

**DETERMINANTS OF FINANCIAL PERFORMANCE OF MICROFINANCE
INSTITUTIONS: A COMPARATIVE CASE STUDY ON SELECTED MICROFINANCE
INSTITUTIONS IN UGANDA**

by

Constant Othieno Mayende (BCOM, MBA, CPA, FCCA)

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DEDICATION

This dissertation is sincerely and wholeheartedly dedicated to my beloved family, whose unwavering support, selfless sacrifices and constant inspiration have been the pillar of strength throughout this academic journey.

To my dear wife Rose, whose steadfast love, encouragement and understanding have supported me through the highs and lows of this demanding journey. Thank you for being my constant pillar of strength. Your patience and faith in my dreams gave me the courage to persevere, even when the road seemed long and uncertain.

To my beloved daughters Ronia and Ivy, whose innocence, laughter and resilience remind me daily of the importance of legacy and purpose: this achievement is for you. May it serve as a beacon that learning is a lifelong journey and that perseverance yields fruit.

To my parents, whose values of discipline, hard work, humility and integrity have shaped the person I am today: your prayers, counsel, and sacrifices continue to bear fruit in my life.

I also dedicate this work to professionals and leaders who pursue excellence, ethical governance and personal growth. May it contribute to leadership and organizational transformation and inspire others to seek truth, knowledge and vision.

Above all, I dedicate this dissertation to the Almighty God, the source of wisdom, knowledge, and grace. To Him be all the glory for the strength to begin, the perseverance to continue, and the favour to complete this work.

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This dissertation is a scholarly document and testament to the power of faith, resilience and the relentless pursuit of purpose.

Thank you all.

ABSTRACT

**DETERMINANTS OF FINANCIAL PERFORMANCE OF MICROFINANCE
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This research investigates the determinants of financial performance among microfinance institutions (MFIs) in Uganda, adopting a comparative case study design and a mixed-methods approach. Given the critical role MFIs play in advancing financial inclusion, supporting small enterprises, and alleviating poverty among underserved populations (Armendáriz and Morduch, 2010; Ledgerwood, 1999), understanding the drivers of their financial sustainability is both timely and essential.

The research improves MFIs' role in socio-economic development by identifying and analyzing internal and external factors that impact financial performance. Specifically, it investigates governance quality, management skills, operational efficiency, risk management practices, technological adaptation, regulatory frameworks and macroeconomic conditions (Cull *et al.*, 2009; Mersland and Strøm, 2009). Quantitative and qualitative data was collected from selected MFIs in Kampala Central Business District. Regression analysis was used to examine

relationships between institutional features and financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Operational Self Sufficiency (OSS) (Rosenberg, 2009), while in-depth interviews with board members, executives and managers provided additional perspective-based insights (Yin 2018).

The findings reveal that financial performance is multifaceted, shaped by institutional capacity and the external environment. Governance structures emerged as significant predictors, with effective oversight and accountability strongly linked to MFI profitability. Operational efficiency had a weaker positive effect, suggesting efficiency gains must be complemented by sound governance. Macroeconomic stability, particularly controlled inflation and exchange rate stability was one of the most robust determinants underpinning institutional resilience. Conversely, management quality showed no significant effect, highlighting persistent gaps in leadership capacity and autonomy. Technological adaptation demonstrated weak or negative effects due to high costs, limited staff expertise and poor alignment of digital solutions with institutional needs. Risk management practices were correlated with performance but did not emerge as independent predictors, reflecting their role as buffers rather than direct enhancers.

In conclusion, the study affirms that financial performance of Ugandan MFIs depends on a balanced mix of strong governance, operational efficiency, supportive regulation and macroeconomic stability, while addressing weaknesses in management, risk management and technological integration. These findings contribute to the literature on microfinance sustainability and provide actionable insights for policymakers, regulators and practitioners seeking to strengthen resilience and long-term impact in low-income economies.

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LIST OF ABBREVIATIONS

AML	Anti Money Laundering
BoU	Bank of Uganda
CAMELS	Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CPA	Certified Public Accountant
CTF	Countering the Financing of Terrorism
CVI	Content Validity Index
DMP	Data Management Plan
KMA	Kampala Metropolitan Area
MFI	Microfinance Institution
NGO	Non-Governmental Organization
OSS	Operational Self Sufficiency
PAR	Portfolio at Risk
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
SDG	Sustainable Development Goal
SPSS	Statistical Package for Social Sciences
STR	Suspicious Transactions Report
UMRA	Uganda Microfinance Regulatory Authority

CHAPTER 1

OVERVIEW

1.1 Introduction

Microfinance institutions (MFIs) have emerged as pivotal actors in the global financial architecture, particularly in developing and emerging economies where access to conventional banking services remains constrained for large segments of the population (Cull *et al.*, 2009; Ledgerwood, 1999; Morduch, 1999). Since their conceptual origins in the 1970s and institutional consolidation in the 1990s, MFIs have evolved from small, donor-supported initiatives into diverse, professionally managed entities, including non-governmental organizations (NGOs), credit cooperatives and regulated microfinance banks (Armendáriz and Morduch, 2010; Ledgerwood *et al.*, 2013; Mersland and Strøm, 2009). This institutional heterogeneity reflected in variations of governance frameworks, financing mechanisms, market orientations and technological innovations affords MFIs the capacity to customize financial service delivery to differentiated client segments, thereby mitigating structural barriers and advancing the broader agenda of financial inclusion.

MFIs deliver a broad portfolio of financial products such as microloans, savings facilities, micro-insurance and payment services designed to serve clients who are often excluded from formal financial systems (Khanchel *et al.*, 2025; Tolzmann, 2023). These services extend well beyond urban centres into rural and peri-urban regions where commercial banks often perceive operations as unprofitable due to high transaction costs and low population density (Hermes and Hudon, 2019). In fulfilling this mandate, MFIs substantively contribute to poverty alleviation and socio-economic development by facilitating microenterprise creation, enabling asset accumulation and fostering local economic resilience (Khandker, 2005; Rauf *et al.*, 2022). Empirical evidence

increasingly highlights their role in social empowerment particularly for women through enhanced economic agency, household decision-making power and improved outcomes in education, health and nutrition (Banerjee *et al.*, 2015; D’espallier *et al.*, 2013; Iqbal *et al.*, 2019). These social outcomes are often amplified by non-financial services such as business training, financial literacy programs and group-lending mechanisms that reinforce social capital and community solidarity (Hermes and Hudon, 2019).

Technological innovation has transformed the operational landscape of MFIs, serving as a driver of expanded outreach and as a strategic tool for resilience in the face of economic and environmental shocks. The adoption of digital platforms, mobile banking, agent networks and algorithm-based credit scoring has reduced delivery costs, improved risk assessment and extended financial access to underserved communities (Gabor and Brooks, 2020; Khanchel *et al.*, 2025). These tools have been instrumental in enhancing operational sustainability and social impact under normal conditions as well as enabling MFIs to adapt to disruptions such as COVID-19 pandemic and climate related hazards (Dorfleitner *et al.*, 2021, 2025). By reducing reliance on physical branch networks, lowering transactional costs and maintaining service accessibility during crises, technology has become a central component of MFI strategies to achieve financial viability while advancing their poverty alleviation mandate and contributing to the United Nations Sustainable Development Goals (SDGs).

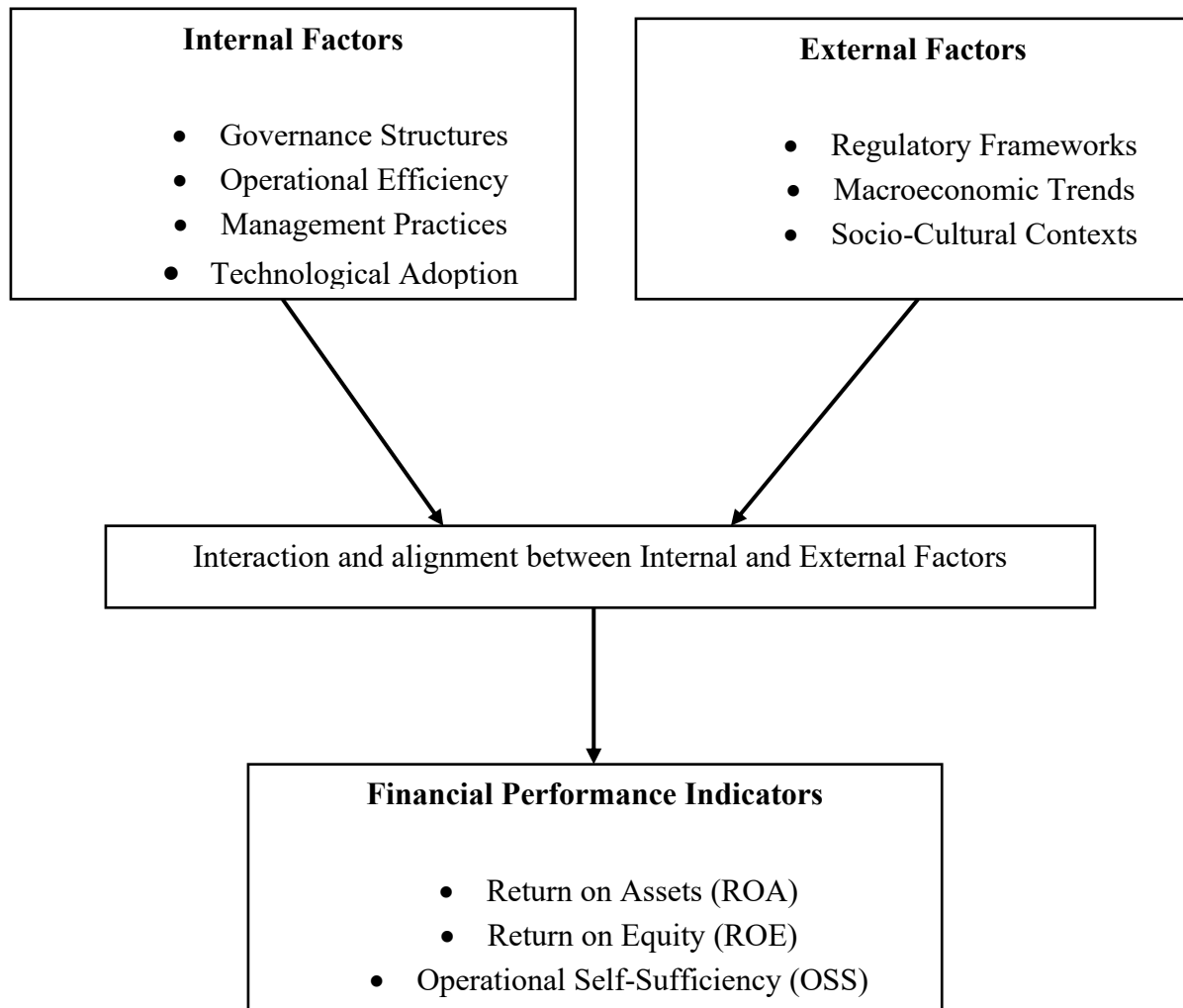
Despite these contributions, MFIs face persistent challenges in achieving and sustaining financial sustainability. Sustainability is both an operational target and a strategic imperative, as it underpins the long-term viability of MFIs and their ability to fulfil their mission without reliance on perpetual donor funding or concessional external support (Cull *et al.*, 2009). Balancing the

“double bottom line” of financial performance and social mission remains an intricate challenge, particularly in the dynamic and frequently volatile socio-economic environments, characteristic of developing economies (Cull *et al.*, 2009; Thai-Ha, 2021). Serving low-income and marginalised clients often entails higher transaction costs, elevated credit risk and lower returns, making it essential for MFIs to adopt strategies that integrate social impact objectives into sound financial management. The COVID-19 pandemic precipitated severe operational disruptions, including substantial declines in loan disbursements, repayment rates and liquidity levels, with MFIs disproportionately affected compared to other financial institutions (Lee *et al.*, 2025). Similarly, climate-related hazards such as prolonged droughts, floods and cyclones pose additional threats to asset quality, repayment capacity and asset-liability matching, underscoring the urgency of climate-responsive risk management (Dorfleitner *et al.*, 2025).

The financial performance of MFIs is shaped by a multifaceted interaction of internal capabilities and external environmental conditions. Internally, governance structures, operational efficiency, management practices and technological adoption serve as capacity enablers that influence productivity, cost-effectiveness and service quality (Durgavanshi, 2014; Hartarska, 2005; Hartarska and Mersland, 2012; Iqbal *et al.*, 2019; Mersland and Strøm, 2009; Zulu and Mumba, 2024). Governance quality enhances institutional oversight, strengthens accountability and improves both financial and social outcomes. Externally, regulatory frameworks, macroeconomic stability and socio-cultural norms act as constraints or catalysts, shaping the opportunities and risks within which MFIs operate (Chaulagain and Lamichhane, 2022; Hermes and Hudon, 2019; Ngumo *et al.*, 2020; Rauf *et al.*, 2022). Stability in the external environment fosters greater outreach and profitability for MFIs, while instability and volatility pose significant risks to their long-term sustainability. The interaction between these internal and external

dimensions can be conceptualised as an interlocking system in which strong institutional capacity enables resilience to shocks and supportive environmental conditions amplify institutional effectiveness (Khanchel *et al.*, 2025; Ngumo *et al.*, 2020). This dual-lens perspective underpins the analytical framework for the present research which examines both institutional and environmental determinants in relation to key financial performance indicators such as ROA, ROE and OSS.

Figure 1: Conceptual Model of Determinants of Financial Performance in MFIs



This research addresses a critical gap in the literature by providing a locally grounded analysis of selected MFIs in Uganda through a comparative case study approach. Unlike prior studies that rely heavily on cross-country datasets and broad generalizations, this research captures the analysis within Uganda's financial landscape, capturing sector heterogeneity and realities of institutions. By doing so, it challenges the tendency to treat MFIs as a uniform category and establishes the basis for a more differentiated understanding of their performance dynamics.

Building on this foundation, the research systematically examines the determinants of financial performance among MFIs, highlighting the internal and external factors that shape their outcomes. It identifies how variations in governance structures, funding models, market positioning and technological adoption create significant differences in financial sustainability. Through a comparative lens, the research uncovers distinctive governance practices, operational strategies and managerial approaches that characterize financially successful MFIs, while exposing the unique conditions that contribute to weaker performance. In this way, the research documents heterogeneity and demonstrates how it translates into divergent financial trajectories across Uganda's microfinance sector.

The significance of this research lies in its potential to generate actionable, evidence-based insights for a broad spectrum of stakeholders, including MFI managers, policymakers, regulators, donors and microfinance practitioners. By isolating the key drivers of financial performance and assessing their relative importance across varied operational and regulatory domains, the findings of this research provide a foundation for targeted strategies aimed at enhancing institutional sustainability and maximizing social impact (Perera, 2021; Rahman and Mazlan, 2014). In Uganda, these insights are particularly timely given the recent reforms implemented by Bank of Uganda (BoU) and Uganda Microfinance Regulatory Authority (UMRA), which have introduced

stricter compliance protocols, higher capital adequacy thresholds and strengthened consumer protection measures (UMRA, 2023). Such reforms have materially reshaped the operational environment, making it essential to understand how these regulatory changes interact with institutional performance.

The research employs a robust mixed-methods design, integrating quantitative analysis of financial performance metrics with qualitative insights obtained from in-depth interviews and detailed case studies. This approach strengthens the validity and reliability of the findings while providing a comprehensive understanding of the governance dynamics, operational strategies and underlying realities influencing MFI performance. The quantitative component allowed for objective benchmarking of institutional performance against established financial metrics, whereas the qualitative component provided deeper insights into managerial perspectives, governance dynamics, regulatory interactions and environmental challenges that may not be fully captured in financial data alone.

Ultimately, this research seeks to contribute meaningfully to both scholarly discourse and practical knowledge on how MFIs can achieve and sustain a balance between financial viability and their social mission. The outcomes are expected to inform institutional strategies, guide regulatory policy and assist donors and development partners in targeting interventions that enhance both financial sustainability and developmental impact of MFIs in Uganda and other comparable emerging-market contexts.

1.2 Definition of the Research Problem

The financial performance of MFIs is a critical determinant of their long-term sustainability, operational effectiveness and capacity to achieve their mission of delivering financial services to the underserved and low-income populations (Cull *et al.*, 2009; Hermes and Lensink, 2011). Strong financial performance enables MFIs to sustain operations without excessive reliance on donor funding, expand outreach to previously excluded communities and contribute to broader socio-economic objectives including poverty alleviation and entrepreneurial development (Armendáriz and Morduch, 2010; Cull *et al.*, 2009; Ledgerwood, 1999; Mersland and Strøm, 2009; Rosenberg, 2009). Many MFIs, particularly in developing economies, struggle to sustain strong financial performance due to the complex interplay of external environmental factors, market dynamics and internal operational constraints (Bogan, 2012; Morduch, 1999; Perera, 2021).

The central problem addressed by this research is the insufficient understanding of the determinants driving financial performance in MFIs within Uganda's unique socio-economic and regulatory landscape. While global literature has extensively examined various determinants of MFI performance, there remains a lack of comprehensive, country specific studies focusing on Uganda, particularly those that conduct comparative analysis to identify the distinct factors contributing to the success or failure of MFIs. Recent research in Africa has tended to rely on aggregate cross-country analysis (Amanu and Gebissa, 2021; Ngumo *et al.*, 2020), which often obscure the intra-country differences between high-performing and struggling MFIs. This homogenisation overlooks important variations in governance structures, operational models, client segments and strategic priorities that can significantly shape institutional outcomes (Khanchel *et al.*, 2025; Zulu and Mumba, 2024). This oversight limits the development of targeted

strategies and interventions tailored to address the specific challenges faced by different types of MFIs in Uganda.

Another gap in the literature relates to the interaction between internal determinants including governance practices, managerial quality, technological adoption and operational efficiency and external determinants such as regulatory frameworks, macroeconomic conditions and socio-cultural dynamics (Chaulagain and Lamichhane, 2022; Hartarska, 2005; Hartarska and Mersland, 2012; Lee *et al.*, 2025). Existing studies often examine these factors in isolation, failing to capture the synergistic or constraining effects that emerge when they interact. Understanding this interaction is critical for developing holistic and locally responsive strategies that can enhance both financial sustainability and social impact. Additionally, the accelerating adoption of digital financial services and the integration of climate risk management into MFI operations represent relatively recent developments that remain underexplored in the Ugandan context (Dorfleitner *et al.*, 2025; Khanchel *et al.*, 2025).

This research therefore aims to address these gaps by identifying and analyzing the key determinants that influence MFI performance in Uganda, providing a unique understanding of the factors contributing to financial sustainability and operational effectiveness. By employing a comparative case research approach, this research examines both successful and less successful MFIs to uncover the unique strategies, operational practices and institutional environments that differentiate high-performing institutions from their struggling counterparts. This approach enabled a more detailed analysis of the drivers of financial performance, including those unique to the Ugandan environment. To further address these gaps, this research was guided by the following research questions: -

1. What are the key determinants of financial performance in selected MFIs in Uganda?

2. How do successful and unsuccessful MFIs differ in their approach to governance, operational efficiency, technological adoption, and risk management?
3. What impact do external environmental factors, such as regulatory frameworks and macroeconomic conditions, have on the financial performance of MFIs in Uganda?
4. What strategies can MFI practitioners and policymakers implement to enhance financial sustainability and social impact?

The above research questions provide direction for the research objectives and guide the analysis of both quantitative and qualitative data, enabling a comprehensive examination of the factors influencing MFI performance in Uganda.

The findings of this research are expected to have significant implications for both theory and practice. Theoretically, the research contributes to broader microfinance literature by offering insights into the specific determinants of financial performance in developing countries. Practically, the research provides actionable recommendations for MFI managers, policymakers and other stakeholders to enhance the financial sustainability and social impact of MFIs in Uganda. By identifying the key drivers of financial performance and understanding their relative importance, the research lays the foundation for development of targeted strategies to improve MFI operations, strengthen regulatory frameworks and foster a more inclusive financial sector.

In summary, this research addresses the critical issue of the lack of a comprehensive understanding of the determinants driving financial performance in MFIs within Uganda's unique setting. By focusing on a comparative analysis of selected MFIs, the research seeks to uncover the distinct factors contributing to their financial sustainability and operational effectiveness, thereby filling a significant gap in the existing literature and providing valuable insights for enhancing the microfinance sector in Uganda.

1.3 Purpose of the Research

As highlighted in Section 1.2, while global literature has addressed MFI performance from various perspectives, Ugandan-focused, comparative and integrated analysis remain limited. This research addresses that gap by examining the combined influence of internal capacities such as governance, operational efficiency and technological innovation and external conditions including regulatory frameworks and macroeconomic stability on MFI financial performance in Uganda.

The primary goal of this research is to develop a comprehensive understanding of the determinants that influence the financial performance of MFIs in Uganda. Given the critical role that MFIs play in promoting financial inclusion and economic empowerment in developing economies, it is essential to identify the factors that contribute to their financial sustainability and operational success. The research objectives are therefore designed to fill key gaps in the existing literature, particularly within the unique context of Uganda, and to provide actionable insights that can enhance both theoretical knowledge and practical management of MFIs. The specific objectives of this research are as follows: -

1. To identify and analyze the key determinants of financial performance in selected MFIs in Uganda

Recent studies have tended to focus on either operational metrics (Ngumo *et al.*, 2020) or social impact outcomes (Perera, 2021), with few systematically combining internal and external determinants in a unified analytical framework. Addressing this fragmentation will provide a more complete picture of performance drivers in Uganda's evolving regulatory and economic environment. This objective seeks to explore the various factors, both internal and external, that significantly impact the financial performance of MFIs. Internal determinants may include

governance structures, management quality, operational efficiency, risk management practices and technological adoption while external determinants may encompass regulatory frameworks, macroeconomic conditions and socio-political environments. By systematically identifying these factors, the research aimed to develop a comprehensive understanding of how different determinants contribute to financial performance, thereby enabling a more targeted approach to enhancing MFI sustainability (Cull et al., 2009; Hartarska and Mersland, 2012; Morduch, 1999).

2. To compare the financial performance of successful and unsuccessful MFIs and identify the factors contributing to these outcomes

Comparative approaches have yielded valuable insights in regional contexts such as Kenya (Ngumo *et al.*, 2020) and Zambia (Zulu and Mumba, 2024), revealing critical differences in governance, portfolio quality and innovation uptake between high and low performing MFIs. Such comparative analyses are rare in Uganda, making this objective particularly relevant. This objective therefore focuses on conducting a comparative analysis of successful and less successful MFIs to understand the specific strategies, practices and institutional conditions that lead to divergent financial outcomes. By examining key performance indicators such as ROA, ROE and OSS across the selected MFIs, the research aims to identify the critical success factors that differentiate high-performing MFIs from those struggling to maintain financial sustainability. This analysis will highlight the practices together with the institutional and environmental determinants that most significantly influence financial success or failure in Uganda's microfinance sector (Bogan, 2012; Ngumo *et al.*, 2020).

3. To assess the impact of governance, operational efficiency, technological adoption and external environmental factors on MFI performance

Emerging literature highlights the growing role of climate resilience strategies (Dorfleitner et al., 2025) and post-COVID 19 digital transformation (Lee *et al.*, 2025) in sustaining MFI performance. However, the Ugandan context remains under-researched in terms of how governance quality, operational efficiency and technology adoption interact with regulatory and macroeconomic dynamics to shape financial outcomes. Governance, operational efficiency, technological innovation and the external environment are widely recognized as critical determinants of MFI performance. This objective aims to examine how these factors, individually and collectively, influence financial outcomes in MFIs. Effective governance characterized by strong leadership, transparency and accountability are crucial for maintaining investor confidence and ensuring long-term sustainability (Hartarska and Mersland, 2012; Mersland and Strøm, 2009). Similarly, operational efficiency, measured by cost management and productivity levels, directly affects profitability and financial health. Technological adoption can enhance service delivery and reduce costs thereby improving financial performance (Chaulagain and Lamichhane, 2022). Additionally, the external environment, including regulatory frameworks and macroeconomic stability, significantly shapes MFI operations and their ability to achieve financial sustainability (Hermes and Lensink, 2011; Perera, 2021). This objective will provide a comprehensive analysis of these dynamics and their impact on MFI performance in Uganda.

4. To provide practical recommendations for MFI practitioners and policymakers to enhance financial sustainability and impact

Building on the findings from the previous objectives, this research aims to formulate practical recommendations for MFI managers, practitioners, and policymakers to improve financial sustainability and social impact. These recommendations will be grounded in empirical evidence and tailored to the unique context of Uganda, addressing specific challenges such as

governance weaknesses, operational inefficiencies, inadequate risk management practices, and the need for technological innovation. Furthermore, the research will suggest policy interventions that can create a more supportive regulatory environment for MFIs, fostering their growth and enhancing their contribution to financial inclusion and poverty reduction (Agboklou and Özkan, 2023; Rahman and Mazlan, 2014). These recommendations will be designed to be actionable, providing clear guidance on best practices and strategic priorities for enhancing the performance and impact of MFIs. These recommendations will align with recent calls for policy frameworks that foster digital inclusion, improve consumer protection, and strengthen institutional capacity in the microfinance sector (Agboklou and Özkan, 2023; Rauf *et al.*, 2022). They will also consider donor strategies that prioritize climate-smart investments and technology-driven service delivery in rural and peri-urban markets.

By achieving these objectives, the research seeks to make a significant contribution to the body of knowledge on microfinance institutions while providing actionable insights that can assist stakeholders in the Ugandan microfinance sector in making informed decisions, optimizing strategies and ultimately achieving greater financial sustainability and social impact.

1.4 Research Design

Achieving the stated research objectives and bridging gaps in the existing body of knowledge necessitates use of a methodologically rigorous and environment-appropriate research design. Investigating the financial performance of MFIs in Uganda's dynamic institutional and economic landscape calls for an approach that captures both quantifiable relationships and interpretive complexities of stakeholder behavior and policy environments. Given the interdependence of internal determinants and external factors, a mono-method approach would be insufficient.

This research therefore employs a mixed methods approach, integrating both quantitative and qualitative research methodologies to leverage the complementary strengths of each, thereby enabling a comprehensive and refined analysis of MFI financial performance. This design is particularly suitable for exploring the multifaceted determinants of financial performance in MFIs, as it allows for both measurement of relationships between variables and the interpretation of institutional realities that cannot be fully explained through quantitative analysis alone (Creswell and Clark, 2017; Schoonenboom and Johnson, 2017). The mixed methods design further ensures a comprehensive understanding of the interplay between internal and external determinants of MFI performance, directly aligning with the study's aim to holistically examine these factors. The methodology employs a convergent parallel design, collecting quantitative and qualitative data simultaneously, analyzing them separately and integrating the results during the interpretation phase to provide a well-rounded understanding of the findings. This strategy allowed for triangulation, enabling cross-validation of findings from different data sources to enhance the reliability and robustness of the results (Fetters *et al.*, 2013; Shorten and Smith, 2017). It also

facilitated the identification of convergences and divergences between statistical relationships and stakeholder perspectives, thereby deepening insights into the microfinance sector dynamics.

