Identifying the Internal Environment Components Critical to Realizing the Planned Performance of Micro-Finance Institutions in Uganda

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Abstract

The nature of a firm's internal environment is known to be a major determinant of its performance. It is, however, not always clear which components of this environment are critical and therefore need more managerial attention if a firm is to realize its planned performance. Consequently, this article focuses on establishing these components for micro-finance institutions in Uganda. The article has been compiled from a study conducted empirically about the massive closure of these institutions which caused government and client concern, as explained by their management. Concisely, the findings indicate that the components that critically affect the realization of the planned performance of a micro-finance institution in Uganda include the ethical orientation of institutions' managers, the nature of the relationship that the managers keep with their subordinates, and the level of authority given to employees to execute assigned responsibilities. All these components relate to the quality of the institutions' internal supervision, implying that if the institutions are to realize their performance as planned, their management has to ensure that their internal supervision is of the best possible quality.

Key words: **Micro-Finance Institution, Internal Environment, Performance, Uganda**

Introduction

Realizing planned performance is the ultimate aim of any enterprise's management (ACCA, 2009). For it is only when an enterprise achieves its planned performance that its management can be sure that it has attained the key performance indicators such as profitability, survival, growth and others as expected (Salahuddin, 2006; Barnett, 2000). It has been observed that to realize this aim, management has to pay attention to different factors, one of which is the firm's internal environment (McGivern & Tvorik, 2005). In the context of micro-finance institutions, this observation is particularly brought out in a number of studies (Karekaho, 2009; Bosch, Tait & Venter, 2006; Martin, Reyna & Jorgensen, 2006; Martin, 2005; Chapman, 2004; Komunitas, 2004), and implies that the nature of this environment is also critical to realizing these institutions' planned performance.

Internal environment refers to all the factors that affect an enterprise's performance from within (Pearce & Robinson, 2001). This environment is defined in terms of the characteristics of an enterprise's managers and employees, the relationships among them, their responsibilities and assigned authority, the activities carried out internally, and the policies and culture guiding the execution of the activities (Garg & Rastogi, 2006; Pearce & Robinson, 2001). A scrutiny of these aspects reveals that an enterprise's internal environment subsumes many factors whose management is potentially capable of affecting the enterprise's performance in a critical

manner. When the factors are managed in a manner that makes them favourable, they support realization of an enterprise's performance as planned (Pearce & Robinson, 2001). The reverse is also true. So, when a firm fails to realize its planned performance, it is in order to question how its internal environment is managed.

Micro-finance institutions in Uganda are not any different. These institutions have been failing to achieve their planned performance indicators to the extent that most of them have quit the market (Karekaho, 2009). Backed by a highly favourable government policy adopted in the mid 1990s, these institutions were established to pursue profitable business through provision of small loans to small-scale entrepreneurs who could not meet the lending terms of commercial banks (Association of Micro-Finance Institutions [AMFIU], 2009; Karekaho, 2009; Oketch, 2009; Ministry of Finance, Planning and Economic Development [MoFPED], 2009). Government policy favoured the establishment of these institutions because they were viewed as: (a) conduits of soft loans that government wanted to extend to low-income entrepreneurs as start-up capital; and (b) promoters of the savings culture of low-income earners and subsequent accumulation of private capital needed to enhance economic growth and development of Uganda (MoFPED, 2010; Microfinance Forum, 2004; Bank of Uganda [BoU], 2003). In fact, the number of established micro-finance institutions rose from a paltry 89 in 1990 to 1,592 by 2008 as a result of this policy (MoFPED, 2010). During the 1990-2008 period, the numerical growth of these institutions stood at 1,688.8 per cent.

Unfortunately, no sooner had the institutions been established than many of them started quitting the market after registering high default rates; much lower than expected loan servicing rates; miserable loan recovery rates; and, overwhelming and erratic cash withdrawal rates (Karekaho, 2009; Mubangizi, 2009). Indeed, over 91 per cent of institutions established between 1990 and 2008 closed down (MoFPED, 2010). There is also uncertainty about the ability of the remaining institutions and those entering the market to survive in business in a sustainable manner (Mubangizi, 2009; Oketch, 2009). This scenario has caused serious government and public concern, thereby leading to questioning as to what could be causing the decline and how it can be addressed. Many factors can be explored, including the planning, implementation and control of the planned programmes, the impact of their external environment, and, more importantly for this article, the nature of the institutions' internal environment.

This article explores how the nature of the institutions' internal environment (as created by their management) explains their performance. The internal environment is singled out because, as pointed out earlier, it is one of the major factors that affect the capability of any enterprise to attain its planned performance. The primary objective of the article is to identify the components of this environment that are critical to the ability of the institutions to achieve their performance indicators as expected. The article achieves this objective by reviewing literature about enterprises' internal environments as a basis for establishing the components which are critical to realizing the planned performance of micro-finance institutions in Uganda. The article also reviews literature on performance indicators for purposes of setting a platform for identifying the indicators that are critically affected by the identified internal environment components. The methodology used in this article to establish the components and performance indicators involves testing the following null hypothesis:

(H$_o$): There is no relationship between managing the internal environment and the performance indicators of micro-finance institutions in Uganda.

