additionally, the theory assumes that education and experience (functional track and other career experiences) form the knowledge and skills base, positively predicting receptivity to innovation. They translate to more creative solutions, hence positive decision-making (Cheung, van de Vijver, & Leong, 2011). Thus, according to the theory, organizations become a reflection of their top executives, and, managerial backgrounds and capabilities are predictors of firm success (Finkelstein, Hambrick, & Cannella, 2009). The theory further assumes that demographic similarities increase the rate and quality of

interactions among the top management team hence high quality of trust (Graham *et al.*, 2013 & Bolo *et al.*, 2011).

Empirical studies that followed Hambrick and Mason's (1984) assumptions suggested that the top management team (TMT) matters to organizational performance. For instance, Bantel and Jackson (1989) and Murray (1989) documented top management team demographics related to innovation and firm performance. Their studies found out that more innovative banks are managed by more educated teams who are diverse with respect to their functional areas of expertise. It was therefore considered crucial for organizational scientists and practitioners alike to understand the factors that underpin the cognitions, values, and perceptions of top management teams. However, notwithstanding strength in describing the relationship between management characteristics and firm performance, the Upper echelons theory does not identify the intervening mechanisms through which organizational performance is affected by these characteristics. The theory has disregarded the moderating role of other factors such as stakeholder pressure, which determines managers' decisions and strategic direction (Minoja, 2012). Nevertheless, the present study found it more applicable due to its strength of recognizing the role of formal education and informal learning and the cognitive ability to improve top management teams' performance in organizations. Consequently, this study adopted stakeholder theory to fill this gap for a more comprehensive assessment of how managerial competencies influence on MFIs' financial performance.

Stakeholder Theory

Freeman introduced the stakeholder theory in 1984. The theory is based on the notion that firms are accountable to several interested parties (stakeholders) besides the shareholders and employees (Freeman, 1984). Since the publication of Freeman's seminal work (1984), there has been a growing recognition of the importance of stakeholders in the firm's strategic decisions. The critical assumption in stakeholder theory is that the firm's long-term survival depends on its ability to create value for numerous stakeholder groups. To succeed, the firm requires support and cooperation from the stakeholders themselves (Minoja, 2012; Laplume, Harrison, Zhang, Yu, & Walker, 2022). Freeman (1984) defined stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives." This theory suggests that to achieve incredible financial performance, firms must satisfy a wide range of stakeholders' interests by being accountable and transparent in all they do (Minoja, 2012). These stakeholders include employees, suppliers, customers, governments, and the environment. Stakeholder theory suggests that management should acknowledge these groups' influence on the firm's operations and consider their influence on operational results in the strategic decision-making process (Tse, 2011).

Stakeholder theory has grown in importance as the impact of business failures on society has become clear in recent years. As a business utilizes groups from the community in which it functions, society's needs begin to require a firm's consideration beyond merely its shareholders' wealth (Emerson, Alves, and Raposo, 2011). Interdependent relationships exist between the firm and other society members, requiring management's broader regard than internal reflection. It is argued that firms that follow stakeholder theory will generate higher revenues because customers will be willing to pay more for services and products and lower costs. After all, suppliers and employees will be ready to accept lower fees or be more productive and less regulatory oversight. Besides, the firm will be proactively working with the government to address issues (Tse, 2011). Thus, under stakeholder theory, managers need to consider multiple groups, identify the needs of those groups, determine how those needs can be assimilated into the firm's strategic planning

process, and manage those groups in the daily decision-making process (Deegan & Unerman, 2011).

In the context of this study, microfinance institutions cannot be considered an island but are somewhat accountable to a significant constituent of stakeholders (Ackermann & Eden, 2011). Thus, the key driver for their long-term survival is value creation for the stakeholders, which can be achieved through stakeholder management (Hillman & Keim, 2001; Coombs & Gilley, 2005). Stakeholder management, therefore, affects MFIs' performance since their long-term survival is greatly dependent on their management team's ability to satisfy all parties that could damage or benefit them, in one way or another (Freeman & McVea, 2001). The increased scrutiny can explain the need for increased accountability and transparency in everything a company does through the media, heavier government regulations, and increased pressures from stakeholder groups (Freeman & Moutchnik, 2013; Berrone, Surroca, & Tribó, 2007). This implies that basically, all MFIs have to consider ethics in their business strategy if they are to survive (Ibid, 2007)

Previous studies concerning stakeholder management's effects have mainly revolved around firm financial performance but with contradicting results. Several studies have shown positive relations between stakeholder management and financial performance (Laplume et al., 2008). However, most of these studies have since expired and mainly used social ranking databases to identify their unit of analysis (Hillman & Keim, 2001; Moore, 2001; Ruf, Muralidhar, Brown, Janney, and Paul, 2001; Waddock & Graves, 1997). Although the use of these databases as a measurement of a firm's stakeholder management is commonly accepted by the research community (Hillman & Keim, 2001; Coombs & Gilley, 2005), the problem with the databases is that they reflect only listed firms leaving out MFIs which limits the analysis of the results (Hillman & Keim, 2001). Other studies have shown neutral or mixed results (Bird, Hall, Momente', and Reggiani, 2007; Berman et al., 1999), even though the same databases have been used in studies showing positive correlations. The inconsistent results might be explained by the lack of a coherent conceptualization of the effect of stakeholder management. In response to this call, this study examined the complementary effects of managerial competencies and stakeholder management on the financial performance of MFIs in Uganda. The theory underscores that business is not just about money but getting all interests going in the same direction to create value for one another (Freeman & Moutchnik, 2013) and this is the basis of most MFIs in Uganda. The study, therefore, hypothesized a moderating role of stakeholder management in the managerial competencies and financial management matrix.

