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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Intellectual capital, isomorphic forces and internal controls over financial reporting in Ugandan microfinance institutions

Frank Kabuye^{1*}, Kassim Alinda¹, Nicholas Bugambiro¹ and Saphurah Kezaabu¹

Abstract: The purpose of this study is to examine the role of intellectual capital and isomorphic forces in strengthening internal controls over financial reporting (ICFR) in microfinance institutions (MFIs). This study is cross-sectional and correlational. Data were collected through a questionnaire survey of 66 MFIs that are members of the Association of Microfinance Institutions of Uganda (AMFIU). Both intellectual capital and isomorphic forces positively and significantly contribute to the strength of ICFR. In terms of control variables, ownership structure, capital structure and firm age are not significant predictors of ICFR. Policy-wise, the regulator(s) of MFIs should always issue-specific and time-bound directives to MFIs with ICFR shortfalls to enhance their control environment. Also, the responsibility of maintaining adequate ICFR should be extended to the management of MFIs by tasking them to account for lapses in ICFR. This would reduce incidences of senior management usurping the powers of the board, which would lead to overriding of ICFR. Also, policies should be specific on the composition of the board to improve its

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PUBLIC INTEREST STATEMENT

Internal controls over financial reporting (ICFR) are the first line of defence against financial reporting risks. ICFR entails policies designed to provide reasonable assurance that an entity's financial statements are prepared following the applicable financial reporting framework and other relevant laws and regulations. Nonetheless, Ugandan MFIs continue to operate with weak ICFRs, which cost them a lot through fraud losses and inaccurate financial reporting. For example, according to the Bank of Uganda Annual Supervisory report (2020), there is a disconnect between approved policies such as those related to ICFR, MFI operating environment and the actual business practices in MFIs. This has partly exacerbated the incidence and materiality of internally perpetuated or assisted frauds in MFIs. Since MFIs are public interest organizations, this study indicates that their ICFR can be strengthened by intellectual capital and isomorphic forces. Thus, MFI regulators ought to issue specific and time-bound directives to MFIs to enhance their control environment for better ICFR.

intellectual potential. To the authors' knowledge, this study provides initial empirical evidence of the influence of intellectual capital and isomorphic forces in strengthening ICFR in MFIs using evidence from a developing African country. Overall, this study found that intellectual capital (entity factor) and isomorphic forces (institutional factors) are all predictors of ICFR. This is possible because managers, employees and those charged with governance of the entity can be influenced by institutional forces that affect ICFR positively.

Subjects: Business, Management and Accounting; Accounting Education; Financial Accounting

Keywords: Internal controls over financial reporting; intellectual capital; isomorphic forces; Microfinance institutions; Uganda

1. Introduction

Internal controls over financial reporting (ICFR) are continuously being accentuated as a mechanism for improving the quality of financial reporting (Jokipii, 2009; Nalukenge et al., 2017; Rubino & Vitolla, 2014). This is because ICFR are viewed as the first line of defence against financial reporting risks (IIA, 2013; Krishnan et al., 2020). More so, they are policies designed to ensure proper documentation of accounting information. Indeed effective ICFR provide reasonable assurance that an entity's financial statements are prepared following the applicable financial reporting framework and other relevant laws and regulations (Lari Dashtbayaz et al., 2019). Across entities, the ICFR includes employment of certified public accountants in accounting functions, proper documentation of transactions, supervision of accounting personnel, proper authorisation and approval of transactions, reconciliations, segregation of duties and others (Gao & Zhang, 2019; Doyle et al., 2007). To that end, Lari Dashtbayaz et al. (2019) confirm that weaknesses in the aforementioned ICFR decrease the quality of financial reporting since they provide managers with opportunities to manipulate the financial information (Nalukenge et al., 2017). Globally, emerging market trends indicate a near-universal adoption of robotic process automation lens (RPA) in the next 5 years within the accounting and financial systems for transaction processing, accounts closure, consolidation and financial reporting (Deloitte 2017 RPA survey). However, for RPA's to be successfully adopted in firms such as the MFI's there must be an embedment of effective ICFR in the transaction systems (Deloitte, 2018). Thus, there is a need to strengthen ICFR in organisations.

The current study explores mechanisms of strengthening ICFR in Ugandan MFIs. Because studies by Nalukenge et al. (2017) and the DFID (2007) indicate that MFIs in Uganda have weak ICFR. Also, Duggan (2016) reports that, even though Uganda has one of the deepest and most competitive landscapes for microfinance in sub-Saharan Africa, it still has few effective policies and procedures for its clientele and lenders. As such, there is a myriad of continued calls for increasing internal controls management, data collection, monitoring, and regulation of the microfinance sector in Uganda to improve its effectiveness (AMFIU Directory, 2020; Uganda Microfinance Sector Effectiveness Review, 2014). Further still, weak ICFR have diversely affected Ugandan MFIs. Indeed, Duggan (2016) indicates that hitherto, theft and fraud in a few microfinance institutions led to a large-scale crisis and contributed to a precipitous decline in trust in the financial sector as a whole. For example, according to the Bank of Uganda Annual Supervisory report (2020), there is a disconnect between approved policies such as those related to ICFR, MFI operating environment, and the actual business practices in MFIs. This has partly exacerbated the incidence and materiality of internally perpetuated or assisted frauds in MFIs. These facts are likely to be pervasive to most MFIs (AMFIU Directory, 2020; Mugisa 2017), though little has been reported since the majority of players in the microfinance sector choose not to report such incidents owing to the perception of their prevalence and impact in the sector (Kabuye et al., 2017).

Previously, Nalukenge et al. (2017) examined the contribution of corporate governance factors (board role performance, expertise, independence, separation of CEO and chairman roles, and AMFIU membership) on ICFR in Ugandan MFIs and explained only 63.5% variance in ICFR. Implying that other organisational and institutional factors could explain the remaining variance in ICFR in Ugandan MFIs. MFIs are public interest organizations in Uganda because they provide savings and credit facilities to their clients (ICPAU, 2016). In this regard, they are expected to maintain a strong ICFR to ensure reliable reporting and accountability (Jokipii, 2009). Otherwise, weak ICFR in MFIs lead to errors, frauds, and omissions which continue occurring for a long period without being detected (DFID, 2007; Gao & Zhang, 2019; Kabuye et al., 2017). Also, MFIs have low-staffing levels that make ICFR such as segregation of duties non operational. Accordingly, it is common for an individual to initiate a transaction, authorize and approve it, and also make a payment which could increase frauds such as teeming and lading. Furthermore, MFI management and board which are mandated with overseeing the ICFR effectiveness, are not independent, they lack the technical capacity and their CEOs and chairmen roles are not separate (DFID, 2007). Thus, with the increasing academic and practitioners concerns over weak ICFR, it is timely to explore further mechanisms that can strengthen ICFR in MFIs.