This hypothesis is one of the 13 hypotheses of a larger empirical study on Management in terms of Planning, Implementation and Control and the Performance Indicators of Micro-Finance Institutions in Uganda. The purpose of this study was to examine how the management of micro-finance institutions in Uganda has affected the performance indicators of these institutions, and whether or not the management of these institutions was responsible for their failure. The need to carry out this study arose as micro-finance institutions in Uganda failed to attain their planned performance indicators, to such a degree that most of them closed down. Although at their inception there was considerable entrepreneurial activity supported by a highly favourable government policy environment, their closure soon after establishment raised concern as to what caused them to fail. as indicated in the summary table 1 below:

Table 1: A Summary of the Findings from the Hypothesis Testing

Hypotheses	Findings
H$_{o1}$: There is no statistically significant relationship between planning conducted by the management of a micro-finance institution and the institution's performance indicators. H$_{A1}$: There is a statistically significant relationship between planning conducted by the management of a micro-finance institution and the institution's performance indicators.	Null rejected and alternative accepted.
H$_{o2}$: There is no statistically significant relationship between implementation of the planned programmes by the management of a micro-finance institution and the institution's performance indicators. H$_{A2}$: There is a statistically significant relationship between implementation of the planned programmes by the management of a micro-finance institution and its performance indicators.	Null rejected and alternative accepted.
H$_{o3}$: There is no statistically significant relationship between controlling the implementation of the planned programmes by the management of a micro-finance institution and the institution's performance indicators. H$_{A3}$: There is a statistically significant relationship between controlling the implementation of the planned programmes by the management of a micro-finance institution and the institution's performance indicators.	Null rejected and alternative accepted.
H$_{o4}$: There is no statistically significant relationship between management of the internal environmental factors and the performance indicators of micro-finance institutions. H$_{A4}$: There is a statistically significant relationship between management of the internal environmental factors and the performance indicators of micro-finance institutions.	Null rejected and alternative accepted.

Hypotheses	Findings
H_{o5}: There is no statistically significant relationship between managing the impact of external environmental factors and the performance indicators of micro-finance institutions. H_{A5}: There is a statistically significant relationship between managing the impact of external environmental factors and the performance indicators of micro-finance institutions.	Null rejected and alternative accepted.
H_{o6}: There is no difference in managers' perceptions of the performance indicators of Uganda's micro-finance institutions. H_{A6}: There is a difference in managers' perceptions of the performance indicators of Uganda's micro-finance institutions.	Null accepted and alternative rejected.
H_{o7}: There is no difference in the male managers' and the female managers' perceptions of performance indicators of Uganda's micro-finance institutions. H_{A7}: There is a difference in the male managers' and the female managers' perceptions of the performance indicators of Uganda's micro-finance institutions.	Null accepted and alternative rejected.
H_{o8}: There is no difference in employees' perceptions of the performance indicators of Uganda's micro-finance institutions. H_{A8}: There is a difference in employees' perceptions of the performance indicators of Uganda's micro-finance institutions.	Null accepted and alternative rejected.
H_{o9}: There is no difference in clients' perceptions of the performance indicators of Uganda's micro-finance institutions. H_{A9}: There is a difference in clients' perceptions of the performance indicators of Uganda's micro-finance institutions.	Null accepted and alternative rejected.
H_{o10}: There is no difference in the managers' perceptions of the management of Uganda's micro-finance institutions. H_{A10}: There is a difference in the managers' perceptions of the management of Uganda's micro-finance institutions.	Null rejected and alternative accepted.
H_{o11}: There is no difference in the male managers' and the female managers' perceptions of the management of Uganda's micro-finance institutions. H_{A11}: There is a difference in the male managers' and the female managers' perceptions of the management of Uganda's micro-finance institutions.	Null accepted and alternative rejected.

Hypotheses	Findings
H_{o12}: There is no difference in employees' perceptions of the management of Uganda's micro-finance institutions. H_{A12}: There is a difference in the employees' perceptions of the management of Uganda's micro-finance institutions.	Null rejected in favour of the alternative.
H_{o13}: There is no difference in clients' perceptions of the management of Uganda's micro-finance institutions. H_{A13}: There is a difference in clients' perceptions of the management of Uganda's micro-finance institutions.	Null accepted and alternative rejected.

Source: Management and Performance Indicators of Micro-Finance Institutions in Uganda, Kwagala, 2012.

Literature Review

The contingency management theory was pioneered by Fred Fielder (Fielder, 1967; ACCA, 2008). Essentially, this theory contends that there is no best way to manage a given human undertaking. There are many ways of performing the various management functions of planning, organizing, coordination, and control; the most effective way depends on the prevailing circumstances (Kotter& Cohen, 2009). A particular mode of management may lead to effective performance in one situation, but to disastrous effects in another situation. Thus, as noted by Kayors (2009), this theory stresses that the best way to plan, implement, and control any business programme depends on the nature of the situation at hand. This implies that management should not be static but, rather, dynamic and able to change with prevailing circumstances (Kasenene, 2003). Accordingly, the contingency theory is objective, especially to the dynamic realities that exist in business environments such as those surrounding the business conducted by Micro-Finance Institutions.