Empirical Literature Review

Moderating Effect of Stakeholder Management on the Relationship between Managerial Competencies and Financial Performance

Stakeholder management's role in improving organizational performance has become more critical than ever before (Baah, Jin, and Tang, 2020). Stakeholder management is often primarily seen as maintaining external relations with specific consequences for an organization's internal processes and its people's behavior (Minoja, 2012, Laplume et al. 2022). A firm represents a nexus of relationships among its key stakeholders with the primary objective of enhancing firm value. The survival and success of any business enterprise in globalized economies are highly linked to access to valuable resources predominantly in stakeholders' hands (Ontita & Kinyua, 2020). The highly volatile business environment characterized by stakeholders' ever-changing behavior makes it

critical for organizations to pursue practices with the potential for performance improvement constantly.

Previous studies investigated the role of stakeholder management in improving the financial performance of organizations. For instance, Ontita and Kinyua (2020) sought to examine the role of stakeholders' management on commercial banks' performance in Nairobi, Kenya. The study was anchored on the Resource-Based View and stakeholder theory. A descriptive research design was utilized for this study. The unit of inquiry was employees in the head offices of commercial banks in Nairobi, while the unit of analysis was commercial banks in Nairobi. A proportionate stratified random sampling method was used to select 89 management staff of Commercial Banks in Nairobi City County to form the sample. Structured questionnaires were used for purposes of data collection. Both descriptive statistics and inferential statistics were used for data analysis. Descriptive statistics included the frequencies, sample mean, and sample standard deviation. The inferential statistics utilized included multiple linear regression analysis. The study found that stakeholder management affected the performance of Commercial Banks in Kenya. They cautioned that commercial banks' management should formulate policies that guide the execution of stakeholder management activities. The study also recommended that the management team make a deliberate effort to involve all stakeholders in the entire strategic management process.

Baah et al. (2020) investigated the effects of organizational stakeholder pressure and regulatory stakeholder pressure on green logistics practices and financial performance. They investigated if environmental reputation and social reputation are missing links in mediating the relationships between organizational stakeholder pressure, regulatory stakeholder pressure, green logistics practices, and financial performance. This study adopted a partial least square structural equation modeling technique in analyzing the data due to it having more predictive power. The results showed that pressures from organizational and regulatory stakeholders influence the adoption and implementation of green logistics practices, thereby enhancing environmental reputation, and improving financial performance. The results highlighted that regulatory stakeholder pressures significantly influence social reputation, which also substantially affects financial performance. Environmental and social reputations proved to play mediating roles in the hypothesized relationships. These findings evidence that organizational and regulatory stakeholder pressures depend on how they respond to can be friends or foes to green logistics practices, environmental reputation, social reputation, and financial performance. Additionally, Danso, Adomako, Lartey, (2019) sought to understand the specific firm-level conditions that mediate the relationship between stakeholder integration and financial performance. Using primary data gathered from 233 small and medium-sized enterprises in Ghana, researchers found empirical support for their contention that a firm's environmental sustainability orientation mediates the link between stakeholder integration and financial performance. Besides, this study demonstrated that competitive intensity moderates the indirect relationship between stakeholder integration and financial performance. The indirect effect through environmental sustainability orientation is more potent for higher levels of industry competition.

Khojastehpour and Shams (2020) developed insights into how firms could manage their relationships with the ecological setting, a significant stakeholder to create value in an international entrepreneurial and environmental context. Based on the inductive constructive method and drawing on the recent entrepreneurial CSR literature, stakeholder and internationalization theories, they suggested that managing ecological stakeholder relationship is intimately connected to

creating value for stakeholders by creating an ethical relationship with them. In this context, this study established that with increasing emphasis from society to assure firms' accountability to multiple stakeholders, including the ecological stakeholders, the complexity of relational pressures is more remarkable when a firm operates in cross-border markets. Furthermore, they underscored that such pressures are higher in complex stakeholder relations when a company attempts to integrate internationalization and stakeholder theories in CSR-based value-creating parameters, as a meaningful relationship with the ecological setting, as a critical stakeholder in the international market.

In a related case, Baah et al. (2021) set out to establish how stakeholder pressures motivate and influence the adoption of green production practices and SMEs' performance in the context of developing countries. This study explored the framework through which organizational and regulatory stakeholder pressures influence the adoption of green production practices, firm reputation, and environmental and financial performance. The study employed a quantitative approach and partial least square structural equation modeling technique in data analysis. Using a survey research design, data were collected from owners and managers of manufacturing SMEs. The findings revealed that whereas regulatory stakeholder pressures positively and significantly influenced the adoption of green production practices, firm reputation, financial and environmental performance, organizational stakeholder pressures positively and significantly influenced the adoption of green production practices, firm reputation, and environmental performance.

