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SOCIAL COMPETENCE AND ACCESS TO
FINANCE IN FINANCIAL INSTITUTIONS: AN
EMPIRICAL STUDY OF SMALL AND MEDIUM
ENTERPRISES IN UGANDA

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ABSTRACT

Purpose: The paper examined the mediating effect of innovation in the relationship between social competence and access to finance by Small and Medium Enterprises (SMEs) in Uganda. The major aim was to establish the role of innovation in the relationship between social competence and access to finance.

Methodology: The research took a positivist paradigm and a cross-sectional research design were used to collect data from 307 SMEs in Uganda. Close-ended and self-administered questionnaire with question items anchored on a five-point Likert-type scale was used to collect data from either managers or owner of SMEs. Pearson correlation and Hierarchical regression analyses were employed for data analysis. More so, the study adopted MedGraph program, Sobel tests, Kenny, and Baron Approach to test for mediation effects.

Findings: The findings indicated that the true drivers of access to finance by SMEs in Uganda are social competence and innovation. However, innovation exhibits partial form of mediation in the relationship between social competence and access to finance.

Unit Contribution to practice and policy: Since innovation was found to be a causal chain in the relation between social competence and access to finance in this study, managers of the SMEs should endeavor to reinforce agents of innovation since commercial institutions trade off higher interest and lower collateral requirements for firms involved in the innovative process. Besides, this study can therefore reinforce the importance to foster academic achievement not only because of academic and learning reasons, but also because of its implications in other important domains (such as social competence) of young generation development along the school years. The government of Uganda can therefore, introduce some subjects in schools and institutions that can promote the development of social competences in the learning group.

Study Limitation: First, only a single research methodological approach was employed and future research through interviews could be undertaken to triangulate.

More so, future studies could use the same basic hypotheses and regression construction, but implement the study in terms of a longitudinal rather than a cross-sectional design. The longitudinal study would need to correct changes in data relative to time element.

Keywords: *Social Competence, Innovation, Small and Medium Enterprises (SMEs), Mediating effect, Access to Finance.*

INTRODUCTION

The financing of small and medium enterprises in Uganda has been a subject of great concern to policy-makers and researchers. For example, in Uganda, SMEs face an estimated financing gap of US\$2.1 to US\$2.6 trillion, which is equivalent to 30% to 36% of current outstanding SME credit (AfDB, 2012). In addition, a study by the World Bank (2017) revealed that more than 50% of SMEs in emerging markets are credit constrained, 70% do not use external financing from formal financial institutions and out of the 30% who receive credit, 15% are underfinanced from formal sources. The recent report by Bank of Uganda(2017) observed that what commercial banks extend as loans to small and medium firms has declined from US\$112,778 in 2016 to US\$88,611 in 2017. More so, the International Finance Corporation (2018) ranked Ugandan SMEs at 132 out of 189 countries in terms of accessing finance. The report does not only show poor rankings of Ugandan SMEs, but it further indicates that Uganda's SMEs dropped from 123rd position to 132nd (Web Business Data Bank, 2018). A similar study by the African Development Bank (AfDB report, 2012) reveals that the SMEs' access to finance in Uganda is below average at 42%, compared to its counterparts, Tanzania, and Kenya, whose SMEs borrowing rate is at 57% and 50% respectively.

Overall, approximately 70 percent of all SMEs in emerging markets lack access to credit. While the gap varies considerably between regions, it is particularly wide in Africa and Asia. The current credit gap for formal SMEs is estimated to be US\$1.2 trillion; the total credit gap for both formal and informal SMEs is as high as US\$2.6 trillion (AfDB, 2012)

The above phenomenon has generated endless debate, which hardly yielded solutions to the pandemic (Millennium Development Goals Report, 2010). Though a number of studies have predicted access to finance using institutional capacities, collateral requirements for loans, insufficient financial disclosure (Okurut et al., 2002), entrepreneurial managerial skills and a poor credit history (Kikonyogo, 2000; Mugume, 2002; Aliber, 2002; Senoga, 2008), costly bureaucratic processes, there is still knowledge gap in the literature. Webb (2008) however believes that sustainable solution to the above challenge lies in building strong networks, social skills, social communication, and social interaction, which are antecedents of social competence.

