UGANDA MANAGEMENT INSTITUTE

MANAGERIAL COMPETENCE AND FINANCIAL PERFORMANCE OF MUSHANGA COOPERATIVE SAVINGS CREDIT SOCIETY LTD IN SHEEMA DISTRICT

BY

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DECLARATION

I Vererian Mpangane, do hereby declare that this dissertation is my original work and has never been published and / or submitted for any award to any other institution before

Signed…………………………………………

Date…………………………………………..

APPROVAL

This is to certify that this dissertation has been carried out under our supervision and has been submitted for examination with our approval as partial fulfillment for the award of degree of Master in Business Administration of Uganda Management Institute.

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Signature…………………………….

Date………………………………….

DEDICATION

This work is a tribute to my parents Mr. and Mrs. Daniel Gakyaro and my family

ACKNOWLEDGMENT

I would like to express thanks to my supervisors Dr. Stella Kyohairwe and Mrs. Pross Oluka. I wish also to extend my sincere gratitude to my study respondents for their resourceful co-operation especially the managers and staff of Mushanga Sacco who contributed invaluable time and information.

Special thanks go to my facilitators, research assistants, management and staff of Uganda Management Institute for their respective roles during the graduate studies. Appreciation is further extended to workmates, field assistant and classmates for their constant source of motivation, discussion and company.

Finally appreciation is extended to my family members who always encouraged and supported especially my wife for their historical contribution to my academic life is insurmountable.

God bless them all.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

TABLE OF ACROYMNS

ACCION	:	Americans for Community Cooperation in Other Countries.
CVI	:	Content Validity Index
ROI	:	Return On Investment
ROSCAS	:	Rotating Savings and Credit Association
SACCOs	:	Savings and Credit Co-operations
SGA	:	Sales and General Expenses
SPSS	:	Statistical Packages for Social Scientists
MFIs	:	Micro Finance Institutions
NGOs	:	Non Governmental Organizations
UCA	:	Uganda Cooperative Alliance
UWFT	:	Uganda Women Finance Truest
USAID	:	United States agency for International Development

ABSTRACT

The study investigated the relationship between managerial competencies and financial performance at Mushanga Sacco in Kibingo Town Council, Western Uganda. The study was induced by the managerial in competencies experienced in the Sacco leading to low performance. This study thus aimed at enhancing the understanding of the impact of managerial competencies on financial performance at the Sacco. Objectives of the study were to examine the relationship between skills and financial performance of Mushanga Sacco, to examine the relationship between knowledge and financial performance of Mushanga Sacco, to examine the relationship between attitude and financial performance of Mushanga Sacco. Data was collected using a Questionnaire and an interview guide. The study revealed a moderate positive correlation between skills and financial performance. It also revealed a moderate positive correlation between knowledge and financial performance. The study revealed a moderate positive correlation between attitude and financial performance. The study concluded that there is a strong relationship between employee skills and financial performance. It also concluded that knowledgeable workers should be employed especially in the top level management. Again the study concluded that attitudes of workers improve financial performance. The study recommended that employee skills are needed in financial performance in the Sacco. The study recommended that employee skills are needed in financial performance in the Sacco. It also recommended that employees should be provided with relevant information and manuals in order to improve on the knowledge. Again the study recommended that employees should improve on the skills in order enhance financial performance in the Sacco

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter gives an overview of how managerial competence can impact on performance of Saccos in Uganda. The idea of being effective and competent through training has been implemented by various organizations worldwide. In this study, managerial competence is an independent variable, while financial performance is a dependent variable. This chapter presents the historical, theoretical, conceptual, and contextual background, and a statement of the problem, aim of the study in achieving the objectives, research questions, hypothesis, significance, the scope of the study, justification and operational definitions of the terms and concepts, all in relations to the study variables mentioned above.

1.2 Background to the Study

1.2.1 Historical Background

In the early 1970s, a team of international aid workers involved with Americans for Community Co-operation in Other Nations (ACCION), an organization dedicated to addressing poverty, wanted to better understand how the organization could most effectively support poor families and communities in Latin America. ACCION then decided to issue small loans to a group of individuals in Recife, Brazil in 1973 to help reduce on the high rates of poverty. Within four years, the organization had provided 885 loans thus creating 1,386 new jobs. Coining the term "microenterprise," ACCION had found a way to generate new wealth for the working poor of Latin America. At the same time, across the globe (Beaudry, 2008).

Micro finance has its origin in Bangladesh in 1972 with the Grameen Bank with the efforts of (Muhammad Yunus, 2003), Through a series of trials and errors, Yunus et al., settled on a working model and by 1983, under a special charter from the Bangladesh government, founded the Grameen Bank, an independent, formal financial institution. The Grameen Bank Project came into operation, with several valuable objectives: Eliminate exploitation by money lenders by extending banking facilities to poor men and women, Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh, Bring the disadvantaged, mostly women from the poorest households, within the fold of an organizing structure which they can understand and manage by themselves. Reverse the age-old vicious circle of "low income, low saving and low investment", into a virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income. And thus began the largest-ever experiment in development lending, known as microcredit (Beaudry et al., 2008).

Microfinance services in Uganda can be traced back to 1983 when Centenary Rural Development Trust was registered as a financial institution which started operating in 1986, with a license to operate as commercial bank granted in 1993 (Ntungwa, 2012). In the late 1990s to mid-2000's, Government of Uganda changed the direction of its microfinance policy towards building a favourable market environment (Schmidt 2012) and Uganda's Microfinance Industry became one of the beacons of ‘best practice’. Uganda was talked about in the world as second best to Bolivia and Bangladesh. Though still in its developing stages at that time, Uganda was looked as a role model and learning point for other nations in the developing world (Godwin-Groen, 2004). Since 2005, Government of Uganda involved into the operations of microfinance, in particular savings and credit cooperatives (Saccos). Practitioners and development partners were critical of this approach, pointing to the experiences of the 1990s. Indeed, with the alienation of some stakeholders and continued political interference, Uganda has lost ground in the development of its microfinance industry (Lutzenkirchen, 2012).

Hudson et al. (2001), Phillips et al. (2003) and Chong (2008) assert that Saccos may be differentiated from larger companies by a number of key characteristics such as personalized management, with little devolution of authority, severe resource limitations in terms of management, manpower and finance, reliance on a small number of customers, and operating in limited markets; flat, flexible structures and reactive, fire fighting mentality and competitive value approach. Financial measures include profits, revenues, returns on investment (ROI), and returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner’s satisfaction with way the business is progressing. However, financial measures suffer from being historical and are not readily available in the public domain especially for Saccos. In addition, profits are subject to manipulations and interpretations. The solution to the limitations of financial measures is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures. The combinations of these two measures help the managers to gain a wider perspective on measuring and comparing their performance.

Today, microfinance institutions are seeking financial sustainability. Many Saccos were restructured in order to achieve financial sustainability and finance their growth. Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off (Woolcock, 1999). Performance results from activities of an organization or investment over a given period. Lumpkin and Dess (1996) point out that it is essential to recognize the multidimensional nature of the performance construct. Hitt (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

1.2.2 Theoretical Background

The theoretical framework for this study was rooted in Competency Theory. The theory of competency management is based on the various models and approaches in different countries (Aubret, 2005). The widely accepted definition of the competency model used by managers of Anglo-Saxon countries is the set of desired competencies such as skills, knowledge, attitudes, underlying characteristics or behaviour that differentiate effective performers from ineffective ones (McLagan, 1996). Henderson (2000) defines competency as a combination of knowledge and skills required to successfully perform an assignment. Its attainment is evidenced by the ability of an individual to gather data, process it into useful information, access it and arrive at an appropriate and useful decision in order to initiate the actions necessary to accomplish the assignment in an acceptable manner. Managerial competencies are a cluster of similar knowledge, skills and attributes that are essential to effective job performance (Karns, 1998). For this study, managerial competencies did cover employee training and development, leadership skills, knowledge and professional experience (Stoner et al., 1995). These competencies are the result of behavioural research to identify superior performance and are applied horizontally across the organization (Nyhan, 1995).

Furthermore, Boyatzis (2000) describes managerial competencies as underlying characteristics of a person that he or she uses to solve problems that arise at a work place. Some of the underlying characteristics of the Executive Directors include the ability to speak and perform in public, express the desire to persuade others of their point of view, motivate others to action, make decisions and amend those decisions to fit in with the organizational vision or current realities (Hagberg Consulting Group 2005). Boyatzis (2000) as well as Munene (1998) have identified different types of competences, which they have referred to as operant competences and emotional competences respectively.

Besides, the management competence theory by Prahalad, and Hamel (1990) postulates that a core competency is a specific factor that a business sees as being central to the way the company or its employees work. A core competency can take various forms, including technical/subject matter know-how, a reliable process and close relationships with customers and suppliers (Mascarenhas et al., 1998). Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies reflect the collective learning in organizations and involve how to coordinate diverse production skills and integrate multiple streams of technologies.