Furthermore, Khan, Waris, Panigrahi, Sajid, (2021) investigated the dimensions of project governance (i.e., portfolio direction, sponsorship effectiveness and efficiency, and disclosure and reporting) and their effects on project performance through the correlation of stakeholder management. Based on the stakeholder theory, a moderation model was proposed, and a survey questionnaire was designed to get feedback from the respondents of the government policy and planning departments of Pakistan. Structural equation modeling was the core statistical technique for testing the hypotheses. The findings of moderation analysis showed that project governance has a positive relation with project performance at medium and higher regression coefficients of stakeholder management. Inversely, at low regression values, this relationship was negative and insignificant. Therefore, the study concluded that the significant interaction of stakeholder management could amplify the effect of project governance, subsequently enhancing the performance of public infrastructure projects. Besides, Remme and de Waal (2020) examined how high-performance stakeholder management can be achieved and applied to stakeholder relationships. They argued that an organization that meets the high-performance organization's standards (HPO) could effectively maintain valuable relationships with its stakeholders. The authors illustrate the argument with the application of both concepts at a case company. Their case study clarifies that an organization that develops stakeholder management will be wise to examine its internal quality and strength using the HPO framework. They argued that if an organization views the information from stakeholder management as very valuable, then internal organizational consequences will follow.

On the other hand, drawing on stakeholder theory and contingency theory, Javed, Rashid, Ghulam, Ali (2019) examined the effects of corporate social responsibility (CSR) on the corporate reputation and financial performance of Pakistani firms with a moderating role of responsible leadership. Data on CSR, reputation, and performance were collected from 224 senior-level Pakistani managers through a questionnaire survey. Structural equation modeling was used to

analyze the data. The results revealed that socially responsible initiatives for disparate stakeholders significantly and positively influence corporate reputation and financial performance. However, CSR–reputation and CSR–direct performance relationships were negatively moderated by responsible leadership. It suggests that when socially responsible firms have strong stakeholder values, they practice excessive CSR that hurts performance.

Notwithstanding their contribution to the body of knowledge on stakeholder management, previous studies failed on several fronts making their conclusions elusive. First, scholars concentrated on developed countries such as Pakistan (Khan et al., 2021 & Javed et al., 2019), ignoring developing countries like Uganda. Second, studies (Ontita & Kinyua, 2020; Remme & de Waal, 2020) investigated stakeholder management as a predictor variable ignoring its differential effect on the managerial competencies-financial performance matrix. Besides, studies investigated the effect of stakeholder management in other fields such as green logistics practices (Baah et al., 2020), commercial banks (Ontita & Kinyua, 2020), ecological settings (Khojastehpour & Shams, 2020), leaving stakeholder management in a microfinance environment largely unexplored. On the other hand, scholars (Ontita & Kinyua, 2020; Baah et al., 2021) only concentrated on stakeholder management's direct effect in their studies, contrary to the proposition of Baron and Kenny (1986). They underscored the importance of investigating the effect of a third variable for more conclusive results. Furthermore, extant studies (Baah et al., 2021 & Danso et al., 2019) mainly relied on the quantitative approach, thus suffering from methods bias (Field, 2009) hence making their conclusions doubtful.

The present study filled the above wide empirical gaps by first examining stakeholder management's moderating effect on the relationship between managerial competencies and financial performance. Second, the study investigated the moderation effect in a microfinance setting in Uganda- a developing country. Third, the study adopted a post-positivist paradigm to eliminate the methods bias effect that could affect the credibility of findings. The study, therefore, hypothesized as follows;

H₀₁: Stakeholder management moderates the relationship between managerial competencies and financial performance

3.0 METHODOLOGY

Research Design, Study Population, Sample Size, and Sample Selection

The study followed a cross-sectional design where responses were sought at a single point in time. It enabled the researcher to obtain data from respondents within a short time, and the results were generalized to a larger population within defined boundaries (Tuckman & Harper, 2012).

The study covered 94 MFIs that are members of the Association of Microfinance Institutions (AMFIU) in all regions of Uganda (AMFIU, 2019). The unit of analysis was microfinance institutions (in all categories) that are members of AMFIU. On the other hand, senior managers (i.e., General Manager, Accountant, and Credit manager) of MFIs formed the unit of inquiry. The study used a sample of 76 MFIs (AMFIU, 2019), determined using the Krejcie and Morgan table (Krejcie & Morgan, 1970).

MFIs were first stratified by region, district, and then categories (i.e., categories A, B, C, and D) according to AMFIU categorization (AMFIU, 2019) using stratified sampling. Consequently,

MFIs were randomly selected from each category using a simple random sampling technique to minimize the sampling bias (Veal, 2005). Purposive sampling was applied to select senior management due to their small numbers and perceived knowledge and experience about MFI financial affairs (Sekaran & Bougie, 2010). The General Manager, Accountant, and Credit manager were identified as having the knowledge regarding the variables under study. At the firm level, 72 MFIs returned the questionnaires, representing a response rate of 95% which is above the minimum rate of 70%. Besides, 160 respondents filled out and returned the questionnaire, representing a response rate of 70% which is still acceptable according to (Amin, 2005).