According to the Committee of Sponsoring Organizations (COSO) framework, an effective internal control system comprises of five interrelated components that are as follows: the control environment, risk assessment process, information system and communication, control activities and monitoring of internal controls COSO framework (ERM, 2004). Though the COSO framework provides broad guidance regarding internal control components, it leaves the implementation details of those components to the adopting firm (Kim et al., 2021; Lämsiluoto et al., 2016; Paape & Spekle, 2012). We believe that since MFIs operate in a wide financial institutions sector, their implementation decisions of the ICFR are likely to be influenced by the institutional forces. Institutional forces explain how elements such as those of the ICFR are created, adopted, diffused and adapted over space and time (Musimenta et al., 2017; Scott, 2004). Thus, we argue that since managers and those charged with governance of MFIs have absolute responsibility of designing, implementing, and maintaining a strong system of ICFR, it is likely that their intellectual capital capability and the influence of isomorphic forces will influence their decisions towards implementing ICFR. Whether this is an acceptable consideration has previously remained an empirical question, which we answer in this study.

Research on the role of intellectual capital and isomorphic forces in strengthening ICFR is sparse. Yet, Choi et al. (2013) indicate that investments in human resources which is part of human capital a dimension of intellectual capital are valuable in determining the strength of a firm's ICFR. With this in mind, we believe that intellectual capital, which comprises relational capital, human capital, and structural capital (Kaawaase et al., 2019; Bananuka et al., 2019; Nkundabanyanga, 2016; Rezaei and Mousavi, 2015; Kalkan et al., 2014; Kamukama, 2013; Bontis, 2001; Bontis et al., 2000), is likely to strengthen ICFR. Since ICFRs are likely to operate well in an environment where they are regarded as being important (International Standards on Auditing (ISA) 315 Revised, 2019). Such favourable ICFR environments can be ensured through strengthening relational, human and structural capital which elevates communication and enforcement of integrity and ethical values; improves commitment to competence; increases participation by those charged with governance; leads to better management of operating style and organisational structure, among others. Isomorphic forces which entail that entities in similar positions face similar circumstances, and they respond alike (Amoako et al., 2017), can inspire leaders of MFIs to strengthen their ICFR. This is because isomorphism is a pressuring process that compels managers and those charged with governance to act like or better than other firms in the industry (Bananuka et al., 2019), or else remain isolated in operations. Indeed, isomorphic forces such as lenders requirements, regulations, and the need to upgrade MFIs services (Nalukenge et al., 2017), can influence MFIs to strengthen their ICFR as a plausible mechanism of protecting their customers, investors, and the overall entity's interests (Kosgei et al., 2014). Duggan (2016) also reports that reasonable research on challenging behaviour by MFIs has been done by qualitative research

design which is less easy to generalise (Creswell, 2003). Overall, the impact of intellectual capital and isomorphic forces on the components of ICFR has remained an escalating academic, regulatory and practitioners' concern, thus this study fills the void quantitatively.

While a study by Nalukenge et al. (2017), about corporate governance and ICFR over financial reporting was conducted on Ugandan MFIs, it did not examine the possibility of intellectual capital and isomorphic forces as jointly affecting the strength of ICFR. The authors continue to call for more research in the area of ICFR. Similarly, this study responds to calls for further research examining the influence of organisational, institutional and personal factors towards the effectiveness of internal controls and internal control structures (Lämsiluoto et al., 2016). In the current study, we, therefore, investigate the role of intellectual capital (as an entity factor) and isomorphic forces (as an inter-institutional factor) in strengthening ICFR in MFIs in an emerging economy. This was achieved by a questionnaire survey of 66 MFIs that are members of the Association of Microfinance Institutions of Uganda (AMFIU). Results of the study suggest that both intellectual capital and isomorphic forces significantly strengthen ICFR in MFIs.

This study has significant implications for academia, policymakers and the public. First, the study adds to the body of existing knowledge on ICFR, especially the MFIs which have rarely been studied. Second, we provide initial empirical evidence of the contribution of intellectual capital and isomorphic forces on the strength of ICFR in a developing economic setting. Third, this study alerts management and those charged with governance of MFIs, the Government and the funders on what matters in ensuring the performance and survival of MFIs through strong ICFR. Finally, the study highlights the importance of intellectual capital and isomorphic forces within the micro-finance arena.

2. Background

This study was carried out in Uganda—a developing country in East Africa along the equator. Like in other emerging economies, Uganda's microfinance sub-sector of the financial institutions' sector is still growing. The financial institutions in Uganda are classified into four tiers where Tier I are the commercial banks, Tier II—credit and finance companies, Tier III—central bank-regulated microfinance institutions and Tier IV—institutions are not regulated by the central bank (Bank of Uganda). In particular, MFIs are in Tier III and IV, and these have the largest number of institutions in the financial institution's subsector in Uganda (AMFIU Directory, 2020). The tier structure recognizes MFIs at varying levels of development with capitalization levels and the development efforts need to be well coordinated to take advantage of the different structures. According to the Bank of Uganda Financial Stability Report ("2019), total assets held by Micro Deposit-Taking Institutions (MDIs) increased to UGX 642.3 billion from UGX 562.2 billion largely due to growth in gross loans by UGX 55.2 billion and fixed assets by UGX 14.9 billion.

"In May 2016, the Tier IV Microfinance Institutions and Moneylenders Act were passed by the Parliament of Uganda to effectively govern the Tier IV financial institutions and Money Lenders to protect the savings of the depositors, limiting predatory lending and unethical practices, and building confidence in the system to promote financial inclusion" (Uganda Microfinance Regulatory Authority (UMRA) Website (2020)). "Subsequently in 2017, the UMRA board was inaugurated (AMFIU Directory, 2020). UMRA is mandated to promote a sound and sustainable non-bank financial institution's sector (savings and credit cooperatives, village saving and loan associations, non-deposit taking microfinance institutions and moneylenders) to enhance financial inclusion, financial stability, and financial consumer protection among the clients" (Uganda Microfinance Regulatory Authority (UMRA) Website, 2020). We believe that UMRA can successfully achieve this mandate through advocating for strong ICFR in MFIs. Institutions under Tier I, II and III are regulated by the Bank of Uganda. Tier III MFIs are deposit-taking institutions, regulated under the Micro Deposit-Taking Institutions Act (MDI) of 2003, by the Central Bank of Uganda. Under the MDI Act, the board is required to ensure and report to shareholders at the AGM whether adequate ICFR have been maintained to provide reasonable assurance as to the integrity and

reliability of the financial statements. Moreover, the MDI Act necessitates the independent external auditor to alert and report to the board all the ICFR weaknesses. In turn, these could be categorised as isomorphic forces towards the strengthening of ICFR in MFIs.