In general, therefore, different theories of management, such as the scientific, the administrative, the human relations, the systems, and the contingency one, advocate different ways of attaining desired business performance through applying different ways of designing and maintaining business ventures. A critical analysis of each of these theories reveals that they all recognise that management can lead to desired business performance through its core functions of planning, implementation, and control. Apart from the contingency theory, however, the theories have flaws that make their application impractical unless the tenets of one theory are backed by those of another. It is the contingency theory that has such backing, which makes it a patently practical theory. It is against this backdrop that the contingency theory is adopted to underpin the conceptualization of this study.

The contingency theory is adopted specifically because when its rationale is paraphrased to suit the context of this study, it posits that management can only lead to desired business performance if its functions are carried out while the environment within which the business operates is recognized and taken into account (Chapman, 2004; Komunitas, 2004). This is because business performance is affected by the factors that characterize its internal and external environments. This theory is diagrammatically depicted as follows;

Source: Adopted from Kasenene (2003:29)

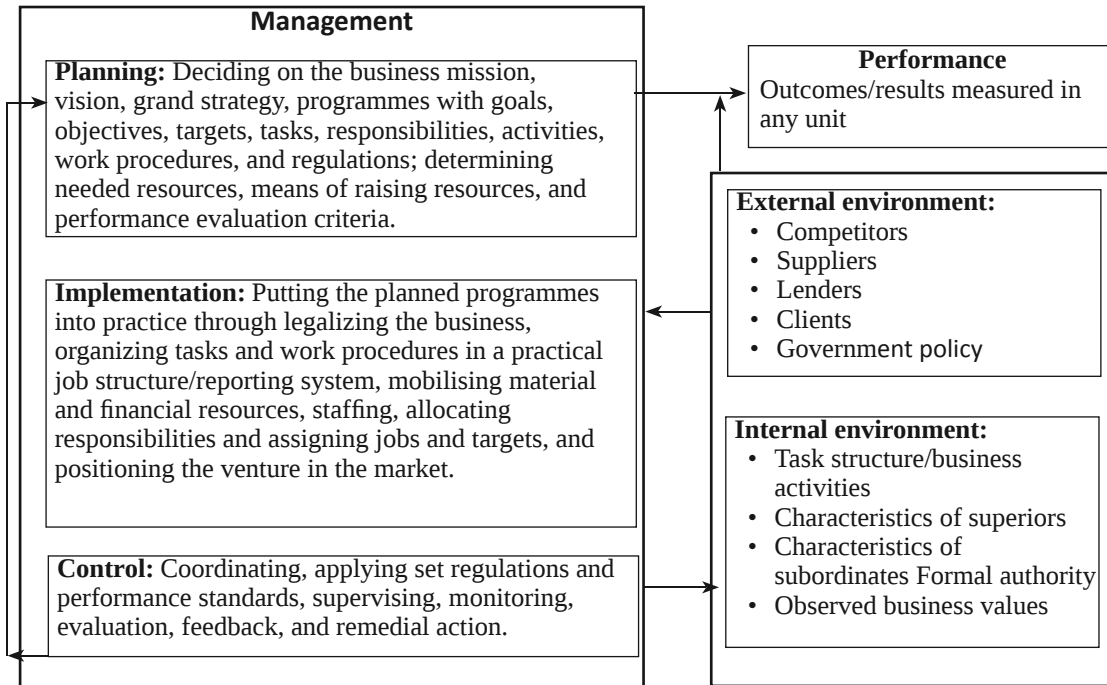| Management	
Planning: Deciding on the business mission, vision, grand strategy, programmes with goals, objectives, targets, tasks, responsibilities, activities, work procedures, and regulations; determining needed resources, means of raising resources, and performance evaluation criteria.	**Performance** Outcomes/results measured in any unit
Implementation: Putting the planned programmes into practice through legalizing the business, organizing tasks and work procedures in a practical job structure/reporting system, mobilising material and financial resources, staffing, allocating responsibilities and assigning jobs and targets, and positioning the venture in the market.	**External environment:** • Competitors • Suppliers • Lenders • Clients • Government policy
Control: Coordinating, applying set regulations and performance standards, supervising, monitoring, evaluation, feedback, and remedial action.	**Internal environment:** • Task structure/business activities • Characteristics of superiors • Characteristics of subordinates Formal authority • Observed business values

Figure 1: Galbraith's Contingency Management Model

A number of studies have shown that the management of any enterprise has to deal with the environment characterizing the enterprise both internally and externally (McGivern & Tvorik, 2005; Chapman, 2004; Komunitas, 2004; Pearce & Robinson, 2001). The focus of this article, however, is limited to the internal environment. The internal environment affects how an enterprise performs through its componental factors (McGivern & Tvorik, 2005). According to Pearce and Robinson (2001), these factors include all the variables that interplay within the enterprise in a manner that may have a positive or negative effect on its performance, depending upon how they are handled by management. Bosch et al. (2006) observed that these factors occur in form of employee characteristics, attributes of the superiors in the enterprise, and the amount of autonomy assigned to employees. Other aspects are identified in the course of the reviewed literature.