Microfinance performance theory asserts that for any microfinance institution to be seen as achieving its goals is in its performance that can be analysed based on key indicators like profit margin, client outreach, operational self-sufficiency, return on capital, portfolios at risk, return on equity, operating expense ratio, quality of reporting and cost of funds, are key outputs for MFIs to address the needs of the various stakeholders who look at social and financial perspectives of performance (CGAP, 2009).

1.2.3 Conceptual Background

The term competence is a concept that serves to connect individuals and their actions. Ingallas, (1979) asserts that competence is the capacity to get in touch with the environment in a constructive way. Pioneering works of Stogdill (1948), Katz (1985) and Mann (1965) on competence effectives. Boyatzis (1982) linked competences to managerial success. Competency based models subsequently emerged as tools to be employed in the workplace (Maurer et al., 2003) were considered to have a predictive validity over job performance (Bartram, 2005). Management competence is the general ability to do something to an acceptable level (Sveiby, 2001). Woodruffe (2002) defines competence as bundle of behaviour patterns that an employee needs to bring to a position so as to perform its tasks and functions. It is a collection of attributes managers need to provide the highest organizational effectiveness and efficiency. Ready supply of competent and qualified managers in the managerial markets acts as a yardstick for the incumbent managers to perform well. Managerial Competences are important because they are forward looking, describe the skills and attitudes the staffs need to meet future challenges, help clarify expectations and provide a sound basis for consistent and objective performance standards by creating a shared language about what is needed and expected in an organization (United Nation's Report, 2004).

Performance is a measure of the results achieved within an organization. Financial performance is the measure of the extent to which objectives of an organization are achieved in relation to defined standards and targets for each objective (Monaghan, 2000; Dess and Shaw, 2001). It involves outcomes in the firm's earnings, capital adequacy, assets quality and liquidity available for operation of the firm. Gompers et al., (2003) find that firms with strong shareholder rights have superior valuation, better profits, and better sales growth.

Cangemi (1998) argued that in order for managers to be both effective and efficient in their managerial functions, they must possess exemplary leadership skills; hence given the size of their firms, managers of MFIs are expected to be a window to the outside world. They need to be innovative, figurehead; that is having a greater degree of power and influence. The manager is the nerve centre and turbulent handler for they either make or break their organizations. In a survey carried out on the high mortality rate of MFIs that were failing in the USA, of the 1,200 respondents, 41 percent said the major culprit was lack of reliable managerial competencies that in turn influenced business success (Penrose, 1995). Therefore, firms need managers to help them reach their objectives. Competent managers help them reach these objectives efficiently and effectively.

1.2.4 Contextual Background

Microfinance institutions in Uganda have attracted many private participants to deliver financial services to the urban and rural poor who cannot access traditional banking services from commercial banks. The more local people served by microfinance institutions, the higher their rate of financial performance of the institutions. The performance of business organizations is affected by their strategies and operations in market and non-market environments (Baron 2000).The microfinance industry in Uganda has developed and transformed into commercial microfinance institutions and therefore the services are now largely offered as a business, therefore donors have stopped giving grants for loan funds (Bank of Uganda annual report, 2009).

Western Uganda is home to about 2.4 million people most of who are engaged in agriculture, however it is believed to have the highest concentration of community based Saccos in Uganda. Basic financial and membership statistics as at December 2004 were collected from Uganda Cooperative Alliance (UCA) and Rural SPEED. On a consolidated basis these agencies report the existence of 165 Saccos, with total membership of almost 51,000, savings mobilization of 13.3 billion UGX, share capital of 12.7 billion UGX and loans of 15.9 billion UGX. Total asset statistics are unavailable but it is clear the sector suffers from liquidity shortages (USAID Report, 2009).

Mushanga Cooperative savings and credit society limited is the selected representative of the microfinance institution as a case study. Mushanga Sacco was founded in 1969 by shareholders of the cooperation in Kibingo town council, Sheema district. The institution was formed by individual shareholders with technical support from Uganda Cooperative Alliance (UCA) and also through the member's contributions in compulsory savings monthly, got registered in 1981 as cooperative society under the ministry of trade. It is members governed with 9 board members, 26 employees and recovery rate is at 78%, 4 branches (Mushanga Sacco annual report, 2011).

Table 1: Showing Financial Performance of Mushanga Sacco

Year	**Target Performance (UGX)**	**Actual Performance (UGX)**	**Variance (%) (UGX)**
2012	200,000,000	3,950,000	(196,050,000)
2011	150,000,000	45,000,000	(105,000,000)
2010	100,000,000	85,000,000	(15,000,000)
2009	90,000,000	95,000,000	5,000,000
2008	70,000,000	90,000,000	20,000.000

Source: Mushanga Sacco Financial Reports for the Period 2008-2012

From table 1 above, there was variance in financial performance of Mushanga Sacco between the years 2008 to 2012. The table indicate that between 2008 and 2009, there was positive financial performance as shown by the variances; however, between 2010 and 2012, there were negative financial performance as shown by the variances. This justifies the poor financial performance of

Mushanga Sacco. Thus this study intended to investigate the discrepancies in the financial performance above by relating it to managerial competence.

1.3 Statement of the Problem

Founded in 1969 and registered in 1981 as cooperative savings and credit society limited, Mushanga Sacco has experienced stiff competition from other microfinance competitors in the market. Although its survival has been attributable to factors such as good governance structures, control systems, lending micro credit to the poor, innovation and designing of products, continuous members' mobilization, giving dividends to members per year, accountability, and democratic election among the members, its financial performance has shown declining trends over the years. Existing evidence indicates that there has been low loan recovery rate that stands at 78%, loan portfolio at risk that stand at 22%, coupled with liquidity problem, low savings rate, low members growth rate, low returns on investment, and poor portfolio quality (Mushanga Sacco *Annual Report, 2011*). Besides, Ahebwa (2009) also observed that the industrial average PAR has been stagnant at 5% and below. Thus, there is need for Mushanga Sacco to address these problems if it is to achieve its objectives of serving the low income population. Therefore, this study intended to investigate whether management competence is the major cause of the poor financial performance exhibited by Mushanga Sacco.

1.4 Purpose of the Study

The study examined the relationship between management competences and financial performance of SACCOs in Uganda.

1.5 Objectives of the Study

i) To examine the relationship between skills and financial performance of Mushanga Sacco;

ii) To examine the relationship between knowledge and financial performance of Mushanga Sacco;

iii) To examine the relationship between attitude and financial performance of Mushanga Sacco.

1.6 Research Questions

i) What is the relationship between skills and financial performance of Mushanga Sacco?

ii) What is the relationship between knowledge and financial performance of Mushanga Sacco?

iii) What is the relationship between attitude and financial performance of Mushanga Sacco?

1.7 Hypotheses

H1: Skills significantly affect financial performance of Saccos;

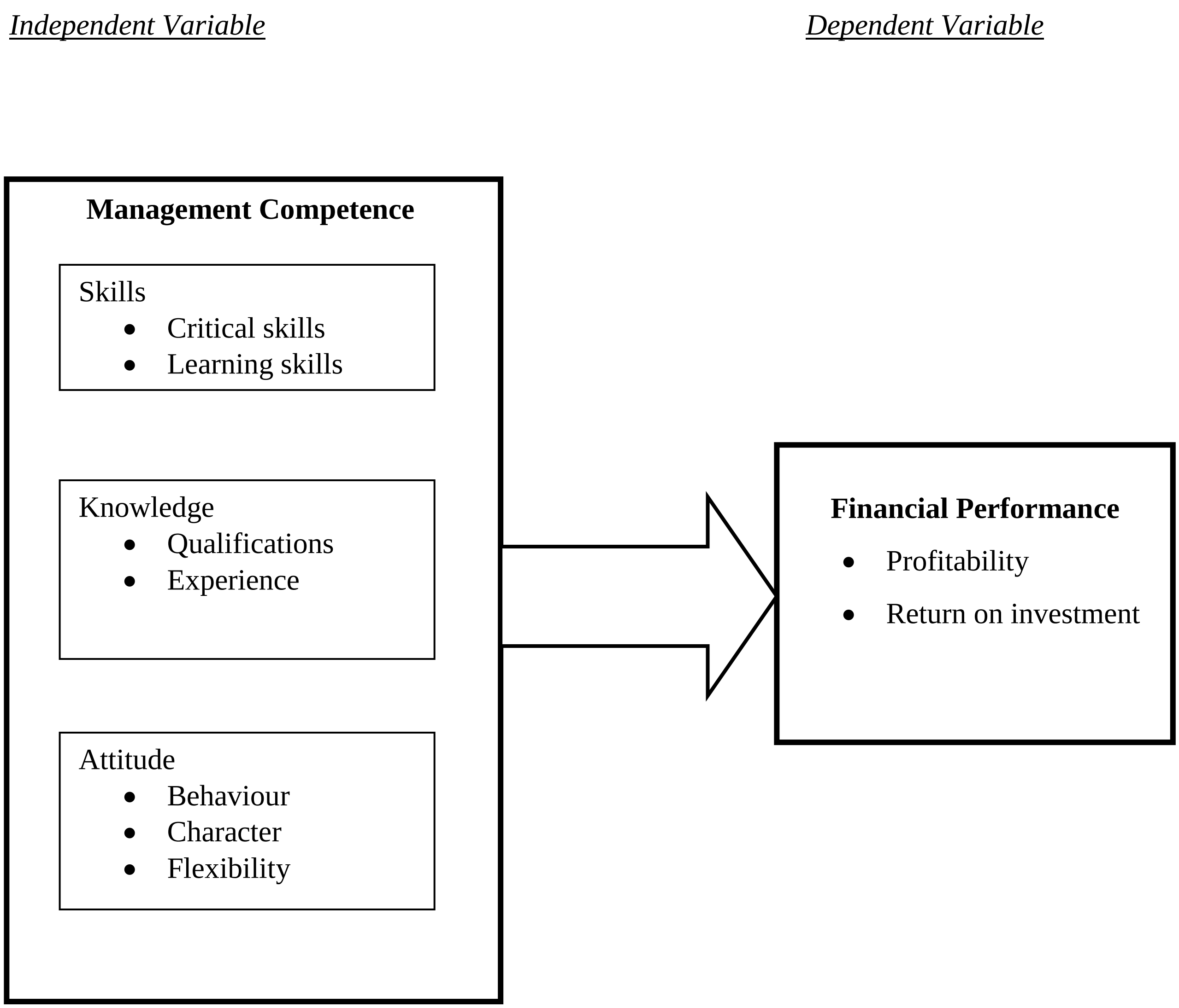
H2: Knowledge significantly affects financial performance of Saccos;