Tier IV MFIs are regulated by the Tier 4 Micro Finance Institutions and money lenders Act of 2016 and specific laws such, the Companies Act of 2012, Cooperatives Act of 1991, and the NGO Act of 2016 depending on the legal form of the MFI. For MFIs that are incorporated as companies, they are regulated by the Companies Act of 2012. Although the Act is not clear on the role of the board towards ICFR. Nevertheless, it reveals that the statement of financial position has to be signed and approved by two board members on behalf of the board. We, therefore, anticipate that MFIs in Tier 4 will have a weak ICFR. For the cooperative Act, the responsibility of the board relative to the ICFR is also not obvious like in the MDI Act.

The internal control structure of MFIs in Uganda consists of the systems, structures, or processes, implemented by a firm's board of directors, management and other personnel, intended to provide reasonable assurance about achieving entity's control objectives such as effectiveness and efficiency of operations; reliability of financial reporting and compliance with applicable laws and regulations (Pride Microfinance, 2019). This is due to the increasing attention on MFI operations and their significance in the financial systems of developing countries such as Uganda. An appropriate internal control structure is imperative for each organisation. For a typical MFI in Uganda, internal controls are directed towards discouraging fraud and negligence, detection of violations of rules, regulations and policies at an early stage, fostering efficient operations and efficient use of human and technical resources, and assisting subsidiary management at all levels in controlling and guiding staff and operations, with the aim of performance improvement. In Uganda, Tier III and Tier IV MFIs are mandated to have boards of directors to oversee the effectiveness of ICFR (AMFIU Directory, 2020; Ssekiziyivu et al., 2018; Kabuye, Kato, Akugizibwe & Bugambiro, 2019). Also, MFIs are supposed to have documented policy manuals for finance, human sources, IT, board and other relevant transaction systems to ensure streamlined operations (Uganda Microfinance Regulatory Authority (UMRA) Website, 2020). The existence of boards, the regulatory framework and the internal policies and functions make Ugandan MFIs well-constituted to implement the sophisticated internal control systems.

This study specifically gathered data from the Association of Microfinance Institutions of Uganda (AMFIU) member MFIs in Uganda. AMFIU was formed in 1996 as an umbrella body for MFIs in Uganda committed to promoting professionalism in the sector. AMFIU is missioned to promote a professional, inclusive and responsive microfinance industry that contributes to the transformation of livelihoods of Ugandans. In Uganda, MFIs are organizations that offer financial services to low-income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. A great scale of organizations is regarded as microfinance institutions. Uganda's microfinance industry has witnessed significant growth over the years (Nalukenge et al., 2018). This growth has been enabled partly due to the enabling economic and regulatory environment as aforementioned. Nonetheless, despite the above economic and regulatory environment, MFIs still face ICFR weaknesses (AMFIU Directory, 2020, 2017/2018; Nalukenge et al., 2017; World Bank, 2014). Thus, this study is timed to fill the empirical gap on the mechanisms of strengthening ICFR in Ugandan MFIs.

3. Theoretical literature review

This study employs resource-based theory (Barney, 1991), dynamic capabilities (DC) theory (Teece et al., 1997), and institutional theory (Meyer & Rowan, 1977; DiMaggio and Powell, 1983) to explain the contribution of intellectual capital and isomorphic forces, respectively, on the strength of ICFR in MFIs.

3.1. Resource-based theory and dynamic capabilities (DC) theory

The relationship between intellectual capital and ICFR in this study is explained by the resource-based view (RBV) (Barney, 1991) and dynamic capabilities (DC) theory (Teece et al., 1997). RBV focuses on strategic resources a firm can exploit to achieve sustainable competitive advantage. In this case, strong ICFR can be regarded as a source of competitive advantage (Jokipii, 2009). As such, intellectual capital as a strategic resource can guide in establishing a suitable ICFR to achieve the anticipated competitive advantage. This is possible because Barney (1991) reveals that firms always have resources that are peculiar, rare, heterogeneously present and inimitable and that can be used to drive performance even of strong ICFRs. As a result, RBV proposes that a firm should focus on its resources rather than the external environment. Such organisational resources comprise both intangible resources (intellectual capital) and tangible/physical capital (Kaawaase et al., 2019). Since MFIs are expected to have intangible resources in the form of intellectual capital components that are human, structural and relational capital, this examines their contribution to strong ICFR.

However, due to its static nature, the RBV was found wanting (Williamson, 1999), and as a result, the DC concept was introduced to help firms succeed with their resources in the dynamic and turbulent operating environment (Teece et al., 1997). The dynamic and turbulent environments call for changes in strategy and existing resources to gain and maintain a competitive advantage. Therefore, RBV and DC show that MFI managers and those charged with governance are supposed to keep monitoring the changes in the environment and adequately respond (Teece, 2007), by strengthening their ICFR to maintain a sustainable competitive advantage.

3.2. Institutional theory

According to institutional theory, organisations must adhere to the rules and systems prevailing in the environment to survive (Scott, 1995; Meyer & Rowan, 1977; DiMaggio and Powell, 1983). Institutional theory is used to explain the influence of isomorphic forces in this study. This is because isomorphic forces are compelling processes that force a unit in a population to resemble other units that are exposed to the same environmental conditions (DiMaggio and Powell, 1991). DiMaggio and Powell (1991) identify three categories of isomorphic forces which are pertinent in explaining the strengthening of ICFR in institutions. The first type of isomorphism is coercive isomorphism which denotes forces on an institution from related institutions and the cultural expectations from the society (DiMaggio and Powell, 1983). In this case, since MFIs are public interest institutions (ICPAU, 2016) their clients and regulators can force them to strengthen their ICFR. This attracts clients to continue dealing with them since they will have met their expectations. In addition, AMFIU, UMRA, UCSCU and the central bank may also have an upper hand in forcing MFIs to strengthen their ICFR. Indeed, Nalukenge et al. (2017) found a significant positive contribution of AMFIU membership on ICFR.