Webb (2008) observed that social competence refers relates to specific behaviors and characteristics of people in the enterprise that result in social adaptability, acquaintances or connections with partners in business. Social competence embraces social skills (trust, honesty), ability to perceive people's ideas and social efficacy (Baron, 2004; Baron & Mark mar, 2003). Similarly, Dodge (1985) delineates social competence as effectiveness in social interaction, which is a consequent of personal relationships that influence social capital, and innovation in an organization. Social competence is all about formal and informal networks within and outside the SME sector (Paldam & Svendsen, 2000). Social competence stems from the social network theory (Atieno, 2009) which embraces networking between the enterprises, government, stakeholders and individuals. Social network analysis is based on an assumption of the importance of relationships among interacting units; and assumes that the attributes of individuals are less important than their relationships and ties with other actors within the network (Rogers, 1986). In essence, social competence entails the need for SMEs to nurture and strengthen social adaptability, social perception and skills within the networks (Atieno, 2009; Baron, 2004).

Social competence is associated with social adaptability, perceptions, skills and networks to effectively build interactions and relationships among business players or partners in environment (Baron 2004; Webb, 2008; Baron and Mark mar 2003). In the same vein, Parker, Rubin, Price and De Rossier(1995) observe that the level of networks, interactions and relationship exhibited enhance trust and coalition amongst partners in business. Such networks link and bond aspects of diverse relationships adhering to the individual level of analysis, and thus, help to bridge the gaps between businesses and financial institutions. Thus, social adaptability, perceptions, and networks are cornerstones of one's soft skills that enhance connections with people and the power of people to access support of financial institutions (Baron, 2004; Haper & Kelly, 2003).

Similarly, Toggler (2012) posits that access to finance depends upon trust between the borrower and the lender that contracts would be honored. In this case, trust, which results from social competence will play a paramount role in the formation of favorable interactive environment between the parties. Paldam and Svendsen (2000) argue that this kind of environment fosters the diffusion of information and knowledge, lower uncertainty and transaction costs in the lending relationships. The above trends of events are capable of increasing awareness of financial services and knowledge sharing, which are determinants of access to finance and innovation in business environment.

Equally, Sabatini (2006) argues that social competence exhibited in a firm influences the level of mutual relationship and knowledge sharing, which are sources of firm innovation. More so, Sunghyup, Hyun and Han (2012), and Dorrach (2005) assert that the level of interaction and alliances between partners in a given setup, are sources of innovation and superior firm performance. Other scholars like Simon (2009) share the same view and argue that long term innovativeness is the "only" effective way to improve the performance of an enterprise. In view of this, the foregoing discussion presupposes that social competence enhances access to finance directly or indirectly through innovation.

Though there are sufficient theoretical assertions that connect social competence with access to finance, empirical literature linking the two is scanty. More so, there is theoretical literature claiming that innovation acts as causal chain (mediates) in the relationship between social competence and access to finance in SMEs (Ted, 2008). Unfortunately, there is hardly any study that tested specific causal chains (mediating effects) about time-ordered relationships among these variables, and the particular mechanism or pathway by which a relationship occurs. Insufficient literature in this area is, therefore, a matter of great concern in this study.

Lack of clarity on the extent to which social competence influences access to finance, and the mediating role of innovation would therefore continue to inhibit common understanding and explanation, which might deter access to finance by SMEs in Uganda. This research, however, set out to address this evident knowledge gap.

This paper is divided into five main sections including this introduction. The second section covers the theoretical framework and reviews of the theoretical and conceptual literature on social competence and access to finance. The third section presents the data and research methodology, while the fourth section reports the empirical results. The fifth section concludes the paper and makes recommendations

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Small and Medium size Enterprises (SMEs)

Small and medium-sized enterprises (SMEs) represent over 90% of enterprises in Uganda and they contribute about 75% of the Gross Domestic Product (Bataa, 2008). SMEs play a significant role in the economies (Torgler, 2007); thus, they influence their growth and development, income generation through employment of the citizens among others. Despite their contribution to national economy, SMEs have been bogged down by performance issues, which have influenced their success. The literature mainly attributes challenges of success among SMEs to lack of financing, marketing problems, poor record keeping and in competencies of their managers among others (Vozikis, 2009).