H3: Attitude significantly affects financial performance of Saccos.

1.8 Conceptual Framework

Figure 1 on the next page, examines the relationship between management competence and financial performance of Saccos. The independent variable was management competence comprising of skills, knowledge, and attitude, and the dependent variable was financial performance. The framework explains how managerial competencies inform of employee skills, knowledge and attitude affects financial performance in form of profitability and investment returns. Opler and Titman (2004) asserted that the efficient use of firm resources depends on the decisions of the management team. A firm may achieve better rents not just because it has access to resources but because the core competencies of a firm better utilize these resources (Penrose, 2007; Enders, 2004). The quality of management is an important driver of firm performance. Management competence is the general ability to do something to an acceptable level (Sveiby, 2001). Woodruffe (2002) defines competence as bundle of behaviour patterns that an employee needs to bring to a position so as to perform its tasks and functions. It is a collection of attributes managers need to provide the highest organizational effectiveness and efficiency. Ready supply of competent and qualified managers in the managerial markets acts as a yardstick for the incumbent managers to perform well. Enders (2004) reported that differences in firm performance result from management quality. He argues that management competence can therefore be used as a means to explain these differences.

Fig. 1: **Conceptual Model**



Source: Developed from Opler and Titman (2004); Amit and Schoemaker (2003); Penrose (2007); Enders (2004)

1.9 Significance of the Study

i) The study may add more knowledge to the already existing literature on management competence and financial performance of Saccos;

ii) The study findings may also enhance further research on the impact of management competence on financial performance of Saccos locally and internationally;

iii) The study may lead to the identification of better management competence strategies that are critical for improved financial performance of Saccos.

iv) Saccos used in the study may benefit from this research by improving on their human resources development policy and management competence, that may enhance financial performance.

1.10 Justification of the Study

The microfinance institutions have played a very big part in the financial sector especially in the rural areas among the poor, though as there are still some challenges affecting these institutions which work hard to deliver services to the urban and rural poor (Mwangi and Brown, 2006).

The rapid economic changes, emerging new-age technologies and highly competitive environment in the global market, has made it more and more important for Savings Credit and Cooperative Organizations (Saccos) especially to have well trained and experienced workforce. The idea of being effective and competent through training has been implemented by various organizations worldwide. Acquisition of knowledge, skills and competencies as a result of the guidance for gaining skills and knowledge to specific matter or focus area, efficient and effective utilization of skills helps in up-keeping high morals amongst staff and consistent growth (Rouda et al., 1995).

The success of Microfinance institutions like many other organizations largely depends on managerial competencies. For example the rise of Centenary rural development Bank Limited from MFI to bank status was a result of a competent management team (Ntungwa & Schmidt, 2012). Managerial Competence is the ability for managers and leaders to direct work streams and define outcomes clearly. Competence refers to both the ability (technical/certified) and the inferred ability (acceptance by those who are managed). However, many Microfinance institutions have unexpectedly closed because of internal financial problems, partly due to inadequate supervision, which led to gross violation of banks regulations. They fell short of capital requirements stemming from problems of poor loan documentation, inadequate provisioning, insufficient risk assessment capacity, internal fraud and other management weaknesses that negatively affected their operations (Badagawa, 2006).

1.11 Scope of the Study

1.11.1 Content Scope

Woodruffe (2002) argued that competence is a bundle of behaviour patterns that an employee needs to bring to a position so as to perform its tasks and functions. It is a collection of attributes managers need to provide the highest organizational effectiveness and efficiency. Ready supply of competent and qualified managers in the managerial markets acts as a yardstick for the incumbent managers to perform well. Thus, the study content consisted of managerial competencies inform of skills, knowledge and attitudes and their effects on financial performance in Mushanga Sacco.

1.11.2 Geographical Scope

The study was carried out at the offices of Mushanga Cooperative Savings and Credit society Limited in Sheema Town council, western Uganda. This is because its main activity is rural based with the main objective of serving the poor.

1.11.3 Time Scope

The study focused on the period from 1995 to 2012. The justifications being that these were the periods when there was declining trends in financial performance of Mushanga Sacco coupled with entry of many players in the microfinance industry.

1.12 Operational Definitions of Terms and Concepts

- **Microfinance:** is an economic development approach intended to benefit low-income women and men and it refers to the provision of financial services that may include credit, savings, insurance and payment services (Tamsin, 2002).
- **Microfinance Institution:** is any organization that has a single focus on micro financing.
- **A Saving and Credit Co-operative:** is a democratic, unique member driven, self- help co-operative (CGAP, 2011).
- **Management competence:** is the general ability to do something to an acceptable level (Sveiby, 2001).
- **Financial performance:** is the measure of the extent to which objectives of an organization are achieved in relation to defined standards and targets for each objective (Monaghan, 2000; Dess and Shaw, 2001).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature reviewed in this chapter is based on the relationship between management competence and financial performance of Saccos in Uganda. It involved analysing management competence comprising of skills, knowledge, and attitude and their impact on financial performance. It is mainly based on literature reviewed in developed countries. The review of the literature examined practical and empirical evidence on the relationship between management competence and financial performance in relation to the Uganda situation.

2.2 Theoretical Review

The theoretical framework for this study was rooted in Competency Theory. The theory of competency management is based on the various models and approaches in different countries (Aubret, 2005). The widely accepted definition of the competency model used by managers of Anglo-Saxon countries is the set of desired competencies such as skills, knowledge, attitudes, underlying characteristics or behaviour that differentiate effective performers from ineffective ones (McLagan, 1996). Henderson (2000) defines competency as a combination of knowledge and skills required to successfully perform an assignment. Its attainment is evidenced by the ability of an individual to gather data, process it into useful information, access it and arrive at an appropriate and useful decision in order to initiate the actions necessary to accomplish the assignment in an acceptable manner. Managerial competencies are a cluster of similar knowledge, skills and attributes that are essential to effective job performance (Karns, 1998). For this study, managerial competencies did cover employee training and development, leadership skills, knowledge and professional experience (Stoner et al., 1995). These competencies are the result of behavioural research to identify superior performance and are applied horizontally across the organization (Nyhan, 1995).

Furthermore, Boyatzis (2000) describes managerial competencies as underlying characteristics of a person that he or she uses to solve problems that arise at a work place. Some of the underlying characteristics of the Executive Directors include the ability to speak and perform in public, express the desire to persuade others of their point of view, motivate others to action, make decisions and amend those decisions to fit in with the organizational vision or current realities (Hagberg Consulting Group 2005). Boyatzis (2000) as well as Munene (1998) have identified different types of competences, which they have referred to as operant competences and emotional competences respectively.

Besides, the Management Competence Theory by Prahalad, and Hamel (1990) postulates that a core competency is a specific factor that a business sees as being central to the way the company or its employees work. A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers (Mascarenhas et al., 1998). A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies reflect the collective learning in organizations and involve how to coordinate diverse production skills and integrate multiple streams of technologies.

Microfinance Performance Theory asserts that for any microfinance institution to be seen as achieving its goals is in its performance that can be analysed based on key indicators like profit margin, client outreach, operational self-sufficiency, return on capital, portfolios at risk, return on equity, operating expense ratio, quality of reporting and cost of funds, are key outputs for MFIs to address the needs of the various stakeholders who look at social and financial perspectives of performance (CGAP, 2009).