Additionally, international agencies that provide aid to emerging economies and the Government through the Ministry of Trade can also force MFIs to strengthen their ICFR. The second isomorphic force is a mimetic isomorphism. This refers to the imitation of other institutions regarded as more legitimate and successful (DiMaggio & Powell, 1991) for instance, MFIs may imitate what other financial institutions such as commercial banks, insurance firms and credit institutions are doing to strengthen their ICFR. This is because they believe the ICFR of those other institutions are stronger. Finally, normative isomorphism refers to the change motivated by forces caused by the level of education and professionalism (DiMaggio & Powell, 1991). In this case, the level of professionalism in a given firm can influence organizational practices such as maintaining strong ICFR (Berthod, 2016). According to Oradi, Asiaei & Rezaee (2019) CEOs' financial expertise significantly reduce internal control weaknesses. Similarly, Nalukenge et al. (2017) reported that board expertise is a significant and positive predictor of the ICFR. Equally important, the level of educational attainment among the organizational managers, boards and workers can provide a competent human capital base, through which facilitating infrastructure, processes and databases can be assembled to enable human capital to function well and also develop associations with external agents such as accountancy regulatory bodies to

strengthen ICFR. Thus, this shows that IC components of human capital, structural capital and relational capital can be enhanced by institutional theory through normative isomorphism.

Correspondingly, Berthod (2016) indicates that institutional theory exposes organisations to the analyses of their design and conduct. This suggests that organizations have differing rules, beliefs, and norms that make them. Organizations will thus adhere to different rules and belief systems prevailing in the environment to reduce uncertainty, gain acceptability, and increase unambiguity of their actions and activities (Bananuka et al., 2019; Berthod, 2016). In addition, organizations will adhere to institutional pressures to gain legitimacy. In the same way, since organisations do not operate in a vacuum but rather in a socialised context, the institutional theory asserts that organizational processes are shaped by the existence and operation of organisations within the industry or country (Musimenta et al., 2017). This corroborates well with the narrative that institutional theory considers the social rather than exclusively economic influences on organizational practice (Rogers et al., 2007). At the same time, institutions such as the legal system, other firms, cultural and professional norms are paramount in influencing an organisations practice. As such, Mizuchi and Fein (1999) confirm that firms continually aim to maintain and increase legitimacy by responding to forces that arise from their institutional environment.

4. Empirical literature review and hypotheses development

4.1. Intellectual capital

Intellectual capital encompasses the organisation's knowledge, expertise and associated soft assets, rather than its hard-physical capital (Hsu & Wang, 2012; Tayles et al., 2007; Widiatmoko et al., 2020). Nkundabanyanga (2016) further describes intellectual capital as the aggregate expression of intangible assets possessed by an organization. Equally significant, intellectual capital has also been expressed in terms of human, structural and relational capital (e.g Bontis et al., 2000; Clarke et al., 2011; Riahi-Belkaoui, 2003). Human capital refers to the skills, talents and know-how of workers that are required to perform the routine tasks that are needed for the firm's strategy (Rezaei and Mousavi, 2015). Structural capital consists of the supportive infrastructure, processes and databases of the organization that enable human capital to function (Kamukama, 2013). Relational capital on the other hand includes the knowledge, capabilities, procedures and systems which are developed from relationships with external agents (Kalkan et al., 2014).

Literature shows the influence of intellectual capital on ICFR in different ways. According to Chen, Smith, Cao & Xia (2014), intellectual capital in the form of a firm's IT capability has the additional benefits of supporting the functioning of internal controls and the efficiency of the audit process. Similarly, Choi, Lee & Sonu (2013) indicates that human resource investment determines the strength of a firm's ICFR over financial reporting (Le et al., 2020; Choi et al., 2013). Contrarily, there is limited evidence on the effect of management assessments on internal control quality (Schroeder and Shepardson, 2016). Nonetheless, employee treatment policies were found to influence the integrity of internal control and financial reporting (Guo et al., 2016). From literature, we find mixed and inconsistent opinions of the influence of intellectual capital on ICFR. Yet, scholars such as Bananuka et al. (2019) found a significant and positive contribution of intellectual capital on the adoption of IFRSs in Uganda's MFIs. We, therefore, believe that, since intellectual capital is already influencing MFIs activities, it can be stated that:

H1. There is a positive relationship between intellectual capital and ICFR.

4.2. Isomorphic forces

Isomorphic forces are pressures that compel an organisation to adapt to institutional practices prevailing in the environment (DiMaggio & Powell, 1983). These institutional pressures may exist at the individual, organisational or organisational field level (Scott, 2008). Organizations tend to

adopt the same environmental practices such as processes, systems, rules, norms, and routines over time (Scott, 2008). As a result, we believe that when organisations adopt good environmental practices, their ICFR are likely to be strengthened. In line with this, we find limited studies linking isomorphic forces to the ICFR. Nevertheless, a study by Garcia et al. (2017) indicates that regulations and oversight influence U.S. foreign issuers' ICFR. Musimenta et al. (2017) revealed that isomorphic forces have a predictive force on tax compliance in Ugandan small and medium enterprises (SMEs). In addition, isomorphic forces compel financial service firms to adopt new processes such as internet financial reporting (Bananuka et al., 2019). Additionally, Bananuka et al. (2019) show that the adoption of IFRSs by MFIs in Uganda is being influenced by isomorphic forces. Since MFIs in Uganda are already conforming to the pressures of isomorphic forces, it is worth believing that these MFIs can strengthen their ICFR through the influence of isomorphic forces. Therefore, we hypothesise that:

H2: There is a significant positive relationship between isomorphic forces and ICFR

4.3. Control variables

According to literature, firm ownership structure, capital structure and firm age could strongly influence this study's results. Therefore, they have been held constant to test the relative relationship between the dependent and independent variables. Also, failure to control for confounding variables could lead to falsely rejecting the hypothesis when in fact it should be accepted (Bartov et al., 2000). Chenhall (2003) reveals that firm structure is a crucial factor in understanding the design of ICFR since firm structure shapes the control environment in the organisation. For capital structure, high levels of debt in an organisation increase monitoring costs (Bananuka et al., 2019; Bekiaris et al., 2014; Jensen & Meckling, 1976). This is because shareholders want to remain informed on the utilisation and repayment of debts as a form of ICFR. Finally, the age of the organization is also likely to have repercussions for its ICFR since older firms tend to have effective ICFR (Jokipii, 2009).