Employee characteristics include attitudes towards work, morale, motives, expectations, and the nature of the relationships that the employees demonstrate amongst themselves and with their bosses (Garg & Rastogi, 2006). The superiors' characteristics include the nature of supervision, discretion given to management in decision making, management expectations, and the nature of the relationships superiors demonstrate amongst themselves and with their subordinates (Garg & Rastogi, 2006). Other aspects that characterize the internal environment of an enterprise include the level of formal authority given to employees to execute the assigned tasks and responsibilities and the structure of tasks in terms of clarity and distinctiveness (Fehlmann, 2003).

An enterprise's internal environment is also characterized by the ethical orientation of the managers. Prozesky (2005) examined the following ethical orientations of managers from a global perspective: enterprising ability, competitiveness, individualism, material success, sustainability, good governance, and social investment. For Africa, Prozesky (2005) identified the following ethical orientations of managers: cultural and ethnic tradition, Christianity, secular business values, as well as those behaviours that are evident when business managers show self-serving tendencies without regard for the community. Prozesky's study indicates that managers seek to take all the benefits instead of giving or sharing them. Could this type of behaviour be a major factor in determining the performance of micro-finance institutions in Uganda? The answer is provided later in this article.

Although the foregoing discussion identifies the various components of a firm's internal environment, it does not explain how each component affects a firm's ability to attain its planned performance; nor does it specify which components are critical to attaining this performance. The observations, therefore, paint a picture that the factors are equally important across all enterprises. Is this the case? This is the question examined in this article using micro-finance institutions in Uganda as a case in point.

Even studies (Kamugisha, 2008; Nabakiibi, 2008; Akonyet, 2007; Kyalisima, 2007; Bazageza, 2007; Lakya, 2005; Muwanguzi, 2004; Pafula, 2003) that have been conducted about the performance of Uganda's micro-finance institutions explain it in terms of factors that do not include the institutions' internal environment. These studies show that most of these institutions have failed to attain their performance indicators such as required depositors, deposits, disbursed loans, loan servicing rates, arrears rate, loan repayment rate, risk profile, loan recovery rates, loan loss rate, arrears rate, and client goal attainment. However, the factors advanced to explain the failure of the institutions ignore the contribution of the institutions' internal environment. This loophole could be explained by the fact that the studies use a financial approach, thereby attributing the failure either to lending policies and practices of commercial banks in Uganda or poor governance and outreach. The studies have also attributed the failure of the institutions to poverty and portfolio management.

In conclusion, therefore, the preceding literature identifies the different aspects that characterize the internal environment of business enterprises as was confirmed by the findings largely by the scholarly works by Bosch et al. (2006), Garg and Rastogi (2006), Prozesky (2005) and Fehlmann (2003). Each of these works identifies at least one of these attributes as a measure of an enterprise's Internal Environment.

The aspects include employee and superior attributes, managers' ethical orientation, allocated formal authority, prevailing task structure and others. The literature is, however, silent about how the internal environment affects the performance of micro-finance institutions in Uganda. This article fills this gap using the following conceptual framework in Figure 2.

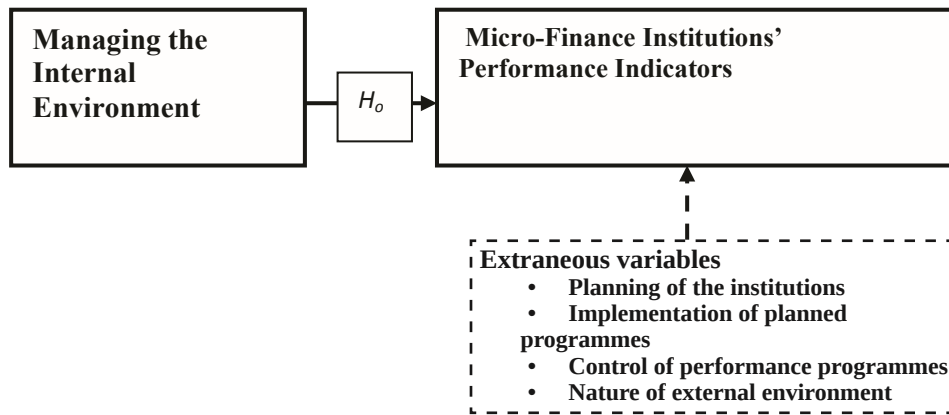*Source: Developed by the author based on various literature sources.*

Figure 2: Relationship between Managing the Internal Environment and Performance Indicators of Micro-Finance Institutions

The Management of the Internal Environment of Micro-Finance Institutions (specifically, Allocated formal authority; Prevailing task structure; Handling of employees' aspects; Demonstrated manager's aspects; and, Demonstrated ethical Orientation of Management) is conceptualized as the independent variable, while the Performance Indicators attained by the institution (namely, Number of depositors; Level of deposits; Amount of loans granted; Loan servicing rate; Loan recovery rate; Loan loss rate; Arrears rate; Risk profile; Client Goal Attainment; Client's affordability to repay; and, Client's ability to schedule payment) are indicated as the dependent variable.