2.3 Management Competence and Financial Performance

According to Enders (2004), firm differences are the outcome of superior management. A firm's management team is responsible for the most important decisions of corporate performance. Financial decisions have a great influence on firm performance. The modern finance theory postulates that borrowing promotes the allocation of resources, improve managerial incentives, and force firms to invest optimally (Jensen, 2000; Wruck, 2001). This view has clearly dominated contemporary thinking and practice. A never-ending task has been gauging management practices in firm success. Despite the many success factor studies, it remains unclear what exactly distinguishes successful from unsuccessful companies. Opler and Titman (2004) assert that the efficient use of firm resources depends on the decisions of the management team. According to Amit and Schoemaker (2003), firm financial performance depends on market imperfections and managerial decisions about resources. A firm may achieve better rents not just because it has access to resources but because the core competencies of a firm better utilize these resources (Penrose, 2007; Enders, 2004). In other words, the quality of management is an important driver of firm performance. Enders (2004) reported that differences in firm performance result from management quality. He argues that management competence can therefore be used as a means to explain these differences.

The many suggested characterizations of management competence generally refer to some key constituent elements of competence, such as knowledge, skills, organization, coordination, capabilities, learning, and professional relationships. Several qualitative methods have been used to measure management competence. Boyatzis (2002) created a comprehensive management competency framework that addressed all levels of management. He examined 2000 managers to determine generic competencies that were relevant to performance at various levels of management using the Job Competence Assessment method. This method enabled managers to generate their own list of characteristics perceived to lead to effective performance at their managerial level. Ghiselli (2003) determined specific psychological traits considered important to managerial performance. Katz (2004) investigated management competencies and claimed that managers at all levels required technical, human, and conceptual skills. Stewart (2001) identified ‘‘leading-edge competencies’’ considered important for effective management these competencies include long term vision, ability to implement change, having customer and market orientation, willingness to empower, entrepreneurial flair, ability to use teams and think laterally, and ability to demonstrate emotional stability and openness.

2.3.1 Skills and Financial Performance

Staines (2008) argued that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Lyles et al., (2004) evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business.

On the other hand, profitability tends to be low when the entrepreneur has only start up and managerial experience impact performance of small firm founders. Former experience of the business founder in the industry in which he starts his business appears to improve all performance measures. Moreover, experience in activities relevant to business ownership increases the firm's survival time. Finally, high-educated people make more profits, while those who have experience as an employee create more employment. Other empirical studies, such as Smallbone and Welter (2001) and Hisrich and Drnovsek (2002), find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance. Lack of skills, experience and knowledge are also key limiting factors for entrepreneurship in South Africa. MFI owners in South Africa often lack the expertise experience and training related to the business they establish leading to the managerial deficiency in Africa. Leitao and Franco (2008) point out that empirical research has obtained a range of results regarding this relationship between managerial competences and performance, but those results are not consensual. Empirical literature such as Shiu (2006), Appuhami (2007) and Chan (2009) find insignificant relationship between managerial competences and firm performance.

2.3.2 Knowledge and Financial Performance

With knowledge being one of the most important resources today, traditional factors of production have become secondary (Reinhardt et al., 2001, pp. 794). As organizations became aware of the power of knowledge as the most valuable strategic resource in the knowledge economy, knowledge management became widely recognized as essential for the success or failure of organizations. Consequently, over the past 15 years, knowledge management has progressed from an emergent concept to an increasingly common function in business organizations (McKeen et al., 2006). According to one estimate, 81% of the leading organizations in Europe and the U.S. are utilizing some form of knowledge management (Beccera-Fernandez et al., 2004 from Grossman, 2006). Consequently, the key question today is no longer whether to manage knowledge, but how to manage it (Lee & Choi, 2003).

The link between knowledge and organizational performance has been empirically explored, but rarely through assessing the state of knowledge management practice per se, and comparing it with direct indicators of financial performance. Namely, some empirical studies focus only on specific aspect of knowledge management, not the whole knowledge management system (for example Lee et al. (2005) were assessing the performance of an organization with respect to its knowledge, and Harlow (2008) was assessing the level of tacit knowledge within organizations. Besides, Kalling (2003) annotates that the empirical studies that focus on the links between knowledge and performance often stop with proxies of performance; not at profit, but at proxies of profit, such as productivity (for example Choi and Lee (2003) calculated corporate performance based on five items: overall success, market share, growth rate, profitability and innovativeness – four out of five of those items are proxies of profit, while Lin and Tseng (2005) calculated corporate performance using seven items: productivity, cost performance, competitiveness, sales growth, profitability, market share and innovativeness – out of which four are proxies of profit.

2.3.3 Attitudes and Financial Performance

Westerberg (2009) asserts that attitude of people affects performance of an organization, for example, for a person to like a particular product, the attitude should be positive and adaptable to his/her tastes and preferences, then he/she will be more than willing to buy that product, Employee attitudes actually drive financial and sustainability results, not the other way around,”

SBPBI (2006) asserts that success in financial performance has statistically been attributed to competencies like attitude, management skills and behavior, a lack of managerial competencies results into inadequacy which affects a firm’s performance. Ruth (2006) revealed that growth in revenues and financial performance is greatly attributed to managerial attitude inform of behaviors and intentions to pursue growth. Yusuf (2004) adds that effective management is a critical factor for firm financial performance hence management must enhance the right attitudes in order for employees to be motivated.

2.4 Summary of Literature Review

Conclusively, managerial competences and financial performance literature is based on the factors of skills, knowledge and attitudes. All of the factors have a role to play for the success of microfinance institutions financial performance inform of asset quality, return on investment and savings . What seems evident from the existing sources is that managerial competences are still needed for the survival of the microfinance institutions. Management competence is the general ability to do something to an acceptable level (Sveiby, 2001). Thus, these are bundle of behaviour patterns that an employee needs to bring to a position so as to perform its tasks and functions (Woodruffe, 2002). It is a collection of attributes managers need to provide the highest organizational effectiveness and efficiency. Ready supply of competent and qualified managers in the managerial markets acts as a yardstick for the incumbent managers to perform well.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents a description of research methodology that was used to carry out the study. It covered the research design, study population, determination of sample size, sampling techniques and procedures, data collection methods , data collection instruments, validity and reliability of research instruments, procedure of data collection, data analysis and measurement of variables.

3.2 Research Design

This study was cross sectional combined with descriptive research design. This was because it observed all population or a representative subset at one specific point in time. Besides, it also allowed large amount of data to be collected over a short time period. Furthermore, since it observed a representative subset at one specific point in time, problems arising from recurrent mistakes in data collection instruments were also minimized as it didn't suffer from unavailability of sample used in previous observation as in longitudinal study. The study was both descriptive and analytical in nature. Descriptive approach focused on quantitative aspect of the study that involved obtaining information about the situation that existed, while analytical approach focused on qualitative aspect of the study to determine in depth inquiry into the existing situation or phenomenon under study based on facts findings (Dawson, 2002; Kumar, 2005).

3.3 Study Population

For the purpose of this study, the population were obtained from specifically Mushanga Sacco because that was where the researcher had interest, which was used for this study. Board members and workers of Mushanga Sacco were used for this study. A total population of 50 employees comprising of 9 board members, 26 banking officers, and 15 loans managers were used for this study. Therefore, a total population of 50 employees of Mushanga Sacco was used for the study (Mushanga Sacco HR Report, 2011)

3.4 Determination of the Sample Size

A total sample size of 44 was used for this study in line with Krejcie and Morgan (1970) table guide. Selection of sample size used in the study was done as explained in table 2 below:

Table 2: Sample Size Selections

Category	**Population**	**Sample Size**	**Sampling Technique**
Board Members	9	6	Simple Random Sampling
Loan Managers	15	15	Purposive Sampling
Banking Officers	29	23	Purposive Sampling
Total	**50**	**44**	

Source: Modified based on Krejcie and Morgan (1970), Table Guide for Sample Determination

3.5 Sampling Techniques and Procedures

For the purpose of this study, both simple random and purposive sampling methods were used for selecting the sample. Random sampling involved picking a sample at a random without discrimination and all samples were given equal chances of being selected for the study. Mugenda and Mugenda (1999) further explain the goal for simple random sampling is to achieve desired presentation from the members of accessible population. According to Sekaran (2003), purposive sampling involves the choice of objects which are advantageously placed to provide the information required. They could be reasonably expected to have expert knowledge by the virtue of having gone through experiences and processes themselves and might perhaps be able to provide data of information to the researcher. Therefore for the purpose of this study, 6 board members, 15 loan managers, and 23 Banking officers of Mushanga Sacco were randomly and purposively sampled by the researcher.

3.6 Data Collection Methods

Both qualitative and quantitative data collection methods were employed in the study. Use of multiple data collection methods checked validity of the study findings. This allowed generalisation of results to the target population.

3.6.1 Questioning

Questions were asked as a method of getting information from respondents. Self-administered Questionnaires was used to collect data from all the respondents in the study sample in table 3.1

above. Questionnaires were used because they are easy to employ to big numbers of respondents and do not require the presence of the researcher or research assistant.

3.6.2 Interviewing

An interview is a face to face interaction between the interviewer and interviewee .The interview permits the researcher to follow up leads and thus obtain more data and greater clarity. The respondents in the sample in 3.1 above were interviewed so as to get an in-depth understanding of the study theme.