5. Research methodology

5.1. Design, population and sample

This study is cross-sectional and correlational. The population of interest is 95 AMFIU ordinary member MFIs (AMFIU Directory, 2020). Given the small population, all MFIs were studied. Of the 95 MFIs, responses were obtained from 66 MFIs representing a 70% response rate. We enlisted responses from either the internal auditor or accountant of the MFI. Internal auditors are mandated to evaluate and improve the effectiveness of the organization's ICFR (Krishnan et al., 2020). Equally, accountants are charged with the responsibility of designing, implementing, maintaining and monitoring ICFR to ensure accounting quality (Deloitte, 2018). Therefore, the respondents were selected by their position and knowledge of ICFR, intellectual capital and isomorphism (McEvily & Marcus, 2005). Of the 66 useable questionnaires collected, 36 were received from males, while 30 were received from females. Majority of the respondents were aged below 30 years (27 respondents). For the education level of respondents, 43 had a bachelor's degree, while 20 had a master's degree and only three were diploma holders. Implying that the respondents were highly knowledgeable and therefore able to respond to the questions wisely. Regarding professional qualifications, the majority of the respondents are certified public accountants (41 respondents). In total, 17 respondents have worked for more than 10 years in the MFI sector, while 49 have worked for less than 10 years in the sector.

Details of the respondent's profile are presented in [Table 1](#).

Table 1. Demographic profile of respondents

Category	Scale	n=66 (100%)
Gender	Male	36 (55%)
	Female	30 (46%)
Age of the respondent	Less than 30 years	27 (41%)
	30 - 39 years	19 (29%)
	40 years and above	20 (30%)
Education	Diploma	3 (5%)
	Bachelor's degree	43 (65%)
	Master's degree	20 (30%)
Professional qualification	CPA	41 (62%)
	ACCA	12 (18%)
	CIA	3 (5%)
	Others	10(15%)
Experience	Less than 5 years	25 (38%)
	5-10 years	24 (36%)
	Above 10 years	17 (26%)

Source: Primary data (2021)

5.2. Questionnaire and variable measurement

A six-Likert scale questionnaire, designed to measure the opinions or attitudes of respondents was used to obtain self-reported information. The survey design was based on our review of relevant literature regarding intellectual capital, isomorphic forces and ICFR. The closed-ended questions in the instrument were anchored on a six-point scale ranging from strongly disagree (1) to strongly agree (6). This is because Cooper and Schindler (2003) indicate that, the most widely used scales range from 3 to 7 points, and since questions were on a combative topic (ICFR) the most accurate gauge of respondent's opinion was to be obtained by omitting the neutral category (Johns, 2010). A closed-ended questionnaire relative to an open-ended questionnaire has been utilised since Sudman and Bradburn (1982) pointed out that it is easier to analyse, particularly in the statistical case, since it provides mean results for better interpretation. Similarly, there is also a lower probability of researcher bias in summarizing the responses. The closed-answer questions approach was more suitable in this study for establishing not only the direction of the responses but also the extent of intensity with which the views were held. Similarly, the open answer system was considered insufficient for our study because we had intentions of calculating the mean ratings of the extent of agreement with each statement (measurement items). Overall, closed-answers never pass through anyone's hand other than the data collectors and for that case, the information is private.

ICFR, which is the dependent variable is operationalized using the five components of the COSO framework which are control environment, control activities, monitoring, information and communication and risk assessment (Nalukenge et al., 2018; Onumah et al., 2012; Hermanson et al., 2012; Hurley and Boyd, 2007). The researchers generated items about the above constructs which are anchored on a 6-point scale with 1 = strongly disagree and 6 = strongly agree to measure the opinion of respondents.

Intellectual capital with its dimensions of human capital, structural capital and relational capital (Bananuka et al., 2019; Bontis et al., 2000; Kalkan et al., 2014; Nkundabanyanga, 2016), are measured using items of each dimension included in the questionnaire on a 6-point Likert scale (1 = strongly disagree and 6 = strongly agree). Isomorphic forces are measured using items of

mimetic, coercive and normative isomorphism/forces (Bananuka et al., 2019; Nyahas et al., 2017; Musimenta et al., 2017; DiMaggio and Powell, 1983; Meyer & Rowan, 1977).

For control variables, the Ownership Structure is measured by the percentage of shares not held by known or concentrated shareholders (Fathi, 2013; Soheilyfar et al., 2014). Capital structure was measured by whether the firm is financed with Equity Finance, both Equity and Loan Financing, Donations Financing, or Only Debt Finance (Bananuka et al., 2019). Firm age is measured by the number of years the firm has been in operation (Al-Dmour et al., 2018).

To control for non-response bias, each questionnaire was accompanied by a letter providing explanations and assurances that all individual responses would be treated confidentially. Aware that non-response manifests in two types, namely, item and unit nonresponse, where item non-response is when certain questions in a survey are not answered by a respondent and unit non-response is when a randomly sampled individual cannot be contacted or they refuse to participate in a survey, we kept a short survey length, ensured a clear and concise wording of the questions (also utilized the results of content validity analysis), practical and appealing, placed multiple follow-up calls or email reminders up to a maximum of three for those delaying answering the questionnaire. We tested for common methods bias (CMB) using Harman's single factor score, in which all items (measuring latent variables) were loaded into one common factor. The result of the total variance for the single factor was 21.327% which is less than 50%. Thus, the CMB did not affect our data, hence the results (Harman, 1960).

5.3. Tests of factorability, validity, reliability and assumptions of parametrical data

We used exploratory factor analysis (EFA) based on principal components and Cronbach's α (Tables 2, 3 and 4) to examine the validity and reliability of the scales as measures of intellectual capital, isomorphic forces and ICFR in MFIs. EFA was also performed to identify patterns in the data and to reduce the data to a manageable level (Field, 2009). To establish convergent validity, the principal components for each variable are extracted by running principal component analysis using the varimax rotation method, and factor loadings below 0.5 coefficients were suppressed to avoid extracting factors with weak loadings. Before performing the principal component analysis for scales, we assessed the suitability of the data for factor analysis based on sample size adequacy, the Kaiser–Meyer–Olkin (KMO) and Bartlett tests. The results show that the KMO values: Intellectual capital = 0.707, Isomorphic forces = 0.704, and ICFR = 0.721. Bartlett's test of sphericity on all scales reached a statistical significance ($p < 0.05$) (significant value was 0.000 for each scale). Collectively, these results support the factorability of the correlation matrices because our correlation matrices are significantly different from the identity matrices in which the variables do not correlate with each other. The determinants for all three matrices were greater than 0.01, implying that there were no multicollinearity or singularity between variables.