Data Quality Control

Validity and Reliability

The study ascertained content validity to ensure the stability and quality of the data obtained in this study. Subject matter specialists were engaged in ascertaining the appropriateness of the questionnaire (Amin, 2005). They assessed the research instruments in terms of clarity, readability, and comprehensiveness. The researcher determined the content validity index (CVI) using the formula by Sekaran and Bougie (2010). The measurement of content validity ensured the stability and quality of the data obtained in this study. Questions found to be ambiguous were either re-phrased or removed (Earl-Babbie, 2013). The instrument was considered valid since the CVI for all variables was greater than 0.7, as recommended by Sekaran and Bougie (2010) and Garson (2012). Questions found to be ambiguous were either re-phrased or removed (Earl-Babbie, 2013).

Furthermore, Straub, Boudreau, and Gefen (2004) noted that the rule of thumb is that the average variance extracted must be 0.7 and above for each construct for convergent validity to be deemed tenable. This was confirmed by determining the average variance extracted from factor loadings per construct following the technique by Fornell and Larcker (1981). Consequently, the average variance extracted (AVE) for all constructs from the exploratory factor analysis met the minimum 0.7, which confirmed convergent validity (Smith, 2011). Following Fornell and Larcker's (1981) recommendations, discriminant validity was assessed from each construct's average variance extracted (AVE). Moreover, Straub et al. (2004) noted that the square root (Sqrt) of AVE for a construct should be higher than its correlation with other constructs to exhibit discriminant validity. Consequently, the results indicated that the square root for the AVEs for all constructs was above their correlations with other constructs, confirming the discriminant validity of the questionnaire. Relatedly, the questionnaire items were subjected to a reliability analysis using Cronbach's Alpha Reliability test. The instrument's reliability was established by generating Cronbach's alpha coefficients for the items. Reliability results revealed that each variable generated the minimum alpha coefficient of 0.7, as Amin (2005) recommended.

Control for Common Methods Bias

Cognizant of the negative effect of common methods bias (CMB) in questionnaire-based studies in social sciences (Field, 2006), the study controlled for common methods bias to avoid false internal consistency. First, multiple scales were used for perceptive constructs of the independent and moderator variables. Second, the respondent's anonymity was protected to align their responses with the study's purpose. Thirdly, to minimize social desirability, data was collected from different sources (Podsakoff, Mackenzie and Lee, 2003). Moreover, data on the independent and moderator variables were collected directly from respondents using the questionnaire, while secondary data from financial reports were utilized for the dependent variable. Lastly, respondents

were expressly assured that there was no right or wrong answer as long as the responses were honest. This aimed at reducing the respondent's apprehension over their responses, reducing the possibility of editing their answers to give what they perceived as the best answers (Orobia et al., 2020). Consequently, in line with Podsakoff *et al.* (2003), the study conducted Herman's single factor test in SPSS V.21 to confirm the presence or absence of common methods bias. All study variables were loaded into factor analysis (EFA), and the unrotated component matrix was observed. Hartman, Williams, and Cavazotte (2010) noted that no single component should account for more than 50% of the total variance for CMB to be deemed non-significant. Consequently, Herman's single factor test results indicated that no single component accounted for more than 50% of the total variance explained, thus, confirming the absence of common methods bias in the study results.

Measurement of Study Variables

The study used a five-point Likert scale to evaluate the respondents' level of agreement with various statements on managerial competencies (the independent variable), and stakeholder management (moderator). Managerial competencies were scaled in terms of knowledge (i.e., the extent to which information is developed or learned through experience, education, or investigation), skills (which are a result of repeatedly applying knowledge or ability), and abilities (i.e., natural potential to perform mental and physical actions or tasks) of the top management team (Kamukama et al., 2017 & Orobia et al., 2020). Additionally, stakeholder management was measured regarding transparency and accountability (Ontita & Kinyua, 2020; Danso et al., 2019; Baah et al., 2020). Besides, the study financial reports to determine financial ratios of profitability (ROA and ROE), liquidity, and net worth to measure the financial performance of MFIs (Kamukama et al., 2017; Ouma & Kilika, 2018).

Data Processing and Management

Data were input into Statistical Package for Social Science (SPSS) version 21 and subjected to a thorough cleaning before hypothesis testing. Specifically, data screening for missing value analysis and management of outliers was done. Additionally, parametric tests for normality, linearity, homogeneity, and serial correlation were also conducted, as discussed below. As recommended by Field (2005), data were cleaned to; i) Find out if the responses indicated in questionnaires had been entered correctly and ii) Check if missing values existed and decide on how to deal with them. Iii) Check for and deal with outliers, and iv) Check if the data met the parametric assumptions as indicated below.

Missing value analysis was performed to evaluate the degree to which there was missing data and missing value patterns (Field, 2005; Tabachnick & Fidell, 2001). Consequently, frequency distributions were generated to identify missing values (Field, 2005). Fortunately, there were no scenarios of missing values because the researcher, with the help of research assistants, would ensure that the questionnaire was filled out before leaving the respondents' venue. This was further achieved by double-checking to ascertain whether the omissions were made and explaining to the respondents the importance of having a completed questionnaire. The study generated box plots to identify univariate outliers and then inspected Mahanalobis distance and Cooks distance in identifying multivariate Outliers (Tabachnick & Fidell, 2001). Through multiple regression analysis, the critical chi-square value was determined using the number of independent variables as the degrees of freedom. Following the guidelines of Tabachnick and Fidell (2001),

given three predictors (i.e., managerial competencies and stakeholder management) in the regression model, cases with Mahalanobis (Mah_1) score above a critical value of 16.27 and cooks distance (COO_1) equal to or greater than one, were considered as outliers (Allen & Bennett, 2010). Outliers resulting from errors were removed while genuine values were changed to less extreme values (winzorised) hence including such cases in the analysis but not allowing outlying scores to distort results (Tabachnick & Fidell, 2001).