The quantitative component analyses financial performance metrics such as ROA, ROE and OSS against a set of internal and external determinants including governance quality, operational efficiency, technological adoption and regulatory conditions. Data were drawn from audited financial statements, regulatory reports and institutional records of selected MFIs. Statistical analysis comprising descriptive statistics, correlation analysis and regression analysis were used to identify significant relationships between the determinants and financial performance. The qualitative component consists of semi-structured interviews with MFI executives, board members and MFI managers alongside a review of institutional policy documents. This provided rich and narrative insights into governance dynamics, operational strategies, decision-making processes and the institutional constraints shaping MFI operations in Uganda. The qualitative data allows for the exploration of factors that might explain patterns observed in the quantitative analysis thereby adding depth to the findings (Curry *et al.*, 2009).

The integration of both strands occurs during the interpretation stage, enabling the synthesis of statistical evidence with stakeholder perspectives. This process provides interpretive explanations for quantitative findings and helps identify new and emergent themes that were not initially anticipated in the quantitative framework (Khanchel *et al.*, 2025). Overall, the use of a mixed-methods design enhances the validity, richness and applicability of the research findings, ensuring they are empirically grounded and practically relevant for policymakers, practitioners and scholars in the microfinance field.

1.5 Research Questions

Building on the mixed-methods design outlined in Section 1.4, the formulation of research questions serves as a critical step in aligning the study's empirical inquiry with its overarching purpose. The dual use of quantitative and qualitative data demands research questions that are both analytically precise and empirically grounded, allowing for a comprehensive exploration of internal and external determinants of financial performance of MFIs in Uganda. This research aims to address these gaps by identifying and analyzing the key determinants that influence MFI performance in Uganda, providing an in-depth understanding of the factors contributing to financial sustainability and operational effectiveness. By employing a comparative case research approach, this research examines both successful and less successful MFIs to uncover the unique strategies, operational practices, and contextual factors that differentiate high-performing institutions from their struggling counterparts. This approach enables a more detailed analysis of the drivers of financial performance, including those unique to the Ugandan landscape. To address these gaps, this research was guided by the following research questions: -

1. What are the key determinants of financial performance in selected MFIs in Uganda?
2. How do successful and unsuccessful MFIs differ in their approach to governance, operational efficiency, technological adoption, and risk management?
3. What impact do external environmental factors, such as regulatory frameworks and macroeconomic conditions, have on the financial performance of MFIs in Uganda?
4. What strategies can MFI practitioners and policymakers implement to enhance financial sustainability and social impact?

The above research questions provide direction for the research's objectives and guide the analysis of both quantitative and qualitative data, enabling a comprehensive examination of the factors influencing MFI performance in Uganda.

The findings of this research are expected to have significant implications for both theory and practice. Theoretically, the research contributes to the broader literature on microfinance by offering insights into the specific determinants of financial performance in a developing country setting. Practically, the research provides actionable recommendations for MFI managers, policymakers and other stakeholders to enhance the financial sustainability and social impact of MFIs in Uganda. By identifying the key drivers of financial performance and understanding their relative importance, the research lays a firm foundation for developing targeted strategies to improve MFI operations, strengthen regulatory frameworks and foster a more inclusive financial sector.

In summary, this research addresses the critical issue of the lack of a comprehensive understanding of the determinants driving financial performance in MFIs within Uganda's unique environment. By focusing on a comparative analysis of selected MFIs, the research sought to uncover the distinct factors contributing to their financial sustainability and operational effectiveness, thereby filling a significant gap in the existing literature and providing valuable insights for enhancing the microfinance sector in Uganda.

1.6 Assumptions and Limitations

Clear articulation of underlying assumptions and study limitations contributes significantly to the integrity of academic research. This transparency helps define the boundaries within which findings should be interpreted, identifies practical and methodological constraints encountered during the study and reinforces the credibility of the results. According to Creswell and Creswell (2017), explicitly stating assumptions and limitations strengthens the validity and clarity of research. Furthermore, Yin (2018) emphasizes that specifying such boundaries supports the dependability and practical relevance of empirical investigations. This study was guided by several foundational assumptions and faced some limitations, both practical and methodological which are outlined in the following sections to ensure balanced interpretation and academic rigor.

1.6.1 Key Assumptions

Truthful and Accurate Reporting: This study assumed that respondents including MFI executives, managers and board members would provide truthful, candid and accurate information during the interview process. This assumption was underpinned by assurances of confidentiality, compliance with ethical research standards and the expectation that participants' professional integrity would guide their responses.

Consistency in Financial Reporting Standards: This study assumed that financial data obtained from audited financial statements and institutional reports were prepared in accordance with generally accepted accounting principles or International Financial Reporting Standards (IFRS). This assumption ensured the consistency and comparability of financial information across institutions, thereby enabling meaningful analysis and valid cross-case comparisons.

Relevance of Selected Determinants: This study assumed that the selected internal and external determinants specifically governance quality, operational efficiency, technology adoption

and the regulatory environment were relevant and reflective of the primary drivers of financial performance within Uganda's microfinance ecosystem. This assumption provided a justified basis for focusing the inquiry on factors most likely to influence MFI sustainability and comparative outcomes.

Stability of Environmental Variables: This study assumed a reasonable degree of stability in Uganda's macroeconomic and regulatory environments during the data collection period, notwithstanding the inherently dynamic nature of external conditions. This assumption was necessary to allow for an accurate assessment of the influence of these environmental factors on MFI financial performance.

1.6.2 Delimitations

Delimitations refer to the intentional boundaries defined by the researcher to establish the scope and focus of the research. These boundaries are critical in narrowing the research to a manageable and meaningful framework, ensuring coherence between the research questions, objectives and methods (Creswell and Creswell, 2017). Several delimitations were applied in this research to guide its execution within the available resources and timeframe, while still achieving depth and relevance.

Geographical delimitation was introduced by concentrating the research on MFIs operating within the Kampala Metropolitan Area (KMA). This location was selected due to its high concentration of formal MFIs, accessibility to data and logistical feasibility. While Uganda's microfinance landscape spans both urban and rural areas, focusing on KMA allowed for controlled comparison across institutions operating under relatively similar economic and regulatory conditions.

Institutional delimitation was implemented through purposive sampling of selected MFIs that represented both high-performing and underperforming institutions. This approach ensured inclusion of diverse operational profiles while remaining within a realistic sample size. Selection criteria included availability of audited financial records, regulatory compliance, institutional maturity and willingness to participate in the study. Institutions with incomplete financial data, limited transparency or restricted access were excluded from the sample.

Topical delimitation focused the study on specific internal and external determinants of financial performance namely governance quality, operational efficiency, technological adoption and macro-regulatory environment. Broader themes such as customer satisfaction, client outreach and long-term developmental outcomes were not explored in depth, although they remain relevant to the broader discourse on microfinance impact.

Temporal delimitation was applied through the specific time frame selected for data analysis and stakeholder engagement. The research focused on financial and operational data from the three most recent financial years preceding the research, a period chosen to ensure both data availability and analytical relevance while maintaining the currency of findings.

These delimitations were essential for maintaining research feasibility and methodological clarity. While they naturally limit the breadth of generalization, they also enabled a deeper and more focused investigation into the determinants of MFI performance within a high-density financial environment. The decisions on scope reflect a balance between academic rigor and practical constraints of time, access and resource availability.

1.6.3 Limitations

Limitations represent the potential constraints that may have influenced the scope, accuracy or applicability of the research findings. Below are the limitations: -

Generalizability: Findings from this research may not be universally generalizable across all MFIs in Uganda, particularly those in rural or peri-urban settings, given the urban-focused sample. However, the insights remain valuable for understanding MFI dynamics in similar environments.

Access to Proprietary Data: In some cases, limited access to internal strategic documents or financial records constrained the depth of analysis, particularly in MFIs that were reluctant to disclose sensitive information.

Subjectivity in Qualitative Data: Despite efforts to minimize bias, qualitative data are inherently interpretive. The potential for respondent bias or selective memory in interviews presents a limitation that was mitigated through triangulation with secondary data sources and cross-verification among respondents.

Time Constraints: Data collection and analysis were conducted within a specific academic timeline, which limited the longitudinal tracking of performance trends and constrained the ability to capture changes over time.

Despite these limitations, the research employed rigorous methodological strategies including triangulation, purposive sampling and data validation techniques to ensure that the findings are credible, reliable and relevant. By clearly articulating these assumptions and limitations, the research provides a balanced and transparent foundation for interpretation and future inquiry.

1.7 Summary

This research investigates the determinants of financial performance among MFIs in Uganda through a comparative case study of selected institutions. The study seeks to identify and analyze critical internal and external factors that influence financial sustainability and institutional effectiveness. By comparing successful and less successful MFIs, the research offers a deeper understanding of the interplay between strategic, operational and environmental variables that shape performance outcomes in Uganda's evolving MFI landscape.

Chapter One provides a comprehensive foundation for the research by presenting the background, articulating the research problem, defining the purpose and objectives and outlining the key research questions. It also specifies the research design, underlying assumptions, delimitations and limitations that frame the research scope and execution.

Chapter Two reviews the theoretical and empirical literature, beginning with key conceptual frameworks underpinning MFI performance, followed by an assessment of global and regional studies relevant to the Ugandan landscape. The chapter concludes by identifying critical gaps in existing knowledge that this research seeks to address.

Chapter Three details the methodology adopted to achieve the research objectives. It outlines the mixed-methods approach, research strategy, population and sampling procedures, data sources, data collection instruments, quality control measures and ethical considerations.

Chapter Four presents the research findings, structured around the research objectives and integrates interpretation and discussion considering both theory and empirical literature.

Chapter Five concludes the research by summarizing the key insights, drawing evidence-based conclusions, and providing practical and policy-oriented recommendations aimed at enhancing financial performance and institutional resilience in Uganda's MFI sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

MFIs have emerged as specialized financial intermediaries targeting populations traditionally excluded from formal banking systems (Ledgerwood, 1999). Originally established as donor-funded and socially driven entities, many MFIs have progressively transitioned into commercially oriented institutions operating within increasingly formalized regulatory frameworks, reflecting the sector's broader shift toward market-based sustainability (Mersland and Strøm, 2010). Although the core mission of MFIs remains anchored in poverty alleviation and financial inclusion, the growing emphasis on financial self-sufficiency has generated a dual mandate in which they must sustain operational viability while preserving social impact (Cull *et al.*, 2009). MFIs offer a range of tailored financial services including microloans, savings, insurance and mobile-based transactions aimed at facilitating access to credit, supporting micro-enterprises and promoting financial stability. Morduch (1999) highlights the potential of such services to address credit market failures and extend financial access to the poor, though he cautions against overstating their developmental outcomes. Ullah and Khan (2017) emphasize the capacity of MFIs to foster resilience in vulnerable communities by enabling income smoothing and supporting post-crisis recovery. These insights underscore the complex and context dependent role MFIs play in contributing to broader development goals, including several targets under the United Nations SDGs (Banerjee *et al.*, 2015; Halouani, 2025).

Understanding the drivers of financial performance in MFIs is critical to their sustainability and ability to deliver on the development mission. As Mersland and Strøm (2009) note, strong performance enables improved service delivery, broader outreach and institutional stability, while

Thai-Ha (2021) warns that poor performance threatens the continuity of support to underserved communities. Financial performance in MFIs is commonly assessed using indicators such as ROA, ROE, OSS and PAR. Ledgerwood (1999) defines ROA as a measure of how efficiently an MFI uses its assets to generate income, while ROE reflects the return to equity investors. OSS assesses whether operating revenue is sufficient to cover all costs without subsidies while PAR, particularly loans overdue by more than 30 days, is used to measure portfolio quality and credit risk. These indicators are widely recognized in existing literature as measures that capture MFI profitability, viability and risk exposure. Mersland and Strøm (2009) describe ROA, ROE and OSS as the most commonly used financial performance metrics in empirical studies and employ them in their cross-country analysis of MFI governance and performance while Bassem (2012) confirms the centrality of these indicators, noting that they reliably capture profitability and self-sufficiency in the MFI sector.

However, MFIs operate under a dual mandate to remain financially sustainable and serve the socially excluded populations. Hermes *et al.* (2011) caution that focusing too heavily on financial performance may compromise outreach to the poor, revealing a tension between efficiency and mission while Gota and Sodha (2024) suggest that commercialization can challenge and strengthen this balance depending on how strategically MFIs align their internal capacities with external demands. Therefore, identifying the determinants of financial performance is essential for sustaining both MFI resilience and social impact.

Recent literature emphasizes that MFI financial performance is shaped by a combination of internal and external determinants. Internally, governance quality, operational efficiency, capital adequacy, loan portfolio management and technological innovation are repeatedly identified as core drivers of MFI viability (Chaulagain and Lamichhane, 2022; Hermes and Hudon,

2019; Mersland and Strøm, 2009). Empirical studies from Togo, Morocco and Kenya reveal that factors such as MFI size, PAR-30, outreach, staff productivity and equity levels significantly influence performance, while credit and liquidity risks are less consistent in impact (Adalessossi, 2024; El Kharti, 2014; Ngumo *et al.*, 2020). Cross-country evidence further confirms that institutional characteristics and managerial capacity are central to MFI efficiency (Zineelabidine *et al.*, 2024). Externally, macroeconomic stability, regulatory frameworks and political conditions affect financial outcomes in MFIs. Dorfleitner *et al.* (2025) show that climate change significantly increases borrower vulnerability and credit risk, prompting the need for adaptation strategies such as ecosystem-based approaches while Rauf *et al.* (2022) emphasize that macroeconomic fluctuations, regulatory environments, competition and technological factors influence interest rate dynamics and institutional viability. In addition, the COVID-19 pandemic, as discussed by Lee *et al.* (2025) exposed MFIs' operational vulnerabilities due to their dependence on face-to-face delivery, while also triggering shifts in portfolio diversification strategies. These findings support a holistic view of MFI performance, pointing to the importance of aligning internal capabilities with evolving external demands.

This literature review is anchored in institutional and stakeholder theories, which offer a robust analytical lens for understanding how internal capacities such as governance, operational efficiency and technological innovation and external conditions including regulatory frameworks and macroeconomic stability interact to shape MFI financial performance. It begins with a synthesis of global empirical findings to identify key determinants of MFI sustainability including operational efficiency, capital adequacy, loan portfolio quality, management structures and technological adoption. The review then narrows to Sub-Saharan Africa with special attention to the Uganda, where comparative and integrative studies remain scarce. It critically evaluates the

current state of research, highlights persistent gaps in holistic performance analysis and underscores the need for specific and evidence-based strategies. Ultimately, the review lays a foundation for future research aimed at enhancing the financial resilience and social impact of MFIs in Uganda's unique socio-economic and regulatory environment.

By addressing these aspects, the literature review aims to synthesize existing evidence and inform policy formulation, institutional strategy and future research. It offers practical strategies for policymakers, practitioners and researchers to ensure the sustainability and growth of MFIs, ultimately contributing to broader goals of financial inclusion and economic development. In identifying key performance determinants and specific research gaps, the research contributes meaningfully to academic discourse and operational decision-making, offering actionable insights for MFI managers, regulators, donors and scholars committed to advancing inclusive finance and institutional resilience in Uganda.

2.2 Theoretical framework

This research is grounded in four interrelated theoretical perspectives, namely Agency Theory, Resource-Based View (RBV), Institutional Theory and Financial Intermediation Theory which collectively provide the analytical lens for examining the determinants of financial performance of MFIs in Uganda. The theories provide a multidimensional lens for understanding how internal capacities and external environments influence MFI sustainability and effectiveness. Agency Theory highlights the importance of governance mechanisms in aligning the interests of managers and owners, thereby reducing agency costs and improving accountability. The RBV emphasizes the role of internal capabilities such as human capital, technology and operational efficiency as sources of sustained competitive advantage. Institutional Theory draws attention to the regulatory, normative and cultural contexts within which MFIs operate, shaping their strategic choices and performance outcomes. Financial Intermediation Theory situates MFIs within the broader financial system, underscoring their role in mobilizing savings, allocating credit, managing risk and deepening financial inclusion. The integration of these theoretical lenses offers a robust foundation for formulating the research questions and interpreting empirical findings within the complex dynamics of Uganda's MFI sector.

2.2.1 Agency Theory

Agency Theory emphasizes the relationship between principals (owners and/or donors) and agents (managers), focusing on how governance structures mitigate agency problems by aligning divergent interests and reducing inefficiencies (Fama and Jensen, 1983; Meckling and Jensen, 1976; Shleifer and Vishny, 1997). In the context of MFIs, effective governance mechanisms such as transparent reporting, board independence, optimal board size and separation of roles between CEO and board chair are critical to enhancing both financial and social performance. Hartarska

(2005) and Hartarska and Mersland (2012) found that governance characteristics like board size and independence significantly influence cost-efficiency and outreach, while governance dominated by insiders or unified CEO-board leadership is associated with weaker performance. Similarly, Kyereboah-Coleman and Osei (2008) and Aboagye and Otieku (2010) claim that strong corporate governance marked by accountability and oversight, positively correlates with MFI sustainability and outreach. Bassem (2009) reinforces these findings, showing that governance structures rooted in transparency and stakeholder engagement enhance both financial viability and mission fulfillment, particularly in Mediterranean MFIs. These insights underscore the centrality of board effectiveness, accountability and stakeholder trust in driving institutional performance. However, as governance practices do not operate in a vacuum, their effectiveness is shaped by other factors such as institutional maturity, legal frameworks and socio-cultural norms necessitating context-specific approaches in countries like Uganda.

2.2.2 Resource-Based View (RBV)

RBV posits that sustainable competitive advantage arises from an organization's ability to mobilize and utilize valuable, rare, inimitable and non-substitutable internal resources (Barney, 1991; Madhani, 2010a, 2010b). In the context of MFIs, such resources include skilled personnel, robust technological infrastructure, innovative financial products and adaptive organizational culture. MFIs that invest in these capabilities particularly in resource-constrained environments like Uganda can achieve superior financial performance through improved efficiency, service delivery and outreach (Muriu, 2011; Ngumo *et al.*, 2020). For example, well-trained staff and integrated technological systems have been linked to lower transaction costs, broader client reach and enhanced responsiveness to market needs. Muriu (2011) notes that investment in human capital and operational systems enhances sustainability while Perera (2021) highlights the role of

digital tools in improving service quality for low-income clients. However, while RBV remains widely accepted in strategic management literature, its practical applicability in fast-changing environments has been questioned. While Barney (1991) claims the rarity and inimitability of resources are key to achieving competitive advantage, Priem and Butler (2001) argue that the RBV's static assumptions may overlook the dynamic capabilities required for adaptation, particularly in volatile sectors like microfinance. Nevertheless, in developing economies, where external support may be limited, strategic resource deployment remains critical, making the RBV a valuable lens for analyzing MFI performance and sustainability.

2.2.3 Institutional Theory

Institutional Theory posits that organizations are deeply embedded in their external environments and their behavior is shaped by formal regulations, normative expectations and socio-cultural pressures (Scott, 2005). In the context of MFIs, this theory underscores the critical role of regulatory frameworks, political stability and institutional legitimacy in shaping operational models and financial performance. Regulatory compliance, favourable policies and socio-economic stability enhance investor confidence, reduce credit risk and promote long-term planning (Chaulagain and Lamichhane, 2022). Likewise, alignment with local norms and cultural expectations reinforces social legitimacy and stakeholder trust. However, literature reveals a tension between regulation and innovation. Cull *et al.* (2009) caution that overly stringent regulatory environments can stifle institutional flexibility, limit outreach and hinder innovation. In contrast, Ledgerwood (1999) emphasizes that well-designed regulatory structures are essential for ensuring transparency, accountability and client protection, particularly in settings with weak governance. This suggests that while external legitimacy and institutional alignment are essential for MFI sustainability, regulatory frameworks must strike a careful balance between oversight and

operational autonomy. In Uganda's evolving financial landscape, this balance is particularly critical, as MFIs navigate complex institutional demands while striving for financial and social goals.

2.2.4 Financial Intermediation Theory

Financial Intermediation Theory explains the role of financial institutions in efficiently channeling funds from savers to borrowers while managing transaction costs, risk and information asymmetries (Diamond, 1984). In the context of MFIs, this theory underscores their pivotal role in expanding financial inclusion by offering cost-effective and accessible services to underserved populations, particularly in rural and low-income areas (Woolcock, 1999). MFIs act as social and financial intermediaries that support poverty reduction and stimulate economic development through savings mobilization and credit provision (Aemiro and Mekonnen, 2012). Operational efficiency, risk mitigation strategies and liquidity management are central to sustaining their intermediation function (Perera, 2021; Zahra and George, 2002). Techniques such as group lending, client screening and progressive loan structuring help reduce default risk and build borrower discipline. While there is broad consensus on the value of financial intermediation, there is debate over how best to achieve operational efficiency. Ledgerwood (1999) advocates for the adoption of digital tools to enhance service delivery and reduce costs, whereas Morduch (1999) argues that traditional, trust-based lending models can be equally effective when grounded in strong community relationships. These differing perspectives suggest that MFIs must carefully balance innovation with local relevance. In Uganda, where digital infrastructure and informal financial practices co-exist, optimizing intermediation requires a hybrid approach that blends technology, local knowledge and inclusive practices to manage risk, build trust and drive sustainability.

2.2.5 Integration of Theories in the Ugandan Context

Integrating Agency Theory, RBV, Institutional Theory and Financial Intermediation Theory provides a unified and comprehensive framework for analysing the performance of MFIs in Uganda. This integration allows for a multi-level understanding of how internal governance, resource capabilities, institutional environments and intermediation functions interact to influence sustainability and growth of MFIs, whether successful or struggling.

At the core of this integrated framework is the interplay between governance and internal resource deployment. From Agency Theory, we understand that MFIs require governance structures that minimize agency problems and align the goals of managers with those of owners or donors (Fama and Jensen, 1983; Hartarska, 2005; Hartarska and Mersland, 2012). However, effective governance alone is insufficient without the valuable, rare, inimitable and non-substitutable resources emphasized by RBV (Barney, 1991). Successful MFIs in Uganda tend to combine strong governance characterized by board independence, accountability and role separation with well-developed internal capabilities such as skilled staff, robust technology systems and adaptive service models (Muriu, 2011; Ngumo *et al.*, 2020; Perera, 2021). When these governance and resource elements are poorly integrated, conflicts of interest persist, operational inefficiencies arise leading to MFI performance deterioration.

These internal dynamics are further shaped by the external factors as articulated by Institutional Theory. MFIs must operate within the local regulatory and socio-political landscape where legitimacy is earned through regulatory compliance, cultural alignment and responsiveness to stakeholder expectations (Chaulagain and Lamichhane, 2022; Scott, 1995, 2005). When MFIs successfully integrate external pressures into their strategic and operational models, they are more likely to build trust, attract investment and ensure stability. Conversely, MFIs that fail to adapt to

institutional demands either due to rigid structures or weak regulatory engagement, struggle to sustain performance and outreach (Cull *et al.*, 2007, 2009; Ledgerwood, 1999; Ledgerwood *et al.*, 2013).

Financial Intermediation Theory further enriches this integrated framework by emphasizing the functional role of MFIs in bridging savers and borrowers through efficient and inclusive mechanisms (Diamond, 1984). Sustainability and growth are enhanced when MFIs effectively manage risk, reduce transaction costs and tailor their intermediation models to local market realities. This requires both strong internal capacity (RBV), regulatory adaptability (Institutional Theory) and strong governance systems (Agency Theory) that can support innovation without compromising oversight. Successful MFIs often achieve this balance by adopting hybrid models such as combining group lending with mobile banking platforms that allow for scale and trust-based service delivery (Aemiro and Mekonnen, 2012; Morduch, 1999; Woolcock, 1999).

Thus, integrating these theories highlights that MFI performance is not driven by a single set of factors but by the interaction between governance structures, internal resources, institutional environments and intermediation strategies. This combined lens enables a more comprehensive explanation of why some MFIs thrive while others falter. It also offers practical insights into how these organizations can be better designed, supported and regulated to promote long-term sustainability, inclusive growth and deeper financial inclusion.

2.3 Key Financial Performance Measures

Financial performance measures are critical indicators of the sustainability, efficiency and profitability of MFIs. As noted by Ledgerwood (1999) and Rosenberg (2009), the most widely adopted financial performance metrics in the microfinance literature include Return on Assets (ROA), Return on Equity (ROE) and Operational Self-Sufficiency (OSS). These indicators provide insights into an institution's financial viability and serve as benchmarks for strategic decision-making and institutional improvement. However, literature also reflects growing awareness of the limitations of relying solely on financial indicators, especially in mission-driven institutions like MFIs, where social objectives are equally central (Bogan, 2012; Hermes and Lensink, 2011; Morduch, 1999; Woller and Schreiner, 2002).

2.3.1 Return on Assets (ROA)

ROA measures the efficiency with which MFIs use their total assets to generate net income. It serves as a key profitability and efficiency indicator, particularly relevant for assessing how well MFIs convert resources into financial returns and empirical studies support its utility. Ngumo *et al.* (2020) found a positive correlation between operational efficiency and ROA in Kenyan MFIs, suggesting that lean operations lead to greater profitability while Aemiro and Mekonnen (2012) demonstrated that Ethiopian MFIs with higher ROA were more resilient during economic downturns. However, the relationship is not entirely linear. Hartarska (2005) cautions that ROA is also significantly influenced by asset quality particularly the strength of the loan portfolio. Poor asset quality, even in otherwise efficient MFIs, can depress ROA, indicating the critical role of risk management and loan portfolio performance in driving financial outcomes.

2.3.2 Return on Equity (ROE)

ROE captures the return generated on owners' equity and is a central metric for evaluating profitability from an investor's perspective. In MFIs, especially those transitioning toward commercialization, ROE is used to assess the institution's capacity to generate sustainable returns. Hartarska (2005) identifies governance factors such as board composition and managerial expertise as strong determinants of ROE, highlighting the importance of internal leadership structures in shaping financial performance. Mersland and Strøm (2009) further emphasize that ownership structure plays a vital role, with different models such as NGO-owned versus shareholder-owned MFIs, showing varying levels of profitability. Nevertheless, researchers such as Bogan (2012) and Cull *et al.* (2009) warn that an excessive focus on ROE can push MFIs toward profit-maximization strategies that undermine their social mission, potentially resulting in high interest rates and limited outreach to the poorest clients.

2.3.3 Operational Self-Sufficiency (OSS)

OSS assesses the extent to which an MFI can cover its operational costs from its operating revenues without reliance on external subsidies. It is very widely regarded as a benchmark for financial sustainability in the microfinance sector. Chaulagain and Lamichhane (2022) observed that MFIs in Nepal that adopted advanced IT systems and streamlined loan processing achieved higher levels of OSS. These findings resonate with broader evidence that operational efficiency facilitated by digitization and strong internal processes supports financial independence. However, scholars have also raised cautionary notes. Morduch (1999) argues that the pursuit of high OSS may result in elevated interest rates, which could exclude poor clients and conflict with the pro-poor objectives of microfinance. Hermes and Lensink (2011) further highlight a trade-off between financial sustainability and outreach, noting that MFIs prioritizing OSS may sacrifice depth of

outreach or social performance. As Woller and Schreiner (2002) recommend, OSS should be assessed in conjunction with social performance indicators to provide a more balanced and holistic picture of institutional success.