SMEs' are very important for a developing economy because they provide employment opportunities up to approximately 2.5 million and are a basis for developing new ideas as well as contributing to economic growth and sustainable development (UMA consultancy and information services, 2007). They are the driving force behind a large number of innovations, contribute to the growth of the national economy through investments, exports, and generate a large share of new jobs in the economy (Penrose, 2007).

The Small and Medium size business sector is of interest to policy makers not only because of the important role it plays in the Ugandan economy, but also because of the avenue to advancement that the SME business ownership represents, in particular for ethnic minorities (Raynard & Maya (2002). Critical to SME businesses' success is the availability of financing for both capital acquisition and working capital purposes. Much of this financing takes the form of credit extended by commercial banks and non-bank lenders (Berger & Udell, 2006).

SMEs need to have access to adequate financial support and reliable management to enhance productivity and in turn facilitate market access (Sebstad, & Neil, 1995). The establishment of an active SMEs sector and the effective utilization of quality business information and credit have been identified as crucial in attaining long term and sustainable business success and better performance for developed and developing countries (McMahon, 2007).

Theoretical Review

The study was guided by the Resource control theory (Hawley 2014); which is an evolutionary based-theory of social competence. The theory postulates how individuals of different social competences can acquire and maintain the resources. The theory proposes that being (a) an accepted member of a social group and (b) dominant and aggressive are evolutionary adaptations that have profound implications for a person's ability to acquire and control resources. In this context, being prosocial and being coercive do not reside on opposite ends of a continuum; rather, both can be viewed as serving the same resource control objective (Hawley 2014). The degrees to which one has status, that is, holds acquired social and material resources, and is viewed as dominant in one's social group, are predicated on the relative balance of prosocial and coercive

resource control strategies. However, the theory has been criticized by Bandura (2010) that it does not consider the environmental trends in which individuals or businesses operate in. Bandura (2010) believes that it environment at the time that influences ones behavior and actions.

Empirical Review

Concept of social competence

Dodge (2008) pointed out that there are nearly as many definitions of social competence as there are researchers in the field. Likewise, Ladd (2005) outlined the century-long academic history of research on social competence and noted its numerous conceptualizations. Social competence is viewed as a multifaceted construct involving social assertion, frequency of interaction, positive self-concept, social cognitive skills, and popularity with peers (Dodge, 2008). According to Blandon et al., (2010) Social competence is a complex, multidimensional concept consisting of social, emotional (e.g. affect regulation), cognitive (e.g., fund of information, skills for processing/acquisition, perspective taking), and behavioral (e.g., conversation skills, pro-social behavior) skills, as well as motivational and expectancy sets (e.g., moral development, self-efficacy) needed for successful social adaptation. Calkins and Keane (2006) further observed that social competence reflects having an ability to take another's perspective concerning a situation, learn from experiences, and apply that learning to the changes in social interactions. The foregoing assertions presuppose that social competence is interrelated with other aspects of development, including emotion self-regulation and attention regulation.

According to Webb (2008) social competence is the foundation upon which expectations for future interaction with others are built, and upon which individuals develop perceptions of their own behavior. Often, the concept of social competence frequently encompasses additional constructs such as social skills, social communication, and interpersonal communication. In essence, Social competence refers to a person's ability to get along with other people (Webb, 2008).

Social competence requires appreciation of norms to better describe features of social adaptability, perceptions, skills, networks more effectively in regard to pursue shared objectives (Bowles and Gintis, 2002; Sebatini, 2006; Haniffa & Cooke, 2002).