Furthermore, exploratory factor analysis (EFA) was conducted to test the measurement scales' dimensionality (Hair, Howard, & Nitzl, 2020). Principal component analysis (PCA) was performed to identify the study variables' clusters and reduce the measurement items to a manageable set of factors (Pallant, 2015). The study retained only measurement items with factor loadings equal to or greater than 0.5 (Garson, 2012). Only factors that exhibited Eigenvalues greater than one were retained (Kaiser, 1960). Only variables exhibiting a KMO above the cut-off point of 0.6 with a significant Bartlett's test of sphericity ($p < 0.01$) were retained for further analysis as they exhibit a good model fit to the data (Pallant, 2020 & Field, 2009).

4.0 FINDINGS

Demographic Characteristics of the Unit of Inquiry

The descriptive analysis results revealed that 6.3% were below 30 years, 28.8% were between 30 and 34 years, 37.5 between 34 and 38 years, and 27.5% were above 38 years. The results imply that most (93.8%) respondents were above 30%, meaning they were mature enough to comprehend the research questions. Results further indicated that most (66.3%) had obtained a degree compared to 20.6% with diplomas and 13.1% with a postgraduate qualification. By implication, the majority (79.4%) of the respondents had attained advanced training that could have enabled them to understand and accurately respond to the questionnaire items. Furthermore, the demographic characteristics of MFIs (Unit of analysis) were examined based on their years of operation, location, Tier, capital structure, and capital size. The results indicated that most (80.6%) of the MFIs had operated for more than 13 years and were mainly in Central (44.4%) and Western (34.7%) Uganda. Similarly, the majority (94.4%) were in Tier 4. Most (84.7%) MFIs were using either equity and loan (62.5%) or solely equity (22.2%) compared to a mild 15.3% that used only donations (4.2%), loans (2.8%) as well as equity and donations (8.3%) respectively to finance their operations. Moreover, the majority (80.6%) of the MFIs had a capital base of 2 billion and above compared to 12.5% with Ugx 1-1.5 billion, 4.2% with Ugx 500 million, and 2.8% with less than Ugx 500 million.

Testing the Moderation Effect of Stakeholder Management on the Relationship between Managerial Competencies and Financial Performance of MFIs in Uganda (H1)

The study examined whether the effect of managerial competencies on the financial performance of MFIs depends on stakeholder management. Consequently, the moderation effect was tested through hierarchical multiple regression analysis as explained. Managerial competencies and stakeholder management were mean-centered and an interaction term created from their product before model estimation (Andersson, Carlsson, Tourneret, & Wendt, 2014; Baron & Kenny, 1986). For confirmation and interpretation of existing moderation, mean scores and standard deviations of centered variables and their unstandardized coefficients (in model 3) were plotted on a mod graph. According to Jose (2013), the criteria for assessing moderation effects is twofold. First, the

influence of one of the variables must vary depending on the level of the other independent variable. Secondly, when the moderation is plotted, regression lines must have different slopes or not be parallel. Therefore, to ascertain the moderation effect, the present study hypothesized that “*Stakeholder management moderates the relationship between managerial competencies and the financial performance of MFIs in Uganda*” (hypothesis H1).

Congruently, the regression model below was estimated to test the moderation effect of stakeholder management.

$$FP = b_0 + b_1MC + b_2SKM + b_3MC * SKM + e$$

Where;

FP represents financial performance; b_0 , constant; b_1MC , coefficient of managerial competencies; b_2SKM , coefficient of stakeholder management; $b_3MC * SKM$, coefficient of the interaction term and, e is the error term.

The results of the moderation analysis are indicated in Table 1 and Figure 1 below.

Table 1: Hierarchical Regression Results for the Moderation Effect of Stakeholder Management on the Relationship between Managerial Competences and Financial Performance of MFIs

Predictors	Financial Performance		
	Model 1 Standardized Coefficients (β)	Model 2 Standardized Coefficients (β)	Model 3 Standardized Coefficients (β)
(Constant)	3.87	3.87	-0.913
Managerial Competencies	.70**	.65**	.50**
Stakeholder Management		.61**	1.21**
Interaction			2.26**
R	.70	.76	.81
R-Square	.49	.58	.66
R-Square Change	-	.09	.08
Sig. (ANOVA)	.001	.001	.001

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

Source: Primary Data (2022)