The conceptual framework recognizes that there are other factors that can affect the performance indicators as well as the management of the internal environment of micro-finance institutions. Although these external factors are indicated in the conceptual framework, they were considered as extraneous variables in this article because they are outside its scope. The hypothesis on which this article concentrates was tested using the methodology presented in the next section.

Research Methodology

There are two main research philosophies: the positivistic and the phenomenological methodologies (Collis & Hussey, 2003). The study on which this article is based used a positivistic research methodology. This methodology was adopted to enable the study to collect and analyze quantitative data based on a Likert response scale running from strongly agree through agree, not sure, disagree to strongly disagree (Trochim, 2006), thereby avoiding speculation (Amin, 2005). The positivistic methodology was adopted to also enable the study to test the stated hypothesis (H_o) using statistical analysis (Leedy & Ormrod, 2005). The research adopted a cross-sectional survey complemented by a correlational research design. This was intended to enable the study to use the positivistic approach based on data collected from different categories of respondents (Sekaran, 2000) who included the different stakeholders of Uganda's micro-finance institutions: the managers, employees and clients. While clients were selected to provide data on some of the performance indicators of the selected institutions,

managers and employees were selected to provide data about all the variables analyzed in this article. Clients were considered to provide data about performance indicators only because they were not in a position to provide valid data about how the internal environment of the institutions was managed; for they were not part of this environment.

The sample was selected from a population of all stakeholders of the 143 micro-finance institutions that were operational in Uganda (MoFPED, 2009). The total number of the institutions' employees and managers was 1,508, while that of their clients was 13,467. This meant that the total stakeholder population was 14,975. Krejcie and Morgan's (1970) Sample Determination Table was used to determine the minimum expected sample size as 375 (this was because the population size was close to 15,000). However, based on Kothari's (2005) argument that any sample whose size is greater than the minimum size is more representative, the actual sample size was 454 respondents, including 64 (14.1 per cent) managers, eight of whom were at department level; 177 (39 per cent) employees and 213 (46.9 per cent) clients.

The above sample was expected from 103 micro-finance institutions as per Krejcie and Morgan's (1970) Sample Determination. However, due to the unwillingness of some micro-finance institutions to participate in the study, the study sample was actually selected from 56 institutions operating in Central Uganda. The unwillingness limited the statistical representativeness of the institutions, but this limitation was minimized by selecting a representative sample in terms of respondents. This region was targeted because it harbours the headquarters of over 75 per cent of the operational micro-finance institutions in Uganda (MoFPED, 2010). The respondents and methods used to select them are tabulated below.

Table 2: Respondents and selection methods used

Category of respondents	Number	Applied sampling technique	Applied Data collection method
Managers	64	Purposive sampling	Structured questionnaires
Employees	177	Simple random sampling	Structured questionnaires
Clients	213	Convenience sampling	Structured questionnaires
Total	454		

Source: Developed by the Author

As Table 2 indicates, the managers were selected using purposive sampling because they were considered the key informants. Employees included loan officers and tellers, and were selected using simple random sampling so as to give each of them an equal chance of participating in the research. Both the managers and employees were selected at their respective institutions. Clients, who included both depositors and credit clients, were selected using convenience sampling; for there were no records about where they could be easily located. Those who participated in the study were selected from among those who were found at the selected institutions.

Structured questionnaires were used to collect the data because they accommodated standard close-ended questions (Amin, 2005). One questionnaire was designed for managers and employees and another for clients according to the variables of the study. Likert ratings

highlighted earlier were used to measure the respondents' perception of planning and performance indicators of Uganda's micro-finance institutions. Likert ratings were used because no micro-finance institution was willing to release its actual financial information. They therefore helped circumvent this limitation. The clients' questionnaire was translated from English to Luganda, a popular language among the business community of central Uganda where the study was conducted. A professional translator was hired do this task. Both the managers' and clients' questionnaires were validated using the content validity test and further tested for reliability using the Cronbach Alpha method of internal consistency (Amin, 2005). The translated client instrument was translated back to English by another professional translator to ensure that it covered the intended meaning of the questions. This ensured content validity of the translated version.

Data were collected by the researcher aided by five hired field workers after seeking permission from relevant micro-finance institution authorities and respondents. Field workers were first trained in data collection techniques such as how to approach respondents and convince them to answer questions. The methods used to analyze the collected data included reliability analysis, descriptive analysis, factor analysis, correlation analysis and linear regression analysis (Amin, 2005) aided by Version 13 of the Statistical Package for Social Sciences (SPSS). Reliability analysis was used to establish the consistency of the used questionnaire scales in measuring the variables of the study. Factor analysis was used to extract the principal measures of how the internal environments of the institutions were managed as well as of the performance indicators. Correlation analysis was used test the H_o. Linear regression analysis was used to establish whether managing the internal environment had a direct effect on the institutions' performance indicators or not. The findings are presented in the next section.