Social competence is under-pinned on self-determination theory (SDT), a macro theory of human motivation and personality that concerns people's inherent growth tendencies and innate psychological needs (Brown & Ryan, 2003). It is concerned with the motivation behind choices people make without external influence and interference. According to Vansteenkiste and Deci (2006), SDT focuses on the degree to which an individual's behavior is self-motivated and self-determined. Therefore, research guided by self-determination theory has focused on the social-contextual conditions that facilitate versus forestall the natural processes of self-motivation and healthy psychological development (Vansteenkiste, et al., 2006). Specifically, the premise is that people have three basic psychological needs: competence (need to be effective in dealing with environment), relatedness (deals with the desire to “interact with, be connected to, and experience

caring for other people), and autonomy (the urge to be causal agents and to act in harmony with our integrated self). The basic psychological needs are the major building blocks of social competence, which help in fostering the innovation and strong networks with both internal and external players (Web, 2008).

According to Akinrodoye et al. (2002) and Harper and Kelly (2003), social network affiliations should be considered as an integration of social capital. Such networks link and bond aspects of diverse relationships adhering to the individual level of analysis, and thus, help to bridge the gaps between businesses and banks. Thus, social adaptability, perceptions, and networks are cornerstones of one's soft skills that enhance connections with people and the power of people to access support of financial institutions (Baron, 2004; Haper and Kelly, 2003). Social competence is, therefore, all about formal and informal networks within and outside the SME sector, and it brings in the government, investors, and financial institutions, identified through group networks (Paldam and Svendsen, 2000). In this case, social competence plays a paramount role in the formation of social ties between individuals, groups and institutions, thus, easing access to financial services particularly in the absence of collateral. It is worth noting that the main theme of social competence is the level of mutual trust, respect and friendship that arise out of close interactions between internal and external partners (Kaleet al., 2000).

Though there is consensus that social competence influences access to financial services, Kamukama and Natamba (2014), and Otero (2005) observe that the effect of social competence on access to finance cannot be generalized because of the varied environments and or sectors.

The position of social competence and its influence on access to finance in the Ugandan small and medium firms is elusive. This, therefore, caused the need for a scientific investigation to explain the link between social competence and access to finance in Uganda's SMEs. This necessitated the study to test the following hypothesis:

H₁: Social competence is positively related to access to financial services in Uganda's SMEs
Innovativeness and access to finance

The strategic intent of "innovation" can vary wildly from organization to organization. Until you have properly defined the objective and the intended results, you cannot possibly develop a meaningful performance measure. For the purpose of this paper, innovation is defined as the process of ideation, evaluation, selection, development, and implementation of new or improved products, services, or programs (Soutaris, 2009). In many definitions, innovation is related to change, for instance, "Innovation can be operationally defined as any departure from the traditional practices of an organization" (Levine 1980:3) or: innovation is "a fundamental change in a significant number of tasks" (Wilson,1996: 196). According to Hult et al. (2004), Lee and Tsai (2005) innovativeness reflects the tendency to engage in new ideas and support ideas from parties in the network. Sunghyup et al. (2012) observe that innovativeness is all about seeking out the "new" and "different" therefore an entrepreneur with high level of innovativeness tends to open to

trying new ideas on services and products to follow the economic trend. Innovativeness calls for willingness to try new offers and influence other internal and external parties by sharing experiences (Goldsmith et al., 2003). Salavou and Avlonitis(2008) consider innovativeness to be a vital source of strategic change by which firms generate new ideas to yield outcomes including sustained competitive advantage. In support of this, social competence theory posits that employees have unexploited source of creativity, knowledge, skills and initiatives which promote innovation and hence performance of companies (Erturk, 2008). In the same vein, Ted (2008) and Bratnicki et al. (2007) argued that empowerment of employees creates a greater job involvement, and high work motivation, and thus, better innovative ideas and superior performance. Naturally, superior performance attracts financial products from different financial institutions in terms of credit services. Therefore, innovativeness in this regard influences access to credit because financiers always want to deal with parties that make things happen.