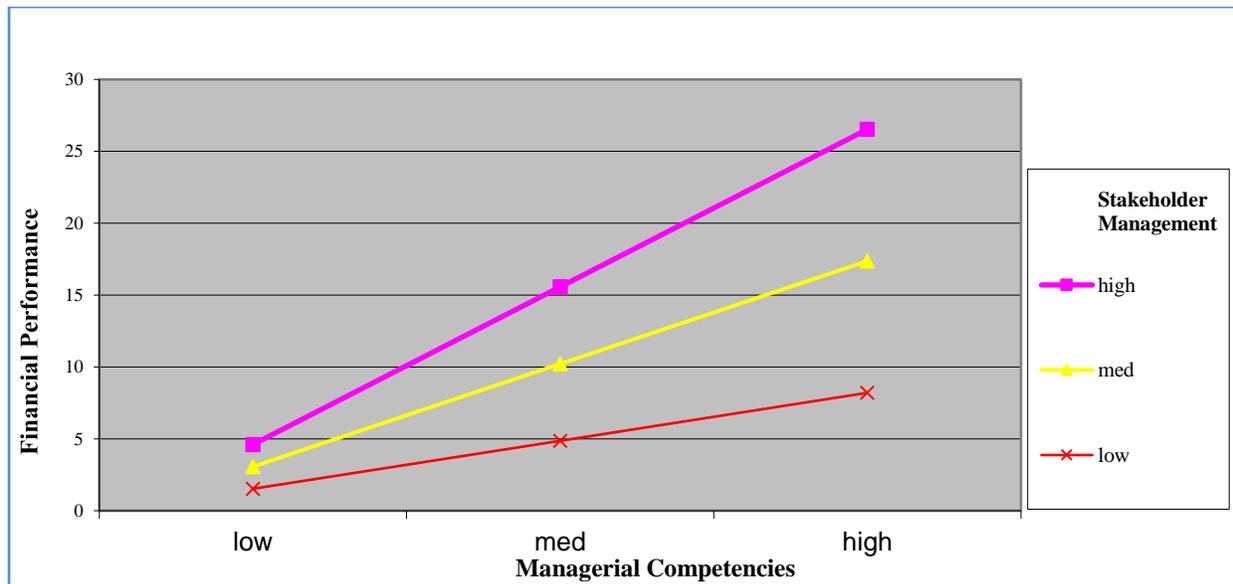


Figure 1: Mod Graph Depicting the Moderation Effect of Stakeholder Management on the Relationship between Managerial Competencies and Financial Performance

Note: In Figure 1 above, “low” is defined as one standard deviation below the mean; “medium” is the mean value of financial performance, and “high” denotes one standard deviation above the mean.

The hierarchical multiple regression analysis results (model 2), revealed that managerial competencies ($\beta = .65, p < .001$) and stakeholder management ($\beta = .61, p < .001$) are significant antecedents, accounting for a substantial 58% of the variance in the financial performance of MFIs ($R^2 = .58, p < .001$). However, the introduction of the interaction term in model 3 enhanced the model’s predictive power by a significant 8% (i.e. from $R^2 = .58$ in model 2 to $R^2 = .66$ in model 3). In other words, the significant positive effect of the interaction term in model 3 ($\beta = 2.26, p < .001$) indicates that stakeholder management (the moderating variable) reinforces the effect of managerial competencies on financial performance (Aiken & West, 1991). Nevertheless, since the main effect of managerial competencies ($\beta = .50, p < .01$) is still significant even after fitting the interaction term in moderated model 3, it implies that a partial moderation was achieved (Jose, 2013). This denotes that the effect of managerial competencies on financial performance partly depends on the level of stakeholder management among MFIs in Uganda.

Furthermore, the interaction plot (Figure 1) generated from a mod graph program as proposed by Jose (2013), and Aiken and West (1991) deep-rooted that i) the effect of managerial competencies on financial performance depends on the level of stakeholder management, ii) regression lines are not parallel iii) the magnitude of the effect on financial performance is more significant at a high level of both managerial competencies and stakeholder management, hence confirming the occurrence of an interaction between the two predictors. Therefore, the above results concretize that managerial competencies and stakeholder management fuse to influence financial performance, with the effect of managerial competencies on financial performance partly depending on the level of stakeholder management, supporting hypothesis H1.

Discussion of Findings

Moderation Effect of Stakeholder Management on the Relationship between Managerial Competencies and Financial Performance

The study tested the moderating effect of stakeholder management on the relationship between managerial competencies and financial performance. Baron and Kenny (1986) noted that the existence of two or more predictors in a study warrants an in-depth investigation beyond the main effects of each predictor. Similarly, Fredrick (1986) rightly emphasized the necessity to test for the interaction effect and suggested an assessment of whether the effect of the predictor variable depends on the level of the other. Thus, given the predictor variables in the present study, managerial competencies and stakeholder management, it was imperative to test the interaction effect to establish the existence or non-existence of the conditional relationship between them. Based on the theoretical underpinnings and extant literature, the study hypothesized that stakeholder management moderates the relationship between managerial competencies and the financial performance of MFIs in Uganda.

The results indicated that; i) the interaction term exerted a significant positive effect on financial performance in regression model 3; ii) the main effects of the two predictors remained significant albeit enhanced by the interaction term; iv) The introduction of the interaction term increased the predictive power of the model by a significant 8% (R^2 change = .08, $p < .001$). These results indicated partial moderation of stakeholder management in the relationship between managerial competencies and financial performance. The moderation effect was further confirmed by the parallel simple slopes in the mod graph (Jose, 2013). The positive effect of the interaction term means that stakeholder management as a moderator variable had the potential to strengthen the relationship between managerial competencies and financial performance. Relatedly, the results in the mod-graph imply that besides strong managerial competencies, robust stakeholder management can enable better financial performance, and, the effect of managerial competencies on financial performance depends on the level of stakeholder management. The significance of the main effects of managerial competencies and stakeholder management depicts the two variables as real determinants of financial performance and which must co-exist among MFIs in Uganda.