3.6.3 Documentary Review

The method was aimed at collecting information from the already existing sources by different scholars about a study phenomenon (Bruce, 1994). The chief sources of documentary review were broadly classified into two groups namely, published sources and unpublished sources. The use of documentary sources is important in relating the study and its findings with other published and sometimes unpublished information. The information from secondary data was collected by visiting the libraries in different institutions, internet for related data about the impact of managerial competence on financial performance of Microfinance institutions. Some of the documents were reviewed before the field data collection exercise while some were picked during field data collection especially during interviews with key respondents and was to be used to enrich the study discussions. Documentary evidence analysis included both primary and secondary sources of data that had a connection with appraisal practices and performance of Mushanga Saccos staff (Mushemeza, 2009).

3.7 Data Collection Instruments

3.7.1 Questionnaires

The questionnaire was designed and administered to the targeted respondents. The questionnaire was semi structured in nature embracing both open and closed ended questions whereby they read and wrote besides ensuring confidentiality. It was administered to Branch Managers, Credit Officers, and cashiers since the researcher needed immediate feedback to save time and solve language barrier and misinterpretation of questions by category. Questionnaire had close- ended questions to capture accurate quantitative data. A 5- point likert scale was used (5: Strongly agree, 4:agree. 3: neutral, 2: disagree, 1: strongly disagree) which allowed respondents to choose from a set of alternatives. The instrument was preferred because it was time saving as one spends little time in moving from one respondent to another during data collection (scattered respondents) unlike in interview method (Kakoza, 2002).

3.7.2 Interview Guides

Unstructured interview guides was used to gather data from key informants sampled in table 3.1 above. An unstructured interview was used because they are more flexible and permit probing of respondents in order to get in-depth detailed information (Amin, 2005).

3.7.3 Documents

Assortments of relevant official documents were reviewed. This was to augment information gathered using other research instruments.

3.8 Validity and Reliability

3.8.1 Validity

Validity refers to how accurately instruments capture data that gives meaningful inferences (Mugenda & Mugenda, 2003).Validity of the instrument was obtained through subjecting the data collection instrument to scrutiny from experts (academics and practitioners) to establish relevance of the questions/ items in instrument using the Content Validity Index (CVI).

$$CVI = \frac{\text{Number of items declared valid by judges}}{\text{Total number of items}}$$

CVI= n/N

Where n= items that rated relevant

N= total number of items

Table 3 Showing the Validity Index

Number of Respondents	Total Number of Items	CVI
44	50	0.88

Note: Overall average CVI=0.88

Source: Primary Data

3.8.2 Reliability

Reliability refers to the degree to which the instruments consistently measure whatever it is measuring (Amin 2005: 293). An instrument is reliable if it produces the same results whenever it is repeatedly used to measure trait or concept from the same respondents even by other researchers. To ensure reliability of research instruments, the interview guide was piloted on purposively selected respondents and where need arises; adjustments were made before the real research process. The questionnaires was pretested equally and revised before the main field research. The Cronbach`s alpha-α test (*Min=0.6*) measured the scale reliability for internal consistency of the items. Reliability was obtained by using Cronbach's coefficient test as stated in the following formula:

$$\alpha = \frac{K}{K-1}\left[\frac{1-\sum\delta^{2}k}{\delta^{2}}\right]$$

Where:

α = Alpha coefficient

δ^{2} = Variance of the total test

$\sum\delta^{2}k$ = Sum of variances of the k questions in the instrument

K = Number of questions in the research instrument

Thus, from the formula above, the Cronbach alpha coefficients for the study variables were generated as shown in table 4 below. All the variables have coefficients greater than 0.6, which is the minimum expected coefficient.

Table 4: Showing Cronbach's Alpha Coefficient for the Study Variables

Study Variables	*Anchor*	*Cronbach's Alpha*
Skills	5 Point	**0.788**
Knowledge	5 Point	**0.833**
Attitude	5 Point	**0.850**
Financial Performance	5 Point	**0.801**

Source: Primary data

3.9 Procedure of Data Collection

After the research proposal was approved and passed together with the research data collection tools, the researcher sought permission from the head of department higher degrees, Uganda Management Institute addressed to the organization management where the study was conducted. The letter sought to introduce the researcher as a student of Uganda Management Institute. It explained what the research was about and the purpose of the study. It requested for any necessary assistance to be offered to the student. The researcher then contacted the various authorities to which the letter was addressed and then made appointments when the study could be carried out to enable proper planning. On the agreed dates, the researcher went to the organization, carried out the study and collected data. Interviews and questionnaires as data collection methods were administered starting with the clients and the prospective ones who are the beneficiaries of the Mushanga Sacco's services, then staff, management and finally the board. The reasoning is to have that flow of order for purposes of easy comparison of data collected from each of the respondent categories. A work plan on collection of data was shared with senior management to enable the researcher to easily interface with the respondents at the scheduled times. Relevant literature on microfinance managerial competence was obtained from the library, internet and annual reports of Mushanga Sacco as a form of review of the existing literature.

3.10 Data Analysis

Collected data was compiled, sorted edited and coded to have the required quality, accuracy and completeness. It was entered into the computer for analysis using Statistical Package for Social Sciences (SPSS 19). Correlations were used to measure the relationship between managerial competencies and financial performance in microfinance institutions. Regression analysis was used to explain how managerial competences affect financial performance of MFIs. The results were presented in descriptive formats such as narratives, tables, frequencies, percentages, graphs and citations.

3.10.1 Quantitative Data Analysis

Quantitative data was analyzed using SPSS (19) to derive relevant descriptive statistics (frequencies, pie chart and percentages) which were further be analyzed in order to arrive at relevant conclusions. It was presented using tables. The relationship between variables was computed using Pearson's correlation coefficient.

3.10.2 Qualitative Data Analysis

This involved employing methods that are non-quantitative, and aimed at exploration of social relations, and would describe reality as experienced and presented by respondents. The major purpose was to promote greater understanding of not just the way things were, but also why they were the way they were (Amin, 2005). Other qualitative methods included the pilot study, observation results, and relevant quotes from the respondents in addition to secondary data to compare with the primary data.

3.11 Measurements of the Research Variables

Management Competence was measured using the dimensions of managers' knowledge (level of education), experience and excellence of workers, ability and skills as developed by Sveiby (2001); McClelland (1998); Woodruffe (2002).

Financial Performance was measured using profitability and return on investments as developed by Monaghan (2000); Dess and Shaw (2001).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter gives the presentation, analysis and interpretation of the results of the study. The trend of the discussion is focused on the relationship between and among the study variables in an attempt to answer the research questions. The variables of the study and their percentages are presented in tables, graphs and statistical tests to show the relationship between research variables. Descriptive statistics are presented later in the chapter to explore the results pertaining to the study based on the research objectives as stated below:

i) To examine the relationship between skills and financial performance of Mushanga Sacco;

ii) To examine the relationship between knowledge and financial performance of Mushanga Sacco;

iii) To examine the relationship between attitude and financial performance of Mushanga Sacco.

4.2 Response Rate

Frederick and Wiseman (2003) assert that a response rate has to be presented in research findings as they presented the validity of the study and failure to do so put the validity of the study findings into question. Response rate was frequently used to compare survey quality. The study targeted a sample of 44 respondents. A total of 44 questionnaires were distributed and all responses were received back. Besides, all the 44 respondents were interviewed in the study, thus accounting for 100% response rate. This is shown in table 5 below.

Table 5: Showing Response Rate

Category	**Population**	**Sample Size**	**Response Rate**
Board Members	9	6	6
Loan Managers	15	15	15
Loan Officers	29	23	23
Total	**50**	**44**	**44**

Source: Primary data

According to Amin (2005), for a valid research to be conducted, a minimum of 30 to 50 participants is required for the study. From table 4 above, the findings indicate that all categories of respondents participated in the study, accounting for 100% participation by Mushanga Saccos board members, loan managers, and loan officers.

4.3 Demographic Characteristics of Respondents

This section examines the characteristics of the sample collected. This section gives the number of people who responded to the study with regards to the characteristics of the respondents in relation to age, level of education, years in service and position in the company. Frequency tables were used for presentation and analysis of the sample characteristics.

4.3.1 Age of Respondents

Frequency table was used to present and analyse data on the age group of the respondents. This is illustrated in table 6 below;

Table 6 Showing Frequency Distribution for Age of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24 years	3	7.0	7.0	7.0
	25-31 years	15	34.9	34.9	41.9
	32-38 years	18	41.9	41.9	83.7
	39-45 years	5	11.6	11.6	95.3
	46 years and above	3	4.7	4.7	100.0
	Total	**44**	**100.0**	**100.0**	

Source: Primary data

From table 6 above, majority of the respondents (42%) were in 32 – 38 years age bracket, while 35% of the respondents were in the 25 – 31 years age bracket. Further analysis from the table indicates that 12% of the respondents were in the 39 – 45 years age bracket, while 7% were in the 18 – 24 years age bracket. However, there were only 5% respondents in the 46 years and above age bracket. This implied that majority (42%) of the respondents used in the study belong to the 32 – 38 years age bracket. The justification is that the respondents belonged to the active age bracket and were expected to have superior performance for better financial performance of Mushanga Sacco.