To obtain the content validity index (CVI), we dichotomised the rating scale through a duo split of the scores such that rating scores 1–3 = measure not useable, 4–6 = measure useable. The CVI was computed by obtaining the proportion of items assessed as useable divided by the total number of items (Field, 2009). The CVI for each variable was above 0.7 (Intellectual capital = 0.922, Isomorphic forces = 0.917, and ICFR = 0.880). Thus, the instrument attained content validity.

To determine the internal consistency (reliability) of our scales we computed Cronbach's α coefficients for the study variables. The standardised α coefficients for all the scales were found to be above 0.70 (Intellectual capital = 0.824, Isomorphic forces = 0.798 and ICFR = 0.775).

Before we tested the hypotheses, the data were tested for normality to determine the applicability of parametric tests. This was conducted by using skewness and kurtosis statistics. The skewness scores for all variables were close to 0, and the kurtosis results were all within the range of -2 and $+2$; besides standard errors for each of the variables were not very different from their respective Skewness and kurtosis scores, and, therefore, the normality assumption was not

Table 2. Factor structures of intellectual capital

Item	Component		
	1	2	3
Top managers mentor those in junior positions	.828		
Level of commitment of our staff to work is high	.828		
Employees in this firm are result oriented	.826		
The composition of employees in the organization is diverse	.810		
This firm's employees are knowledgeable about their work	.778		
When an employee leaves the firm, we do have a succession training	.741		
Our employees have the required competences to prepare financial statements that comply with IFRSs	.738		
This firm usually employs staff members who are highly qualified	.695		
New employees find it easy to learn from old ones	.658		
We have a well-defined organizational structure	.656		
We have documented accounting and finance policies in this entity	.652		
This firm promotes a culture of team work	.590		
Our systems make it easy to access relevant information		.878	
This firm has clear values that guide its employees		.843	
Our employees have good relationship with the customers		.841	
Our relations have a greater impact on the organizational profits		.767	
Our networks with our regulators have made this firm what it is		.744	
We have good network systems with our customers		.672	
We have a robust accounting information system in this organization		.660	

(Continued)

Table2. (Continued)

Item	Component		
	1	2	3
Our employees normally attend trainings and seminars organized by our Umbrella association.		.612	
Employees in this firm always search for new knowledge		.516	
We usually get new ideas on compliance through our regulators			.891
Informal activities (dinners, visits) are organized for Employees			.719
Regulators help this firm to improve or update its services			.676
Our employees can withstand pressure from work			.560
Eigen values	7.281	5.809	2.744
Percentage of variance	29.124	23.236	10.975
Cumulative percentage	29.124	52.360	63.335
KMO measure of sampling adequacy			.707
Bartlett's test of sphericity			1524.524**

1= Relational capital; 2= Structured capital; 3= Human capital. Extraction method: principal component analysis; Rotation method: Varimax with Kaiser normalization

Source: Primary data (2021)

violated (Field, 2009; Garson, 2012). Levene's test (Levene, 1960) was used to test for homogeneity of variance because it is the most commonly used test for each group (Garson, 2012). The test results are non-significant ($p > 0.05$) for all the predictor variables, and thus homogeneity of variance for the categorical variables about the outcome variable is not violated (Field, 2009).

The challenge with univariate analyses is that they do not control for other factors, thus making the understanding of results difficult. We, therefore, extend the analysis to a multivariate setting. We first examine correlations among our independent variables to determine whether multicollinearity problems exist. Field (2009) suggests that multicollinearity becomes a problem only when correlations exceed 0.80 or 0.90. As Table 6 shows, none of the correlations between independent variables are close to these threshold values. However, Myers (1990) indicates that a certain degree of multicollinearity can still exist in the variables even when none of the correlation coefficients is very large. Therefore, the researcher also examined the Tolerance and the Variance Inflation Factor (VIF) tests from multiple regression procedure to further check if the assumption of non-multicollinearity was not violated. The VIF indicates whether a predictor has a strong linear relationship with the other predictor(s). Myers (1990) recommends that values for VIF above 10 would be indicators of multicollinearity. The tolerance statistic, which is its reciprocal (1/VIF) indicates how much of the variability of the specified predictor variable is not explained by the other predictor variables in the model, as such, values below 0.1 indicate the possibility of multicollinearity (Field, 2009). Table 7 indicates that Tolerance values for the predictor variables were all above the cut-off of 0.10, and all VIF values are below 10. This assumption is therefore not violated, hence additional confirmation that there was no problem of multicollinearity among

Table 3. Factor structure of isomorphic forces

Item	Component		
	1	2	3
We upload our financial information on our website because other players in the industry are doing so	.773		
We maintain adequate internal controls like our peers	.755		
Our staff members are always mentored on performance standards.	.740		
We prepare our financial reports in line with the international financial reporting standards as required by our regulators.	.664		
Our board audit committee is composed of members with adequate accounting and finance knowledge as required by the regulators.	.646		
Stakeholders have unrestricted access to our financial reports just like our counterparts.	.538		
We follow industry leaders while dealing with new developments		.818	
Our license to operate may be invoked by the regulator and client if we do not disclose enough using all the available means		.745	
Our regulator and clients require us to disclose any information that is vital to third parties		.609	
We upload our financial statements on our website because we may be penalized for not disclosing enough		.608	
We ensure periodic audit of our financials as required by the regulator(s)		.594	
We have employed certified public accountants in our accounting department just like other institutions		.561	

(Continued)

Table3. (Continued)

Item	Component		
	1	2	3
Our organization considers professional qualifications in its recruitment policy		.520	
Our industrial association emphasizes adherence to professionalism			.734
Our staff members are encouraged to adhere to professional code of ethics of their respective professions			.696
Our staff undertake periodic continuing professional development programs.			.637
Eigen values	3.908	3.735	1.816
Percentage of variance	24.422	23.343	11.351
Cumulative percentage	24.422	47.765	59.116
KMO measure of sampling adequacy			.704
Bartlett's test of sphericity			566.258**

1= Mimetic forces; 2= Coercive forces; 3= Normative forces. Extraction method: principal component analysis; Rotation method: Varimax with Kaiser normalization

Source: Primary data (2021)

predictor variables. Also, Durbin–Watson test was also carried out to test for serial correlations between errors in regression models. As a very conservative rule of thumb, values lesser than 1 or greater than 3 are cause for concern, but, the closer to 2 the value is, the better it is (Field, 2009). For this study, the Durbin–Watson statistic was 1.662, which justifies the assumption of independent errors or no serial correlation.