Additionally, the aforementioned research findings are consistent with other studies. For instance, since external relations have concrete effects on an organization's internal processes and the conduct of its personnel, Baah et al. (2020) and Minoja (2012) urged businesses to keep them alive. As Ontita and Kinyua (2020) have out, a company is a web of interdependencies, with the primary goal of increasing value for all its stakeholders. Therefore, the existence and profitability of any economic firm are strongly correlated with access to significant resources largely in the hands of stakeholders. It is therefore essential for businesses to persistently seek out techniques that can boost financial performance in the face of the extremely unpredictable business environment typified by the ever-changing behavior of stakeholders. Ontita and Kinyua (2020), for example, investigated the impact of stakeholder management on commercial bank performance in Nairobi, Kenya. The study discovered that stakeholder management has an impact on the performance of Kenyan commercial banks. They cautioned commercial bank management to develop policies that guide the implementation of stakeholder management initiatives. The report also suggested that the management team make a concerted effort to include all stakeholders throughout the strategic management process. Khojastehpour and Shams (2020), on the other hand, developed insights into how enterprises should manage their connections with the ecological

setting, a key stakeholder in creating value in an international entrepreneurial and environmental context. They proposed that managing ecological stakeholder relationships is inextricably linked to creating value for stakeholders by developing an ethical relationship with them, drawing on contemporary entrepreneurial CSR literature, and stakeholder, and internationalization theories. In this context, their research found that as society places greater focus on ensuring enterprises' accountability to numerous stakeholders, particularly environmental stakeholders, the complexity of relational pressures becomes more apparent when a firm engages in cross-border markets.

In a similar vein, Baah et al. (2021) sought to determine how stakeholder pressures influence the adoption of green manufacturing methods and the performance of SMEs in developing nations. The framework via which organizational and regulatory stakeholder pressures influence the adoption of green manufacturing techniques, business reputation, and environmental and financial performance was investigated in this study. The findings revealed that, while regulatory stakeholder pressures influenced the adoption of green production practices, organizational stakeholder pressures influenced the adoption of green production practices, firm reputation, and environmental performance. Khan et al. (2021) conducted a study to examine the various aspects of project governance, including portfolio direction, sponsorship effectiveness and efficiency, and disclosure and reporting, and their impact on project performance by analyzing the effect of stakeholder management. The results of the moderation analysis indicated a positive effect between project governance and project performance, particularly at moderate to high regression coefficients of stakeholder management.

The findings of the present study provide theoretical support for the stakeholder theory. According to Minoja (2012), the fundamental premise of stakeholder theory is that a company's sustained existence is contingent upon its capacity to generate value for multiple stakeholder cohorts. The theory posits that to attain superior financial performance, companies must fulfill the interests of a diverse set of stakeholders through accountability and transparency in their actions. The stakeholder theory posits that management must recognize the impact of various groups on the operations of the firm and duly factor in their influence on operational outcomes during the strategic decision-making process (Tse, 2011). According to Deegan and Unerman (2011), managers of MFIs must consider various groups, ascertain their requirements, incorporate those needs into the organization's strategic planning process, and effectively manage these groups in the routine decision-making process. Moreover, microfinance institutions cannot be considered an island but are somewhat accountable to a significant constituent of stakeholders (Ackermann & Eden, 2011). Therefore, the key driver for their long-term survival is value creation for the stakeholders, which can be achieved through stakeholder management (Coombs & Gilley, 2005).

In summary, the study found a notable interaction effect between managerial competencies and stakeholder management on financial performance, indicating the presence of a moderated relationship between managerial competencies and financial performance in the MFIs of Uganda. Theoretically, it can be inferred that the financial performance of MFIs is influenced by both managerial competencies and stakeholder management, which are complementary to each other. Moreover, stakeholder management was found to augment the effect of managerial competencies on financial performance, as evidenced by the enhancing effect of the interaction term.

5.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusions

It was observed that stakeholder management plays a moderating role in the relationship between managerial competencies and financial performance. The study therefore confirmed a conceptual debate and theoretical underpinnings that the managerial competencies-financial performance relationship is dependent on the level of stakeholder management. A test for the moderation effect revealed that stakeholder management was a significant moderator of the relationship between managerial competencies and financial performance. It was observed that the interaction effect was enhancing as it strengthened the influence of managerial competencies on financial performance. This demonstrated that besides having a competent management team, stakeholder management could enhance the influence of managerial competencies on financial performance among MFIs. It can therefore be concluded that managerial competencies interact with stakeholder management to affect the financial performance of Uganda's MFIs with stakeholder management taking a moderating role.

Study Implications

Theoretical Implications

The theoretical implications for this study were drawn from mainly the perspective of; i) whether or not the study findings support the assumptions of the theory and, ii) whether study outcomes filled the theoretical gaps. The study has also addressed empirical issues that had not been discussed in the literature, specifically as regards the Microfinance sector in Uganda.