In a related case, Ledgerwood (2013) observed that the social competence indirectly influences access to credit through innovation. Social competence promotes one's ability to relate and work well with others in a team, which in turn, enhances individual's innovative abilities. Sabatini (2006) argues that social competence exhibited in a firm influences the level of mutual relationship and knowledge sharing, which are sources of firm innovation. More so, Sunghyup, Hyun & Han (2012) assert that the level of interaction and alliances between partners in a given setup, are sources of innovation and superior firm performance. Thus, innovation process can involve collaboration with many different types of partners, each offering significant resources.

Ritter and Gemu'nden, (2002) observed that banks trade off higher interest rates and lower collateral requirements for firms involved in innovative processes. Thus, innovative firms have a lower probability of being credit rationed than their non-innovative peers. On the other hand, innovative firms that are more profitable, get better terms from banks by rewarding them with less binding credit limits (Degryse, Matthews & Zhao, 2015). This implies that banks will always evaluate positively, in term of credit availability, the presence of an innovative activity carried out by the firm. These findings seem to suggest that innovation may reduce the presence of credit constraints among those firms that, typically, may suffer more from financing constraints. For such firms, innovation may help to avoid the costly option of overdrawing expensive funds.

Owing to the extant literature, it is no longer debatable that innovation hinges on social competence, since the latter is a precursor of mutual relationship, knowledge sharing and social interactions, which are sources of firm innovation. In view of this, the foregoing discussion presupposes that social competence enhances access to finance directly or indirectly through innovation (Degryse et al., 2015). Theoretically, innovation plays a mediating role in the relationship between social competence and access to credit. Whereas theoretical assertions confirm the mediating role of innovation in the relationship between social competence and access to credit, empirical evidence in the existing literature is limited. Ritter and Gemu'nden (2002) and

Jose (2012) assert that exploring the mediating effect of variables in the relationship spells out the nature of the relationship and the extent to which the connection between the two variables are influenced by the mediating variable. In light of the above, this study investigated the practical role of innovation in the relationship between social competence and access to credit by SMEs.

The following hypotheses are thus, derived:

H₂ *Innovation has a significant positive association with social competence in operation of SMEs in Uganda*

H₃ *Innovation mediates the relationship between social competence and access to credit by SMEs in Uganda.*

RESEACH METHODOLOGY

This study applied a positivist paradigm; cross-sectional and quantitative research designs to address hypotheses set in the previous sections were employed. A cross sectional design aimed at collecting data at a point in time from SMEs in Uganda.

The study population included small and medium enterprises in Uganda. There are approximately 12,704 registered SMEs (UBOS Report, 2011; USSIA Report 2012; USSIA Report, 2012; UIA report, 2012). Based on random tables by Sekaran (2010), sample size of 307 SMEs was arrived at using a formula of Yamane (1973) as shown below:-

$$n = \frac{N}{1+N(e)^2}, \text{ where: } n\text{- is a sample size, } N\text{- is total population; and } e\text{- is tolerable error.}$$

Israel (2012) observed that populations with low degree of variability do not require larger sample sizes. Since the SMEs are similar in terms of level of operations and governance (hence low degree of variability), the used sample size of 307 SMEs was sufficient for this study. Either the managers or the owners of SME formed the unit of inquiry. The sample elements were selected from the entire population using simple random sampling. Simple random sampling technique is appropriate for sample selection in the population that is homogeneous (Field, 2006; & Israel, 2014).

All items were anchored on a five-point Likert-type scale ranging from 5 (strongly agree) to 1 (strongly disagree). A close-ended questionnaire was to collect data from SMEs' managers or owners in Uganda. Quantitative data (interval data) were collected from the respondents using self-administered questionnaire. The instrument was validated through expert interviews and a panel of practitioners. The reliability of the instrument (using internal consistency approach) to find out whether it consistently measured the study variables on the scales used (Field, 2012) was tested. The computed Cronbach alpha coefficient results were all above the threshold of 0.7 which was considered appropriate by Saunders et al. (2009)

Data processing and Analysis

Data Processing: Data were screened to establish the distribution of data and assess whether the assumptions of parametric data are tenable. Specific assumptions tested included normality of the distribution of the data, homogeneity of variance, linearity of the data independence of errors and multi-collineality. Multi-collinearity was tested by running the variance inflation factor (VIF) and the tolerance levels, and standard cut-off points suggested by Scott (2003) and Yu (2008) were observed.