4.3.2 Education Level of Respondents

Frequency table was used to present and analyse data on the education level of the respondents. This is illustrated in table 7 below;

Table 7 Showing Frequency Distribution for Education Level of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	16	37.2	37.2	37.2
	Bachelor's degree	20	46.5	46.5	83.7
	masters' degree	6	14.0	14.0	97.7
	Others	2	2.3	2.3	100.0
	Total	**44**	**100.0**	**100.0**	

Source: Primary data

From the finding in table 7 above, majority (47%) of the respondents had attained bachelor's degree, while 37% had attained diploma level of education. Further analysis also indicates that 14% of the respondents had master's degree, while only 2% did not state their educational qualifications. This implied that majority (47%) of the respondents had attained University degree, thus it can be concluded that most of the people who worked for Mushanga Sacco were educated with enough knowledge, which is one factor for better performance.

4.3.3 Numbers of Years Worked For Mushanga Sacco

Frequency table was used to present and analyse data on the number of years worked for Mushanga Sacco by the respondents. This is illustrated in table 8 below;

Table 8: Showing Frequency Distribution Number of Years Worked For the Institution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	20	46.5	46.5	46.5
	6-10	20	46.5	46.5	93.0
	more than 10	4	7.0	7.0	100.0
	Total	**44**	**100.0**	**100.0**	

Source: Primary data

From the findings in table 8 above, indicate that 47% of the respondents who participated in the study had worked for a period between 6 – 10 years, and 1 – 5 years respectively. However, only 7% of the respondents had worked for more than 10 years. This implied that most of the employees had worked for the institution for between 1 – 5 years and 6 – 10 years. But it's worth noting that employees who had worked for more than 10 years had experience in the operations of Mushanga Sacco. The implication was that they had all the experience with the operations of the Sacco thus better performance.

4.4 Descriptive Statistics for the Study Variables

Descriptive statistics were used to analyse the variables under study. Data on skills, knowledge, attitude, and financial performance were collected based on the respondents' understanding of the microfinance operations. The data was presented in table form below.

4.4.1 Descriptive Statistics for Skills and Financial Performance

Descriptive statistics were used to analyse the impact of skills on financial performance. Data on the impact of skills on financial performance was collected based on the respondents' understanding of the microfinance operations. The data was presented in table form below .

Table 9 Showing Descriptive Statistics for Skills and Financial Performance

Statement on Employee skills	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
Maintain sufficient materials and skills to perform my duties	37% (16)	35% (15)	12% (5)	14% (6)	2% (1)	**3.91**	**1.130**
Demonstrate confidence while at work.	40% (17)	41% (18)	7% (3)	7% (3)	5% (2)	**4.05**	**1.090**
I use my skills to deliver business initiatives	37% (16)	37% (16)	15% (6)	9% (4)	2% (1)	**3.98**	**1.058**
Employees underwent training to acquire the necessary skills to perform their duties	28% (12)	40% (17)	16% (7)	2% (1)	14% (6)	**3.65**	**1.307**
I am trustworthy in my dealings with the customers	56% (24)	26% (11)	9% (4)	7% (3)	2% (1)	**4.26**	**1.049**
supportive and mentoring environment to the employees	28% (12)	46% (20)	14% (6)	7% (3)	5% (2)	**3.86**	**1.060**

Source: Primary data

As presented in table 9 above, thirty five of the respondents agreed that employee skills are required to maintain sufficient materials and skills to perform my duties (72%), five were neutral (12%) while seven of them disagreed (16%). This is a confirmation that staffs need materials and skills to perform better at their duties. In addition, respondents demonstrating confidence while at work showed that thirty five of them agreed (81%), three were neutral (7%) while five disagreed (12%). Any business with confident staff is a bonus to its performance since customers are assured of great services. Employees should therefore use such organizational skills when at work in order to boost performance. The variable employees using their skills to deliver business initiatives showed that thirty two of them agreed (74%), six were neutral (15%) while five disagreed (11%). Also respondents showed that Employees underwent through training to acquire the necessary skills to perform their duties as twenty nine of them agreed (68%), seven were neutral while seven also disagreed (16%). Training helps employees learn new working skills and also polish on the already existing skills. Respondents being trustworthy in their dealings with the customers showed that twenty five of the respondents agreed (82%), four were neutral (9%) while four disagreed (9%). Mushanga Sacco being a supportive and mentoring environment to its employees showed that thirty two of the respondents agreed (74%), six were neutral (14%) while five disagreed (12%).

4.4.2 Descriptive Statistics for Knowledge and Financial Performance

Descriptive statistics were used to analyse the effect of knowledge on financial performance. Data on the effect of knowledge on financial performance was collected based on the respondents' understanding of the microfinance operations. The data was presented in table form below 10 below.

Table 10 Showing Descriptive Statistics for Knowledge and Financial Performance

Statement on Knowledge	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
I am aware of the market forces and know where to market the goods at a favorable price	33% (14)	40% (17)	16% (7)	7% (3)	4% (2)	**3.88**	**1.096**
I know the available markets, their conditions and identify the most competitive market	30% (13)	47% (20)	4% (2)	12% (5)	7% (3)	**3.81**	**1.200**
I know what I am good at and what am not	40% (17)	30% (13)	0% (0)	12% (5)	18% (6)	**3.86**	**.934**
I establish and maintain good working relationships with customers and the bankers	40% (17)	30% (13)	12% (5)	12% (5)	6% (3)	**3.84**	**1.271**
I consult and get external information from other Sacco.	32% (14)	44% (19)	14% (6)	5% (2)	5% (2)	**3.95**	**1.045**

Source: Primary data

From the table 10 above, knowledge about the market forces and knowing were to sell the Sacco products at a favourable rate showed that thirty one of the respondents agreed (74%), seven were neutral (16%) while five disagreed (11%). This implied that employees need to continuously carry out market analysis in order to keep truck of the market dynamics and hence venture into good investment ventures that are profitable both in the long term and short term period. The need to know the available markets, their conditions and identify the most competitive market showed that forty three of the respondents agreed (77%), two were neutral (4%) while eight disagreed (19%). Respondents knowing what they are good at and what they are not showed that thirty of the respondents agreed (70%) while eleven disagreed (30%). In addition, there is need to establish and maintain good working relationships with customers and the bankers and out of the study, thirty respondents agreed (70%), five while neutral (12%) while eight disagreed (18%). Finally, employees need to consult and get external information from other SACCO showed that thirty three of the respondents agreed (76%), six were neutral (14%) while four disagreed (10%). This implies that knowledge is power and therefore, sharing information helps to empower staff and also gives them a chance to learn and improve their work performance.

4.4.3 Descriptive Statistics for Attitude and Financial Performance

Descriptive statistics were used to analyse the effect of Attitude on financial performance. Data on the effect of attitude on financial performance was collected based on the respondents' understanding of the microfinance operations. The data was presented in table form below 11 below.

Table 11 Showing Descriptive Statistics for Attitude and Financial Performance

Statement on Attitude	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
I am self-motivated and committed to my job description	48% (21)	33% (14)	12% (5)	5% (2)	2% (1)	**4.21**	**.989**
I enjoy my work and have interest in it	41% (18)	37% (16)	12% (5)	5% (2)	5% (2)	**4.07**	**1.078**
I am a persistent person who is able to take on challenging work	30% (13)	44% (19)	16% (7)	8% (3)	2% (1)	**3.93**	**.985**
I have the ability to work in good times and bad times	26% (11)	40% (17)	24% (11)	8% (3)	2% (1)	**3.79**	**.989**
Giving back to the customers in terms of gifts and lotteries is part of our company	45% (20)	37% (16)	5% (2)	8% (3)	5% (2)	**4.14**	**1.104**
I listen to customer complaints	49% (21)	26% (11)	16% (7)	9% (4)	0% (0)	**4.14**	**1.014**

Source: Primary data

From table 11 above, the issue of staff being self-motivated and committed to my job description showed that that thirty five of the respondents agreed (81%), five were neutral (12%) while three disagreed (7%). A good attitude towards work helps one to be more motivated and committed to the job tasks in a company resulting into better performance generally. The variable I enjoy my work and have interest in it showed that thirty four of the respondents agreed (78%), five were neutral (12%) and finally four disagreed (10%). In addition, the variable I am a persistent person who is able to take on challenging work showed that thirty two respondents agreed (74%), seven were neutral (16%) while four disagreed (10%). A persistent person has the right attitude towards work, needs minimal supervision and can take on any job task with a positive work attitudes, this enhances a higher performance in the end. Then giving back to the customers in terms of gifts and lotteries as being part of the company showed that thirty six of the respondents agreed (82%), two were neutral (5%) while five disagreed (13%). Furthermore, listening to customer complaints showed that thirty three respondents agreed (75%), seven were neutral (16%) and finally four disagreed (9%). Some customers communicate their complaints to the company directly, this helps companies when they are carrying out individual assessments about their clients, helps them to improve and narrow the gaps that are existing, and finally, this boosts that performance of the company.

4.4.4 Descriptive Statistics for Financial Performance

Descriptive statistics were used to analyse financial performance. Data on financial performance was collected based on the respondents' understanding of the microfinance operations. The data was presented in table form below 12 below.