Findings

The findings are presented in tables according to the methods used to analyse the data. After the different questionnaires had been designed, they were tested for validity using the content validity test, as discussed by Siegle (2004). Validity testing was carried out after the designed questionnaires were pilot-tested on three colleagues who were knowledgeable about the themes of the study. The colleagues were asked to scrutinise and evaluate the items in each questionnaire. They examined the items one by one, marking those that they considered relevant (R) to the study, and those that they considered irrelevant (IR) to the study. They also improved some of the items by rephrasing them; thereby ensuring that each item measured what it was intended to measure. The experts inserted additional items that were considered relevant but had been unintentionally omitted. After carrying out this process, a Content Validity Index (CVI) was computed using the following formula, where CVI represents the Content Validity Index, R represents the number of relevant items, and IR represents the number of irrelevant items:

$$CVI = \frac{R}{R+R}$$

The computations and Content Validity Indices (CVIs) for the different questionnaires are summarised in Table 3.

Table 3: Content Validity Indices for the Administered Questionnaires

Instrument	Assessment of items		Computation	
	R	IR	R + IR	CVI = R/(R+IR)
Managers' questionnaire	150	11	161	0.932
Clients' questionnaire	35	3	38	0.921

Source: Primary data

Reliability Analysis Results

The Cronbach's Alpha method of internal consistency was used to establish the extent to which the administered questionnaire scale measured the managing of the institutions' internal environment in a consistent manner. Table 3 presents the findings.

Table 4: The Cronbach Alpha Coefficients of Internal Consistency for the Questionnaires

Questionnaire	Alpha
Managers' questionnaire	0.840
Clients' questionnaire	0.868

Source: Primary data

The Cronbach's Alpha coefficients in Table 4 were at least 0.7, after rounding 0.666 off to the nearest tenth. Field (2005), Brerakwell, Hammond and Fife-Shaw (1995) and Gaskell, Wright and O'Muircheartaigh (1993) recommend that 0.7 should be the threshold Cronbach's Alpha value that items in any questionnaire scale should have in order to collect reliable data. Accordingly, the items retained in the administered questionnaire scales measured the two variables in a largely reliable way.

Factor Analysis Results

Factor analysis was carried out to confirm whether the factors identified in the model measured the variables appropriately. The varimax method was used because, as Amin (2005) observed, it minimizes loadings of each item to each generated component, thereby ensuring that an item belongs to a component to which it loads, or correlates, highest (Kothari, 2005). The generated correlation matrices were sorted by size (DeCoster, 1998) and all correlations less than 0.4 were suppressed to simplify interpretative scanning of each matrix (Field, 2005). The generated Eigen values and percentage of variance explained by each component (called principal component) were used to determine the suitability of the component to measure each variable. Findings obtained in respect of managing the internal environment of the selected institutions are presented in Table 5.

Table 5: Factor Analysis Results on Managing the Internal Environment of Selected Micro-Finance Institutions

	Component
Retained questionnaire items (variables)	Quality of internal supervision
The aims of employees in our MFI are consistent with those of management.	.865
The expectations of employees in our MFI are met by management.	.854
The managers of our MFI observe the set ethical standards when dealing with employees.	.846
The supervisory relationship between employees and top management is supportive to the achievement of planned performance.	.842
There is a supportive relationship between employees and management.	.789
Each employee is given the authority needed to execute assigned tasks.	.601
Eigen value	3.885
%Variance explained	64.755

Source: Primary data

Table 5 indicates that only one component was extracted from the items which were retained as reliable measures of managing the internal environment of micro-finance institutions in Uganda. The component was identified as quality of internal supervision. The corresponding Eigen value was much greater than one, implying that the component measured the managing of this environment in a significant manner. In fact, even the percentage variance obtained shows that the component explained up to a whole 64.755 per cent of the performance variance in managing micro-finance institutions. The identified component implies that managing the internal environment of the selected institutions was suitably measured by the quality of their internal supervision.

It is important to note that the identified components do not appear in Figure 2. A careful scrutiny of the findings in Table 4 suggests, however, that the items from which it was identified were similar to some of those appearing in Figure 2 as: managers' and employees' aspects; management's ethical orientation; relationship between the managers and employees; and, authority given to employees to execute assigned responsibilities. The findings, thus, largely confirm the scholarly works by Bosch et al. (2006), Garg and Rastogi (2006), Prozesky (2005) and Fehlmann (2003). Each of these works identifies at least one of these attributes as a measure of an enterprise's internal environment.

After establishing the reliable indicators of the internal environment, factor analysis was further carried out to establish the reliable measures of the performance indicators of the selected micro-finance institutions as shown below:

Table: 6 Factor analysis results on Performance Indicators of Selected Micro-Finance Institutions

Retained items (variables)	Generated components	
	Internal performance indicators	Client performance indicators
Realizing required level of deposits	.824	
Our MFI realizes expected profits	.716	
Risk profile (unpaid-up loans)	.640	
Extending required amount of loans	.604	
MFI's loan collection rate being as required	.562	
Realizing required size of depositors	.519	
Clients being able to reschedule loan repayment		.804
Clients meeting business objectives		.518
Eigen value	2.068	1.643
% variance explained	25.854	20.542
Cumulative % variance explained	25.854	46.396