The literature reveals strong consensus on the importance of ROA, ROE and OSS as core financial performance measures in evaluating MFIs. Ledgerwood (1999) and Rosenberg (2009) identify these indicators as standard tools for assessing profitability, efficiency and financial sustainability in the microfinance sector. ROA and ROE offer valuable insights into how effectively an MFI utilizes its assets and equity to generate profit, thereby reflecting managerial efficiency and institutional viability (Hartarska, 2005; Hartarska and Mersland, 2012; Mersland and Strøm, 2009). OSS, on the other hand, is widely used to evaluate whether an MFI can cover its operational costs from internally generated revenues, making it a crucial benchmark for financial independence (Chaulagain and Lamichhane, 2022; Hermes and Lensink, 2011).

As Hartarska (2005) notes, traditional financial performance indicators such as ROA and ROE, while useful, may fail to capture the broader developmental objectives of MFIs, particularly their social mission. Bogan (2012) similarly cautions that an overemphasis on profitability, especially as measured by ROE, can lead MFIs to prioritize financial returns at the expense of client welfare and social outreach. Hermes and Lensink (2011) reinforce this concern by highlighting the inherent trade-off between financial sustainability and social outreach, arguing that a narrow focus on financial metrics may limit the ability of MFIs to reach poor clients. In response to these limitations, several scholars advocate for a more comprehensive evaluation framework. For instance, Woller and Schreiner (2002) propose the integration of social performance indicators alongside financial metrics to reflect the dual-bottom-line nature of MFIs.

Hashemi *et al.* (1996) emphasize the importance of measuring social outcomes such as women's empowerment, while Copestake (2007) argues that meaningful assessment must include client-level development impacts. Collectively, these perspectives suggest that while ROA, ROE and OSS remain essential for assessing financial health, they must be complemented by social performance measures to fully capture the effectiveness and impact of MFIs.

Therefore, while ROA, ROE and OSS remain essential tools for assessing the financial health of MFIs, a more comprehensive evaluation framework is necessary, one that incorporates social performance indicators alongside financial metrics. This balanced approach would provide a better understanding of MFI effectiveness, especially in developing countries like Uganda, where financial inclusion, poverty reduction and empowerment are central development goals. Future research and performance evaluations should thus adopt dual-bottom-line frameworks to better capture the complex mission-driven nature of MFIs.

2.4 Key Determinants of Financial Performance

The financial performance of MFIs has drawn significant scholarly interest due to their vital role in promoting financial inclusion and stimulating economic growth in underserved communities. Evidence shows that performance is shaped by a mix of operational, managerial, and external factors, most notably operational efficiency, capital adequacy, loan portfolio quality, governance, technological adoption and the broader economic and regulatory environment. These determinants often interact in complex, context-specific ways, influencing both profitability and long-term sustainability. The following review examines each of these factors in detail, drawing on global and African evidence to highlight key drivers, emerging trends and gaps in the literature in the context of Uganda.

2.4.1 Operational Efficiency

Operational efficiency is a fundamental driver of financial sustainability for MFIs, directly shaping profitability, portfolio quality and long-term viability. It reflects an MFI's ability to minimize operational costs while maximizing outputs, thereby enhancing productivity and resilience. Evidence from East Africa (Ngumo *et al.*, 2020; Tehulu, 2013) and Ethiopia (Amanu and Gebissa, 2021; Bekalu *et al.*, 2019; Yenesew and Kumar, 2018) demonstrates that MFIs which control costs effectively while maintaining high service delivery standards tend to achieve superior financial outcomes. Similar findings emerge from Nepal (Chaulagain and Lamichhane, 2022), Sri Lanka (Perera, 2021), Bangladesh (Rahman and Mazlan, 2014), Pakistan (Naz *et al.*, 2019), India (Khan *et al.*, 2017), Cameroon (Ofeh and Jeanne, 2017), Togo (Agboklou and Özkan, 2023), Ghana (Long, 2015) and Morocco (Aguenaou *et al.*, 2019), all pointing to operational efficiency as a core determinant of strong MFI financial performance. More recent research underscores

operational efficiency as a core driver of MFI performance. A study based on an analysis of 95 African MFIs, shows that profitability, capitalization and loan mix are critical in determining how efficiently MFIs convert financial and human resources into outreach and portfolio results (Zineelabidine *et al.*, 2024). In Sub-Saharan Africa, cost per loan, staff productivity, asset utilization and gender diversity are shown to significantly affect profit efficiency (Ebissa and Asfaw, 2024). Similarly, evidence from Kenya indicates that sound liquidity management, particularly effective cash flow planning, strengthens operational efficiency and boosts financial performance (Aluodo, 2024). Collectively, these findings highlight operational efficiency as essential to MFI success and the value of context-specific insights for Uganda's microfinance sector.

2.4.2 Capital Adequacy

Capital adequacy is a critical determinant of MFI performance, providing a financial cushion against potential losses and enabling institutional growth, resilience and long-term sustainability. Well-capitalized MFIs are better equipped to absorb financial shocks, expand operations and maintain financial stability during economic downturns. Evidence from Kenya shows a positive correlation between capital adequacy and financial performance, with well-capitalized MFIs demonstrating higher operational efficiency and profitability (Ngumo *et al.*, 2020). Similar patterns have been observed in Ethiopia (Amanu and Gebissa, 2021; Bekalu *et al.*, 2019), Bangladesh (Rahman and Mazlan, 2014), Pakistan (Naz *et al.*, 2019), Togo (Agboklou and Özkan, 2023) and Cameroon (Ofeh and Jeanne, 2017). Despite this global and African evidence, the specific influence of capital adequacy on Ugandan MFIs remains under-researched, highlighting the need for focused empirical investigation.

2.4.3 Loan Portfolio Quality

The quality of an MFI's loan portfolio commonly measured by the Portfolio at Risk (PAR) ratio is a critical indicator of MFI financial health and sustainability. Lower PAR ratios signal effective credit risk management, reduced default rates and stronger revenue streams, all of which support long-term financial viability (Cull *et al.*, 2007, 2009; Perera, 2021). Multiple studies affirm that MFIs with high-quality loan portfolios achieve better financial performance due to lower credit losses and higher repayment rates, as shown in Morocco (Aguentaou *et al.*, 2019), Kenya (Ngumo *et al.*, 2020), Ethiopia (Amanu and Gebissa, 2021; Bekalu *et al.*, 2019; Tehulu, 2013), Sri Lanka (Perera, 2021), Pakistan (Naz *et al.*, 2019), Togo (Agboklou and Özkan, 2023) and Cameroon (Ofeh and Jeanne, 2017). A recent Kenyan study found that robust microcredit risk management practices such as rigorous borrower screening, loan monitoring and timely follow-ups significantly enhance loan portfolio quality and overall financial outcomes (Muindi and Ambrose, 2023). While global and regional evidence underscores the importance of maintaining a high-quality loan portfolio, the specific quantitative relationship between portfolio quality and financial performance in Ugandan MFIs remains insufficiently studied, highlighting an important research gap.

2.4.4 Management and Governance

Effective management and governance is widely recognized as a cornerstone of MFIs' financial performance and sustainability. Strong governance anchored in transparent leadership, active board oversight, accountability and ethical management fosters strategic discipline and institutional resilience (Hartarska and Mersland, 2012; Hermes *et al.*, 2011; Hermes and Lensink, 2011). Evidence from diverse global and regional studies consistently shows that MFIs with robust

governance frameworks achieve better financial outcomes and broader outreach (Hartarska, 2005; Kyereboah-Coleman and Osei, 2008). Board composition and CEO attributes have been found to significantly influence both outreach and profitability (Mersland and Strøm, 2009), while ownership structures and governance configurations shape social performance (Gupta and Mirchandani, 2020). Additional cross-country evidence demonstrates that stakeholder representation on boards enhances decision quality and institutional efficiency (Hussain *et al.*, 2023) and that female leadership combined with direct board-level reporting by internal auditors improves sustainability and financial outcomes (Asmare and Kumar, 2024). Regionally, studies in South Asia and East Africa reinforce these findings, showing that management efficiency and board characteristics, including diversity, independence and expertise are significantly determinants of MFI financial performance (Durgavanshi, 2014; Khan *et al.*, 2017; Tehulu, 2013). In particular, Hussain and Ahmed (2024) demonstrate that strong corporate governance in MFIs directly enhances double-bottom-line performance by improving financial sustainability and social outreach (number of borrowers and proportion of women clients). Their study highlights that governance elements such as board size, independence, expertise and meeting frequency help MFIs maintain a balance between these dual objectives, reducing the risk of mission drift and ensuring long-term financial viability. Similarly, Bassem (2009) finds that ownership type, governance quality and leadership structures are strong predictors of both efficiency and outreach. While the global and regional literature is robust, governance in Uganda's MFIs remains underexplored. There is limited empirical evidence on how governance mechanisms particularly board composition, leadership capacity and accountability structures interact with Uganda's specific regulatory and socio-cultural environment to shape MFI financial and social performance.

This gap underscores the need for context-specific research to identify governance levers that can strengthen MFI financial sustainability and outreach in Uganda.

2.4.5 Technological Adoption

Technological adoption has become a defining determinant of MFI financial performance, transforming how MFIs deliver services, manage risk and achieve both financial and social objectives. Innovations such as core operating systems, mobile banking platforms and digital credit scoring have been shown to streamline operations, lower transaction costs and expand outreach, thereby strengthening MFI sustainability (Gabor and Brooks, 2020; Khanchel *et al.*, 2025). Evidence from diverse studies confirms that MFIs that integrate advanced IT systems and digital tools report higher operational self-sufficiency, improved loan recovery and stronger profitability (Chaulagain and Lamichhane, 2022; Hermes and Hudon, 2019; Mersland and Strøm, 2009). Dorfleitner *et al.* (2025) further show that fintech-enabled credit risk assessment significantly enhances loan portfolio quality while reducing default rates across multiple emerging markets. In Asia, empirical studies demonstrate tangible gains from technology integration. In Sri Lanka and Nepal, for example, digital loan processing systems, management information systems (MIS) and mobile-based repayment solutions have increased repayment efficiency, reduced processing time and improved client satisfaction (Chaulagain and Lamichhane, 2022; Perera, 2021). Lee *et al.* (2025) extend this evidence by showing that artificial intelligence driven decision support tools improve lending accuracy, expedite credit approvals and enhance portfolio monitoring in high-volume MFI environments. In the African context, Amanu and Gebissa (2021) report that the adoption of mobile money platforms, real-time MIS upgrades and digital payment channels in Ethiopian MFIs has accelerated loan disbursement, strengthened repayment tracking and reduced

operational costs by improving data accuracy and transaction efficiency. Similarly, Banna *et al.* (2022) found that digital innovations enhance financial service delivery in African MFIs by expanding outreach, lowering administrative expenses and supporting more effective portfolio management. In Uganda, however, while mobile money platforms have enhanced repayment efficiency and client engagement, adoption of advanced systems such as AI-based credit scoring, blockchain for transaction authentication and predictive analytics for risk management remains limited. This uneven pace of technological transformation underscores a critical research and policy gap in identifying the specific institutional, infrastructural and regulatory factors that either enable or constrain the integration of advanced digital solutions in Ugandan MFIs. Addressing these gaps could unlock significant gains in operational efficiency, financial sustainability and outreach, aligning Uganda's MFI sector more closely with global best practice.

2.4.6 External Environment

The external environment, particularly regulatory frameworks, macroeconomic stability, and socio-cultural conditions play a decisive role in shaping MFI financial performance. A supportive regulatory framework enhances operational stability, promotes innovation and facilitates growth while restrictive or poorly designed regulations can stifle outreach and operational efficiency (Chaulagain and Lamichhane, 2022; Cull *et al.*, 2009; Hermes and Hudon, 2019). Empirical evidence from Nepal shows that enabling regulation is a significant determinant of MFI financial performance (Chaulagain and Lamichhane, 2022), while comparative studies across emerging markets highlight that proportional regulation tailored to institutional size and risk improves sustainability and outreach (Ledgerwood *et al.*, 2013). Macroeconomic conditions such as GDP growth, inflation, exchange rate stability and interest rate movements directly

influence MFIs' ability to maintain portfolio quality and achieve operational self-sufficiency. In Ethiopia, GDP growth and market concentration were found to be positively associated with MFI performance (Bekalu *et al.*, 2019; Yenesew and Kumar, 2018) while in Bangladesh and Cameroon, inflation volatility and currency depreciation were linked to increased credit risk and reduced profitability (Ofeh and Jeanne, 2017; Rahman and Mazlan, 2014). Evidence from Sub-Saharan Africa indicates that supportive external conditions such as stable macroeconomic environments and enabling financial infrastructure enhance MFIs' capacity to expand outreach and sustain financial performance by fostering investment confidence, lowering funding costs and reinforcing capital adequacy (Okello Candiya Bongomin *et al.*, 2018). However, despite the acknowledged significance of external factors, Uganda-specific empirical studies remain limited, highlighting a critical gap this study seeks to address.

2.5 Critical Analysis

The existing body of literature demonstrates significant progress in identifying and examining the determinants of MFI financial performance across diverse geographical and institutional contexts. Scholars have employed a range of research methodologies including descriptive analysis, correlation analysis and regression modelling to identify determinants of MFI financial performance. The diversity in methodologies allowed for a comprehensive understanding of MFI financial performance determinants across different geographical contexts. Correlation analysis, as seen in the works of Agboklou and Özkan (2023); Chaulagain and Lamichhane (2022); Ofeh and Jeanne (2017); Tehulu (2013) has provided valuable insights into bivariate relationships. Regression-based studies, such as those by Aguenauou *et al.* (2019); Amanu and Gebissa (2021); Khan *et al.* (2017); Long (2015); Naz *et al.* (2019); Perera (2021); Rahman and Mazlan (2014); Yenesew and Kumar (2018) have enabled more refined evaluations of the predictive power and relative significance of specific determinants. A few studies, notably Ngumo *et al.* (2020), integrated both correlation and regression techniques to generate more comprehensive and robust findings.

Notwithstanding these methodological contributions, several critical limitations constrain the current state of knowledge. First, is the widespread reliance on secondary data sources such as annual reports, audited financial statements and industry databases. While such data facilitate broad coverage and cross-institutional comparisons, they often lack the granularity necessary to capture operational realities, informal decision-making processes, governance dynamics and socio-cultural influences that may exert a decisive impact on MFI financial performance. For example, Ngumo *et al.* (2020) and Long (2015) based their analysis on annual reports and financial

statements, which, although useful, may not reflect the underlying practices and qualitative dimensions that significantly influence MFI financial performance. This lack of depth limits the ability to explore micro-level determinants such as the effects of specific management practices or client demographics, thereby constraining a comprehensive understanding of institutional outcomes. As Bauchet and Morduch (2013) observe, “the choice of what to report is not random, and the omission of key indicators can bias assessments of performance,” limiting the scope for detailed and context-specific analysis.

Another significant limitation in the literature is the lack of primary data and comparative designs that assess the performance of both high and low performing MFIs within the same market environment. Most studies do not explicitly focus on identifying the institutional capabilities, governance structures or strategic orientations that distinguish high performers from their less successful counterparts. The absence of such analysis restricts the ability to pinpoint the critical drivers of superior performance and hinders the formulation of targeted, evidence-based interventions aimed at strengthening weaker institutions and enhancing sector-wide sustainability.

The predominance of cross-sectional designs constitutes another important gap in the literature. While such approaches provide useful snapshots of performance, they offer little insight into the temporal dynamics of institutional adaptation to regulatory reforms, macroeconomic shifts, technological change or systemic shocks. For example, although Aemiro and Mekonnen (2012) documented the immediate effects of the global financial crisis on Ethiopian MFIs, the absence of longitudinal follow-up leaves questions unanswered regarding their recovery trajectories and long-term resilience strategies. Longitudinal research would allow for a deeper

understanding of how MFIs evolve and adjust over time, thereby generating richer policy and managerial insights.

Research methodological diversity across studies, though valuable for generating multiple perspectives has also resulted in inconsistencies that hinder cross-study comparability. Definitions of core variables such as operational efficiency, capital adequacy and loan portfolio quality often vary, as do the performance metrics and statistical models applied. This lack of standardisation contributes to divergent findings, as illustrated by the contrast between Cull *et al.* (2009), who highlight the detrimental impact of macroeconomic instability on performance and Perera (2021), who contends that strong management practices can mitigate such effects. A move toward greater methodological and definitional coherence would therefore enhance the reliability of comparative and cross-regional analysis.

Equally significant is the underrepresentation of Uganda-specific empirical research. While regional and global studies offer important reference points, Uganda's distinct socio-economic conditions, regulatory environment and financial sector architecture necessitate contextually grounded investigation. Reliance on extrapolation from other contexts risks overlooking critical local variables and interaction effects that shape institutional outcomes.

Finally, although there is a growing recognition of the dual-bottom-line mandate of MFIs, much of the literature remains narrowly focused on financial performance indicators such as ROA, ROE and OSS. This emphasis risks obscuring the potential trade-offs between financial sustainability and social outreach, a concern underscored by Bogan (2012), Hermes and Lensink (2011) and Woller and Schreiner (2002). The absence of such integration limits the ability to fully

assess institutional effectiveness, particularly in environments where social impact is central to the mission of microfinance.

Overall, the literature provides a valuable foundation for understanding the drivers of MFI financial performance but also reveals substantive gaps that warrant attention. Advancing knowledge in this area will require greater use of primary data to capture institutional and contextual realities, comparative analysis to distinguish the characteristics of high-performing and weak MFIs, longitudinal designs to examine adaptation and resilience over time, methodological standardisation to facilitate comparability and integrated frameworks that combine financial and social performance metrics. Addressing these gaps is essential for producing actionable, context-sensitive insights that can strengthen MFI sustainability, enhance outreach and support inclusive financial development in Uganda and similar settings.

2.6 Trends and Patterns

The existing literature provides a robust and multi-contextual understanding of the determinants shaping the financial performance of MFIs. Across global and regional studies, several themes consistently emerge as critical to MFI institutional sustainability and profitability, namely operational efficiency, capital adequacy, governance, external environmental conditions and technological adoption. These determinants, while distinct, often interact in complex ways, where strengths in one area may offset weaknesses in another or conversely, where vulnerabilities in multiple areas may compound performance challenges. Evidence shows that MFIs excelling in operational efficiency, maintaining strong capital buffers, implementing effective governance, adapting to supportive external environments and strategically adopting technology tend to outperform peers in both financial sustainability and outreach. Conversely, deficiencies in these areas are linked to reduced resilience, constrained outreach and heightened vulnerability to shocks. Despite this growing body of knowledge, a notable research gap persists in Uganda-specific, comparative and longitudinal analysis that integrate these determinants into a holistic performance framework. Addressing this gap is essential for the development of context-sensitive strategies that enhance the dual objectives of financial sustainability and social impact in Ugandan MFIs.

2.6.1 Operational Efficiency

Operational efficiency consistently emerges as one of the strongest predictors of MFI financial performance, reflecting the institution's ability to minimize costs while maximizing outputs. Common indicators include operating expense ratio, cost per borrower, staff productivity and asset utilization. Studies across regions confirm that greater efficiency correlates with stronger MFI financial performance. In Kenya, Ngumo *et al.* (2020) found a positive relationship between operational efficiency and profitability, while in Nepal, Chaulagain and Lamichhane (2022)

reported that MFIs with advanced IT systems and streamlined loan processes achieved higher OSS. Ethiopian evidence (Amanu and Gebissa, 2021) revealed a negative relationship between operational expenses and profitability, underscoring the importance of cost minimization. Similar findings have been reported in Ghana (Long, 2015), Togo (Agboklou and Özkan, 2023), Sri Lanka (Perera, 2021), Cameroon (Ofeh and Jeanne, 2017) and Bangladesh (Rahman and Mazlan, 2014). More recent studies such as Zineelabidine *et al.* (2024) claim that profitability, capitalization and loan mix significantly influence profit efficiency in African MFIs, while Ebissa and Asfaw (2024) link gender diversity to improved efficiency. Aluodo (2024) further emphasizes the role of sound liquidity management and cash flow planning in strengthening MFI efficiency. Collectively, these findings affirm that operational efficiency is both a financial and strategic imperative for MFI financial sustainability.

2.6.2 Capital Adequacy

Capital adequacy provides the financial resilience necessary for MFIs to withstand shocks, expand outreach and attract low-cost funding. Well-capitalized institutions are more capable of absorbing credit losses and financing growth without overreliance on expensive external borrowing. Studies from Kenya (Ngumo *et al.*, 2020) and Togo (Agboklou and Özkan, 2023) show a strong positive relationship between capital adequacy and MFI financial performance. In Ghana, Long (2015) found that MFIs with robust capital bases outperformed less-capitalized peers, while Muriu (2011) observed that capital adequacy significantly boosts MFI profitability, especially in resource-constrained environments like Kenya. This finding is echoed in Ethiopia (Amanu and Gebissa, 2021), Bangladesh (Rahman and Mazlan, 2014) and Pakistan (Naz *et al.*, 2019) where capital adequacy also mitigates liquidity constraints and credit risk. The consistent evidence

suggests that maintaining an optimal capital buffer is a critical determinant of both stability and long-term profitability in MFIs.

2.6.3 Governance

Effective governance is a cornerstone of MFI financial performance, influencing strategic decision-making, accountability and mission alignment. Strong governance structures marked by board independence, diversity, transparency and accountability are linked to improved financial and social outcomes. In Nepal, Chaulagain and Lamichhane (2022) found that governance quality positively influences financial performance, while Hartarska and Mersland (2012) demonstrated that good corporate governance enhances sustainability in multiple regions. In Ghana, Aboagye and Otieku (2010) reported that transparent leadership and active board oversight improve MFI profitability. Additional evidence from Asia and Africa (Gupta and Mirchandani, 2020; Kyereboah-Coleman and Osei, 2008; Mersland and Strøm, 2009) confirms the positive role of governance, with recent studies noting that female leadership, board diversity and frequent oversight meetings reduce mission drift and enhance double-bottom-line performance (Asmare and Kumar, 2024; Hussain and Ahmed, 2024). However, the relationship between governance and performance can be complex. For example, Mersland and Strøm (2009) and Hartarska and Mersland (2012) demonstrate that while governance practices are crucial, their impact on financial stability and outreach can vary depending on contextual factors such as regulatory environment, ownership structure and market maturity. Similarly, Gupta and Mirchandani (2020) note that the governance-performance link is mediated by institutional characteristics and external market conditions, suggesting that governance reforms must be tailored to institutional and national contexts.

2.6.4 External Environmental Factors

The impact of external environmental factors including regulatory frameworks, macroeconomic conditions and socio-political stability significantly affect MFI performance. An enabling regulatory environment fosters innovation, reduces uncertainty and encourages investment. In Nepal, an enabling regulatory environment was found to be a significant determinant of MFI financial performance (Chaulagain and Lamichhane, 2022) while in Ethiopia and Morocco, overly stringent regulations and economic instability constrained growth and sustainability (Aguenaou *et al.*, 2019; Amanu and Gebissa, 2021). Macroeconomic stability characterized by steady GDP growth, low inflation and predictable interest rates creates favourable conditions for MFIs to thrive (Crabb, 2008; Woller and Woodworth, 2001). Conversely, volatility in these indicators increases credit risk and operational vulnerability, as seen in Bangladesh (Rahman and Mazlan, 2014) and Cameroon (Ofeh and Jeanne, 2017). The COVID-19 pandemic further exposed institutional vulnerabilities, particularly for MFIs reliant on face-to-face delivery models, highlighting the need for adaptive strategies and diversified service channels (Perera, 2021).

2.6.5 Technological Adoption

Technological adoption has become a transformative force in MFI performance, enabling cost reduction, efficiency gains, and expanded outreach. Evidence from Sri Lanka (Perera, 2021) and Nepal (Chaulagain and Lamichhane, 2022) show that integrating core IT systems improves loan processing, enhances portfolio monitoring and increases OSS. Dorfleitner *et al.* (2025) found that fintech-enabled credit risk assessment reduces default rates across emerging markets, while Banna *et al.* (2022) observed that mobile banking and digital payment channels lower administrative expenses and expand outreach in African MFIs. In Ethiopia, Amanu and Gebissa

(2021) reported that mobile money adoption accelerates loan disbursement and strengthens repayment tracking. These findings indicate that investing in technology can be a strategic priority for MFIs aiming to enhance their financial performance and sustainability.

In summary, the literature affirms that operational efficiency, capital adequacy, governance quality, external environmental conditions and technological adoption are central to shaping MFI financial performance. These determinants operate both independently and interactively, with strengths in one area often reinforcing gains in another, while weaknesses can have a compounding adverse effect. The global and regional evidence is extensive, offering valuable insights into the mechanisms through which MFIs achieve financial sustainability and balance their social objectives. However, much of this evidence is specific to other regions and findings are often derived from diverse methodologies that limit cross-study comparability. Furthermore, while the determinants are well documented individually, fewer studies adopt a holistic framework that simultaneously examines their interplay in a single context. In Uganda, particularly the absence of integrated, comparative and longitudinal analysis creates a significant knowledge gap which constrains policymakers, practitioners and scholars from designing tailored interventions that address both financial viability and pro-poor outreach. The next section therefore focuses on identifying these research gaps and positioning the current research to address them, thereby contributing to a more grounded and methodologically robust understanding of MFI financial performance in Uganda.

2.7 Research Gaps

The trends and patterns outlined in the preceding section underscore that while global literature on MFI financial performance is extensive, important gaps remain particularly regarding the Ugandan MFI landscape. Much of the existing evidence is concentrated in regions such as South Asia, Eastern Africa and West Africa, with relatively few empirical studies addressing Uganda's unique socio-economic, regulatory and operational environment. Even where Ugandan MFIs are included in broader cross-country analysis, the sector is often treated as a homogeneous whole, overlooking the diversity of operational models, market niches and strategic approaches that exist within it (Aemiro and Mekonnen, 2012; Ngumo et al., 2020).

Another limitation is the lack of comparative studies examining both successful and less successful MFIs within the same market environment. Such comparisons are crucial for identifying context-specific determinants of MFI financial performance and formulating tailored strategies to strengthen financial sustainability and outreach. Furthermore, while determinants such as operational efficiency, capital adequacy, loan portfolio quality, governance, technological adoption and external environmental conditions are well documented, there is still limited integration of client-level characteristics such as demographics, socio-economic status and repayment behaviors into performance analysis. Understanding these dimensions could provide more targeted insights for improving both financial outcomes and social impact.

Another gap concerns the integration of social performance metrics with financial indicators. Given the dual mission of most MFIs, balancing financial sustainability with poverty alleviation assessments that combine profitability measures with social outcomes such as poverty

outreach, women's empowerment or community development would offer a more comprehensive and mission-consistent evaluation framework.

Regarding research methodologically, the predominance of cross-sectional studies limits the ability to assess how performance evolves over time or in response to policy and market changes. For instance, Aemiro and Mekonnen (2012) and Amanu and Gebissa (2021) provide valuable insights into Ethiopian MFIs' performance at specific points in time but do not track institutional adaptation, recovery or growth over multiple years. Longitudinal studies could capture sustained trends, strategic shifts and the cumulative effects of governance reforms or technological investments.