6. Empirical results and discussion

6.1. Descriptive statistics

Table 5 shows the descriptive statistics for intellectual capital, isomorphic forces, ICFR and the control variables included in the analyses. ICFR has a mean score of 4.8723, with a minimum score of 3.57, and a maximum score of 5.95 with a standard deviation of 0.61046. This implies that internal auditors and accountants of MFIs have knowledge of ICFR, and they agree that strong ICFR are a necessity for MFIs. Intellectual capital has a mean score of 4.8527, with a standard deviation of 0.38220. For Isomorphic forces mean score is 4.9223 with a standard deviation of 0.45640. The standard deviations relative to the mean values are small, the calculated means highly represent the observed data (Field, 2009). The data also indicate that predictor variables are rated high towards ICFR in the MFIs. This implies that intellectual capital and isomorphic forces are crucial to enhance the QFR in the organization.

6.2. Correlation analysis results

We present Pearson's correlation coefficient analysis of the study variables. Correlations from Table 6 indicate a significant positive relationship between intellectual capital and ICFR ($r = 0.671^{**}$, $p < 0.01$), meaning that any positive change in intellectual capital is related to a positive change in ICFR. Thus, H1 is accepted. There is also a significant positive relationship

Table 4. Factor structures of internal control for financial reporting

Item	Component				
	1	2	3	4	5
Our top management is willing to report the true financial position of this Institution to stakeholders	.787				
Financial reporting responsibilities are included in staff performance objectives.	.774				
Ineffective or unnecessary controls are identified and eliminated	.708				
Management is committed to employing qualified staff	.651				
We have effective controls over the reconciliation of data entry and reports from different systems.	.640				
Management is aware of the objective of financial reporting	.637				
Internal control policies are communicated to all of the organization's employees.	.609				
The accounting section has established processes to identify significant changes in accounting policies and accounting standards		.904			
There are measures put in place to report unusual transactions		.863			
This Institution has a designated committee to deal with weaknesses raised by the external auditor		.843			
Management has identified those accounting standards where compliance is not easily achieved		.832			
Our staff members have been provided with adequate resources to accomplish the risk management activities.		.783			
Management releases sufficient financial information to the relevant employees to be able perform their work			.882		

(Continued)

Table 4. (Continued)

Item	Component				
	1	2	3	4	5
The accounting system in place produces accurate financial data to enhance decision-making			.559		
There are regular checks to ensure compliance with the internal controls				.744	
There is adequate supervision of finance staff while carrying out their duties				.714	
Proper financial records are maintained in relation to the entity's operations				.640	
The board take appropriate follow-up action in instances of noncompliance that are reported to it.				.628	
Management gives appropriate and timely attention to material control weaknesses once identified					.826
There is adequate supervision of finance staff while they are carrying out their duties					.808
Our organization has sufficient security over financial information and system access					.756
Eigen values	4.216	3.772	2.972	2.683	1.845
Percentage of variance	20.078	17.964	14.153	12.778	8.788
Cumulative percentage	20.078	38.042	52.195	64.973	73.760
KMO measure of sampling adequacy					0.721
Bartlett's test of sphericity					1025.755**

1= Control environment; 2= Risk assessment; 3= Information and communication; 4= Control activities; 5= Monitoring. Extraction method: principal component analysis; Rotation method: Varimax with Kaiser normalization

Source: Primary data (2021)

between isomorphic forces and the ICFR ($r = 0.647^{**}$, $p < 0.01$). This implies that isomorphic forces are linked to the effective ICFR. As such, isomorphic controls through creating a desirable control environment, ensuring effective risk assessment, improving information and communication of ICFR, strengthening control activities and monitoring of implemented ICFR. Therefore, H2 is also supported.

Additionally, the correlation analysis results indicate that control variables that is, ownership structure ($r = 0.039$, $p < 0.01$), capital structure ($r = 0.071$, $p < 0.01$) and firm age ($r = 0.181$, $p < 0.01$) are not significantly related to the ICFR. This suggests that control variables do not confound the results of testing for the relationship between intellectual capital, isomorphic forces and ICFR in MFIs.

Table 5. Descriptive statistics for dependent, independent and control variables

Variables	n	Minimum	Maximum	Mean	Std. Deviation
Intellectual capital	66	3.92	5.52	4.8527	0.38220
Isomorphic forces	66	4.00	5.81	4.9223	0.45640
Internal control for financial reporting	66	3.57	5.95	4.8723	0.61046
Ownership structure	66	1.00	3.00	1.5758	0.60918
Capital structure	66	1.00	3.00	1.5909	0.58117
Firm age	66	0.00	1.00	0.5758	0.49801

Source: Primary data (2021)

6.3. Hierarchical regression analysis results

A hierarchical regression analysis was carried out to further test for the sensitivity of the results in the control variables and the contribution of each predictor variable. Hierarchical regression was also utilised as compared to the stepwise regression because it is powerful in testing which predictor variable contributes more to the variances in the outcome variable and it also examines the incremental validity of each additional predictor variable to the already existing variable(s) in explaining the outcome variable (Field, 2009; Sekaran, 2003). The studied variables were entered simultaneously within each hierarchical model (Field, 2009; Aiken and West, 1991) as shown in Table 7. We used standardized versions of the beta values since they are easier to interpret and are not dependent on the units of measurement of the variables (Field, 2009). The standardized beta values also tell us the number of standard deviations that the outcome will change as a result of one standard deviation change in the predictor; thus, they are directly comparable and provide a better insight into the importance of each predictor in the model (Field, 2009).

The hierarchical regression results in Table 7 show that Model 1 reports the baseline model with only control variables. The results indicate that the control variables do not explain any significant variance in the ICFR. This reveals that the models in this study are not sensitive to confounding factors and the models are highly acceptable (Field, 2009). Results in Models 2, and 3 show that the F is significant at the 1% level or better. In model 2, intellectual capital with ($\beta = 0.666$, $p < 0.01$) is a significant predictor of ICFR. When isomorphic forces are added to model 3, the predictive potential of intellectual capital slightly reduces ($\beta = 0.442$, $p < .01$), though it remains positive and significant. Fundamentally, Model 3 presents the impact of all the predictor variables on the outcome variable, and the results indicate that intellectual capital is stronger and significant predictor variable of ICFR ($\beta = 0.442^{**}$), followed by isomorphic forces which are also significant ($\beta = 0.379^{**}$). Therefore, both intellectual capital and isomorphic forces are the significant predictors of ICFR in MFIs in Uganda, providing further support for H1 and H2 that “intellectual capital is positively related with ICFR” and “Isomorphic forces is positively related with ICFR”, respectively. This means that appropriate intellectual capital and strong isomorphic forces are likely to strengthen the ICFR in terms of creating a favourable control environment, risk assessment, information systems, control activities and monitoring of controls. Overall, the predictor variables explain about 52.9% of the variance in ICFRs in MFIs in Uganda. Overall, the results suggest that Model 3 in Table 7 is the most suitable. The incremental validity of adjusted R2 in Models 1–3 indicates a better fitting model which develops as intellectual capital and isomorphic forces are sequentially introduced (Field, 2009) because in all the cases but Model 1, the F change is significant.