Source: Primary data

Table 6 shows that two principal components were extracted from the scale administered to examine the performance indicators of the selected institutions. These were identified as: internal performance indicators and client performance indicators. The Eigen values show that the two components were reliable measures of the institutions' performance indicators. Careful analysis of the items loading into each component reveals that they correspond to some of those highlighted in Figure 1. The exceptions outlined in Figure 1, but not appearing in the table above, are the following: loan servicing rate, loan recovery rate, loan loss rate, arrears rate, and client's affordability to repay. These findings suggest that measuring the performance of most of the selected institutions did not consider each of these indicators as important. It is therefore not surprising that, by extension, most of the micro-finance institutions in Uganda failed to achieve most of the key indicators of their planned performance as pointed out in the scholarly works of Karekaho (2009), Kamugisha (2008), Nabakiibi (2008), Akonyet (2007), Kyalisima (2007), Bazageza (2007), Lakya (2005), Muwanguzi (2004) and Pafula (2003).

The main thrust of this article was to identify the internal environment components that were critical to realizing the planned performance of a micro-finance institution in Uganda. Therefore, further analysis was carried out to establish whether the 'quality of supervision' identified in Table 5 as the only reliable component was critical to realizing the significant measures of the institutions' performance indicators summarised in Table 6. This involved testing the hypothesis (H_o) stated in the introductory section of this article.

Testing the Hypothesis

H_o assumed that *'there was no relationship between managing the internal environment and the performance indicators of micro-finance institutions in Uganda'*. This hypothesis sought to test a relationship between the two variables. According to Leedy and Ormrod (2005), the most appropriate method for testing relationships is the correlation method. H_o was therefore tested using this method. The bivariate Pearson Correlation Coefficient (r) method was used to obtain findings, which are summarised in Table 7.

Table 7: Results on the relationship between managing the internal environment and performance indicators of selected institutions

Variables	Statistics	Internal performance indicators	Client performance indicators	All Performance indicators	Quality of internal supervision
Internal performance indicators	r	1			
Client performance indicators		0.131*	1		
All Performance indicators	r	0. 898**	0.889**	1	
Quality of internal supervision	r	0.428**	0.152*	0.325**	1

** Correlation (r) is significant at the 0.01 level (2-tailed).

* Correlation (r) is significant at the 0.05 level (2-tailed).

The correlation coefficient between quality of supervision and all the performance indicators of the selected micro-finance institutions was r = 0.325 and was significant at the 0.01 level of significance. H_o was therefore rejected in favour of its alternative. This meant that there was a significant relationship between quality of supervision and the performance indicators of the institutions. These findings imply that the quality of the institutions' internal supervision related significantly with their performance indicators. In fact, such quality related more significantly with the institutions' internal performance indicators (r = 0.428, Sig. < 0.01) than with the indicators as realized by their clients (r = 0.152, Sig < 0.05). It was therefore more critical to realizing the key performance indicators of the institutions.

It is important to note that the magnitudes of correlations between the quality of supervision and the performance indicators of the institutions were less than 0.5. This suggests that the relationship was generally weak, its significance notwithstanding. This was further confirmed when the strength of the relationship was tested using linear regression analysis; for according to Kothari (2005), it is the appropriate method when the purpose of the analysis is to determine how the independent variable affects the dependent variable in a direct manner. Findings are shown in Table 8.

Table 8: *Prediction of Performance Indicators of the Selected Micro-Finance Institutions by the managing of their Internal Environment*

Variables	Dependent/predicted variables and statistics										
Independent/ Predictor variable		Internal performance indicators			Client performance indicators			All MFI performance indicators			
	Constant	Beta	t	Sig.	Beta	t	Sig.	R-Square	Adjusted R-Square	F	Sig.
Quality of internal supervision	1.057	.415	7.064	.000	.097	1.657	.099	0.192	0.186	28.345	0.000

Source: Primary data

The findings in Table 8 indicate that all the quality of the internal supervision of the selected institutions predicted their performance indicators by a significant 18.6 per cent (Adjusted R^2 = 0.186, F = 28.345, Sig. = 0.000 < 0.01). This implies that the way internal supervision was carried out in the institutions had a direct effect of determining 18.6 per cent of their performance indicators. As an illustration, if one of the selected micro-finance institutions planned to achieve a deposit level of Uganda Shillings 100 million, how it was internally supervised enabled it to realize 18.6 million.

Clearly, the findings show that the quality of the institutions' internal supervision translated into a weak effect on their performance indicators. This reinforces the argument raised earlier that managing the institutions' internal environment correlated weakly with their performance indicators. The findings, therefore, point to the need to strengthen the effect of supervision, more so because it was established earlier as the only component of the institutions' internal environment that was critical to realizing their planned performance indicators. Since its relationship with the performance indicators was established as positive, improving the quality of the institutions' internal supervision is bound to translate into improved performance indicators. The Beta coefficients, t-values and levels of significance in Table 8 suggest that when the quality of the institutions' internal supervision improves, it translates into significant improvements in mainly their internal performance indicators (Beta = 0.415, t = 7.064, Sig. = 0.000 < 0.01). The question arising from these findings is about how to improve the institutions' quality of internal supervision. In other words, what is wrong with this quality that needs to be rectified? Answering this question led to establishing how the managers and employees of the selected institutions perceived the reliable measures of their internal environment (quality of internal supervision). The findings appear in the next section.