Table 12 Showing Descriptive Statistics for Financial Performance

Statement on Financial performance	**Percentage responses (%)**					**Mean**	**Std dev**
	SA	**A**	**N**	**D**	**SD**		
Overall, investment growth in quantity has been achieved in the last 2 years	33% (14)	42% (18)	0% (0)	9% (7)	16% (4)	**3.88**	**1.159**
Investment quantity has been steadily high in the last 6 months	26% (11)	58% (25)	0% (0)	14% (6)	2% (1)	**4.07**	**.704**
Investment intensity has been improving since the last 6 months	37% (16)	47% (20)	5% (2)	5% (2)	6% (3)	**4.02**	**1.123**
We have been meeting investment targets or expectations since last year	42% (18)	37% (16)	0% (0)	16% (7)	5% (2)	**4.12**	**1.005**
Overall, business gross profit has grown in the past two years	35% (15)	42% (18)	16% (7)	5% (2)	2% (1)	**4.02**	**.963**
We are able to fund business growth from retained profits of last year	39% (17)	45% (19)	7% (3)	7% (3)	2% (1)	**4.12**	**.981**
We budget to forecast costs and revenues to meet monthly operations	39% (17)	47% (20)	0% (0)	12% (5)	2% (1)	**4.23**	**.751**
Maximum profits rather than maximum sales is our key objective	32% (14)	49% (21)	15% (6)	2% (1)	2% (1)	**4.07**	**.884**
The gross profit margin has been stable since the last 6 months	39% (17)	32% (14)	12% (5)	12% (5)	5% (2)	**3.91**	**1.192**

Source: Primary data

From table 12 above, investment growth in quantity has been achieved in the last 2 years showed that thirty two of the respondents agreed (75%) while eleven disagreed (25%).Investment growth is an indicator that a company's financial performance is good and encouraging. The variable Investment quantity has been steadily high in the last 6 months showed that thirty six of the respondents agreed (84%) while seven disagreed (16%). In addition, the Sacco being able to meet investment targets or expectations since last year showed that thirty six of the respondents agreed (84%), two were neutral (5%) while five disagreed (11%). Overall, business gross profit has grown in the past two years showed that thirty three of the respondents agreed (77%), seven were neutral (16%) while three were neutral (7%). The Sacco as a whole is experiencing an increase in its profit basis which is a good indicator of development and growth. The variable we are able to fund business growth from retained profits of last year showed that thirty six of the respondents agreed (84%), three were neutral (7%) while also three disagreed (9%). This showed that the Sacco is competent and operating on going concern basis. In addition, being able to budget and forecast costs and revenues to meet monthly operations showed that thirty seven of the respondents agreed (86%), while six disagreed (14%). This means that the staffs of Mushanga Sacco work within their budget means and hence this helps them to forecast costs and revenues. For the variable maximum profits rather than maximum sales is our key objective showed that thirty five of the respondents agreed (81%), six were neutral (15%) while two disagreed (4%). Finally, the variable gross profit margin has been stable since the last 6 months showed that thirty one of the respondents agreed (71%), five were neutral (12%) while lastly seven respondents disagreed (17%).

4.5 Correlation Analysis

The relationships between study variables are established by running a correlation analysis and since the study had relationship objectives, the relationship between the study variables of management competence components of skills, knowledge, and attitude on financial performance were established using Pearson's correlation. The results of the correlation analysis are indicated in table 13 below.

Table 13: Relationship between Study Variables

	1	2	3	4	5
Management Competence (1)	1.000				
Skills (2)	.366**	1.000			
Knowledge (3)	.332**	.484**	1.000		
Attitude (4)	.493**	.526**	.427**	1.000	
Financial Performance (5)	**.588****	**.521****	**.411****	**.457****	1.000

**. Correlation is significant at the 0.01 level (1-tailed).

Source: Primary data

4.5.1 Relationship between Skills and Financial Performance

Pearson's correlation results from table 13 above, showed the relationship between employee skills and financial performance. The Pearson coefficient (r = 0. 521**, p = 0.00<0.01) shows that the result is positive and closer to +1, hence a strong positive association. The correlation results showed that employee skills are a significant predicator of financial performance. This implied that the more employee skills are practiced and applied, the better and greater its impact on financial performance.

Hypothesis One:

Null hypothesis:

Ho: Skill has no significant positive relationship with financial performance.

Alternate hypothesis:

H1: There is a significant positive relationship between skills and financial performance.

α level: α = 0.01.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 13. It shows that there is a strong significant positive relationship between skills and financial performance of Mushanga Sacco (r = 0. 521**, p = 0.00<0.01). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between skills and financial performance was accepted as summarized in table 13.

4.5.2 Relationship between Knowledge and Financial Performance

Pearson's correlation results from table 13 above, showed the relationship between employee knowledge and financial performance. The Pearson coefficient (r = 0. 411**, p = 0.00<0.01) shows that the result is positive and, hence a positive association. The correlation results showed that employee knowledge is a significant predicator of financial performance. This is therefore an indication that an increase in knowledge leads to an increase in financial performance.

Hypothesis Two:

Null hypothesis:

Ho: Knowledge has no significant positive relationship with financial performance.

Alternate hypothesis:

H1: There is a significant positive relationship between Knowledge and financial performance.

α level: $\alpha = 0.01$.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 13. It shows that there is a significant positive relationship between knowledge and financial performance of Mushanga Sacco (r = 0. 411**, p = 0.00<0.01). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between knowledge and financial performance was accepted as summarized in table 13.

4.5.3 Relationship between Attitude and Financial Performance

Pearson's correlation results from table 13 above, showed the relationship between employee attitude and financial performance. The Pearson coefficient (r = 0. 457**, p = 0.00<0.01) shows that the result is positive, hence a positive association. The correlation results showed that employee attitude is a significant predicator of financial performance. This is therefore an indication that a positive attitude will greatly and positively influence performance and the reverse is also true.

Hypothesis Three:

Null hypothesis:

Ho: Attitude has no significant positive relationship with financial performance.

Alternate hypothesis:

H1: There is a significant positive relationship between attitude and financial performance.

α level: $\alpha = 0.01$.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 13. It shows that there is a significant positive relationship between attitude and financial performance of Mushanga Sacco (r = 0. 457**, p = 0.00<0.01). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between attitude and financial performance was accepted as summarized in table 13.

4.6 Regression Analysis

Multiple regression analysis was used to find out the influence of the independent variable on the dependent variable. The dependent variable considered was financial performance. Table 14 below presents the regression model of the variables under study.

Table 14 Regression of Management Competence with Financial Performance of Mushanga Sacco

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Change Statistics	
						R Square Change	F Change	df1	df2	Sig. F Change
	1	.607(a)	.369	**.346**	.44321	**.346**	11.098	3	99	.000

a. Predictors: (Constant), Skills, Knowledge, and Attitude

b. Dependent Variable: Financial Performance

The regression result showed that about 35% of the variations in financial performance of Mushanga Sacco are explained by management competence comprising of skills, knowledge, and attitude. This means that about 65% of the variations in financial performance of Mushanga Sacco remain unexplained by this current study.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study, discussion of the findings, conclusions and recommendations. The chapter also shows the limitations of the study and areas suggested for further research. The discussion and conclusions are drawn from the research findings obtained from primary and secondary data.

5.2 Summary of the Findings

5.2.1 Skills and Financial Performance

The first objective examined the relationship between employee skills and financial performance at Mushanga Sacco. The overall findings on the first objective after combining all the variables studied using Pearson's correlation approach ($r = 0.521^{**}$, $p = < 0.001$) showed that there was a significant and positive relationship between employee skills and performance.

5.2.2 Knowledge and Financial Performance

The second objective examined the relationship between knowledge and financial performance at Mushanga Sacco. The overall findings on the second objective using Pearson's correlation approach showed that there was a positive and significant relationship between knowledge and performance. The overall findings on the second objective using correlation results of (r =

0.411**, p = 0.00<0.01) showed that there was a positive and significant relationship between knowledge and performance.

5.2.3 Attitude and Financial Performance

The third objective examined the relationship between attitude and financial performance at Mushanga Sacco. The overall findings on the third objective using Pearson’s correlation approach showed that there was a positive and significant relationship between knowledge and performance. The overall findings on the second objective using correlation results of (r = 0.457**, p = 0.00<0.01) showed that there was a positive and significant relationship between attitude and performance.

5.3 Discussion of Research Findings

The discussion of the research findings was guided by the objectives of the study in comparison with the reviewed literature.

5.3.1 Skills and Financial Performance

This study agreed with the findings of Leoang and Sheu (2003), Ntayi and Eyaa (2008) who asserted that employee skills has an effect on performance. This is because through skills like good interpersonal skills, an organization can get a great deal of customers, leading to increased sales and hence increase in investment returns. In addition, much as one needs education, to get a basic office job, experience is gained over time at work, however, for some technical aspects like risk assessment in loan portfolios, one needs employees with skilled labor to perform the job (Boyatzis et al., 2005) hence, in this study, employee skills was a critical factor needed to enhance financial performance at Mushanga Sacco. The provision of skills and incentives in

MFIs was emphasized by Churchill (2005) who observed that besides designing effective screening tools, it is also important to provide staff with the skills and incentives to properly implement them. He further claims that some micro lenders have a strong screening process but the staff members are not well trained on how to use these tools effectively, or even more commonly, social pressures may encourage loan officers to take short cuts with the assessment process to achieve the volume targets.