Data Analysis: Pearson correlation and Hierarchical regression analyses were employed for data analysis. More so, the study adopted MedGraph program, Sobel tests, Kenny, and Baron Approach to test for mediation effects. Tests for mediation were conducted to establish the nature of mediation and the extent to which innovation influences the association between social competence and access to finance. The test for mediation was performed using MedGraph program by Jose (2008), which is based on the works of Bramboret al.(2002), Field (2013) and Kenny and Baron (2010)

Measurement of Variables

The study variables were measured based on the works of other scholars. According to Greshan and Reschly(2012), the main dimensions of social competence include social skills, social communication, adaptive behavior, soft skills and peer acceptance. On the other hand, the dimensions of innovation according to Hult et. Al.,(2004) and Tsai(2005) comprise number of active projects, number of new and support ideas and innovation success rate(success ideas divided by total ideas explored). Finally, guided by CGap (2009), access to finance was measured using amount of credit accessed, rate at which credit is accessed and number of SMEs that have accessed credit form financial institutions. In summary the model was specified as under;

$$Y = a + b_1x_1 + b_2x_2 + e.$$

Where Y- represents Access to finance

a -represents a constant

b_1 and b_2 represent standardized beta values

x_1 - and x_2 represent social competence and innovation respectively

e - represents an error term

EMPIRICAL RESULTS

Response rate of 70.5 percent was registered. Of these, 38 percent were from Central, 25 percent Western, 18 percent Northern and 19 percent Eastern regions of Uganda. The mean scores of variables studied are in the range 3.25, to 4.41, with standard deviations between 0.47 and 0.83. Since the standard deviations are insignificant compared to mean values, it is true the computed

means highly represent the observed data. In effect, the calculated averages are a good replica of reality (Garson, 2000; Field, 2006; Saunders et al., 2006). Results are in table 1 and 2.

Table 1: Location of SMEs

	Frequency	Percent	Cumulative
Central	116	38	38
Western	78	25	63
Northern	55	18	81
Eastern	58	19	100
Total	307		

Table 2: Mean Values and Standard Deviations

	Mean	Standard Deviation	Number of SMEs
Access to Finance	3.253	.836	307
Social Competence	4.312	.551	307
Innovation	4.414	.466	3 07

Correlation analysis

The correlation results in Table 2 indicate that there is a significant positive relationship between social competence, innovation and access to finance ($r=.475$, $p<.01$; and $r=.332$, $p<.01$) respectively. The results signify that increased levels of social competence and innovation are highly associated with an improvement in access to finance. Social competence is also significantly associated with innovation in SMEs. This implies that increased levels of social competences are highly associated with improved innovativeness in SMEs. The details are in Table 3.

Table 3: Correlation Matrix

	Access to	Social Competence	Innovation
Access to Finance	1		
Social Competence	.475**	1	
Innovation	.332**	.345**	1

N = 307, **p < .01, ; *p, <.05

Testing for mediation

Mediation tests were performed to establish whether the conditions suggested by Kenny and Baron (1986) were met. Besides, the Med-Graph program, a modified version of the Sobel test, was used to compute the Sobelz-value and the significance of the mediation effect of innovation in the association between social competence and access to finance. The results are in Table 3 and Figure1, respectively.