Table 6. Pearson correlations for dependent, independent and control variables

Variables	1	2	3	4	5	6
Intellectual capital (1)	1					
Isomorphic forces (2)	.586**	1				
Ownership structure (3)	-.053	.066	1			
Capital structure (4)	-.023	-.020	-.194	1		
Firm age (5)	.145	.094	.158	-.077	1	
Internal control for financial reporting (6)	.671**	.647**	.039	.071	.181	1

n = 66. *, **indicate that correlation is significant at the 0.05 and 0.01 levels, respectively (one-tailed)

Source: Primary data (2021)

6.4. Discussion

The findings of this paper reveal that both intellectual capital and isomorphic forces are important factors in strengthening ICFR. These findings further substantiate the role of institutional forces in shaping, creating, diffusing, adopting, and adapting better ICFR practices in an organisation. MFIs do not operate in a vacuum but rather in a financial environment characterised by several reporting, accountability, compliance and risk management organisational challenges. Therefore, it is crucial to explore how ICFR can be strengthened to further assure the stakeholders of a better organisation.

Intellectual capital has been found to influence various organisational variables such as fire performance (Tiwari and Vidyarthi, 2018; Nkundabanyanga, 2016; Kamukama, et al., 2011); competitive advantage (Kamukama and Tumwine, 2017); financial reporting (Graaf, 2013; Darabi et al., 2012), innovation generation and adoption (Dost et al., 2016), and adoption of IFRSs in Uganda's MFIs. Collaboratively, our study finds intellectual capital to be a significant variable in enhancing ICFR. In this regard, organisations such as MFIs ought to ensure that their top managers and employees have the proficiency, and know-how of employees are required to perform their respective tasks that are needed for the firm's strategy (Rezaei and Mousavi, 2015). Also, organisations have to build supportive infrastructure, processes and databases that enable human capital to function (Kamukama, 2013). On the other hand, MFIs have to collaborate with external agents such as commercial banks to develop capacity, increase the knowledge, improve procedures and systems (Kalkan et al., 2014). Overall, intellectual capital means assets possessed by the firm that are intangible and not quantified, thus excluded from a firm's financial reports due to the challenge of attaching value to them (Nkundabanyanga, 2016). As such, strong internal control components can be established for better ICFR in MFIs.

Correspondingly, MFIs are smaller than the other players in the financial sector that is: commercial banks, credit institutions and insurance firms. However, given the nature of the financial sector in most African economies, MFIs serve the biggest populations of unbanked adults. Thus, they ought to protect their interests and those of their clients and regulators. In Uganda, MFIs have strong regulatory, economic and social frameworks in the form of acts, (the microfinance and money lenders act of 2016, UMRA, Micro Deposit-Taking Institutions Act (MDI) of 2003; the Companies Act of 2012, the Cooperatives Act of 1991, and the NGO Act of 2016), and associations such as AMFIU. Similarly, MFIs have been categorised as public interest organisations by the ICPAU (ICPAU, 2016). Therefore, with all these institutional forces it is substantiated that isomorphic forces influence ICFRs in MFIs. This finding is consistent with

Table 7. Hierarchical regression results

Variables	Model 1	Model 2	Model 3	Tolerance	VIF
Constant	4.547	-0.663	-1.351	n/a	n/a
Intellectual capital		0.666**	0.442**	0.636	1.571
Isomorphic forces			0.379**	0.647	1.546
<i>Control variables</i>					
Ownership structure	0.028	0.083	0.045		
Capital structure	0.091	0.109	0.104		
Firm age	0.183	0.079	0.082		
Model F	0.876	13.661**	15.627**		
Adjusted R ²	-0.006	0.438	0.529		
F Change	0.876	49.943**	12.865**		
R ² Change	0.041	0.432	0.093		

**p < 0.01; *p < 0.05

Source: Primary data (2021)

Bananuka et al. (2019) who indicated that indeed MFIs in Uganda are adherent to institutional forces. Therefore, isomorphic forces can ensure that MFIs maintain adequate ICFR like their peers such as commercial banks. Their industrial associations are also called upon to continue emphasizing adherence to professionalism.

7. Summary and conclusion

The aim of this paper was to examine the contribution of intellectual capital and isomorphic forces on ICFR in MFIs. We sampled 66 out of 85 MFIs and the results indicate that intellectual capital and isomorphic forces are significant predictors of ICFR. The results of this study imply that MFIs ought to establish adequate human, structural and relational capital. Thus, MFI top managers should be innovative and creative to ensure ICFR are up to date. They should also sufficiently equip their staff with the essential resources needed to do their work. Regulators such as the Bank of Uganda and UMRA, as well as associations such as AMFIU, have to continue emphasizing maintenance of adequate ICFR in MFIs since MFIs in Uganda are willing to adhere to their directions. Also, clients have to point out their dissatisfaction with the ICFR in MFIs through customer feedback platforms. Professional association's such as ICPAU have to continue emphasising strong ICFR in MFIs since they declared them public interest organisations. The results of this study are also critical for internal control policy development in smaller institutions such as MFIs.

Despite the contributions and implications, this study focused on MFIs in Uganda to determine the contribution of Intellectual capital and isomorphic forces to ICFR. The study variables of this study predict only 52.9% of the variance in ICFR, suggesting that there are other predictors of ICFR. Future research may be conducted to establish other predictors of ICFR in Uganda and other national settings. The study used a questionnaire survey which is strong in prompting responses from a larger population (Sekaran, 2003), but it does not consider the respondent opinions on the topic of study. Further research may be conducted with a qualitative approach to further substantiate the results of this study. Nonetheless, this study clearly explains the role of intellectual capital and isomorphic forces in strengthening ICFR.

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