Furthermore, Staines (2008) argued that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Lyles et al., (2004) evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business.

5.3.2 Knowledge and Financial Performance

This is in agreement with Robert (2001) who asserts that business owners to be perform well until they become managers; this is the problems starts unless they possess the acquired knowledge about managerial competencies inform of knowledge about how to maintain and run the business. Bratol (2010) emphasizes that for knowledge to be effective and managerial, necessitates the ability to visualize the entire organization and its relationships and understand how organizations can fit into the wider perspective as perceived at different level. Bradley

(2008) noted that Sacco should employ staff and managers who have knowledge and hence are competent and able to work as required and assigned. The employees especially the managers will emphasize performance in the Sacco which will result into increased sales, investment returns and profits.

Besides, Serwadda (2003) observes that every organization has a human resource base and each organization has a built and defined by these people. He further urges that the quality of these people is determined by the degree of effectiveness an organization can achieve in all the other areas. There is also need for these people to show qualitative skills like commitment and motivation, this way, people can be able to work together and support each other which is good for a healthy organization.

5.3.3 Attitude and Financial Performance

Nicalaov (2005) argues that if an employee is aware of his competence for example having the right attitude to communicate or interact with each other, then performance can be improved and achieved. Competencies help employees to possess a certain behavior much as he/she might hesitate in using them at work either because of a belief that they can't be of help in the successful completion of tasks or because they have a bad attitude towards his/her supervisor might result into inferior performance.

Furthermore, Carmeli (2006) asserted that emotional intelligence enhances altruistic behavior enabling employees to comprehend their co-workers feelings and to respond better than people with low emotional intelligence. Stall (2004) suggested three explanations for the engagement of an emotionally intelligent individual in an altruistic behavior. First, being in a good mood is reinforcing and displacing altruism in rewarding in a sense that it enables employees to also maintain their state of mind. Secondly people in good moods may be socially interactive and finally, when employing people, they will have both positive attitudes and emotional reactions to the job, and this means that they might be likely to be more engaged in a helpful behavior or not this behavior affects performance in a positive or negative way.

5.4 Conclusions

5.4.1 Employee Skills and Financial Performance

Findings show a very strong relationship between employee skills and financial performance in the Sacco, most situations were employee skills are implemented then performance was high. Employee skills are important in managerial competence and performance, therefore managerial competence is important in performance. As noted, skills were actually found to be the blood through which performance can be attained. When skilled manual labor is applied, together with integrity of the employees, then performance in an organization can be realized. Skills are only useful if staffs are consistent and honest, hardworking and then they can be able to achieve the organizational goals and objectives.

5.4.2 Knowledge and Financial Performance

Sacco need to hire workers who are knowledgeable and have good qualifications especially in the top level management areas since higher skilled manpower supports innovation and more sophisticated production processes which lead to quality products and increased performance.

Knowledge competencies provide a bench mark for comparing actual performance with the desired performance.

5.4.3 Attitudes and Financial Performance

Employees should have the right attitude in order to enable them learn new strategies for improving the financial performance of Mushanga Sacco. There is need to involve staff in decision making that affects them, provide clarity about behavioral expectations, create opportunities for positive attitude, use a feedback process and finally, align systems to support the new desired behaviors for improved financial performance of Mushanga Sacco.

5.5 Recommendations

5.5.1 Skills and Financial Performance

With regard to the first objective, employee skills are needed to help build financial performance in the Sacco. Mushanga should endeavor to train its staff as this will increase performance. . Ministry of finance and economic development should develop a consultancy and advocacy especially the ministry in charge of Sacco at their various grass root levels. This should be for purposes of consulting, advising and designing programs to fill the gaps between the actual situation and the desired one., coaching, guiding and training people at different levels in the Sacco.

5.5.2 Knowledge and Financial Performance

Employees of Mushanga Sacco should be offered management and supervisory skills and know-how, defining the company mission statement, goals, and objectives. This will help the managers to achieve the desired goals, objectives and vision. Identifying regular trainings of managers on managerial competencies and how it can lead to increased performance, is necessary if superior performance outcome is to be achieved.

5.5.3 Attitudes and Financial Performance

There is need to improve on the skills of the employees so that performance is also enhanced. Developing management and supervisory skills and know- how, defining the company mission statement, goals, and objectives and hence helping managers to achieve the desired goals, objectives and vision. Besides, there is need to identify regular trainings of managers on managerial competencies and how it can lead to increased performance, increased employee motivation which in turn increases financial performance in the company.

5.6 Limitations and Contributions of the Study

This study was limited to Mushanga Sacco as a case study only; hence the study findings cannot be generalized to other Saccos in Uganda.

Besides, there was difficulty experienced in obtaining documentary evidence on the financial performance of Mushanga Sacco.

5.7 Areas for Further Research

Further studies should be conducted to include the many other Saccos in the country managerial competencies differ from one Sacco to another.

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APPENDIX 1: QUESTIONNAIRE

Dear respondent,

This survey is aimed at examining the relationship between managerial competence and performance of microfinance institutions in Uganda. This information is required for academic purposes specifically for the completion of my studies for the award of a Master of Business Administration degree of Uganda Management Institute; hence all responses will be treated with utmost confidentiality. You are therefore kindly requested to complete and return the attached questionnaire. Your assistance is greatly appreciated. Section A of the questionnaire consists of biographical and organisational specific questions while for the rest of the questionnaire you are required to indicate the extent to which you agree with the various statements

SECTION A: BIOGRAPHICAL DATA

Please supply the following information by ticking in the appropriate block

1. What is your gender?

Female	
Male	

2. What is your age bracket?

Less than 18 years	18-24 years	25-31 years	32-38 years	39-45 years	46 and above

3. What is your highest education level?

Diploma	Bachelor's Degree	Master's Degree	Other (please specify)

4. What position do you hold in the Sacco?

Other Manager	
Human resource	
Non - Supervisory staff	

5. How many years have you been employed in this Sacco?

1-5	6-10 yrs	More than 10 yrs

SECTION B: Indicate the extent to which you agree with the following statements by ticking the appropriate block.

Strongly agree	**agree**	**Neither agree nor disagree**	**Disagree**	**Strongly disagree**
5	**4**	**3**	**2**	**1**

Managerial competences

Employee skills							
1	Maintains sufficient materials and skills to perform my duties						
2	Demonstrates self confidence by getting involved in the areas that am good at.						
3	I use my skills to organize and deliver business initiatives						
4	I train his or her employees to acquire the necessary skills needed to perform their duties						
5	I Possesses skills to enable me perform at a high capacity						
6	I am trustworthy in my dealings with the customers						
7	I Provide mutual support and a mentoring environment to the Employees						
8	I am honest and treats other employees well						
9	Training of employees in skill development is done in our company						
10	I am creative and like sharing ideas with fellow managers. Uses various techniques of out competing his rivals						
	Knowledge						
1	I am aware of the market forces and knows were to market the goods at a favourable price						
2	I know the available markets and their conditions and identify the most competitive market						
3	I have good team management skills; I step aside and gives others an opportunity to perform similar duties						

4	knows what he is good at and what his weaknesses are					
5	establishes and maintains good working relationships with his customers and the bankers					
6	Consults and gets external information from suppliers, buyers and Competitors					
	Attitudes					
1	I am self motivated and committed to my job description					
2	I have a positive attitude towards my work; I enjoy my work and have interest in it					
3	I am a persistent person who is able to take on challenging work					
5	I have the ability to persevere in good and bad times					
6	Giving back to the customers in terms of gifts and lotteries is part of our company					
7	I give customers enough attention					
8	I Listen to customer complaints					

Financial performance

	Investment					
1	Overall, investment growth in quantity has been achieved in the last 2 years					
2	Investment quantity has been steadily high in the last 6 months					
3	Investment intensity has been improving since the last 6 months					
4	We have been meeting investment targets or expectations since last year					
5	Customer base has steadily been increasing since last year					
	Profitability					

1	Overall, business gross profit has grown in the past two years					
2	We are able to fund business growth from retained profits of last year					
3	We budget to forecast costs and revenues to meet monthly operations					
4	Maximum profits rather than maximum sales is our key objective					
5	Overall financial performance and future outlook is encouraging					
6	The gross profit margin has been stable since the last 6 months					

APPENDIX 2: INTERVIEW GUIDE

An interview Guide on managerial competence and financial performance

- What is your position in the Institution?
- What management level do you occupy by virtue of your position in the Institution?
- In your opinion, do the managers do a great job in relation to service delivery?
- Do you think training is needed for the staff?
- In your opinion, what would you consider to be the main measures of financial performance in Microfinance institutions?
- In your opinion is having enough money the best measure of performance of MFIs?
- What would be the other measures you would consider appropriate?
- In your opinion, do you think your institution has adequate liquidity to meet its obligation as and when they fall due? Any reasons to explain the situation.
- In your opinion, is managerial training needed for managers in the Sacco?
- How would you rate the reporting process in your organization?