Table 4: The mediating effect of innovation in the relationship between social competence and access to finance

Predictor	Dependent Variable								
	Innovation			Access to finance					
	Model 1		Beta	Model 2			Model 3		
B	SE	B		SE	Beta	B	SE	Beta	
Intercept	1.16**	.37	-0.92	.65			-1.21*	.81	
Social intermediation	.310*	.05	.131	.83**	.21	.475	.540**	.13	.366
Social Capital							.327**	.17	.171

N = 307, **p < .01, ; *p, <.05

Table 4 above indicates that the four conditions for mediation according to Kenny et al., (2010) are met. First, there is an effect to be mediated ($B = .83, p < .01$). Secondly, there is a significant relationship between social competence and mediator ($B = .310, p < .05$), and thirdly, the coefficient of the mediator (innovation) is significant in regression three ($B = .327, p < .01$) with both social competence. Finally, the absolute effect of social competence on access to finance is less in regression three (standardized beta = .366) than in regression two (standardized beta = .475).

The significance of the mediation effect and nature or type of mediation was also tested by calculating sobel's z –value and ratio index using Med-Graph programme and results are in Figure1.

Type of Mediation:	Partial	
Sobel z – value :	2.403828	Significance 0.016224
Standardized Coefficient of Intellectual capital on financial performance		
Direct	0.475	
Indirect:	0.109	

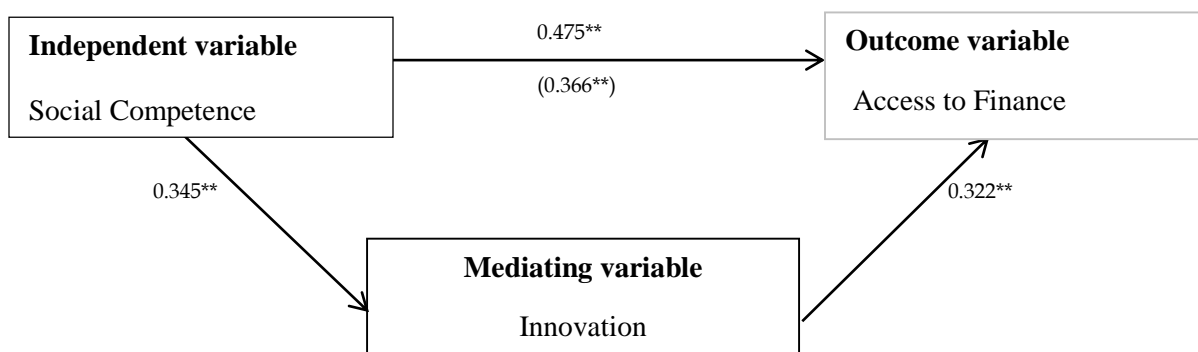


Figure I: Mediation Results

From the above figure, Sobel z-value of 2.4038 with p- value of 0.0162, and the beta weight for the basic relationship between social competence and access to finance ($r = .475, p < .001$) were registered. These results indicate that: First, since the Sobel z–value is large with a p-value less

than 0.05, it means that a significant mediation of innovation in the relationship between social competence and access to finance exists. This is further evidenced by a significant reduction of the level association between the predictor variable (innovation) and the criterion variable (access to finance) from $r = .475$ to $r = .366$, after introducing the mediating variable (innovation) in the third regression model. Secondly, since the relationship between independent variable and dependent variable was reduced to a significant level (that is, from 0.475^{**} to 0.366^{**}), it depicts a partial type mediation (Jose, 2013).

Thirdly, the ratio index of 12.4 % implies that social competences indirectly affects access to finance through innovation by a magnitude of 12.4%. The remaining 87.6% accounts for the direct effect social competence has on access to finance.

DISCUSSION

This research investigated and tested the mediating effect of innovation in the relationship between social competence and access to finance in the SMEs industry in Uganda. The aim of the study was to test specific causal theories about time-ordered relationships among variables, and the particular mechanism or pathway by which a relationship occurs. In this case, the results as indicated in the previous section have shown the specific drivers of access to finance in their causal chain relationships. Accordingly, the findings indicate that innovation partly mediates (partial mediation) the relationship between social competence and access to finance. This means that the entire effect on access to finance does not only go through main predictor variable (social competence) but also innovation. This signifies that the connection between social competence and access to finance is weakened by the presence of innovation in the model. The foregoing discussion confirms that the presence of innovation partly acts as a conduit in the association between social competence and access to finance in the SMEs. Thus, social competence and innovation are true drivers of access to finance in Uganda's SMEs.