Empirical findings from this study revealed that the financial performance of MFIs in Uganda is explained by managerial competencies and the relationship is moderated by stakeholder management. This implies that theoretically, the financial performance of MFIs can be explained by integrating constructs from upper echelons theory and stakeholder theories.

From the perspective of the upper-echelons theory, although there are conflicting views by other scholars on the composition of managerial competencies, the present study has confirmed that managerial competencies are a multidimensional predictor comprising of skills, knowledge and abilities of the management team. Relatedly, by testing the moderating effect, the present study established that managerial competencies interact or fuse with stakeholder management to influence financial performance among MFIs in Uganda positively. From the study findings, it emerged that stakeholder management is a potent predictor of financial performance with the potential to strengthen the effect of managerial competencies on financial performance. The study addresses mixed findings in the literature on the contribution of managerial competencies and stakeholder management on financial performance and confirms the stakeholder theory, which advocates for transparency and accountability as critical components of stakeholder management.

In a nutshell, from the study findings, it can, therefore, be deduced that the financial performance of MFIs is a complex phenomenon that cannot be explained wholly by a single theory. Due to the absence of a unifying theory, the present study advocates that; i) a multi-theoretical approach that involves upper echelons and stakeholder theories provides a vivid explanation of the financial performance of MFIs in the context of Uganda. ii) Central to the study findings, it suffices that managerial competencies are not sufficient in explaining financial performance. The final position

is that the relationship between managerial competencies and financial performance depends on the level of stakeholder management.

Following the findings and implications of the study, it has been accurately pointed out that estimating a model without accounting for the interaction of variables does not vividly explain the accurate relationship between the independent and dependent variables.

Managerial Implications

The empirical findings of this study depict pertinent issues that need immediate attention from managers if they are to improve the financial performance of MFIs. First, the study highlighted the crucial role managerial competencies and stakeholder management play in the financial performance of MFIs in Uganda. Findings highlight the need for MFIs to design appropriate policies aimed at attracting competent managers with the relevant skills, knowledge, and abilities. From the study findings, such competencies are vital in determining the efficiency of the management in monitoring operations and improving the financial performance of MFIs.

Besides, the moderating effect of stakeholder management deep-rooted in this study is a caution to directors and managers of MFIs not to ignore the essential role of efficient stakeholder management through transparency and accountability as they devise strategies to improve financial performance. This points to the urgent need for managers to consider investing heavily in maintaining good relations with the stakeholders if they are to survive the stiff competition in the market.

Policy Implications

The findings of this study have important policy implications for Uganda and East Africa at large. As a result of findings from this study and a review of policies and reports of the various MFIs and government regulators, the government of Uganda needs to exert more attention to the following policy implications.

Regulations such as the Financial Institutions Act and the Money Lenders Act should be revised regularly to incorporate emerging needs and changes in the global business environment. For instance, emphasis can be exerted on the need to embrace managerial competencies which have been found significant in the financial performance of MFIs.

Furthermore, the study findings revealed the need for greater awareness of the role of efficient stakeholder management in business sustainability among MFIs in Uganda. Results from the present study therefore suggest that stakeholder management mechanisms and policies should be enhanced to improve transparency and accountability in managerial decision-making for all MFIs and improve financial performance. This can be achieved if government agencies such as the Uganda Registration Services Bureau (URSB), in collaboration with the Private Sector Foundation Uganda (PSFU), Association of Microfinance Institutions of Uganda (AMFIU), and Uganda Money Lenders Regulatory Authority (UMLRA) strictly monitor the implementation of laws and regulations among MFIs. On this note, stakeholder management should be top on the agenda for all interactions or conferences between regulators, policymakers, professional bodies, shareholders, and senior management of MFIs.

Recommendations

Given the financial crises that have occurred globally and corporate failures in Uganda and regionally, it is high time MFIs recognized the need to have competent managers with high-end skills, knowledge, and abilities for competitiveness. Besides, MFIs should adopt a stakeholder-focused approach that ensures accountability and transparency to create value for money in all their decisions and operations.

Additionally, from the upper echelons' theoretical perspective, given the predictive power of managerial competencies that have been confirmed in this study, MFIs in Uganda should have robust recruitment processes aimed at identifying and retaining highly competent staff. These processes should go beyond just professional competencies. As deep-rooted by the study findings, organizational outcomes, strategic choices, and performance levels are partially predicted by managerial background characteristics such as knowledge, skills, and abilities. Managers of MFIs should pay extra attention to improving their relationships with all stakeholders rather than only shareholders to revive the lost mutual trust that will enhance competitiveness and financial performance.

Limitations of the Study

Despite the contribution to the existing body of knowledge, the findings of the present study are not short of limitations that provide grounds for further research.

First, the cross-sectional nature of the study design limited the researcher's ability to examine the trends in the financial performance of MFIs as a function of managerial competencies and stakeholder management, and changes in perceptions and beliefs. There is, therefore, a need for longitudinal studies to capture trends in consideration of the time factor. Second, although theories and existing literature were utilized and constructs defined, the measures used may not perfectly define all constructs of the global variables hence the need for further refinement to minimize the measurement errors in future studies. Nevertheless, the study has provided a clear insight into the relevance of managerial competencies and stakeholder management in the financial performance of MFIs.

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