Finally, more comparative work across countries and economic contexts is needed to distinguish universal determinants from those that are country or regional specific. Studies such as Ngumo *et al.* (2020) and Long (2015) highlight how regional variations in regulation, macroeconomic stability and cultural factors influence MFI performance. Such comparative insights would benefit not only Uganda but also the wider MFI fraternity by identifying adaptable best practices and locally tailored strategies.

By addressing these gaps, the present research aims to make a distinct contribution through a comparative case study of selected MFIs in Uganda, examining both high-performing and struggling MFIs. This approach will provide a refined, evidence-based understanding of the factors driving success and failure, offering actionable recommendations for policymakers, practitioners and scholars committed to enhancing the sustainability and developmental impact of MFIs in Uganda.

2.8 Summary of the Literature Review

The literature consistently identifies operational efficiency, capital adequacy, loan portfolio quality, governance, technological adoption and external environmental conditions as the principal determinants of MFI financial performance.

Operational efficiency emphasized in Kenya (Ngumo *et al.*, 2020), Nepal (Chaulagain and Lamichhane, 2022), Ethiopia (Amanu and Gebissa, 2021), Ghana (Long, 2015), Togo (Agboklou and Özkan, 2023), Sri Lanka (Perera, 2021), Cameroon (Ofeh and Jeanne, 2017) and Bangladesh (Rahman and Mazlan, 2014) is linked to lower costs and higher profitability.

Capital adequacy strengthens resilience and growth potential (Agboklou and Özkan, 2023; Amanu and Gebissa, 2021; Long, 2015; Muriu, 2011; Naz *et al.*, 2019; Ngumo *et al.*, 2020; Rahman and Mazlan, 2014) while high-quality loan portfolios improve sustainability (Aguenaou *et al.*, 2019; Amanu and Gebissa, 2021).

Governance studies across Nepal (Chaulagain and Lamichhane, 2022), Ghana (Aboagye and Otioku, 2010), Asia (Gupta and Mirchandani, 2020; Kyereboah-Coleman and Osei, 2008; Mersland and Strøm, 2009) and recent work on leadership diversity (Asmare and Kumar, 2024; Hussain and Ahmed, 2024) highlight its role in double-bottom-line performance, while technology adoption enhances efficiency and outreach (Amanu and Gebissa, 2021; Banna *et al.*, 2022; Chaulagain and Lamichhane, 2022; Dorfleitner *et al.*, 2025; Perera, 2021).

External factors such as supportive regulation and macroeconomic stability promote financial viability (Chaulagain and Lamichhane, 2022; Crabb, 2008; Woller and Woodworth, 2001), whereas instability can constrain growth (Aguenaou *et al.*, 2019; Amanu and Gebissa, 2021; Ofeh and Jeanne, 2017; Rahman and Mazlan, 2014).

Despite this extensive evidence, Uganda-specific studies remain limited. Few comparative analysis distinguish high and low performing MFIs within the same context (Aemiro and Mekonnen, 2012; Ngumo *et al.*, 2020), and integration of client characteristics and social performance indicators (Copestake, 2007; Hashemi *et al.*, 1996; Woller and Schreiner, 2002) with financial metrics is rare. Moreover, the predominance of cross-sectional designs (Aemiro and Mekonnen, 2012; Amanu and Gebissa, 2021) limits understanding of long-term trends and policy impacts.

This research addresses these gaps through a comparative, country-specific and theoretically grounded analysis of successful and unsuccessful Ugandan MFIs, offering actionable insights to strengthen financial sustainability and pro-poor outreach.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Building on the insights and gaps identified in the preceding literature review, this chapter presents the research methodology adopted to examine the determinants of MFI financial performance in Uganda. The research employed a mixed-methods design, integrating quantitative and qualitative approaches to capture both the measurable financial indicators and the environmental, operational and governance dimensions influencing MFI financial sustainability. This design was selected to provide a more holistic and environmentally tailored understanding of performance drivers, addressing the limitations of prior studies that mainly relied on secondary or cross-sectional data. The chapter outlines the overall research design, describes the sampling and data collection strategies and explains the analytical techniques applied to both quantitative and qualitative data. It also discusses the ethical considerations guiding the research and concludes with a presentation of the research timeline.

3.1 Research Design

This research adopts a mixed-methods approach, integrating quantitative and qualitative research techniques to capitalize on the strengths of each and deliver a comprehensive analysis of MFI financial performance. This design is particularly appropriate for examining the multifaceted determinants of MFI financial performance, as it enables both the measurement of statistical relationships between variables and the in-depth exploration of environmental dynamics that may elude a purely quantitative inquiry. As Creswell and Clark (2017) observe, mixed-methods research provides a more complete understanding of research problems than either quantitative or qualitative approaches alone. The quantitative strand facilitates the identification and measurement of associations between key MFI financial performance indicators and determinants such as operational efficiency, capital adequacy and governance quality among others. Complementing this, the qualitative strand generates rich, environmentally grounded insights into operational practices, managerial decision-making and institutional challenges that shape MFI financial performance outcomes.

3.2 Research Questions

The formulation of research questions serves as a critical step in aligning the research's empirical inquiry with its overarching purpose. The dual use of quantitative and qualitative data demands research questions that are both analytically precise and contextually grounded, allowing for a comprehensive exploration of internal and external determinants of MFI financial performance in Uganda. This research aims to address these gaps by identifying and analyzing the key determinants that influence MFI performance in Uganda, providing an in-depth understanding of the factors contributing to financial sustainability and operational effectiveness. By employing a comparative case research approach, this research examines both successful and less successful MFIs to uncover the unique strategies, operational practices and environmental factors that differentiate high-performing institutions from their struggling counterparts. This approach enables a more detailed analysis of the MFI financial performance drivers unique to the Ugandan context. To address these gaps, this research was guided by the following research questions: -

1. What are the key determinants of financial performance in selected MFIs in Uganda?
2. How do successful and unsuccessful MFIs differ in their approach to governance, operational efficiency, technological adoption and risk management?
3. What impact do external environmental factors, such as regulatory frameworks and macroeconomic conditions, have on the financial performance of MFIs in Uganda?
4. What strategies can MFI practitioners and policymakers implement to enhance financial sustainability and social impact?

The above research questions provide direction for the research's objectives and guide the analysis of both quantitative and qualitative data, enabling a comprehensive examination of the factors influencing MFI performance in Uganda.

3.3 Quantitative Methods

The quantitative component of this research employs rigorous statistical techniques to examine the relationships between MFI financial performance indicators and a range of internal and external determinants. This strand focuses on quantifying the strength and direction of associations between key metrics such as ROA, ROE and OSS and the various determinants including operational efficiency, capital adequacy, governance quality, loan portfolio performance, technological adoption and macroeconomic conditions. By applying robust analytical methods, the quantitative analysis aims to generate empirically grounded evidence on the relative significance of these determinants in shaping MFI performance in Uganda.

3.3.1 Regression Analysis

Multiple regression analysis was employed to assess the effect of several independent variables namely operational efficiency, governance quality, capital adequacy and loan portfolio quality on key MFI financial performance indicators, including ROA, ROE and OSS. This analytical technique was selected for its capacity to accommodate multiple predictors simultaneously and to estimate the relative contribution of each determinant to the overall model. As Gujarati (2009) explains, multiple regression is a powerful statistical tool for measuring the strength of the relationship between a dependent variable and several independent variables, while holding the effect of other variables constant.

3.3.2 Correlation Analysis

Correlation analysis was undertaken to examine both the strength and direction of the relationships between key MFI financial performance indicators and the identified determinants. This initial statistical step aimed to assess how closely the variables are related and to identify possible multicollinearity among the independent variables, which could affect the reliability of

later regression analysis. As Field (2024) notes, correlation analysis offers a simple but powerful means of quantifying the association between variables, enabling researchers to assess whether changes in one variable are systematically related to changes in another. This procedure provided valuable insights into the linear associations present in the dataset and guided the refinement of the regression model.

3.4 Qualitative Methods

The qualitative component was designed to complement the quantitative analysis by providing rich, environmentally grounded insights into the operational, governance and environmental factors influencing MFI financial performance.

3.4.1 In-depth Interviews

Semi-structured in-depth interviews were conducted with key stakeholders, including MFI executives, managers, board members and frontline staff. The interviews sought to explore governance practices, operational challenges, strategic decision-making processes and external environmental influences shaping MFI financial performance. The semi-structured interview format was selected for its capacity to maintain a clear focus on the research objectives while allowing sufficient flexibility to probe emerging themes and clarify complex issues raised by participants. As Bryman (2016) observes, semi-structured interviews offer a balance between the consistency of questioning needed for comparability and the adaptability required to explore unforeseen but relevant topics in depth. This approach ensured that a core set of questions provided structure and allowed the interviewer to pursue additional lines of inquiry as prompted by the respondents' experiences and insights, thereby capturing a more refined and comprehensive understanding of the determinants of MFI financial performance.

3.5 Sampling Strategy

A purposive sampling strategy was employed to select MFIs in Uganda, with the intention of capturing the diversity of operational models, governance structures and market segments in the sector. The sample encompassed both high and low performing MFIs, ranging from large, well-established MFIs to smaller, emerging MFIs still in the process of scaling their operations. This approach was particularly suitable for the research's comparative design, as it facilitated the inclusion of cases that could illuminate the institutional and environmental factors associated with varying MFI financial performance outcomes.

Purposive sampling was selected because it allows researchers to strategically choose participants who can best help answer the research questions (Bryman, 2016). By deliberately including MFIs with differing performance levels, ownership structures and geographic reach, the sample provided a robust basis for identifying patterns, contrasts and specific determinants of MFI financial performance in Uganda.

3.6 Data Collection Methods

The data collection process is a very critical phase in any empirical study, as it determines the quality, reliability and validity of the information used to address the research questions, test hypotheses and measure the research objectives. Guetterman *et al.* (2015) emphasize that in mixed-methods research, the integration of quantitative and qualitative data through careful collection and alignment enhances the overall interpretive power of the study, with the use of complementary methods strengthening both validity and reliability. In alignment with the mixed-methods approach adopted for this research, both quantitative and qualitative data were collected to ensure a comprehensive understanding of the determinants of MFI financial performance in Uganda. Consistent with Creswell and Clark (2017) assertion that methodological triangulation enriches interpretation and increases robustness of findings, multiple complementary data collection techniques were employed. Specifically, three primary methods were utilized, namely questionnaire surveys, semi-structured interviews and documentary review, each selected for their ability to capture distinct but complementary aspects of the research focus, thus integrating measurable indicators with rich empirical insights.

3.6.1 Questionnaire Survey Method

Questionnaire surveys are among the most widely used tools for collecting primary data from large populations, particularly in studies that require standardized responses for quantitative analysis (Kabir, 2016). They enable collection of data that is often inaccessible through secondary sources, offering a structured means to gather both quantitative and qualitative insights within a single instrument (Pandey and Pandey, 2015). As Pandey and Pandey (2015) observe, well-designed questionnaires are versatile instruments capable of efficiently collecting a wide range of factual and attitudinal data. This method offers distinct advantages, including the ability to cover

large geographic and organizational scopes and generate substantial data volumes within a relatively short period at comparatively lower cost (Taherdoost, 2021). In this research, the questionnaire was administered to staff across multiple departments of the selected MFIs who directly or indirectly influence or interact with financial performance drivers. This facilitated the collection of quantifiable data essential for statistical analysis, while allowing for the inclusion of open-ended responses to capture additional insights.

3.6.2 Interviews

Interviews are particularly valuable for collecting in-depth, detailed data on complex phenomena, as they allow the researcher to engage directly with participants and probe for clarification or elaboration where necessary (Taherdoost, 2021). By fostering a conversational and focused environment, interviews enable the exploration of participants' experiences, perceptions and experiential realities in a manner that is difficult to achieve through surveys alone. However, as Kabir (2016) notes, effective interviewing requires skill in building rapport and managing the flow of dialogue to ensure depth and relevance. For this research, semi-structured interviews were conducted with key decision-makers in each participating MFI, including senior executives, managers and board members. These interviews were designed to complement the quantitative survey findings by capturing qualitative insights into governance practices, operational challenges, strategic decision-making processes and the influence of external environmental factors.

3.6.3 Documentary Review Method

Documentary review involves the systematic examination of existing records and publications to extract factual data relevant to the research topic (Pederson *et al.*, 2020). This method provides access to validated and authoritative information while enabling historical and cross-institutional comparisons. As Taherdoost (2021) points out, the use of secondary sources

such as institutional reports can enhance the reliability of findings, particularly when the documents originate from credible sector associations and regulatory bodies. In this research, the documentary review included the annual reports of the selected MFIs, annual supervisory reports from BoU and UMRA, Association of Microfinance Institutions of Uganda (AMFIU) reports and other relevant literature on the financial performance of the MFIs under review. According to Bowen (2009), official documents can serve as reliable sources of verified data and are particularly valuable for triangulating with primary data to strengthen the validity of research conclusions. Similarly, Dalglish *et al.* (2020) highlight that systematic document analysis facilitates the corroboration of evidence across multiple sources, thereby ensuring a comprehensive and credible evidence base. Accordingly, documentary evidence in this study were used to corroborate and enrich the findings from the survey and interview data.

3.7 Research Instruments

This research utilized two primary instruments for collecting data, namely semi-structured interviews and self-administered questionnaires. The semi-structured interviews were conducted using a carefully designed interview guide comprising open-ended questions intended to elicit detailed and reflective responses. This format allowed for flexibility in probing deeper into specific issues while maintaining alignment with the core research questions. The interview guide was developed based on insights from the literature review and preliminary findings from the quantitative analysis, ensuring both theoretical grounding and empirical relevance.

Interviews were employed to gather rich, detailed information about the dynamics influencing MFI financial performance and their underlying determinants. As Sekaran and Bougie (2016) note, interviews are particularly effective for obtaining in-depth understanding of the subject under investigation and for uncovering insights that may not surface through purely quantitative approaches. Similarly, Taherdoost (2021) emphasizes that qualitative interviews enable researchers to go beyond numerical indicators, capturing detailed perspectives and specific realities that contribute to a more comprehensive understanding of the research problem.

The self-administered questionnaire was designed to collect standardized quantitative data from a larger sample of respondents across the selected MFIs. The questionnaire items were derived from the operational definitions of the study variables, ensuring direct alignment between the measurement tools and the conceptual framework. It consisted of both closed-ended questions facilitating statistical analysis and a limited number of open-ended questions to capture additional explanatory insights.

To ensure clarity, relevance and reliability, the questionnaire underwent pre-testing with a small group of MFI staff who were not part of the final sample. Feedback from the pre-test was

used to refine wording, eliminate ambiguities and adjust the sequencing of questions for logical flow and respondent engagement. The instrument was then finalized and distributed to targeted respondents who had direct or indirect involvement with financial performance determinants, including operational efficiency, governance quality, capital adequacy and loan portfolio management among others.

The use of both instruments aligns with Creswell and Clark (2017)'s principle of methodological triangulation, which strengthens research validity by integrating multiple forms of data to provide a more complete, reliable and credible understanding of the issues under investigation. This dual-instrument approach also ensured that quantitative trends could be interpreted alongside qualitative narratives, thereby enriching the interpretation of findings and supporting robust conclusions.

3.8 Target Number of Interviews and Respondents

The research targeted 10 in-depth interviews with key authorities across the 10 selected MFIs. These participants included senior managers, board members and other principal decision-makers, purposefully selected to ensure representation from institutions of varying sizes, geographic locations and operational maturity ranging from large, well-established MFIs to smaller, emerging entities. This sample size was deemed sufficient to achieve data saturation, defined as the point at which no new themes or substantive insights emerge from additional interviews (Guest *et al.*, 2006). Purposeful sampling in qualitative research is widely recognised as effective for capturing rich, detailed insights from those most knowledgeable about the research topic (Patton, 2007).

For the quantitative component, the study sought responses from 240 participants drawn from the 10 selected MFIs, comprising department heads, middle managers, supervisors and frontline officers. This diverse respondent base was intended to capture a broad spectrum of perspectives on operational practices, governance structures and other determinants of MFI financial performance. The choice of a broad respondent base in survey research is supported by Kabir (2016), who notes that large and diverse samples enhance the representativeness of data and enable more accurate generalisations. The sample size was considered adequate to ensure statistical reliability and generalisability within the study's scope, consistent with Creswell and Clark (2017)'s guidance that quantitative samples should be sufficiently large to support robust statistical analysis while reflecting the diversity of the population under study.

3.9 Sampling and Recruitment

Participants in this study were selected using a combination of purposive sampling and simple random sampling techniques, consistent with the requirements of a mixed-methods design. This dual strategy ensured that the qualitative component captured in-depth, experience-based insights from knowledgeable stakeholders, while the quantitative component obtained data from a representative cross-section of MFI personnel. This approach strengthened both validity by ensuring the inclusion of informed participants for the qualitative component and reliability by promoting representativeness in the quantitative sample (Creswell and Clark, 2017).

3.9.1 Purposive Sampling

Purposive sampling, a widely used non-probability sampling technique, was employed to deliberately select participants with substantial expertise and experience in microfinance operations, governance and external environmental factors directly relevant to the research objective (Patton, 2007). This approach ensured that the qualitative strand included MFI managers, board members and other staff who could provide rich, evidence-based insights into the determinants of MFI financial performance in Uganda.

The selection criteria included institutional size (large and small MFIs), geographic location, market focus, and the participants' functional role. Such diversity improves data credibility by capturing multiple perspectives from varied operational settings (Bryman, 2016). Purposeful inclusion of these information-rich cases enabled exploration of sector-specific issues in greater depth, thereby enhancing construct validity (Creswell and Clark, 2017; Patton, 2007). This approach was considered crucial for understanding the multifaceted determinants of MFI financial performance in Uganda.

3.9.2 Simple Random Sampling

For the quantitative strand, simple random sampling (SRS) was used to select respondents from the staff of the 10 participating MFIs. This probability-based method ensured that every individual in the sampling frame had an equal chance of selection, thus reducing selection bias and enhancing external validity (Babbie, 2010; Taherdoost, 2021). Stratification at the departmental level covering credit, finance, operations and risk management ensured that all relevant functional areas were proportionately represented. The SRS approach also promotes statistical reliability, enabling reproducibility of results under similar conditions (Babbie, 2010).

3.9.3 Recruitment Process

Recruitment of participants was conducted through formal written invitations sent to MFI managers and key stakeholders, supported by follow-up telephone calls and emails to confirm participation. Existing professional networks in the microfinance sector were leveraged to facilitate access and encourage cooperation. In line with Bryman (2016)'s ethical principles of social research, all participants were fully informed about the purpose and scope of the study, the measures in place to protect their confidentiality and their unconditional right to decline or withdraw from participation at any stage, ensuring that their involvement was entirely voluntary and free from coercion.

3.10 Data Recording and Management

Following the sampling, recruitment and data collection procedures outlined in Sections 3.6 to 3.9, a rigorous data recording and management framework was implemented to safeguard the quality, integrity and ethical handling of all research materials. In line with Creswell and Clark (2017)'s guidance on best practices for mixed-methods research, the study adopted a multi-pronged approach that combined structured questionnaire responses with detailed interview note-taking. This ensured that the precision of quantitative instruments was complemented by the interpretive richness of qualitative observations, thereby enhancing both validity and reliability.

3.10.1 Ticking off Questionnaires

Questionnaires were administered in a self-completion format, allowing respondents to select the responses most representative of their perspectives or circumstances for each parameter under review. This method has been widely recognized as efficient for collecting large volumes of standardized data within relatively short timeframes (Kabir, 2016; Taherdoost, 2021). To comply with ethical guidelines, informed consent was obtained from all participants prior to completion (Bryman, 2016). The completed questionnaires served as the primary source of quantitative data and were systematically coded for input into statistical software, enabling structured analysis of operational efficiency, governance quality, capital adequacy, loan portfolio quality and other determinants of MFI financial performance.

3.10.2 Note-Taking during Interviews

In addition to the structured survey instruments, detailed field notes were maintained during all semi-structured interviews. Note-taking is an essential qualitative data recording technique, particularly valued for capturing aspects that questionnaires may not fully convey such as non-verbal cues, changes in tone and spontaneous insights (Patton, 2007). The notes also

functioned as an immediate reference for follow-up questions, providing depth and richness to the emerging themes (Bryman, 2016). These field notes were later integrated with verbatim transcripts, producing a richer dataset that captured both explicit and implicit dimensions of participant responses.

3.10.3 Data Storage and Security

All datasets, whether digital or physical, were stored in compliance with institutional ethics protocols as well as local and international data protection regulations. Digital files were saved in password-protected formats on encrypted devices, with backup copies maintained in secure, encrypted cloud storage. Physical notes were stored in locked filing cabinets accessible only to the core data collection team. This layered security approach ensured confidentiality, integrity and controlled accessibility throughout the data lifecycle (CORTI *et al.*, 2014; Corti *et al.*, 2019).

3.10.4 Anonymization

To protect the identity of participants and organisations, all personally identifying information such as names, positions and institutional identifiers was removed or replaced with coded references. No questionnaires contained direct identifiers and pseudonyms were systematically applied to all qualitative data prior to analysis and reporting. This is in line with Saunders *et al.* (2009) who underscore the importance of maintaining confidentiality and anonymity in data handling, which are foundational practices for protecting participants' privacy while preserving the integrity of research.

3.10.5 Data Management Plan

A comprehensive Data Management Plan (DMP) was prepared at the onset of the research, detailing procedures for the secure collection, processing, storage and sharing of data. The DMP specified anonymization protocols, access restrictions, backup procedures, retention periods and

responsibilities for each data collection team member. In alignment with Corti et al. (2014), these measures ensured that all data handling complied with ethical, legal and institutional requirements, thus supporting the study's credibility and transparency.

3.11 Data Analysis

Data analysis in this research integrated both quantitative and qualitative techniques to generate a comprehensive understanding of the determinants of MFI financial performance in Uganda. Combining these approaches facilitated an analysis that captured measurable relationships between variables as well as deeper and locally grounded insights obtained from qualitative inquiry. This dual-method approach aligns with the principles of methodological triangulation, which enhance credibility, validity and richness of research findings (Creswell and Clark, 2017). The quantitative and qualitative strands of the analysis are detailed below: -

3.11.1 Quantitative Analysis

Quantitative data analysis was conducted using the *Statistical Package for the Social Sciences* (SPSS), selected for its robustness in managing large datasets and performing advanced statistical procedures. The analysis followed a systematic sequence of steps.

3.11.1.1 Descriptive Statistics

Descriptive statistics were used to summarize the key features of the dataset. Measures such as the mean, median, mode, standard deviation and range were computed for the principal financial performance indicators, namely ROA, ROE and OSS as well as for the selected determinants, including governance quality scores, operational efficiency ratios and capital adequacy ratios. This preliminary analysis provided an overview of central tendencies, variability and data distribution patterns, offering valuable insights for subsequent inferential analysis (Field, 2024).

3.11.1.2 Correlation Analysis

Correlation analysis was undertaken to examine the strength and direction of linear relationships between financial performance indicators and various determinants, including

governance quality, operational efficiency, capital adequacy, loan portfolio quality and technological adoption. Pearson's correlation coefficient was computed to measure the degree of association between variable pairs. The resulting correlation matrix was also examined for potential multicollinearity among the independent variables, as such relationships could distort regression outcomes (Field, 2024). Understanding these relationships is crucial for interpreting the interconnectedness of determinants and their collective impact on MFIs financial performance in Uganda.

3.11.1.3 Regression Analysis

Multiple regression analysis was applied to test hypotheses concerning the effect of selected determinants on MFI financial performance. This statistical method allows the simultaneous assessment of multiple predictors such as governance quality, operational efficiency, capital adequacy and technological adoption on dependent variables like ROA, ROE and OSS while controlling for confounding effects. Model diagnostics were performed to ensure validity, including Variance Inflation Factor (VIF) tests for multicollinearity, Durbin-Watson statistics for autocorrelation and heteroscedasticity tests. Model fit was assessed using R-squared values, as outlined by Gujarati (2009), while the statistical significance of predictors was evaluated using p-values. In line with conventional econometric practice, a significance threshold of 0.05 was applied to determine whether to reject the null hypothesis.

3.11.1.4 Hypothesis Testing

Hypotheses derived from the conceptual framework were evaluated using the regression output. For example, the hypothesized positive relationship between strong governance and financial performance was assessed by examining regression coefficients and significance levels.

Decisions to accept or reject the null hypotheses were based on statistical evidence, thereby validating or challenging theoretical propositions about MFI performance determinants.

3.11.2 Qualitative Analysis

Qualitative analysis adopted a thematic analysis approach, which is well-suited for identifying, analyzing and reporting recurring patterns in qualitative data (Braun and Clarke, 2006). This approach was particularly relevant for exploring governance practices, operational challenges, strategic decision-making and external influences on MFI performance. The qualitative analysis involved several steps as presented hereunder: -

3.11.2.1 Data Familiarization

The process commenced with an in-depth familiarization phase, involving repeated reading of interview transcripts and field notes to develop an intimate understanding of the data. Verbatim transcription of audio recordings ensured accuracy and transcripts were cross-verified against recordings to eliminate omissions or errors.

3.11.2.2 Coding

Open coding was subsequently undertaken as part of the initial data reduction phase, during which interview transcripts and field notes were systematically examined line-by-line to identify, name and label discrete units of meaning. This iterative process involved constant comparison of data segments, enabling refinement and consolidation of codes as familiarity with the dataset increased. Descriptive labels were assigned to capture salient concepts, actions, processes and institutional conditions relevant to the determinants of MFI financial performance. This approach combined inductive coding allowing patterns, meanings and themes to emerge organically from participants' narratives with deductive coding, guided by the research questions, theoretical framework and key constructs identified in the literature review. As Miles *et al.* (2014) emphasize,

such a blended strategy enhances the openness to unanticipated insights and the systematic pursuit of theoretically significant patterns, thereby strengthening the analytical depth and interpretive validity of the findings.

3.11.2.3 Categorization and Thematic Development

After initial coding, related codes were systematically grouped into broader categories through axial coding, enabling the identification of conceptual linkages and patterns across participants' responses. Analytical memos were maintained throughout this process to capture reflections, emerging insights and potential theoretical connections, ensuring that categories remained grounded in the data rather than researcher bias. Through selective coding, these categories were refined and distilled into core themes that are most relevant to the research objectives. This structured progression from codes to categories, to themes, produced a comprehensive thematic map that guided the interpretation phase and ensured close alignment with the research questions and theoretical framework.

3.11.2.4 Use of Qualitative Data Analysis Software

NVivo software was employed to enhance analytical rigor, efficiency and transparency. The software supported systematic coding, category development and retrieval of relevant data segments, while its visualization tools such as thematic maps, matrices and charts enabled exploration of relationships, co-occurrences and frequency patterns. Embedded memos and annotations provided an integrated audit trail, improving the dependability and replicability of the process. NVivo's capacity to generate coding summaries and export visual models also allowed for clear documentation of the analytic journey, strengthening the study's confirmability and overall methodological robustness.