This finding links well with the conclusions of Gratton and Ghoshal (2003) who argue that social competence, and thus, access to finance, depends upon trust (output of social competence) between the borrower and the lender that contracts will be honored. Such networks link and bond aspects of diverse relationships adhering to the individual level of analysis, and thus, help to bridge the gaps between businesses and banks. Social adaptability, perceptions, networks are cornerstones of one's soft skills that enhance connections with people and the power of people or firms to access support of financial institutions (Baron, 2004; Haper and Kelly, 2003). Likewise, Social Capital Theory by Nahapiet & Ghoshal (1998) links well with this finding. The theory argues that networks of relationships constitute a valuable resource for the conduct of social affairs and much of this capital is embedded within networks of mutual acquaintance. In the same vein, Gratton et al., (2003) observed that twin concepts of sociability and trustworthiness are central to access to finance by people and or firms. This point of view is also consistent with Bontis (2009), who argues that social relationships increase the efficiency of action, and aids co-operative behavior. In this case, social competence enables group members to pursue the collective goals by sharing knowledge and work in teams. This synergetic effect partly enables the SMEs to be innovative and access finance from financial institutions.

The foregoing discussion depicts that innovativeness in this regard influences access to finance because financiers always want to deal with parties that can make things happen. This assertion hinges on Social competence theory, which recognizes and supports employee empowerment as an unexploited source of creativity, knowledge, skills and initiatives, which are sources of financial benefits (Erturk, 2008)

MANAGERIAL AND POLICY IMPLICATIONS

On the basis of the results of this study, a series of issues call for the practitioners and researchers attention. The Ugandan SMEs should put much emphasis on the job applicants' social competences as opposed to professional competences, which play a key role in the recruitment and selection process of staff. The drivers or agents of social competences, that is, social assertion, positive self-concept, social cognitive skills, character, and popularity with peers should take center stage in SMEs staff recruitment and selection process. Welbourne (2008) observed that it is not the quality of the people you hire that will promote business success, but the ability of the hired people to network well with stakeholders and their agility in addressing sensitive matters in a firm.

More so, we believe the present study can provide some contributions to educational and scientific fields. This study can therefore reinforce the importance to foster academic achievement not only because of academic and learning reasons, but also because of its implications in other important domains (such as social competence) of young generation development along the school years. The government of Uganda can therefore introduce some subjects in schools and institutions that can promote the development of social competences in the learning group.

Although social competence is emphasized as means of promoting access to finance in Uganda, promoters or managers should realize that it could not be completely divorced from innovation. In any case, social competence promotes one's ability to relate and work well with others in a team, which in turn, enhances individual's innovative abilities (Sabatini, 2006). Since innovation is found to be a causal chain in the relation between social competence and access to finance in this study, managers of the SMEs should endeavor to reinforce agents of innovation. In any case, commercial institutions tend to support high performing firms because of their innovative abilities.

CONCLUSION

In the nutshell, the true drivers of access to finance are social competence and innovation. However, innovation exhibits partial form of mediation in the relation between social competence and access to finance. This signifies that the entire effect does not only go through the main predictor variable (Social competence) but also, innovation. Hence, a specific pathway by which the connection occurs between social competence and access to finance is direct, though innovation partially mediates the connection between the two.

RECOMMENDATIONS

In current dynamic and volatile business environment, managers of SMEs should endeavor to embrace the culture that promotes and nurtures strong business networks. Since social competence emphasizes social assertion, frequency of interaction, positive self-concept, social cognitive skills and popularity with others (the drivers of social networks), SMEs will always succeed in their

endeavors. Thus, SMEs should always advocate for employees that ready and willing to build strong networks and collaborations with key stakeholders.

More so, since this study confirmed that innovation is a strong causal chain in the relation between social competence and access to finance; managers of the SMEs should endeavor to reinforce agents of innovation. In this case, SMEs managers have no option but employ staff with unexploited source of creativity, knowledge, skills and initiatives, which promote innovative sustainable technologies.

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