Description of the Internal Environment of the Selected Institutions

This description was established by applying descriptive analysis on the items retained as reliable measures of this environment. The findings are shown in Table 9.

Table 9: Description of Managing the Internal Environment of the selected institutions (N= 241)

Reliable indicators of the environment	Row % of Managers and Employees per Description of each indicator					
	SD	D	NS	A	SA	Total %
The expectations of employees in our MFI are met by management	65.6	23.7	7.9	2.9	0.0	100
The supervisory relationship between employees and top management is supportive to realizing planned performance	16.6	51.9	5.8	22.8	2.9	100
Each employee is given the authority needed to execute assigned tasks	28.2	62.7	2.1	7.1	0.0	100
MFI managers observe set ethical standards when dealing with employees	10.4	60.2	3.7	21.6	4.1	100
Aims of MFI employees are consistent with those of management	63.9	20.7	15.4	0.0	0.0	100
Average	36.9	43.8	7.0	10.9	1.4	100

Source: Primary Data

Abbreviations: MFI-Micro-Finance Institution, SD-Strongly Disagree, D-Disagree, NS-Not Sure, A-Agree, SA-Strongly Agree

Table 9 shows that on average, 80.7 per cent (36.9% + 43.8%) of both managers and employees disagreed to all the reliable indicators of the way their institutions' internal environment was managed. Therefore, the majority of both respondents dissented to the indicators. Such dissent implies that the quality of the institutions' internal supervision was unsatisfactory; for it shows that most of the institutions' internal environment was characterized by an unsupportive supervisory relationship, worsened by managers' failure to observe set ethical standards when dealing with employees. This environment was also characterized by unmet employee expectations and failure to empower employees with the authority that they needed to execute assigned tasks.

Clearly, managing any institution's internal environment that way was bound to demoralize employees, thereby making it hard for them to effectively accomplish the assignments through which the aims of the enterprises' management are achieved. No wonder it translated into a weak effect on the performance indicators eventually achieved by the institutions. Therefore, supervision needs to be improved by effectively addressing all its reliable measures. The findings in Table 9 suggest that when improving these measures, emphasis needs to be placed on ensuring that the aims of employees are consistent with those of management. Emphasis needs to also be put on making sure that the expectations of employees are met by management. The managers of the institutions also need to observe ethical standards when dealing with employees and to ensure that the supervisory relationship between employees and top management is supportive to the achievement of planned performance.

Conclusion

The correlation between management of the internal environment, which was expressed as internal supervision, and the performance indicators of the micro-finance institutions in Uganda is significant and positive. The relationship is, however, weak and therefore points to the need to strengthen it. The positive nature of the relationship implies that if the internal environment is improved, it will translate into improvements in the institutions' performance indicators. It is necessary to improve the management of this environment, as the perception of most of the managers and employees shows that it is characterised by unsatisfactory internal supervision. Indeed, employee assignments are not well allocated in most of the institutions. In addition, most of the institutions' employees are not well supervised and motivated. Furthermore, managers in the majority of the institutions do not observe the set ethical standards as expected. Evidently, the internal supervision of most of the institutions is not favourable.

Generally, the findings show that the quality of the internal supervision of micro-finance institutions in Uganda is critical to achieving their planned performance indicators. Accordingly, if the institutions' performance indicators are to be improved as desired, there is need to put more emphasis on improving how they are internally supervised.

Recommendations

For Management

The managements of the micro-finance institutions in Uganda, especially those operating in the central region of the country, should improve the internal supervision of their institutions if they are to realize their planned performance indicators. Special emphasis should be placed on the following:

i   Ensuring that the aims of employees are consistent with those of management;

ii   Making sure that the expectations of employees are met by management;

iii   Ensuring that managers observe the set ethical standards when dealing with employees;

iv   Ensuring that the supervisory relationship between employees and top management is supportive to the efforts geared towards achieving the planned performance.

The relationship between management of the internal environmental factors, particularly the supervision of employees, and the performance indicators of the micro-finance institutions should be strengthened. To realise the needed strengthening, the managers and heads of departments, where applicable, should improve the quality of employee supervision by:

Improving manager-employee relations through team building and the application of employee-centred supervision. This will improve employee motivation at work. The improvement can be accelerated if managers and/or employee supervisors receive leadership training through workshops and/or short courses.

Ethical training of managers and employees through management training workshops, seminars and short courses in ethics and integrity.

For Forum of Micro-Finance Institutions

The Forum of Micro-Finance Institutions in Uganda should liaise with the Micro-Finance Department of the Ministry of Finance, Planning and Economic Development to mobilise and sponsor workshops and seminars for training of existing and potential clients of micro-finance institutions who are willing to learn how to conduct a viability analysis of business projects. The training should also be extended to managers and employees.

For Operators

The operators of the micro-finance institutions should strengthen and strictly observe the management hierarchy with special attention to the internal environment.

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