3.11.2.5 Theme Interpretation and Synthesis

The final stage involved synthesizing the emergent themes into a coherent analytical narrative that addressed the research questions and linked back to the theoretical framework. Each theme was interpreted with consideration of the socio-economic, regulatory and cultural context influencing MFI operations in Uganda. Attention was given to both areas of convergence and divergence among participants, highlighting shared perspectives as well as unique or contradictory viewpoints. Direct quotations were purposefully integrated to illustrate findings, preserve authenticity and convey the specific experiences of participants. Where appropriate, themes were compared with existing empirical studies, enabling the findings to be situated within the broader scholarly discourse and enhancing both analytical depth and theoretical integration.

3.12 Ensuring Credibility and Trustworthiness

To guarantee that the findings of this study are both credible and dependable, rigorous quality assurance measures were implemented prior to, during and after data collection. This involved executing quality control tests on the research instruments before deployment, ensuring that they were both valid and reliable for measuring the intended constructs. For the quantitative instruments, content validity and reliability tests were conducted to assess the appropriateness, accuracy and consistency of results when tools are administered under similar conditions. For the qualitative strand, strategies such as member checking, triangulation and peer debriefing were adopted to ensure credibility and trustworthiness of the findings. The detailed approaches are presented hereunder: -

3.12.1 Validity of the Research Instruments

Validity refers to the degree to which a research instrument measures what it is intended to measure, thereby ensuring that the data collected is appropriate and adequately addresses the study objectives and research questions. According to Claydon (2015), validity in quantitative research is achieved through the development and use of standardized, rigorously reviewed instruments that enhance both accuracy and generalizability of findings. Similarly, Amin (2005) emphasizes that an instrument is valid only when it measures exactly what it is designed to measure, and recommends the Content Validity Index (CVI) as a practical method of assessment, further proposing a threshold of 0.70 as the minimum acceptable score for an instrument to be considered valid for research use. In this research, questionnaires were developed to reflect the conceptual and operational definitions of each variable. They were reviewed by subject matter experts in the MFI sector and the academic supervisor, who assessed the clarity, relevance and

comprehensiveness of the items. Expert feedback was incorporated, and the CVI was computed using the formula: -

$$CVI = \frac{\text{Number of Item Declared Valid by an expert}}{\text{Total Number of Items in the instrument}}$$

This process quantified the proportion of items considered valid by expert consensus, thus establishing alignment between the instruments and the intended constructs. Guided by the perspectives of Amin (2005) and Claydon (2015), the results confirmed that the instruments were appropriate for use in the field. At the end of the process, the results in **Table 3.1** below were obtained.

Table 3.1: Validity of Quantitative Instruments

S/N	Variable	Valid Statements	Total Number of Items	CVI
1	Governance Structures	3	4	0.750
2	Management Quality	3	3	1.000
3	Operational Efficiency	3	3	1.000
4	Risk Management Practices	3	4	0.750
5	Technological Adoption	3	3	1.000
6	Regulatory Frameworks	3	3	1.000
7	Macroeconomic Conditions	3	3	1.000
8	Financial Performance	9	11	0.818

Source: Field Data (2025)

Since the CVI value under each variable was above the recommended minimum of 0.70 as recommended by Amin (2005), the researcher accepted the results as valid and adopted the tool to guide the data collection process.

3.12.2 Reliability of the Data Tools

Reliability refers to the consistency with which an instrument produces stable results under similar conditions. Amin (2005) defines a reliable tool as one that yields consistent outcomes across different applications, highlighting Cronbach's Alpha as a standard test for internal

consistency. Sekaran and Bougie (2016) similarly describe reliability as the ability of a measurement instrument to provide the same results repeatedly, stressing that internal consistency among items measuring the same construct is critical for robust research outcomes. To assess reliability, a pilot test was conducted in two MFIs outside the study sample. Responses were analysed using the *Statistical Package for Social Sciences* (SPSS) to generate Cronbach's Alpha coefficients. Following Amin (2005)'s guideline, instruments scoring 0.70 or higher were considered reliable. The results, all above this benchmark, confirmed that the data collection instruments possessed strong internal consistency and were dependable for deployment in the full study. The findings are summarized in **Table 3.2** below.

Table 3.2: Reliability of Data Tools

S/N	Variable	Total Number of Items	CV
1	Governance Structures	4	0.775
2	Management Quality	3	0.893
3	Operational Efficiency	3	0.763
4	Risk Management Practices	4	0.715
5	Technological Adoption	3	0.841
6	Regulatory Frameworks	3	0.739
7	Macroeconomic Conditions	3	0.714
8	Financial Performance	11	0.867

Source: Field Data (2025)

3.12.3 Validation of Qualitative Data

To ensure the credibility, dependability, transferability and confirmability of the qualitative findings, the researcher employed multiple strategies designed to safeguard against bias and strengthen the trustworthiness of the analysis. These included member checking, triangulation and peer debriefing, each of which reinforced the rigor of the qualitative strand and ensured that the emergent themes reflected participants' realities as faithfully as possible. As Lincoln (1985) explains, trustworthiness refers to the assessment of the quality and worth of the complete study, while helping to determine how closely study findings reflect the aims of the study, according to the data provided by participants.

3.12.3.1 Member Checking

Member checking was used to enhance the accuracy and authenticity of the qualitative results. After transcription and initial thematic analysis, participants were given the opportunity to review their transcripts and preliminary findings. This process ensured that their views were represented faithfully and allowed them to correct, clarify or expand on earlier statements. According to Creswell and Miller (2000) and Creswell (2003), member checking is one of the most critical techniques for establishing credibility in qualitative research, as it integrates participant feedback into the analytic process and provides a safeguard against researcher misinterpretation.

3.12.3.2 Triangulation

Triangulation further reinforced the trustworthiness of the findings by ensuring that conclusions on the determinants of MFI financial performance were not dependent on a single method or source. Data from interviews, survey responses and document reviews were compared to establish consistency, which enhanced the reliability of results across different evidence bases

(data triangulation). The integration of qualitative insights with quantitative measures provided a balanced interpretation of the determinants, combining subjective stakeholder perspectives with objective performance indicators (methodological triangulation). Finally, emergent themes were examined through literature to broaden the analytic framework (theoretical triangulation). As Patton (1999) observes, triangulation increases credibility by reducing overreliance on a single lens and by enhancing the robustness of conclusions. In this research, triangulation was particularly important for confirming findings on governance structures, risk management practices and technological adoption as critical determinants of MFI financial performance.

3.12.2.3 Peer Debriefing

Peer debriefing added another safeguard by subjecting coding decisions and interpretations to external scrutiny. Peers engaged in reflective discussions with the researcher to challenge assumptions, identify potential bias and confirm the completeness of themes. As Lincoln (1985) explains, peer debriefing is the process of exposing oneself to a disinterested peer in a manner paralleling an analytic session and for the purpose of exploring aspects of the inquiry that might otherwise remain only implicit within the inquirer's mind. This mechanism enhanced transparency in the research process and strengthened confirmability of the study's conclusions regarding MFI financial performance.

3.13 Ethical Considerations

This research adhered to internationally recognized ethical standards to safeguard participants and ensure the integrity of the study. Informed consent was obtained from all participants, who were fully briefed on the purpose of the research, the procedures involved, potential risks and their right to decline or withdraw at any stage without penalty. Xu *et al.* (2020) note that informed consent is often cited as the cornerstone of research ethics, highlighting its role in ensuring that participants enter research voluntarily and with full understanding. Creswell (2003) similarly underscores that voluntary and informed participation is central to maintaining ethical rigor in qualitative research. Strict confidentiality and anonymity were maintained, with identifying details removed or coded to protect participant privacy, consistent with Kaiser (2009)'s observation that confidentiality fosters trust and strengthens the credibility of findings.

Data was stored with strict confidentiality measures as the storage location, access restrictions, retention period and destruction procedures were clearly defined to protect participant privacy, aligning with Al Tajir (2018)'s recommendation that researchers detail these safeguards in the ethical considerations. The research also obtained clearance in compliance with the University ethical guidelines.

3.14 Summary

The research employed a mixed-methods approach, combining surveys for quantitative analysis with interviews and document reviews for qualitative insights. This integration allowed for a holistic understanding of the factors influencing MFI financial performance. Validity and reliability were ensured through expert reviews and the Content Validity Index (CVI), while internal consistency checks further reinforced reliability. For the qualitative strand, credibility and trustworthiness were enhanced through member checking, triangulation and peer debriefing, ensuring that emergent themes accurately reflected participants' perspectives. Ethical standards were strictly observed. Participants consented, data was kept confidential and ethical approval met institutional and international standards.

In summary, this chapter demonstrated a systematic and ethically grounded design that combined methodological rigor with practical safeguards. Beyond methodological soundness, this approach contributes to academic knowledge by deepening understanding of the complex determinants of MFI financial performance, while also generating practical insights to guide policymakers, regulators and practitioners in strengthening governance, management and sustainability of MFIs in Uganda.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents, analyses and interprets the findings of the research in accordance with its objectives. The primary focus is to examine the extent to which governance structures, management quality, operational efficiency, risk management practices, technological adaptation, regulatory frameworks and macroeconomic conditions influence the financial performance of selected MFIs in Uganda.

The analysis is structured to ensure coherence and clarity. It begins with a presentation of the demographic characteristics of respondents, offering important background and context for interpreting the subsequent findings. Thereafter, the results are organized around the specific objectives of the study, with each determinant examined in turn.

Given the mixed-methods design, both quantitative and qualitative strands of evidence are presented. Quantitative data are analysed to establish measurable patterns and statistical relationships, while qualitative insights enrich this understanding by capturing the perspectives and experiences of participants. This integration provides a detailed and multidimensional view of the determinants of MFI performance, balancing empirical rigor with contextual depth.

In doing so, the chapter provides a descriptive account of the data and an interpretive framework that links the results to the research questions and theoretical underpinnings of the research.

4.2 Background Characteristics

The demographic profile of respondents was assessed across five dimensions, namely age, work experience, highest education level and institutional job positions to provide context for interpreting the findings. These characteristics are important because they shape how individuals perceive and engage with governance, management and operational practices within MFIs. Gender and age variations can influence leadership approaches, while differences in education and professional experience often correlate with technical expertise and decision-making capacity. Similarly, the position held within the MFI determines exposure to strategic, operational and regulatory issues that directly affect financial performance.

Anchoring the analysis within these demographic dimensions ensures that the findings capture the heterogeneity of perspectives among practitioners in Uganda's MFIs, thereby enhancing the contextual depth and validity of the research interpretations.

Table 4.1: Demographic Characteristics of Respondents

	Frequency	Percent (%)
Gender of participants		
Male	102	55.4
Female	82	44.6
Total	184	100.0
Age of Participants		
Below 25 Years	16	8.7
25 – 34	29	15.8
35 – 44	83	45.1
45 – 54	56	30.4
Total	184	100.0
Work Experience of Participants		
1 - 3 years	23	12.5
4 - 6 years	106	57.6
7 - 9 years	47	25.5
10 years and above	8	4.3
Total	184	100.0
Highest Level of Education		
Diploma	29	15.8
Bachelor’s Degree	71	38.6
Post Graduate Diploma	50	27.2
Professional Qualification	34	18.5
Total	184	100.0
Job position at the organization		
Non-Executive Director	3	1.6
Executive Director	3	1.6
Head of Department	50	27.2
Middle Manager	30	16.3
Supervisor	45	24.5
Officer	53	28.8
Total	184	100.0

Source: Primary Data (2025)

Gender distribution indicated that 55.4% of participants were male and 44.6% were female. Although this reflects a modest gender imbalance, the inclusion of both male and female perspectives ensured that the data captured a balanced range of experiences, thereby minimizing the risk of gender bias.

With respect to age, the largest cohort comprised participants between 35 and 44 years (45.1%), followed by those aged 45 to 54 years (30.4%). Respondents aged 25 to 34 years accounted for 15.8%, while 8.7% were aged 24 years and below. This distribution highlights the engagement of respondents across diverse age cohorts, thereby enriching the research with insights shaped by varying levels of professional maturity and life experience.

Work experience further reinforced this diversity, with the majority (57.6%) having served between four and six years in MFIs. An additional 25.5% had between seven and nine years of experience, 12.5% had worked for one to three years and 4.3% reported ten or more years of work experience. Such experience profiles suggest that respondents were well positioned to provide reliable accounts grounded in professional realities within the MFI sector.

In terms of educational levels, 38.6% of respondents held bachelor's degrees, 27.2% held postgraduate diplomas, 18.5% possessed professional qualifications while 15.8% had attained diplomas. This generally high level of academic and professional qualifications suggests that participants had sufficient knowledge to engage meaningfully with the research instrument, thereby enhancing the credibility of the responses.

Finally, analysis of job positions revealed that 28.8% of participants were officers, 27.2% were heads of departments, 24.5% were supervisors, 16.3% were middle managers while 1.6% each served as executive directors and non-executive directors respectively. The representation of respondents across these different organizational hierarchies indicates that the study captured insights from both operational and strategic perspectives, thereby ensuring that the findings reflect a comprehensive understanding of MFI operations.

4.3 Descriptive Statistics on Variables

This section presents the results of the descriptive statistical analysis, which were conducted using univariate analysis. The analysis considered the distribution of responses across the study variables by examining frequencies, minimum and maximum values, mean scores and standard deviations. This approach provided a detailed summary of the central tendencies and variability in participants' responses, thereby offering insight into the general patterns within the data. The descriptive statistics were computed for each of the individual variables under investigation, namely governance structures, operational efficiency, risk management practices, technological adaptation, management quality, regulatory framework, macroeconomic conditions and financial performance. The findings are presented in the subsequent tables.

4.3.1 Internal Factors

In this subsection, the focus is placed on internal organizational determinants of MFI performance. Descriptive analyses were undertaken for governance structures, management quality, operational efficiency, risk management practices and technological adaptation. These internal dimensions are critical as they reflect the institutional capacities and practices that directly influence the financial sustainability and operational resilience of MFIs. The results provide a statistical overview of how respondents perceived the effectiveness of these internal mechanisms, forming the foundation for subsequent inferential analysis.

4.3.1.1 Governance Structure

Table 4.2: Descriptive Statistics for Governance Structure

	N	Min	Max	Mean	Std. Dev
Our entity has a competent Board of Directors	184	3	5	4.42	0.567
Our Microfinance Board is well balanced with regards to gender	184	3	5	4.06	0.503
The various committees of the Board are independent and execute their roles objectively	184	1	5	3.40	0.965
Internal Controls are in place and comprehensively adhered to	184	3	5	4.21	0.694

Source: Primary data (2025)

The analysis of governance structures within the selected MFIs revealed notable insights. Respondents were first asked whether their institutions had competent boards of directors. The responses produced a mean score of 4.42 with a standard deviation of 0.567. This indicates that majority of respondents strongly agreed that their MFIs were guided by competent boards, while the relatively low standard deviation reflects only moderate variability, suggesting a reasonable level of reliability in the responses.

On the question of gender balance within the boards, the findings revealed a mean score of 4.06 and a standard deviation of 0.503. This demonstrates that most respondents agreed that their boards were gender-balanced. The modest level of dispersion further implies consistency in the views expressed, with the responses being moderately reliable.

When asked about the independence and objectivity of the various board committees, the responses yielded a mean of 3.40 and a higher standard deviation of 0.965. These results suggest that while the majority agreed that board committees operated independently and executed their roles objectively, there was considerable variability in perceptions, pointing to less consensus among respondents compared to other governance indicators.

Regarding internal control systems, the responses generated a mean score of 4.21 and a standard deviation of 0.694. These results imply that most respondents strongly agreed that internal controls were in place and comprehensively adhered to. The moderate variability, however, suggests that some divergence in opinion existed, though the results still demonstrate reasonable reliability.

In summary, the analysis of governance structures indicates that most MFIs are guided by competent and gender-balanced boards, supported by well-structured internal control systems, all of which reflect positively on institutional governance. However, perceptions regarding the independence and objectivity of board committees were less consistent, suggesting variability in governance practices across institutions. Overall, the findings point to generally strong governance foundations, though with areas particularly in committee independence, that may require further strengthening to ensure uniform standards of accountability and oversight.

4.3.1.2 Management Quality

Table 4.3: Descriptive Statistics for Management Quality

	N	Min	Max	Mean	Std. Dev
Our management team is competent to support the institution's sustainability	184	1	5	3.98	1.043
The management is well balanced regarding gender	184	1	5	3.76	1.028
The management team is experienced and objectively executes the institution's business to achieve the set objectives.	184	1	5	3.85	1.004

Source: Primary data (2025)

The descriptive statistics on management quality, provide important insights into the role of management in sustaining MFIs. When asked whether their management teams were competent in supporting institutional sustainability, respondents reported a mean of 3.98 with a standard deviation of 1.043. This indicates that majority of participants agreed that their management teams

possessed the necessary competence to ensure sustainability. However, the relatively high standard deviation suggests a considerable degree of variation in perceptions across respondents, which points to differences in how competence is experienced or perceived within the institutions.

On the aspect of gender balance in management, the findings produced a mean of 3.76 and a standard deviation of 1.028. These results show that most respondents agreed that management structures were well balanced in terms of gender representation. Nonetheless, the high level of variability in responses underscores that gender inclusivity in management remains uneven across the MFIs studied, reflecting potential gaps in equitable representation.

Regarding managerial experience and objectivity in executing institutional business, the responses yielded a mean of 3.85 with a standard deviation of 1.004. The mean suggests general agreement that management teams were experienced and capable of objectively driving institutional objectives. However, the elevated standard deviation again points to divergent perspectives among respondents, implying that while some institutions demonstrate strong managerial experience and impartiality, others may face deficiencies in this area.

Overall, the findings suggest that although management within the sampled MFIs is generally perceived as competent, gender balanced and experienced, the high variability in responses indicates that these attributes are not uniformly distributed across institutions. This unevenness highlights the need for targeted managerial capacity building and gender inclusivity initiatives to enhance consistency in management quality across the sector.

4.3.1.3 Operational Efficiency

Table 4.4: Descriptive Statistics for Operational Efficiency

	N	Min	Max	Mean	Std. Dev
Our processes are swift and tailored to the needs of customers	184	1	5	3.64	0.999
We have a low loan turnaround time to the customers we serve	184	1	5	3.74	1.200
Our cost-to-income ratio is consistent with the industrial standards	184	1	5	3.90	0.959

Source: Primary data (2025)

The analysis of operational efficiency highlights three important dimensions that include responsiveness to customer needs, loan turnaround time, and cost-to-income ratios. When asked whether institutional processes were swift and tailored to customer needs, respondents reported a mean score of 3.64 with a standard deviation of 0.999. This suggests general agreement that MFIs are responsive to client needs, though the moderate variation in responses indicates that operational efficiency is not uniform across institutions. The presence of this variability implies that while some MFIs have streamlined processes that promote client satisfaction and retention, others may struggle with bureaucratic delays or limited adaptation to client preferences.

With respect to loan turnaround time, the mean score of 3.74 with a standard deviation of 1.200 indicates that respondents generally perceive loan processing to be relatively fast. However, the high standard deviation points to significant disparities across MFIs, suggesting that timely access to credit, a critical determinant of client trust and competitive advantage in MFIs is inconsistent. This finding implies that while some institutions may excel at reducing transaction bottlenecks through effective systems and technology, others continue to face structural inefficiencies that hinder service delivery.

Regarding cost efficiency, the mean score of 3.90 with a standard deviation of 0.959 demonstrates broad agreement that MFIs maintain cost-to-income ratios consistent with industry standards. However, as with process responsiveness, the moderate variation across institutions highlights uneven adherence to cost-efficiency benchmarks. This underscores that while many MFIs are succeeding in aligning operating costs with revenue generation, a vital indicator of long-term sustainability, others may still be vulnerable to inefficiencies that could erode profitability.

In summary, these results indicate that Ugandan MFIs are perceived to be performing moderately well in operational efficiency, with notable strengths in cost management but uneven performance in client responsiveness and loan processing speed. The variability in responses suggests the need for more systematic adoption of best practices and technologies to ensure consistent efficiency across the sector. Enhancing operational efficiency in these areas is critical, as it directly influences both financial sustainability and the ability of MFIs to fulfill their broader developmental mission of serving underserved communities.

4.3.1.4 Risk Management Practices

Table 4.5: Descriptive Statistics for Risk Management Practices

	N	Min	Max	Mean	Std. Dev
We have a risk management framework that guides risk management at our firm	184	3	5	4.27	0.655
We identify and profile all potential risks that could befall our operations	184	3	5	3.99	0.543
We assess all potential risks that could deny us chance to achieve our performance objectives	184	1	5	3.90	0.965
We routinely monitor and mitigate the various risks that present themselves	184	3	5	4.18	0.684

Source: Primary data (2025)

The analysis of risk management practices reveals important insights into the extent to which MFIs in Uganda have institutionalized mechanisms for identifying, assessing, and

mitigating risks. When asked whether their institutions had a risk management framework to guide risk oversight, respondents reported a mean score of 4.27 with a standard deviation of 0.655. This finding suggests that most MFIs have established formal risk management frameworks, underscoring a strong institutional commitment to structured risk governance. However, the moderate variation indicates that while many institutions have robust frameworks, others may still rely on less formalized or inconsistently applied approaches, reflecting uneven maturity levels across the sector.

An inquiry into the ability of MFIs to identify and profile all potential risks yielded a mean score of 3.99 with a standard deviation of 0.543. This demonstrates that respondents generally agreed that their MFIs possess mechanisms for comprehensive risk identification and profiling. However, the moderate variation suggests gaps in institutional capacity, where certain MFIs may lack the systematic tools or expertise required to detect and categorize risks comprehensively. Such disparities highlight the importance of strengthening diagnostic capabilities to ensure early identification of threats to sustainability.

Responses regarding the assessment of risks that could hinder achievement of performance objectives produced a mean score of 3.90 with a standard deviation of 0.965. This indicates broad agreement that MFIs conduct risk assessments, although the relatively high variation reflects significant differences in the thoroughness and regularity of such assessments. MFIs with strong assessment practices are better positioned to align strategic priorities with risk exposure, while those with weaker practices may be vulnerable to operational and financial setbacks.

When asked whether risks are routinely monitored and mitigated, respondents reported a mean score of 4.18 with a standard deviation of 0.684. This points to widespread adoption of ongoing monitoring and mitigation processes, which are critical for adaptive risk management.

Nevertheless, the moderate variation once again suggests uneven implementation, where some MFIs demonstrate strong, proactive risk cultures while others exhibit weaker or reactive approaches.

Overall, these findings suggest that while risk management frameworks, profiling, assessment and monitoring practices are present in many MFIs, their effectiveness and consistency vary considerably across institutions. This heterogeneity underscores the need for sector-wide capacity building and standardization to ensure that all MFIs can adequately safeguard institutional performance, financial sustainability, and client trust in a dynamic and often volatile operating environment.

4.3.1.5 Technological Adaptation

Table 4.6: Descriptive Statistics for Technological Adaptation

	N	Min	Max	Mean	Std. Dev
We leverage technology to improve outreach	184	1	5	3.72	0.933
We have adopted mobile technology to update customer information	184	1	5	3.89	1.129
Through technology, we initiate loans online and manage client relationships	184	1	5	3.85	1.204

Source: Primary data (2025)

The findings on technology adoption reveal important patterns in how MFIs integrate digital tools to enhance service delivery and client engagement. When asked whether their MFIs leveraged technology to improve outreach, respondents reported a mean score of 3.72 with a standard deviation of 0.933. This indicates that most MFIs utilize technology to extend their services to broader segments of the population. However, the moderate variation in responses suggests that while some institutions have embraced technology effectively, others still lag in integrating digital platforms, pointing to uneven technological diffusion across the sector.

In relation to mobile technology for updating customer information, the reported mean score of 3.89 with a standard deviation of 1.129 demonstrates that many MFIs have adopted mobile-based systems to streamline customer records and enhance efficiency. However, the high variation in responses indicates that adoption levels are not uniform, with some institutions demonstrating advanced capabilities while others remain reliant on manual or less efficient systems. This uneven uptake may reflect disparities in infrastructure, financial capacity, or MFI readiness to integrate technology into core operations.

Responses on whether MFIs use technology to initiate loans online and manage client relationships yielded a mean score of 3.85 with a standard deviation of 1.204. This result suggests that, on average, respondents agreed that technology is employed in loan initiation and customer relationship management. Nonetheless, the high variation underscores significant differences in how extensively institutions employ such systems. While some MFIs are leveraging digital platforms to reduce turnaround times and strengthen client engagement, others continue to rely on traditional models, limiting their efficiency and competitiveness.

In summary, these findings suggest that although MFIs in Uganda are increasingly embracing digital solutions to enhance outreach, update customer information, and manage lending processes, the degree of adoption remains highly uneven. MFIs that are advanced in technological integration may benefit from greater efficiency, improved client responsiveness and reduced operational costs, consistent with the Resource-Based View which emphasizes internal capabilities as drivers of competitive advantage. Conversely, those with limited adoption risk being left behind in an increasingly digitalized financial landscape, underscoring the importance of sector-wide investments in technological infrastructure, training and innovation.

4.3.2 External Factors

This sub-section presents the descriptive analysis of external factors that influence the financial performance of MFIs. Specifically, the analysis focuses on two critical dimensions, the regulatory framework and prevailing macroeconomic conditions. These external factors constitute the broader institutional and economic environment within which MFIs operate, shaping both opportunities and constraints to their sustainability.

4.3.2.1 Regulatory Framework

Table 4.7: Descriptive Statistics for Regulatory Frameworks

	N	Min	Max	Mean	Std. Dev
We operate legally as required by the sector Regulator	184	1	5	3.64	0.999
We conform to the guidelines of the sector regulator	184	1	5	3.87	1.194
We get audited annually as required by law	184	1	5	3.92	1.104

Source: Primary data (2025)

The analysis of regulatory compliance among the sampled MFIs revealed mixed but insightful outcomes. When asked whether the MFIs operated legally as required by the sector regulator, the responses yielded a mean of 3.64 and a standard deviation of 0.999. This indicates that majority of respondents agreed that their MFIs complied with the legal requirements of the sector regulator, with only moderate variation in responses, suggesting a fair degree of consistency.

Further inquiry into whether MFIs conformed to the detailed guidelines of the regulator produced a higher mean of 3.87 but also a higher standard deviation of 1.194. While this reflects general agreement on regulatory adherence, the wide dispersion of responses indicates variability in the extent of compliance across institutions, thus reducing the reliability of this finding.

On the question of annual audits as mandated by law, the responses yielded a mean score of 3.92 and a standard deviation of 1.104. These results demonstrate that most respondents agreed that their institutions undergo annual audits. However, the relatively high standard deviation

reflects considerable variation among institutions, implying that compliance with audit requirements is not uniform across the sector.

In summary, the findings suggest that while MFIs generally demonstrate awareness and partial adherence to regulatory requirements including licensing by the regulator, conformity with regulatory guidelines and annual audits, the significant variation in responses highlights potential inconsistencies in regulatory compliance. This variability may reflect differences in MFI capacity, governance commitment or regulatory enforcement, pointing to the need for stronger oversight mechanisms and more standardized compliance practices within the sector.

4.3.2.2 Macroeconomic Conditions

Table 4.8: Descriptive Statistics for Macroeconomic Conditions

	N	Min	Max	Mean	Std. Dev
The interest rates influence our lending decisions	184	1	5	3.64	0.913
Our lending decisions are executed while paying close attention to the inflation dynamics	184	1	5	3.79	1.166
Business environment dynamics have a bearing on our lending decisions	184	1	5	3.83	0.976

Source: Primary data (2025)

The analysis of macroeconomic conditions revealed important insights into the extent to which external economic dynamics influence the lending decisions of MFIs. Respondents were first asked whether interest rates affected their lending decisions. The responses yielded a mean of 3.64 with a standard deviation of 0.913, indicating that most respondents agreed that interest rates were an important determinant of lending decisions. The moderate level of variation suggests that while this influence was generally acknowledged, differences existed across MFIs in the degree to which interest rate fluctuations shaped their decision-making.

Regarding the role of inflation, the responses yielded a mean of 3.79 and a standard deviation of 1.166. These results imply that majority of the respondents agreed that their lending

decisions were made with close attention to inflationary trends. However, the relatively high variation highlights that some MFIs were more responsive to inflation dynamics than others, resulting in lower reliability of consensus on this factor.

Relatedly, the effect of broader business environment dynamics on lending decisions was assessed, yielding a mean of 3.83 and a standard deviation of 0.976. This demonstrates that most respondents agreed that external business conditions such as market competition, regulatory changes and economic stability significantly shaped their lending practices. The moderate variability suggests that although this perception was widely held, the intensity of its influence varied across the sampled MFIs.

In summary, these findings underscore that while macroeconomic conditions such as interest rates, inflation and the general business environment exert significant influence on lending decisions, the extent of their impact is uneven across MFIs. This heterogeneity points to varying levels of sensitivity and adaptability among MFIs, reflecting differences in their capacity, resilience and strategic orientation.

4.3.3 Financial Performance

This sub-section presents the descriptive analysis of financial performance, focusing on how MFIs achieve and sustain their strategic and operational objectives through financial outcomes. It examines core indicators such as profitability, liquidity, capital adequacy, resource allocation and credit risk management, while also considering compliance with disclosure and regulatory requirements. The analysis provides insight into the financial health of MFIs, their ability to generate shareholder value and overall resilience in a competitive and regulated sector.

Table 4.9: Descriptive Statistics for Financial Performance

	N	Min	Max	Mean	Std. Dev
Our firm meets its targets consistently in line with its Strategy	184	1	4	2.60	1.003
Our firm discloses its financial performance to its shareholders and other stakeholders on a periodic basis and adheres to the financial sector policies, rules and regulations.	184	1	4	2.74	.872
Performance appraisals are carried out on a periodic basis to assess outputs of each employee and excellent performance is rewarded for individual performers.	184	1	4	2.99	.989
Department allocation of resources is more or less directly linked to unit's performance and controls are in place to exclude incurring expenditure more than allocated funds	184	1	4	2.71	1.140
The profits of our firm have been steadily increasing over years, and part of its net profits are transferred to reserves	184	1	5	3.38	.962
The firm has enough cash to meet its obligations effectively as and when they fall due	184	1	5	3.5	1.050
The percentage of non-performing loans at our firm has been reducing consistently	184	1	4	2.72	1.235
Our firm's Return on Equity has increased over the past five years	184	1	4	3.08	.974
Our firm annually pays dividends to shareholders	184	1	5	3.16	1.222
The Asset base of our firm has been increasing progressively	184	1	4	2.86	1.095
The firm's capital level is sufficient in relation to the company's risk profile	184	1	4	2.68	1.178

Source: Primary data (2025)

The respondents were asked whether their firms consistently met their targets in line with their strategies. This yielded a mean score of 2.60 with a standard deviation of 1.003, indicating that most respondents were neutral regarding the achievement of strategic targets. The relatively high variability suggests that experiences differed widely across MFIs, reducing the reliability of the responses.

When asked whether their MFIs disclosed financial performance to shareholders and other stakeholders on a periodic basis while adhering to sector regulations, the responses produced a mean of 2.74 and a standard deviation of 0.872. These findings imply neutrality, with moderate variation suggesting uneven disclosure practices among institutions, though the responses are moderately reliable.

Inquiry into performance appraisals and reward mechanisms for excellent performance produced a mean of 2.99 and a standard deviation of 0.989. This indicates neutrality on whether regular appraisals and recognition systems are in place. The moderate variation suggests some MFIs may practice performance reviews while others may not, making the responses moderately reliable.

On the question of resource allocation and financial controls, the responses yielded a mean of 2.71 with a standard deviation of 1.140. This reflects neutrality on whether departmental resource allocations are directly linked to performance and whether strict controls are observed. However, the high variability signals limited consensus across respondents and reduces the reliability of the findings.

Profitability indicators were assessed through the question of whether firms experienced steady profit growth and transferred part of their net profits to reserves. The responses revealed a mean of 3.38 with a standard deviation of 0.962, indicating neutrality with a tendency toward

agreement. The moderate variability suggests some differences in profitability trends across MFIs, though the findings are moderately reliable.

Liquidity performance was assessed by asking whether MFIs had sufficient cash to meet obligations as they fell due. The mean score was 3.50 with a standard deviation of 1.050, reflecting agreement among most respondents. However, the high variation highlights uneven liquidity positions across MFIs, thereby reducing the reliability of the responses.

Respondents were further asked whether the percentage of non-performing loans had been consistently reducing. The results showed a mean of 2.72 and a standard deviation of 1.235, indicating neutrality and high variability. This implies weak consensus on improvements in loan quality, with significant differences in experiences across firms, thereby limiting reliability.

The analysis also examined whether MFIs' Return on Equity had increased over the past five years. The findings yielded a mean of 3.08 with a standard deviation of 0.974, indicating neutrality with moderate variability. These results suggest that while some firms have experienced improvement in shareholder returns, others have not, making the responses moderately reliable.

Dividend distribution practices were also evaluated. The responses produced a mean of 3.16 and a standard deviation of 1.222, indicating neutrality but with high variability. This suggests that dividend payments differ significantly among MFIs, undermining the reliability of the responses.

On the question of asset growth, the findings revealed a mean of 2.86 with a standard deviation of 1.095. This indicates neutrality regarding whether MFIs' asset bases had increased progressively. The high variability, however, points to divergent experiences across institutions and reduces reliability.

Finally, capital adequacy was assessed by asking whether MFIs' capital levels were sufficient relative to their risk profiles. The responses yielded a mean of 2.68 with a standard deviation of 1.178, indicating neutrality. The high variability shows that perceptions differed considerably across respondents, thereby limiting the reliability of this measure.

Overall, the analysis of financial performance indicators revealed that most respondents expressed neutrality on several key aspects, including target achievement, disclosure practices, performance appraisals, resource allocation, profitability, asset growth and capital adequacy. Only liquidity stood out with stronger agreement, indicating relative confidence in MFIs' ability to meet obligations as they fall due. However, the consistently high or moderate standard deviations across variables highlight significant variability in responses, suggesting divergent experiences among the surveyed MFIs. These findings collectively point to a mixed financial performance landscape, where operational stability in some dimensions such as liquidity and profitability contrasts with uncertainty and inconsistency in others, particularly loan quality, capital adequacy and long-term asset growth. The evidence underscores the need for more robust financial management practices and stronger performance monitoring mechanisms to enhance stability and reliability across the MFI sector.

4.4 Correlation Analysis

This sub-section examines the interrelationships among the key study variables using Pearson's product-moment correlation coefficient, which is appropriate for assessing the strength and direction of linear relationships between continuous variables. The analysis examined the degree of association between governance structure, management quality, operational efficiency, risk management practices, technological adaptation, regulatory framework, macroeconomic conditions and financial performance. Pearson's correlation is widely recognized as a robust statistical technique for measuring the strength and direction of linear relationships between continuous variables (Cohen, 2013).

The interpretation of correlation coefficients in this research followed established benchmarks. Pearson's correlation coefficient (r) ranges from -1 to +1, where values of +1 and -1 indicate perfect positive and negative linear relationships, respectively and a value of 0 suggests no linear association. Effect sizes are commonly interpreted as follows: - coefficients exceeding 0.7 are considered strong, coefficients ranging between 0.50 and 0.7 denote moderate correlations, those below 0.5 are considered weak while a coefficient of 0 implies the absence of any linear relationship (Mukaka, 2012). These thresholds provide clear and practical guidance for interpreting bivariate relationships in quantitative research.

By applying these thresholds, the research was able to systematically evaluate the magnitude and significance of associations among the independent and dependent variables. The results of this correlation analysis are presented in the subsequent table, offering insights into how the different governance, management, operational and environmental factors collectively relate to the financial performance of MFIs.

Table 4.10: Correlation analysis

		Governance Structure	Management Quality	Operational Efficiency	Risk Management Practices	Technological Adaptation	Regulatory Framework	Macroeconomic Conditions	Financial Performance
Governance Structure	Pearson Correlation	1	-.285**	.489**	.927**	-.180*	.393**	.256**	.590**
	Sig. (2-tailed)		.000	.000	.000	.015	.000	.000	.000
	N	184	184	184	184	184	184	184	184
Management Quality	Pearson Correlation	-.285**	1	-.046	-.220**	.875**	.015	.187*	-.077
	Sig. (2-tailed)	.000		.537	.003	.000	.841	.011	.296
	N	184	184	184	184	184	184	184	184
Operational Efficiency	Pearson Correlation	.489**	-.046	1	.455**	.008	.683**	.262**	.295**
	Sig. (2-tailed)	.000	.537		.000	.909	.000	.000	.000
	N	184	184	184	184	184	184	184	184
Risk Management Practices	Pearson Correlation	.927**	-.220**	.455**	1	-.094	.399**	.273**	.572**
	Sig. (2-tailed)	.000	.003	.000		.206	.000	.000	.000
	N	184	184	184	184	184	184	184	184
Technological Adaptation	Pearson Correlation	-.180*	.875**	.008	-.094	1	.132	.131	-.075
	Sig. (2-tailed)	.015	.000	.909	.206		.074	.076	.314
	N	184	184	184	184	184	184	184	184
Regulatory Framework	Pearson Correlation	.393**	.015	.683**	.399**	.132	1	.381**	.469**
	Sig. (2-tailed)	.000	.841	.000	.000	.074		.000	.000
	N	184	184	184	184	184	184	184	184
Macroeconomic Conditions	Pearson Correlation	.256**	.187*	.262**	.273**	.131	.381**	1	.588**
	Sig. (2-tailed)	.000	.011	.000	.000	.076	.000		.000
	N	184	184	184	184	184	184	184	184
Financial Performance	Pearson Correlation	.590**	-.077	.295**	.572**	-.075	.469**	.588**	1
	Sig. (2-tailed)	.000	.296	.000	.000	.314	.000	.000	
	N	184	184	184	184	184	184	184	184
**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).									

The correlation analysis revealed important interrelationships between the independent variables and MFI financial performance. Governance structure exhibited a moderately strong and statistically significant positive correlation with financial performance ($r = 0.590$, $p < 0.001$). This finding underscores the critical role of sound governance in promoting accountability, strategic oversight and institutional stability, which ultimately translate into better MFI financial performance.

By contrast, management quality showed a very weak negative and statistically insignificant association with MFI financial performance ($r = -0.077$, $p = 0.296$). This suggests that variations in management practices within the sampled MFIs were not decisive in shaping financial performance, which may reflect inconsistencies in leadership approaches or the overriding influence of external factors beyond managerial control.

Operational efficiency demonstrated a weak but statistically significant positive correlation with MFI financial performance ($r = 0.295$, $p < 0.001$). This indicates that even modest improvements in efficiency such as cost controls, streamlined processes or improved resource utilization can contribute meaningfully to MFI financial sustainability, albeit at a relatively small magnitude compared to other determinants.

Equally important, risk management practices revealed a moderately strong and statistically significant positive correlation with MFI financial performance ($r = 0.572$, $p < 0.001$). This finding highlights the importance of proactive identification, assessment and mitigation of risks, as robust risk management frameworks not only protect MFIs from volatility but also enhance investor and client confidence, thereby strengthening financial results.

In contrast, technological adaptation exhibited a very weak negative and statistically insignificant relationship with financial performance ($r = -0.075$, $p = 0.314$). While technology is

widely perceived as transformative in financial services, these results suggest that its adoption in MFIs has not yet consistently translated into measurable performance gains. This could be attributed to uneven implementation, cost burdens, or limited digital literacy among clients and staff.

The regulatory framework was found to have a moderately weak but statistically significant positive correlation with financial performance ($r = 0.469$, $p < 0.001$). This implies that adherence to sector regulatory guidelines and effective engagement with regulatory bodies fosters operational stability, enhances compliance, and supports sustainable financial growth.

Finally, macroeconomic conditions displayed a moderately strong and statistically significant positive correlation with MFI financial performance ($r = 0.588$, $p < 0.001$). This underscores the substantial influence of the broader economic environment, including factors such as inflation, interest rate movements and general business climate, in shaping the financial sustainability and profitability of MFIs.

Overall, the correlation results indicate that governance structures, risk management practices, regulatory compliance, and macroeconomic conditions exert the most substantial and statistically significant influence on MFI financial performance. Operational efficiency contributes positively but with weaker intensity, while management quality and technological adaptation show negligible or insignificant associations. These findings suggest that internal governance and risk management systems, coupled with an enabling regulatory and macroeconomic environment, are the primary drivers of financial success among MFIs, whereas managerial and technological factors may require further strengthening to produce measurable financial benefits.

4.5 Regression Analysis

To evaluate the overall influence of the independent variables on the dependent variable, the research employed a multiple linear regression model. This statistical technique was selected because it allows for the simultaneous assessment of how several predictors jointly explain variations in the outcome variable ((Field, 2024; Gujarati and Porter, 2009). By applying multiple regression, the researcher was able to determine both the direction and magnitude of the relationships, while also controlling for potential confounding effects among the predictors.

The regression results, which provide estimates of the coefficients, their statistical significance and the explanatory power of the model are presented in the subsequent tables. These findings form the basis for interpreting the collective effect of governance structure, management quality, operational efficiency, risk management practices, technological adaptation, regulatory framework and macroeconomic conditions on the financial performance of MFIs.

Table 4.11: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.781	0.610	0.594	0.36152
a. Predictors: (Constant), Macroeconomic Conditions, Technological Adaptation, Operational Efficiency, Risk Management Practices, Regulatory Framework, Management Quality, Governance Structure			

Source: primary data (2025)

The regression model summary ($R = 0.781$; $R^2 = 0.610$; Adjusted $R^2 = 0.594$) demonstrates that the independent variables under investigation namely governance structure, management quality, operational efficiency, risk management practices, technological adaptation, regulatory framework and macroeconomic conditions collectively explain approximately 59.4% of the variation in financial performance among the sampled MFIs. This indicates that the model

provides a moderately strong explanatory power, suggesting that these determinants play a substantial role in influencing MFI financial performance outcomes. However, the results also reveal that 40.6% of the variation remains unexplained by the model, implying that additional factors beyond the scope of this study contribute to differences in MFI financial performance. Overall, these findings affirm that the selected determinants serve as significant predictors of MFI financial performance, while also pointing to the need for further research to capture other underlying influences.

Table 4.12: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.341	.332		-1.025	.307
Governance Structure	.569	.177	.427	3.213	.002
Management Quality	.133	.079	.182	1.692	.092
Operational Efficiency	.249	.064	.267	3.874	.000
Risk Management Practices	.112	.195	.074	.573	.568
Technological Adaptation	-.199	.086	-.244	-2.324	.021
Regulatory Framework	.239	.051	.331	4.713	.000
Macroeconomic Conditions	.314	.043	.400	7.349	.000
a. Dependent Variable: Financial Performance					

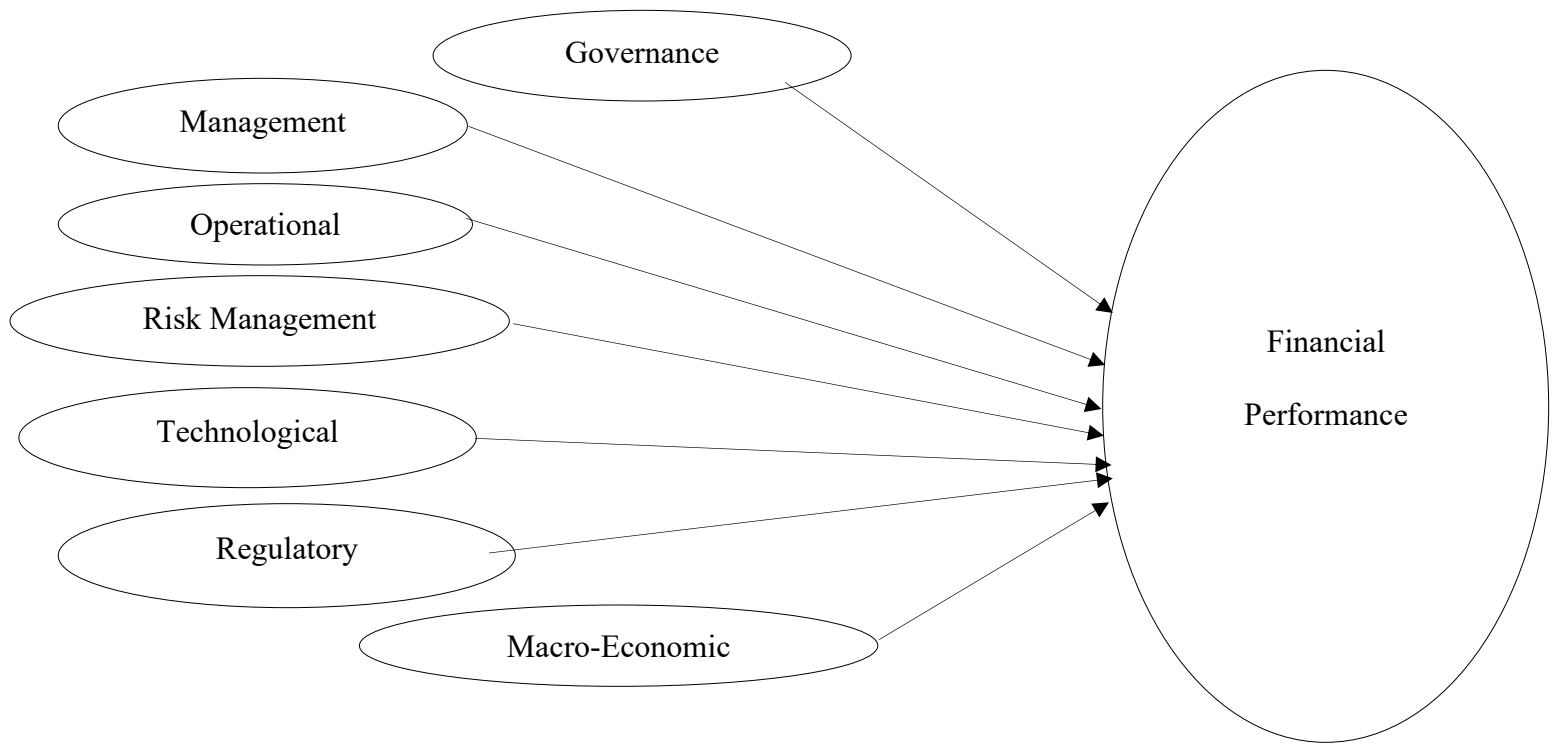
Source: Primary data (2025)

The regression coefficients provide further insights into the relative contribution of each predictor variable to the financial performance of MFIs. Governance structure emerged as the most influential predictor, with a standardized beta coefficient of 0.427 ($p = 0.002$), indicating a moderately strong and statistically significant positive effect on MFI financial performance. This was closely followed by macroeconomic conditions, which demonstrated a standardized beta of

0.400 ($p < 0.001$), also signifying a moderately strong and significant positive effect. Regulatory framework contributed positively as well, with a beta of 0.331 ($p < 0.001$), underscoring its importance as a determinant of financial performance. Operational efficiency was found to exert a weaker yet statistically significant positive influence, with a beta of 0.267 ($p < 0.001$), suggesting that improvements in efficiency are associated with better financial outcomes, albeit to a lesser degree. In contrast, technological adaptation registered a negative and statistically significant contribution to financial performance, with a beta of -0.244 ($p = 0.021$). This finding indicates that while technological adaptation is expected to enhance performance in many contexts, in this case, it may have imposed transitional or cost related challenges that undermined MFI financial outcomes. Management quality ($\beta = 0.182$, $p = 0.092$) and risk management practices ($\beta = 0.074$, $p = 0.568$) did not exhibit statistically significant effects, implying that within this model, their contribution to MFI financial performance is limited or overshadowed by other factors.

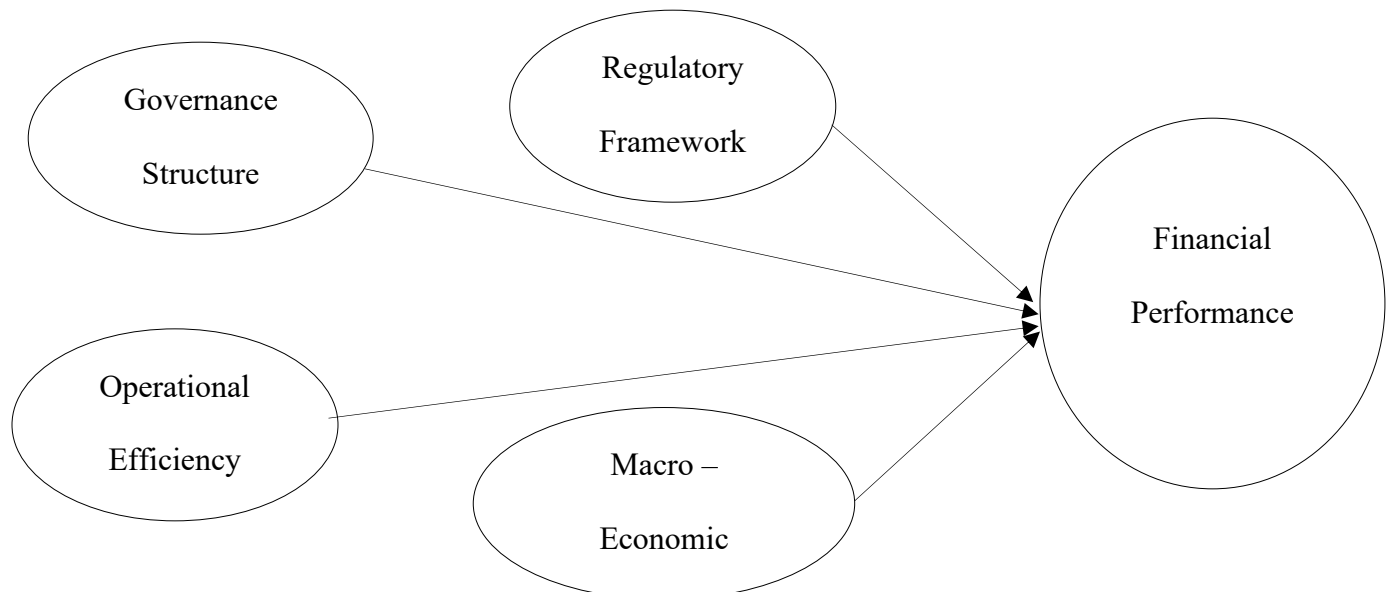
In summary, the results highlight governance structure, macroeconomic conditions and regulatory frameworks as the most critical drivers of financial performance in Ugandan MFIs, with operational efficiency also contributing positively. Conversely, technological adaptation appears to pose short term performance risks, while management quality and risk management practices were not significant predictors in this model. These findings emphasize the multifaceted nature of MFI financial performance drivers and the importance of prioritizing governance and external conditions in strengthening MFI sustainability.

Figure 2: Measurement Model for Determinants of Financial Performance



Whereas the constructs listed in figure 1 above formed a measurement model, upon data processing and analysis, a structural model in figure 2 was generated.

Figure 3: Structural Model



4.6 Discussion of Findings

This section interprets the empirical results of the study in light of the research objectives and the broader body of literature on MFI performance. While the preceding chapter presented statistical evidence on the relationships between governance structures, management quality, operational efficiency, risk management practices, technological adaptation, regulatory frameworks, macroeconomic conditions and the financial performance of MFIs, the present discussion seeks to contextualize those findings.

Specifically, the analysis goes beyond numerical outputs to explain the practical and theoretical implications of the results, compare them with existing scholarly debates and highlight areas of convergence and divergence. Through this interpretive lens, the discussion underscores how both internal organizational dynamics and external environmental factors jointly shape MFI financial performance outcomes. It also offers insights into the relevance of these determinants in the Ugandan MFI sector, thereby contributing to ongoing debates in the field of financial inclusion and institutional sustainability.

4.6.1 Determinants of Financial Performance

The findings revealed that the determinants of MFI financial performance had a strong explanatory power, reflecting the multifaceted nature of performance outcomes, which are shaped by both internal and external factors. This observation is consistent with the work of Ngumo *et al.* (2020) and Rahman and Mazlan (2014), who emphasize the role of economic stability in fostering MFI resilience and profitability. The results also align with the conclusions of Cull *et al.* (2009) and Chaulagain and Lamichhane (2022), who argue that stable, well-designed and enabling regulatory frameworks enhance MFI financial performance by instilling confidence, mitigating risks and fostering innovation within the sector.

Furthermore, the evidence from this study resonates with Hartarska and Mersland (2012) and Kyereboah-Coleman and Osei (2008), who underscore the importance of governance mechanisms particularly board oversight, transparency and accountability in promoting sound financial management. Their studies demonstrate that MFIs with strong governance frameworks tend to register superior Return on Equity (ROE) and long-term sustainability, a pattern that this study corroborates.

Finally, the findings reinforce the arguments advanced by Ngumo *et al.* (2020) and Tehulu (2013), who found that operational efficiency is a critical driver of institutional success. Their work highlights that MFIs which manage costs prudently and streamline processes not only achieve higher productivity but also strengthen financial returns. Operational efficiency has been shown to enhance Return on Assets (ROA) and Operational Self-Sufficiency (OSS), thereby reinforcing MFI financial sustainability.

4.6.2 Governance structure and financial performance

The research found a statistically significant positive relationship between governance structure and financial performance of selected MFIs in Uganda. The findings indicate that MFIs with effective governance frameworks tend to achieve better financial performance and is largely consistent with global and regional evidence. Scholars such as Hartarska and Mersland (2012) and Hermes and Lensink (2011) emphasize that strong governance frameworks characterized by transparent leadership, effective oversight and accountability promote both financial sustainability and institutional resilience, which resonates with the current results. Similarly, evidence from Hartarska (2005) and Kyereboah-Coleman and Osei (2008) also aligns with these findings, showing that MFIs with sound governance mechanisms achieve stronger profitability and outreach. The present results also mirror Mersland and Strøm (2009), who highlighted the critical role of board composition and CEO attributes in driving performance, suggesting that governance in Ugandan MFIs has a similar effect. More recent studies such as Gupta and Mirchandani (2020), Hussain *et al.* (2023) and Asmare and Kumar (2024) reinforce the alignment by showing that board diversity, stakeholder involvement and ethical leadership contribute positively to both financial sustainability and social performance. The Ugandan context therefore supports this broader narrative, while adding evidence from a relatively underexplored setting.

Where this study diverges slightly is in highlighting that governance effects may be moderately strong rather than uniformly strong, suggesting that contextual factors such as Uganda's regulatory environment, board diversity and leadership practices may moderate the governance-performance relationship. This detail adds a contextual dimension to the literature, aligning broadly with Tehulu (2013) and Khan *et al.* (2017) who noted regional variations in governance outcomes across Africa and South Asia.

4.6.3 Management quality and financial performance

The findings of this research indicate that management quality is a weak and statistically insignificant contributor to the financial performance of MFIs in Uganda. This outcome contrasts with prior studies such as Khan *et al.* (2017) and Tehulu (2013), who found that efficient management practices significantly improved financial performance in MFIs in South Asia and Ethiopia. Similarly, the results diverge from Durgavanshi (2014), who highlighted that management efficiency, including skills, independence and professional expertise, was a key determinant of MFI sustainability and profitability.

The current findings suggest that in the Ugandan context, the effect of management quality on financial performance may be limited or indirect. One possible explanation is that management quality alone may not generate measurable improvements in performance unless supported by other complementary factors such as adequate resources, effective operational systems or enabling external conditions. This aligns with arguments in the literature that management practices are often context dependent, where differences in institutional capacity, regulatory environments and market dynamics influence their effectiveness (Khan *et al.*, 2017; Tehulu, 2013).

These results therefore highlight an important research gap, while global and regional studies have emphasized the positive influence of management quality on MFI performance, the Ugandan case suggests that management quality may exert only a marginal role unless embedded within a broader ecosystem that enhances its impact. This finding calls for further investigation into how management practices interact with institutional capacity and environmental factors to shape financial performance in Uganda's MFI sector. This aligns with Hartarska (2005) and Mersland and Strøm (2009), who emphasize that while management is important, its effectiveness is closely tied to governance quality, institutional autonomy and board oversight.

4.6.4 Operational Efficiency and financial performance

The findings of this research reveal a statistically significant and positive relationship between operational efficiency and financial performance among selected MFIs in Uganda. This result is consistent with prior evidence from East Africa, where Ngumo *et al.* (2020) and Tehulu (2013) demonstrated that MFIs capable of effectively managing their operating costs while maximizing output achieve superior financial outcomes, thereby positioning operational efficiency as a critical driver of both profitability and sustainability.

The results further align with the work of Aemiro and Mekonnen (2012) and Ngumo *et al.* (2020), who showed that efficient MFIs report stronger Return on Assets (ROA) because they can generate higher profits relative to their asset base. This indicates that efficiency not only improves short term profitability but also strengthens institutional resilience, enabling MFIs to withstand financial shocks and maintain sustainable operations.

Recent empirical evidence equally supports this findings, as Zineelabidine *et al.* (2024), in their study of 95 African MFIs, emphasized that profitability, capitalization, and loan mix are critical determinants of how efficiently institutions convert resources into outreach and portfolio performance. Similarly, Ebissa and Asfaw (2024) highlight that in Sub-Saharan Africa, efficiency is strongly influenced by cost per loan, staff productivity, asset utilization and gender diversity, all of which shape long-term profitability.

Comparable findings were reported in studies from Nepal (Chaulagain and Lamichhane, 2022), Sri Lanka (Perera, 2021), Bangladesh (Rahman and Mazlan, 2014), Pakistan (Naz *et al.*, 2019), India (Khan *et al.*, 2017), Cameroon (Ofeh and Jeanne, 2017), Togo (Agboklou and Özkan, 2023), Ghana (Long, 2015) and Morocco (Aguenauou *et al.*, 2019) which consistently demonstrate that operational efficiency is a central determinant of MFI financial performance across diverse

contexts. The findings of this research also resonate with the cautionary stance of Morduch (1999) and Hermes and Lensink (2011), who warn that an excessive focus on operational efficiency may compromise the social objectives of microfinance.

In summary, the Ugandan evidence contributes to the broader literature by reinforcing operational efficiency as a fundamental determinant of financial sustainability while also underscoring the importance of balancing efficiency with social outreach. The context specific findings point to the need for MFIs to embed efficiency enhancing practices such as prudent cost control, staff productivity and resource utilization within models that preserve accessibility for underserved communities.

4.6.5 Risk management practices and financial performance

The findings of this research reveal that MFIs with stronger risk management practices particularly maintaining higher levels of capital adequacy tend to report better financial performance. This aligns with prior evidence from Kenya, where well capitalized MFIs demonstrated superior operational efficiency and profitability (Ngumo *et al.*, 2020), as well as findings from Ethiopia (Amanu and Gebissa, 2021; Bekalu *et al.*, 2019), Bangladesh (Rahman and Mazlan, 2014), Pakistan (Naz *et al.*, 2019), Togo (Agboklou and Özkan, 2023) and Cameroon (Ofeh and Jeanne, 2017). Collectively, these studies underscore that capital adequacy serves as a critical determinant of MFI performance by providing a financial cushion against potential losses, enabling growth and safeguarding long term sustainability.

At the same time, the findings from this research add context to the debate by demonstrating that while the correlation between capital adequacy and financial performance is positive, regression results indicate that the relationship is not statistically significant. This divergence highlights an important caveat: capital adequacy alone may not directly enhance MFI financial performance unless accompanied by complementary practices such as sound loan quality management and efficient asset utilization. This perspective is consistent with Hartarska (2005) who argued that effective risk management must extend beyond capital strength to encompass portfolio diversification and governance oversight. In this sense, capital adequacy may serve primarily as a protective buffer preserving institutional stability rather than as an inherent driver of MFI profitability or financial efficiency.

The insignificant regression effect observed in this study could point to inefficiencies in capital deployment as some MFIs, though adequately capitalized, may lack effective strategies to utilize these resources productively, leading to muted financial returns. This aligns with Woldeyes

(2012), who noted that financial stability alone does not guarantee profitability or sustainability unless capital is effectively transformed into productive lending and operational capacity.

Despite strong global and African evidence affirming the importance of capital adequacy, the specific influence of this factor on Ugandan MFIs remains under researched. This study therefore contributes valuable insights by revealing that while capital adequacy enhances resilience, its role in directly driving profitability and financial performance in Uganda's MFI sector may be more limited or indirect than in other contexts. This therefore highlights the need for further empirical investigation into how Ugandan MFIs can better translate capital strength into sustainable financial outcomes.

4.6.6 Technological adaptation and financial performance

The findings of this study reveal a negative relationship between technological adaptation and the financial performance of selected MFIs in Uganda. This outcome diverges from the evidence presented by Chaulagain and Lamichhane (2022) in Nepal and Perera (2021) in Sri Lanka, who demonstrated that technological integration enhanced operational self-sufficiency (OSS) and overall financial outcomes by streamlining loan processing, reducing transaction costs and expanding outreach through digital platforms and mobile banking innovations. The observed negative association in Uganda suggests that technological adoption within MFIs may still be in nascent stages, where high initial investment costs, limited staff capacity and technical inefficiencies outweigh potential financial benefits. In such instances, technology related expenses can suppress performance in the short term, particularly when cost recovery is slow. This finding is consistent with Morduch (1999)'s caution that while operational innovations such as technology can support financial self-sufficiency, they may simultaneously increase operational burdens, especially among smaller institutions with constrained resources.

The negative relationship may also indicate challenges in implementation or a misalignment between adopted technologies and institutional needs. Ineffective integration of systems, insufficient staff training or reliance on costly external providers can result in higher operating expenses without corresponding financial returns. Such inefficiencies not only erode profitability but also limit the potential of technology to deliver sustainable performance gains. In this regard, the findings underscore the importance of context specific technological strategies, where investment decisions must be aligned with institutional capacity, client needs and long-term financial sustainability objectives.

4.6.7 Regulatory framework and financial performance

The findings of this research demonstrate a statistically significant and positive relationship between the regulatory framework and the financial performance of MFIs in Uganda and it aligns with Chaulagain and Lamichhane (2022) and Cull *et al.* (2009), who argue that well designed regulatory environments marked by transparency, proportionality and predictability enhance institutional accountability, foster financial innovation and promote sector wide stability. Conversely, poorly designed or overly stringent regulations can impose compliance burdens, discourage investment and restrict outreach, thereby undermining MFI performance. The findings of Chaulagain and Lamichhane (2022) further suggest that effective regulation strengthens investor confidence and supports robust risk management practices, both of which contribute to improved financial performance indicators such as ROA, ROE and OSS. By offering clear operational guidelines and reducing uncertainty, regulators play a pivotal role in shaping the financial health and sustainability of MFIs. Consistent with Cull *et al.* (2009), the findings also emphasize that regulation must strike a careful balance: while safeguarding stakeholders and promoting financial inclusion, regulation should not stifle the innovation and outreach that are integral to the MFI model. In Uganda, this duality is particularly evident as regulatory frameworks create opportunities by protecting clients and strengthening prudential compliance, but also introduce constraints through excessive reporting requirements, licensing delays and limited regulatory support for technological innovation.

The findings reinforce the view that a supportive but proportionate regulatory framework is essential for enhancing the financial performance of MFIs, while excessive or misaligned regulations may inadvertently weaken institutional competitiveness and undermine their financial performance.

4.6.8 Macroeconomic conditions and financial performance

The findings of this study reveal a statistically significant positive relationship between macroeconomic conditions and the financial performance of selected MFIs in Uganda. This suggests that favourable macroeconomic indicators such as stable inflation, exchange rate stability, and sustained economic growth are closely associated with improved institutional outcomes. MFIs operating in stable macroeconomic environments are better able to maintain healthy loan portfolios, reduce credit risk and secure predictable income flows. These factors directly enhance key performance indicators, including ROA, ROE and OSS. The results align with Ngumo *et al.* (2020) and Rahman and Mazlan (2014), who demonstrated that low inflationary pressure and steady economic growth enhance the capacity of MFIs to manage default risk and ensure portfolio sustainability. In such conditions, MFIs not only improve profitability but also strengthen resilience against systemic shocks. Similarly, studies by Bekalu *et al.* (2019), Ofeh and Jeanne (2017) and Yenesew and Kumar (2018) confirm that broader economic variables including GDP growth, financial market development and market concentration significantly shape institutional performance in the MFI sector. These findings emphasize that MFIs do not function in isolation; rather, their financial sustainability and outreach are highly contingent upon the macroeconomic terrain in which they operate.

The evidence reinforces the view that a supportive macroeconomic environment is critical for MFI sustainability. Favourable conditions enhance profitability and financial stability, whereas macroeconomic volatility such as high inflation or currency fluctuations may undermine repayment capacity, increase operating costs and reduce overall institutional viability. This underscores the importance of macroeconomic stability and policy predictability in enabling MFIs to fulfill both their financial and social mandates within Uganda's dynamic economic landscape.

4.7 Qualitative Findings

The qualitative findings enrich and complement the quantitative results by providing deeper insights into how the independent variables under investigation are practiced and experienced in Ugandan MFIs. Drawing from in-depth interviews with board members, executives and managers, the findings anchor the statistical associations within the lived experiences of institutional actors. This approach highlights the technical dimensions of governance, management, efficiency and regulation as well as the practical realities of oversight, compliance and performance. The qualitative evidence therefore illuminates the mechanisms through which MFI arrangements and managerial practices translate into financial outcomes.

4.7.1 Governance Structure

This section presents findings and dialogues associated with the research objective, “To examine the effect of governance structure on the financial performance of MFIs in Uganda.” Interpretations were drawn directly from participants’ statements.

Respondents consistently emphasized the role of board composition and independence in shaping MFI accountability. One participant explained: “Our board comprises of seven directors: four independent non-executives with at least one chartered accountant and one rural development specialist, two non-executive institutional shareholders and one executive director.” This balance between independence, technical expertise and shareholder representation reflects deliberate efforts to safeguard oversight. Leadership roles within the board were also noted as clearly differentiated. One respondent observed: “The Board is chaired by an independent Non-Executive Director, with a clear separation between the roles of Chairperson and Chief Executive Officer.” This practice aligns with global standards of corporate governance, minimizing conflicts of interest and enhancing independent oversight. Governance committees were described as central to

institutional accountability. Another respondent highlighted: “The Audit & Risk Committee is chaired by the CPA and is tasked with overseeing risk and both internal and external audits. The Credit Committee reviews portfolio risk exposures while the Governance & Nominations Committee takes care of board succession planning, ethical compliance and performance evaluations.” Such committees institutionalize oversight and ethical compliance. Transparency was further reinforced through disclosure of governance charters, with one respondent noting: “Board and committee charters are publicly disclosed.”

Compliance with regulatory standards also emerged as a strong theme. According to one respondent: “In alignment with MFI Regulations, Bank of Uganda (BoU) directives and Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) protocols, the MFI ensures regulatory compliance through the submission of monthly returns covering credit, liquidity, capital adequacy and risk classification to either UMRA or BoU. In addition, Annual Audited Financial Statements are filed by 31 March with UMRA and by 30 April with BoU.” This illustrates the MFI’s proactive regulatory stance. In addition, MFIs embraced proactive internal monitoring as one respondent explained: “The MFI undertakes quarterly self-assessments using the BoU approved Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk (CAMELS) scoring tool. This reflects a proactive compliance culture that enhances preparedness for regulatory reviews while instilling internal discipline. Furthermore, the importance of AML safeguards was consistently underscored. As one respondent noted: “There are two AML certified officers who undergo annual refresher trainings to ensure the MFI’s systems are capable of triggering Suspicious Transaction Reports (STRs) for amounts exceeding the specified threshold in a single transaction. Such measures highlight a deliberate

alignment with both national and international AML standards, a particularly critical commitment in a sector that manages significant informal cash flows.

4.7.2 Management Quality

This section presents findings and dialogues associated with the study objective: “To examine the effect of management quality on the financial performance of MFIs in Uganda.” The narratives reflect managerial practices in strategy, human resources, decision-making and internal controls.

Strategic client targeting emerged as a defining feature of strong management as one respondent explained: “They serve a stable rural agricultural Small and Medium Enterprises (SMEs) and dairy cooperatives with 98% average exercise of loan cycles,” demonstrating how market specialization builds loyalty, reduces loan default risk and strengthens portfolio stability. The institution reported a “PAR > 30 days at 2.8% versus industry MFI average 5.25%,” highlighting tangible performance benefits. Human resource productivity was another dominant theme as another respondent noted: “Each loan officer is responsible for managing approximately 380 active loans, which surpasses the MFI sector average of 300-360 and also signifies a high degree of individual output.” This suggests management’s ability to optimize workforce deployment while ensuring accountability. Other respondents also emphasized training: “We invest in continuous training for our branch managers and loan officers, because we believe skilled staff lead to better loan performance and client retention.”

However, capacity gaps were acknowledged, with a respondent admitting: “Sometimes we hire people because of availability rather than competence, especially in upcountry branches. This affects our collection efficiency.” Decision-making processes were described as increasingly data driven. As one participant explained: “Branches with less than 250 active loans are flagged for

consolidation or digital-only ‘agency’ mode.” This reflects pragmatic cost optimization and resource alignment, ensuring underperforming outlets transition into leaner digital models while sustaining client reach. Internal controls were also emphasized as a hallmark of quality management. A respondent reported: “We adopt a COSO internal control framework, overseen by Internal Audit, which reports directly to the Audit Committee. Internal Audit is independent of management and has the authority to audit any department.” This independence strengthens accountability and governance integrity.

4.7.3 Operational Efficiency

This section presents findings on the research objective: “To examine the effect of operational efficiency on the financial performance of MFIs in Uganda.” Thematic analysis revealed two major areas: cost optimization and workforce rationalization.

Operational efficiency was highlighted as a cornerstone of sustainability. Respondents described disciplined cost management, with one reporting: “Our operational expense ratio stands at 29.1% for the Financial Year 2024, below the sector average of 32.4% with personnel (14%), branch operations (8.2%) and technology (3.4%).” This reflects deliberate efficiency in resource allocation, prioritizing investment in technology over inflated administrative overheads. Branch rationalization strategies were also prominent. One respondent stated: “The organization conducts a quarterly efficiency review which serves as a strategic tool for identifying underperforming branches specifically those with less than 250 active loans. These branches are flagged for consolidation or moved to a digital-only ‘agency’ mode.” This practice demonstrates the institution’s adaptability and willingness to restructure for efficiency.

4.7.4 Risk Management Practices

This section presents findings on the study objective: “To examine the effect of risk management practices on the financial performance of MFIs in Uganda.” Respondents described practices that were themed around liquidity, credit risk, monitoring and product-specific evaluation.

Respondents emphasized liquidity management and diversified funding sources as vital. One reported: “... the institution mitigates liquidity risks by ensuring diversified funding sources, customer savings (60%), domestic wholesale lines (25%), donor or subordinated debt (10%) and equity (5%).” Oversight is supported by management’s monthly cash flow projections and stress tests. Credit risk management was equally robust. As another respondent explained: “They assess ‘character’ using credit bureau clearance (PBIL score > 650), capacity is verified through debt service ratios, capital requirements include client savings $\geq 15\%$ and collateral coverage of at least 125% of loan value is required.” This structured process reduces loan default risk. Loan monitoring is supported by technology: “The institution uses a cloud-based MIS with real-time refresh to post on a daily basis, the Portfolio at Risk (PAR) by branch and loan officer.” Escalation procedures include “credit committees weekly meeting and additional provisioning when PAR > 30 days exceeds 5%.”

4.7.5 Technological Adoption

This section presents findings and dialogues associated with the study objective, “To examine the effect of technological adoption on the financial performance of MFIs in Uganda.” Interpretations were drawn from the participants’ statements. The insights offered by respondents point to several emergent themes: digitization, data-driven decision making and cost efficiency.

Digitization was consistently linked to operational efficiency. Respondents cited the adoption of “*MifosX* and *Apache Fineract* for core MIS, loan origination, repayment tracking and dashboards.” Integration with mobile money platforms was also hailed for enabling “seamless and traceable transactions.” Technology was also shown to enhance repayment behavior: “The system triggers tiered reminders via SMS and WhatsApp starting five days before the due date.” Client onboarding was transformed through digital tools: “The rollout of e-KYC using Uganda National Identity Cards and photo-based face recognition significantly enhanced service delivery, reducing loan approval time by 48%.” Respondents also emphasized customer empowerment, with “40% of new client onboarding now digital (self-service loan calculators via mobile), speeding up the loan cycle by 20%.” Technology also generated cost savings, as one reported: “The implementation of agent-assisted virtual operations has led to a 35% reduction in field staff travel and UGX 225 million per year in fuel cost savings.”

4.7.6 External Environmental Factors

This section presents findings and dialogues associated with the research objective, “To examine the effect of external environmental factors on the financial performance of MFIs in Uganda.” Interpretations were drawn from the participants’ statements.

Macroeconomic pressures were repeatedly mentioned as a central determinant of financial outcomes. One respondent remarked: “High inflation increases our clients’ default risk since their income does not match the repayment burden.” This highlights the direct translation of macroeconomic shocks to MFI portfolios, given the vulnerability of client incomes to rising costs of living. In the same vein, other respondents noted that exchange rate volatility and slower GDP growth weaken borrowers’ repayment capacity, raising the risk of delinquency. Competition within the sector was cited as another external challenge as one respondent stressed: “We operate

in areas with many informal lenders who undercut us on interest rates, but do not follow any regulation.” This observation reveals how unregulated competitors distort the lending environment, creating unfair market conditions and undermining the repayment discipline of clients who oscillate between formal and informal providers. While regulated MFIs must comply with prudential norms, informal players exploit gaps, thereby constraining the competitiveness and financial performance of compliant MFIs.

In summary, the qualitative findings reinforce the quantitative results by showing that strong governance structures, effective management strategies, disciplined operational practices, robust risk management frameworks, technological integration and responsiveness to external environmental factors collectively shape MFI financial performance in Uganda. Respondents’ narratives highlighted how board independence, targeted client strategies, cost optimization and digital innovations enhance sustainability, while challenges such as staff capacity gaps, regulatory burdens and macroeconomic volatility continue to constrain outcomes. These insights underscore that financial performance is not driven by single determinants in isolation but by the dynamic interaction of internal governance and management capacities with external economic and regulatory environments.

4.8 Conclusion

This chapter systematically presented and analysed the research findings in accordance with the stated research objectives. Respondent demographics were outlined to establish context while both descriptive and inferential statistics were employed to evaluate the research variables. The quantitative analysis provided empirical evidence on the determinants of financial performance of MFIs in Uganda, capturing variations in responses, testing relationships among variables, and identifying predictors of financial outcomes.

The qualitative findings enriched this analysis by grounding statistical associations in the lived experiences of institutional actors. Through in-depth interviews with board members, executives, and managers, the research revealed how governance structures, management practices, operational strategies, technology and regulatory frameworks are enacted in practice. Respondents emphasized the importance of board composition, oversight committees, compliance mechanisms and internal controls in shaping institutional discipline and accountability. They also highlighted strategic market focus, human resource productivity, data-driven decision-making and operational agility as drivers of efficiency, while pointing to gaps in staff competence and inconsistent technological integration as persistent challenges. Moreover, narratives demonstrated how risk management frameworks, though often robust in design, were sometimes undermined by implementation inefficiencies, while external conditions such as inflation, regulatory burdens and unregulated competition further shaped performance outcomes.

In summary, the chapter demonstrated that governance structures, operational efficiency, risk management practices, regulatory frameworks and macroeconomic conditions significantly enhance financial performance, while management quality and technological adaptation exert weaker or even negative effects. By integrating quantitative evidence with qualitative insights, the

chapter validated key associations and explained the mechanisms through which they operate in the Ugandan MFI context. In doing so, it achieved its goal of linking data to theory and practice, thereby addressing the study objectives and laying a robust foundation for the conclusions and recommendations presented in the next chapter.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter synthesizes the findings of the research in relation to the stated objectives, draws conclusions anchored in both empirical evidence and theoretical foundations and sets out recommendations for policy, practice and further research.

5.1 Summary of Findings

The discussion reflects on the determinants of financial performance in MFIs in Uganda, situating the findings within wider debates on institutional governance, efficiency and resilience. Specifically, this section summarizes the findings in line with the study objectives, which included examining the effects of governance structure, management quality, operational efficiency, risk management practices, technological adaptation, regulatory framework and macroeconomic conditions on the financial performance of MFIs.

5.1.1 Governance structure and financial performance

The findings revealed that governance structure had a moderately strong and statistically significant positive association with MFI financial performance, as indicated by Pearson's correlation of $r = 0.590$, $p < 0.001$. This demonstrates that MFIs with stronger governance mechanisms such as competent boards, gender-balanced boards and independent oversight tend to perform better financially. Regression results confirmed this relationship, showing that governance structure contributed significantly to financial performance with a standardized coefficient of $\beta = 0.427$, $p = 0.002$. Overall, governance structures explained 42.7% of the variation in MFI financial performance, positioning them as moderately strong and significant predictors.

5.1.2 Management quality and financial performance

The research revealed that management quality did not exhibit a statistically significant association with MFI financial performance at the correlation level, with Pearson's $r = -0.077$, $p = 0.296$. While management quality accounted for 18.2% of the variance in financial performance, regression analysis also found the effect to be insignificant ($\beta = 0.182$, $p = 0.092$). These findings imply that although management competence and experience exist across MFIs, their contribution to financial performance is neither consistent nor statistically significant. These findings suggest that while managerial competence, gender balance and experience exist within MFIs, they do not consistently translate into improved financial outcomes, possibly due to contextual challenges such as inadequate autonomy, resource constraints or misalignment between managerial practices and institutional goals.

5.1.3 Operational Efficiency and financial performance

Operational efficiency demonstrated a statistically significant but relatively weak association with MFI financial performance, with Pearson's correlation of $r = 0.295$, $p < 0.001$. This indicates that MFIs with better control of operational costs and faster processes tend to report higher financial outcomes. Regression analysis reinforced this result, showing that operational efficiency was a significant predictor with $\beta = 0.267$, $p < 0.001$, explaining 26.7% of the variation in financial performance. While the effect of operational efficiency was positive, the relatively low coefficient indicates that it is a weaker predictor, thereby underscoring the need for it to be complemented by strong governance practices in order to achieve its full impact on MFI financial performance.

5.1.4 Risk management practices and financial performance

Risk management practices were found to have a moderately strong and statistically significant correlation with MFI financial performance, with Pearson's $r = 0.572$, $p < 0.001$. This suggests that MFIs, with stronger risk management frameworks for identifying, profiling and monitoring risks, perform better financially. However, regression analysis indicated that their predictive contribution was not statistically significant ($\beta = 0.074$, $p = 0.568$), explaining only 7.4% of the variance in financial performance. This divergence highlights that while risk management correlates with performance at the bivariate level, its independent contribution diminishes once other determinants are controlled for. This outcome highlights the gap between formalized risk policies and their practical implementation, suggesting that capital adequacy and risk frameworks may function more as protective buffers rather than direct enhancers of MFI profitability.

5.1.5 Technological adaptation and financial performance

The research results indicated a very weak and negative correlation between technological adaptation and financial performance, with Pearson's $r = -0.075$, $p = 0.314$, showing that the relationship was not statistically significant at the correlation level. Regression results, however, revealed a significant negative predictive effect ($\beta = -0.244$, $p = 0.021$), suggesting that technological investments reduced MFI financial performance in the short term. Technology explained -24.4% of the variation, pointing to challenges such as high implementation costs, limited capacity and poor alignment with MFI needs, which undermine potential efficiency gains.

5.1.6 Regulatory framework and financial performance

The research revealed that regulatory framework was positively and significantly correlated with financial performance, with Pearson's $r = 0.469$, $p < 0.001$, suggesting that better

regulation enhances MFI performance outcomes. Regression results confirmed its role as a significant predictor ($\beta = 0.331$, $p < 0.001$), explaining 33.1% of the variance. The results suggest that while effective regulation characterized by transparency and consistency contributes to MFI financial stability and investor confidence, its overall influence emerged as a relatively weak predictor of financial performance, indicating that regulation alone is not sufficient to drive institutional outcomes.

5.1.7 Macroeconomic conditions and financial performance

The research revealed that macroeconomic conditions exhibited a moderately strong and statistically significant correlation with financial performance, with Pearson's $r = 0.588$, $p < 0.001$. Regression analysis further reinforced this relationship, showing that macroeconomic conditions were a strong predictor with $\beta = 0.400$, $p < 0.001$, explaining 40% of the variance in MFI financial performance. This confirms that stable inflation, consistent growth and exchange rate stability are critical for MFI sustainability and profitability.

The findings indicate that governance structure, regulatory frameworks, operational efficiency and macroeconomic conditions were statistically significant predictors of MFI financial performance in Uganda, supported by both correlation and regression results. Risk management practices, while strongly correlated with performance, lost its significance in regression, suggesting their effect overlaps with other determinants. Management quality showed no significant effect, while technological adaptation negatively influenced financial performance, reflecting implementation challenges. Collectively, the evidence underscores that MFI financial performance is shaped by a combination of robust governance, efficient operations, supportive regulation and favorable economic conditions, while weaknesses in management capacity and technological integration may constrain outcomes.

5.2 Conclusion

Drawing from both the empirical research findings and literature, this research concludes that the determinants of financial performance in Ugandan MFIs collectively explain a significant portion of institutional outcomes. The regression model demonstrated that these determinants account for 59.4% of the variation in MFI financial performance, confirming that financial performance is a multifaceted construct shaped by both internal and external dynamics. This finding underscores that MFI sustainability cannot be attributed to a single factor but is the result of the interplay between governance mechanisms, managerial practices, operational systems, regulatory environments and broader macroeconomic conditions.

5.2.1 Governance structure and financial performance

The research concludes that efforts aimed at strengthening governance structures yield moderately strong improvements in MFI financial performance. Regression results confirmed governance as a statistically significant predictor, highlighting its role in shaping strategic direction, accountability and resource allocation. This underscores the need for MFIs to continuously refine governance frameworks through transparent leadership, effective board oversight and internal control mechanisms in order to sustain and enhance financial performance.

5.2.2 Management quality and financial performance

The research concludes that management quality has no significant effect on MFI financial performance, both at the correlation and regression stages. While management quality explained some variation, it was not statistically significant, suggesting that managerial competence and experience alone may not directly translate into financial outcomes. This highlights the likelihood that management's impact is indirect, mediated through other determinants such as governance structures and operational efficiency.

5.2.3 Operational Efficiency and financial performance

The study concludes that operational efficiency exerts a positive but relatively weak influence on MFI financial performance. Regression results identified it as a statistically significant predictor, though with a smaller effect compared to governance and macroeconomic conditions. This finding reinforces the importance of improving operational processes to control costs and enhance productivity, while recognizing that efficiency alone may be insufficient unless complemented by other institutional strengths.

5.2.4 Risk management practices and financial performance

The research concludes that risk management practices were strongly correlated with MFI financial performance but did not emerge as a significant predictor in regression analysis. This indicates that while sound risk management frameworks are vital for financial stability, their independent contribution to financial outcomes is limited when considered alongside other determinants. This suggests that risk management may serve more as a protective buffer against instability than as a direct driver of profitability.

5.2.5 Technological adaptation and financial performance

The research concludes that technological adaptation exhibited weak and negative effects on financial performance. Regression analysis revealed it as a statistically significant but negative predictor, suggesting that current investments in technology in Ugandan MFIs may be poorly aligned with institutional needs or are still in early phases with high costs outweighing the benefits. This underscores the importance of refining technological adoption strategies to ensure alignment with capacity, infrastructure and client needs.

5.2.6 Regulatory framework and financial performance

The research concludes that regulatory frameworks exert a positive and statistically significant influence on MFI financial performance in Uganda. Regression results confirm regulation as a statistically significant but relatively weak predictor, suggesting that while regulation fosters transparency, compliance and accountability, its direct influence on financial outcomes is limited. This implies that regulation is best understood as an enabling environment rather than a primary driver of institutional performance.

5.2.7 Macroeconomic conditions and financial performance

The research concludes that macroeconomic conditions are a moderately strong and statistically significant determinant of MFI financial performance. Regression results identified macroeconomic stability including low inflation, exchange rate consistency and steady growth as crucial to the financial resilience and profitability of MFIs. This highlights the inseparable link between institutional performance and the broader economic environment within which MFIs operate.

The research concludes that MFI financial performance in Uganda is shaped by both internal and external determinants, with governance structures and macroeconomic conditions standing out as the most consistent predictors, operational efficiency exerting a weaker but significant influence, and regulatory frameworks offering supportive but limited contributions. Risk management practices, while important for stability, were not direct predictors, while management quality and technological adaptation showed negligible or negative effects. Overall, financial performance in MFIs is multifaceted, requiring balanced attention to governance, efficiency, regulation, and macroeconomic responsiveness, while addressing weaknesses in management and technology adoption to secure long term sustainability.

5.3 Recommendations

Building on the research findings and conclusions, this section provides actionable recommendations for strengthening the financial performance of MFIs in Uganda. The recommendations are derived from the determinants examined which include governance, management, operational efficiency, risk management, technological adaptation, regulatory frameworks and macroeconomic conditions, and are intended to guide both practitioners and policymakers. While each determinant influences MFI financial performance differently, the evidence highlights that institutional sustainability requires an integrated approach in which internal factors are complemented by supportive external conditions. The recommendations, therefore, aim not only at addressing the identified weaknesses but also reinforcing best practices and promoting long-term resilience in the sector.

5.3.1 Governance structure and financial performance

The study recommends that MFIs prioritize the strengthening of governance structures, given their demonstrated positive and significant effect on financial performance. Boards must be strategically constituted to include members with diverse expertise in finance, risk management, law, technology and business development. This ensures that boards are not merely symbolic but actively engaged in strategic oversight and decision making.

Equally important is the enforcement of board independence and accountability. MFIs should adopt governance charters that clearly define roles, responsibilities and accountability mechanisms for directors. To enhance objectivity and reduce conflicts of interest, boards should institute term limits, regular performance evaluations and structured board development programs. This fosters a culture of accountability and ensures that directors remain effective and aligned with the evolving needs of the institution.

The research also emphasizes the need to strengthen transparency and internal control mechanisms. MFIs should adopt robust financial reporting standards, supported by independent audits and regular disclosures. Establishing internal audit departments with direct reporting lines to the board is critical to safeguarding institutional integrity and promoting trust among stakeholders.

Furthermore, boards must exercise effective oversight of management to ensure that institutional goals are aligned with performance expectations and risk frameworks. Performance based evaluations for senior executives, combined with clear strategic guidance from the board, can strengthen this alignment.

Finally, stakeholder engagement must become a central element of governance. MFIs should create mechanisms for systematic feedback from clients, staff, regulators and donors. This could take the form of client advisory panels or staff representation on committees, enabling boards to integrate grassroots perspectives into governance processes. By embedding stakeholder voices, MFIs can enhance legitimacy, responsiveness and long-term sustainability.

5.3.2 Management quality and financial performance

The research recommends that MFIs prioritize building managerial capacity as a critical pathway to strengthening MFI financial performance. This can be achieved through structured training and development programs designed to expand senior executives' knowledge of financial management tools, strategic planning, portfolio risk management and digital transformation. By equipping managers with both technical and leadership competencies, MFIs can bridge existing skills gaps and enhance the quality of decision making, thereby improving institutional outcomes.

MFIs should institutionalize performance-based management systems that align managerial actions with organizational objectives. Embedding measurable key performance

indicators (KPIs) into management evaluation frameworks will foster accountability, innovation, and continuous improvement, ensuring that management performance translates into tangible financial gains.

The research also recommends fostering strategic autonomy within management teams. Decentralizing decision making, while maintaining appropriate oversight, allows managers to respond to local challenges with context specific solutions. This flexibility not only enhances efficiency and profitability but also builds morale and strengthens the institution's ability to attract and retain top talent.

The interface between governance and management must be strengthened. While governance sets institutional direction, execution rests with management. A clear delineation of roles, complemented by structured communication between boards and executive teams, enhances strategic alignment. Moreover, boards should adopt a supportive role by providing mentorship, advisory input and developmental evaluations, thereby enabling managers to focus on innovation and execution without undue interference.

The research further recommends adopting multidimensional approaches to assessing management quality. Evaluations should move beyond traditional indicators such as formal credentials or tenure, and incorporate adaptability, innovation, staff turnover, client satisfaction, and operational outcomes. Tools such as 360-degree feedback, management scorecards, and stakeholder satisfaction surveys provide richer and more comprehensive insights into management effectiveness and its contribution to institutional performance.

Finally, MFIs must embed a culture of innovation and organizational learning within their management teams. Managers should be encouraged to experiment with new products, explore digital channels, and adopt client-centric business models without fear of failure. Embedding a

learning orientation within institutional culture enhances the capacity of managers to navigate uncertainty, respond to shifting market conditions, and unlock new pathways to financial sustainability.

5.3.3 Operational Efficiency and financial performance

The research recommends that MFIs embrace digital transformation as a central strategy for enhancing operational efficiency and long-term sustainability. By digitizing repetitive and resource intensive processes such as loan application processing, client onboarding and financial reporting, MFIs can significantly reduce human error, shorten turnaround times and lower administrative costs. Introducing platforms such as mobile banking systems, automated loan management applications and digital record keeping tools not only improve internal efficiency but also expand accessibility for clients, thereby enhancing outreach and profitability.

MFIs should conduct systematic cost benefit analysis to identify and reduce operational inefficiencies while safeguarding service quality. Such measures may include consolidating underperforming branches, outsourcing non-core functions such as IT support or human resource management services and renegotiating supplier or vendor contracts. However, cost rationalization must be implemented with caution to ensure that essential services remain accessible to low-income clients, thereby preserving the social mission of MFIs alongside financial performance.

Investing in continuous staff training is also essential to operational efficiency. Training programs should focus on key areas such as client relationship management, technology adoption and credit appraisal. Equally, performance-based incentives can motivate frontline staff to adopt time saving practices, reduce loan processing errors and improve client service turnaround times. Well trained and motivated employees are better positioned to handle higher transaction volumes with fewer errors, resulting in productivity gains and greater institutional effectiveness.

Finally, MFIs should institutionalize data driven performance monitoring systems that provide real-time insights into operational metrics. Indicators such as cost per loan, portfolio size per loan officer and average turnaround time are critical for identification of bottlenecks and efficient allocation of resources. Regular efficiency audits, supported by advanced analytics can guide evidence-based decision making and inform strategic planning for growth. By embedding operational efficiency into organizational culture through continuous learning, performance monitoring and technological innovation, MFIs can achieve both improved financial performance and enhanced institutional resilience.

5.3.4 Risk management practices and financial performance

The research recommends that MFIs strengthen risk management frameworks beyond capital adequacy to ensure comprehensive institutional resilience. While maintaining sufficient capital reserves is an essential buffer against unexpected losses, this must be complemented by robust credit appraisal systems, asset quality monitoring and portfolio diversification strategies. By integrating risk assessment into every stage of lending, MFIs can reduce default rates, enhance loan portfolio quality and safeguard long-term sustainability.

To maximize the effectiveness of capital reserves, MFIs should develop structured capital utilization plans that minimize idle funds and redirect resources toward productive initiatives such as expanding high quality loan portfolios. Regular stress testing and scenario analysis can further equip institutions to anticipate shocks and proactively adapt strategies. In addition, risk exposure limits should be clearly defined and embedded within MFI internal control systems to prevent over concentration in vulnerable sectors.

Institutionalizing risk management also requires investment in staff training. Managers and credit officers should be equipped with advanced skills in risk-based decision making, capital

planning and financial forecasting. Coupled with integrated performance dashboards that track Return on Assets (ROA), Return on Equity (ROE) and Operational Self-Sufficiency (OSS), such capacity building ensures that risks are systematically monitored and managed in alignment with institutional objectives.

By embedding risk management as a culture rather than a compliance exercise, MFIs can transform capital adequacy into a performance enabler, ensuring that financial stability translates into sustainable growth and improved performance indicators.

5.3.5 Technological adaptation and financial performance

The findings of this research highlight the need for MFIs to adopt a more strategic approach to technological adaptation. MFIs should begin with comprehensive technology needs assessments to ensure that investments are aligned with their goals, client demands and staff capacity. This approach prevents the pitfalls of technology adoption driven by external pressure or trends without addressing core MFI needs.

Building digital capacity is equally essential calling for MFIs to establish continuous IT training programs to strengthen staff competence in system usage, data management and client interface. Enhanced digital literacy ensures that investments in new technologies are fully leveraged and that inefficiencies linked to underutilization are minimized.

Cost effectiveness should also guide digital investments. MFIs are advised to prioritize modular, cloud based and scalable solutions that minimize high upfront costs while allowing flexibility for future expansion. On the client side, improving digital literacy and ensuring simple, user-friendly platforms is essential to drive adoption. Digital inclusion initiatives such as client training programs and awareness campaigns can help clients maximize the benefits of mobile and online services.

MFIs must also align digital strategies with core business models. Technology investments should be explicitly linked to strategic objectives such as reducing portfolio risk, enhancing OSS, increasing outreach or improving service delivery. Strong IT infrastructure, reliable connectivity and responsive technical support are indispensable for ensuring that technology functions as a driver of institutional performance rather than a cost burden.

5.3.6 Regulatory framework and financial performance

The research underscores the critical role of regulation as an enabling environment for MFI financial performance. Regulators are therefore advised to adopt a participatory and consultative approach in policy formulation, involving MFIs, industry associations, client representatives and development partners. Such inclusivity ensures that regulatory frameworks reflect sector realities, promote compliance and build trust between regulators and practitioners.

Clear, transparent and consistently enforced regulations are essential for reducing ambiguity and ensuring predictability in institutional planning. Regulators should communicate policies through multiple channels including workshops, guidelines in local languages and digital platforms to ensure broad accessibility. In addition, streamlining regulatory processes such as licensing and compliance reporting through digital platforms can lower costs, reduce administrative burdens and improve efficiency.

To foster innovation, regulators should establish controlled environments such as sandboxes or innovation hubs that allow MFIs to test digital products under supervision. Providing clear guidelines on mobile money integration, digital lending and data protection can further promote technological adaptation in ways that reduce operational costs and expand outreach.

Ongoing monitoring and evaluation of regulatory impact is vital. Regulators should routinely assess the effect of policies on key financial performance indicators (ROA, ROE and

OSS), adjusting frameworks where necessary to balance oversight with innovation and inclusion. This adaptive regulatory approach will enable MFIs to operate sustainably while protecting clients and promoting sector wide resilience.

5.3.7 Macroeconomic conditions and financial performance

This research recommends that given the demonstrated importance of macroeconomic conditions, MFIs should invest in robust economic monitoring and forecasting systems. Tracking key indicators such as inflation, interest rates, exchange rates and GDP growth will enable institutions to anticipate shifts in the business environment and accordingly adjust lending, pricing and risk strategies. For example, during inflationary periods, institutions can re-price products or renegotiate loan terms to protect profitability.

Portfolio diversification is another critical recommendation. MFIs should avoid over concentration in high-risk sectors such as agriculture by expanding lending to small scale traders, service providers and emerging enterprises. Diversifying across industries mitigates exposure to sector specific risks and stabilizes income streams.

Credit risk assessments must also be adapted to reflect macroeconomic realities. MFIs should adopt flexible loan products such as grace periods or income-based repayment plans that allow clients to remain solvent during economic shocks. Likewise, lending criteria should emphasize repayment history and income stability, reducing the risk of defaults.

To cushion against adverse shocks, MFIs should maintain adequate liquidity reserves and capital buffers. These reserves ensure that MFIs can meet obligations, sustain operations and avoid over reliance on costly external financing during downturns. Strategic partnerships with development agencies, banks and government programs can also provide concessional funding, technical assistance and advocacy platforms to further strengthen resilience.

MFIs should promote financial literacy among their clients. Educating borrowers about inflation, interest rate fluctuations and currency risks equips them to make informed financial decisions, sustain repayment capacity and strengthen the institution's loan portfolio. Financially literate clients contribute to institutional stability, particularly during periods of volatile economic conditions.

In summary, the recommendations presented by this research emphasize that improving the financial performance of MFIs in Uganda requires a multifaceted and integrated approach. Strengthening governance structures is paramount for ensuring accountability, transparency and effective oversight, while enhancing management capacity and autonomy provides the operational backbone for strategic execution. Sustained investment in operational efficiency through digital transformation, cost management and continuous staff development further ensures that MFIs remain agile and competitive. Comprehensive risk management frameworks must accompany these internal reforms, balancing capital adequacy with proactive monitoring and credit quality control. Equally, technological adaptation, though challenging, has the potential to transform outreach and service delivery when aligned with MFI goals and supported by digital literacy among both staff and clients. At the external level, enabling and adaptive regulatory frameworks provide the foundation for stability and innovation, while favourable macroeconomic conditions create the environment in which MFIs can thrive. Together, these strategies reinforce the conclusion that MFI financial performance is not driven by a single determinant but by the interplay of governance, management, efficiency, risk control, technology, regulation and economic context. Only through a coordinated emphasis on both internal capabilities and external enablers can Ugandan MFIs achieve sustainable financial performance while fulfilling their social mission of expanding financial inclusion.

5.4 Suggested Areas for Further Research

While this research has provided valuable insights into the determinants of financial performance of MFIs in Uganda, it has also highlighted several areas that warrant deeper exploration. The findings confirm that institutional performance is shaped by a complex interaction of governance structures, operational efficiency, regulatory frameworks, risk management practices, technological adaptation and macroeconomic conditions. However, despite explaining 59.4% of the variation in MFI financial performance, the research also revealed gaps that future scholars should address to strengthen both theoretical understanding and practical interventions. These areas of further research are highlighted below.

5.4.1 Credit Risk Management Practices and Financial Performance

The research showed that risk management practices were strongly correlated with MFI financial performance but did not emerge as a significant predictor in regression analysis. This divergence suggests that the impact of risk management may be mediated by other determinants such as governance or macroeconomic factors. Further research should therefore focus specifically on credit risk management practices, including loan appraisal mechanisms, portfolio diversification, portfolio provisioning policies and delinquency management to establish their direct and indirect contributions to MFI financial performance. Understanding how Ugandan MFIs design and execute credit risk frameworks could illuminate pathways for reducing loan defaults, improving portfolio quality and safeguarding long-term financial sustainability.

5.4.2 Internal Control Systems and Financial Performance

Another important area for future inquiry lies in internal controls, which were indirectly highlighted in the governance findings. While this research acknowledged their role, it did not explicitly test their effect. Internal audit, compliance frameworks and reporting systems are

increasingly recognized as critical drivers of transparency, accountability and resource efficiency in MFIs. However, empirical evidence from Uganda remains scarce. Future studies could examine how robust internal control systems influence not only financial sustainability but also trust among stakeholders such as regulators, donors and clients. Such research would be particularly relevant in a sector often exposed to reputational risk and high transaction costs.

5.4.3 Liquidity Management Practices and Financial Performance

Liquidity emerged as an underlying theme in the discussion of risk and macroeconomic conditions but was not directly examined in this research. Liquidity management practices including cash flow planning, liquidity buffers, and access to emergency funding are vital for MFI resilience, especially in volatile environments. Previous evidence from East Africa and beyond underscores their importance, yet little is known about how Ugandan MFIs manage liquidity constraints while sustaining growth. A focused study could therefore explore the relationship between liquidity management, capital adequacy and MFI financial performance, providing practical strategies for institutions to withstand shocks while maintaining client service.

5.4.4 Technological Adaptation and Digital Transformation

One of the most striking findings of this research was the negative relationship between technological adaptation and MFI financial performance. This contradicts existing evidence from countries like Nepal, Sri Lanka, and Kenya where digital integration enhanced outreach and OSS. The Ugandan case raises important questions about whether high upfront costs, inadequate digital infrastructure, low staff capacity or weak client digital literacy undermine the potential benefits of technology. Future research should therefore investigate not only the financial costs and benefits of digital adoption, but also the contextual factors such as rural-urban divides, regulatory readiness, and client education that determine its success or failure.

5.4.5 Management Quality and Leadership Capacity

This research revealed that management quality had no statistically significant impact on MFI financial performance, diverging from findings in Ethiopia, Pakistan, and India. Such a result suggests that management effectiveness may be context dependent, influenced by governance structures, institutional maturity or cultural factors. Further research should therefore unpack the dimensions of management quality including leadership skills, strategic autonomy, innovation and decision-making capacity to understand how they interact with institutional structures and performance outcomes. Particular attention should be paid to leadership development and capacity building interventions, which could have transformative effects on MFI sustainability.

5.4.6 Balancing Financial and Social Performance (Mission Drift)

While this research focused on financial performance, the literature cautions that excessive emphasis on MFI financial efficiency and profitability can compromise social outreach, the very mission of microfinance. The findings therefore open the door for future studies examining the balance between financial and social goals in Ugandan MFIs. Such research could explore how institutions manage the dual objectives of sustainability and inclusion, the risk of mission drift and the strategies that enable double bottom line success. This is particularly relevant in Uganda, where poverty alleviation and women's empowerment remain central policy priorities.

5.4.7 Client Level Dynamics and Repayment Behavior

This research was primarily institutional in scope, leaving unexplored the client level dynamics that ultimately shape financial outcomes. Future research could investigate how client characteristics such as demographics, repayment behavior, income stability and financial literacy interact with institutional strategies to influence portfolio quality and profitability. Integrating client level analysis would provide a richer, multidimensional understanding of financial

performance and allow MFIs to better align products with client needs, thereby enhancing repayment rates and sustainability.

5.4.8 Longitudinal and Comparative Analysis

Finally, this research employed a cross-sectional design, which provided valuable insights at a single point in time but could not capture trends or causal pathways. Future research should adopt longitudinal designs to assess how determinants of financial performance evolve across economic cycles, regulatory changes and technological shifts. Comparative studies across East Africa or Sub-Saharan Africa could also clarify whether Uganda's findings are unique or consistent with broader regional trends, thereby enriching both academic knowledge and policy design.

In conclusion, while this research has advanced understanding of the determinants of financial performance in Ugandan MFIs, it also demonstrates the multifaceted nature of institutional sustainability. Future research should therefore expand inquiry into credit risk, internal controls and liquidity management, while simultaneously addressing emerging gaps in digital adoption, management quality, social performance balance, client-level dynamics and longitudinal analysis. Such research will not only deepen theoretical knowledge but also generate actionable insights for policymakers, regulators and practitioners seeking to strengthen the resilience, inclusivity, and competitiveness of Uganda's microfinance sector.

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APPENDICES

QUESTIONNAIRE TO PARTICIPANTS IN SELECTED MFIs in UGANDA

Dear Respondent,

My name is Constant Othieno Mayende, a Doctor of Business Administration (DBA) Candidate at Swiss School of Business and Management. Thank you for sparing time to participate in the survey. This questionnaire is aimed at collecting data to assist in completion of a study on Determinants of Financial Performance of Microfinance Institutions in Uganda. The research is in partial fulfillment of the requirements for the award of a Doctor of Business Administration of Swiss School of Business and Management. All information provided will be treated with utmost confidentiality and will be used purely for academic purposes. Your participation is highly appreciated.

SECTION A: General Information (Please tick in the appropriate option)

1. What is your gender?

Male	Female

2. What is your age bracket?

25 years and below	26 – 35	36 – 45years	46 – 55 years	56 years and above

3. How long have you worked at your institution?

1 – 3 years	4 – 6years	7 – 9 years	Above 10 years

4. What is the highest level of Education you have attained?

Diploma	1 st Degree	Post graduate Diploma	Professional qualification	Master's degree	Others

5. What is your position in the Institution?

Non-Executive Director	Executive Director	Head of Department	Middle Manager	Supervisor	Officer	Others

SECTION B: DETERMINANTS OF FINANCIAL PERFORMANCE

Please indicate the extent of your agreement with statements listed below ranging from 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not sure (NS), 4- Agree (A), and 5- Strongly Agree (SA)

Internal Determinants						
	Governance Structures	1	2	3	4	5
G1	Our entity has a competent Board of Directors					
G2	Our Microfinance Board is well balanced with regard to gender					
G3	The various committees of the Board are independent and execute their roles objectively					
G4	Internal Controls are in place and comprehensively adhered to					
	Management Quality	1	2	3	4	5
M1	Our management team is competent to the institution to sustainability					
M2	The management is well balanced with regard to gender					
M3	The management team is experienced and objectively executes the institution's business to achieve the set objectives.					
	Operational Efficiency	1	2	3	4	5
O1	Our processes are swift and tailored to the needs of customers					
O2	We have a low loan turnaround time to the customers we serve					
O3	Our cost-to-income ratio is consistent with the industrial standards					
	Risk Management Practices	1	2	3	4	5
R1	We have a risk management framework that guides risk management at our firm					
R2	We identify and profile all potential risks that could befall our operations					
R3	We assess all potential risks that could deny us chance to achieve our performance objectives					
R4	We routinely monitor and mitigate the various risks that present themselves					
	Technological Adoption	1	2	3	4	5
T1	We leverage technology to improve outreach					
T2	We have adopted mobile technology to update customer information					
T3	Through technology, we initiate loans online and manage client relationships					
External Determinants						

	Regulatory Frameworks	1	2	3	4	5
E1	We operate legally as required by the sector Regulator (UMRA)					
E2	We conform to the guidelines of the sector regulator					
E3	We get audited annually as required by law.					
	Macroeconomic Conditions	1	2	3	4	5
C1	The interest rates influence our lending decisions					
C2	Our lending decisions are executed while paying close attention to the inflation dynamics					
C3	Business environment dynamics have a bearing on our lending decisions					

SECTION C: FINANCIAL PERFORMANCE OF MFIS

NO	Statements on Financial Performance	1	2	3	4	5
1	Our firm meets its targets consistently in line with its Strategy					
2	Our firm discloses its financial performance to its shareholders and other stakeholders on a periodic basis and adheres to the financial sector policies, rules and regulations.					
3	Performance appraisals are carried out on a periodic basis to assess outputs of each employee and excellent performance is rewarded for individual performers.					
4	Department allocation of resources is more or less directly linked to unit's performance and controls are in place to exclude incurring expenditure in excess of allocated funds					
5	The profits of our firm have been steadily increasing over years, and part of its net profits are transferred to reserves					
6	The firm has enough cash to meet its obligations effectively as and when they fall due					
7	The percentage of non-performing loans at our firm has been reducing consistently					
8	Our firm's Return on Equity has increased over the past five years					
9	Our firm annually pays dividends to shareholders					
10	The Asset base of our firm has been increasing progressively					
11	The firm's capital level is sufficient in relation to the company's risk profile					

The End

Thank you

INTERVIEW GUIDE TO SENIOR MANAGEMENT AT SELECTED MFIS IN UGANDA

My name is Mayende Othieno Constant a PhD Candidate at Swiss Business School. Thank you for sparing time to participate in the survey. This interview guide is aimed at collecting data to assist in completion of a study on Determinants of Financial Performance of Microfinance Institutions in Uganda. The research is in partial fulfillment of the requirements for the award of a Doctor of Business Administration of Swiss Business School. All information provided will be treated with utmost confidentiality and will be used purely for academic purposes. Your participation is highly appreciated.

Questions

1. What is your current capital adequacy ratio?
2. How do you manage fluctuations in funding sources to maintain financial stability?
3. In your view, what could be reasons for the level of financial performance recorded by your firm?
4. What criteria do you use to assess creditworthiness of potential borrowers?
5. How do you monitor loan repayment performance and manage delinquency?
6. What is your current operating expense to gross income ratio?
7. How do you optimize your branch network and staff allocation?
8. What measures are in place to streamline loan disbursement and collection processes?
9. What methods do you use to assess credit risk associated with different loan products?
10. How do you implement credit risk mitigation strategies? (e.g., collateral, group lending)
11. What is your board composition and governance structure?
12. How do you ensure adherence to regulatory requirements related to microfinance operations?
13. What internal controls are in place to manage financial risks?
14. What technology platforms do you use for loan origination, client management, and reporting?

15. How do you leverage technology to improve operational efficiency and outreach?
16. What key financial performance indicators (KPIs) do you use to measure your financial sustainability? (e.g., Return on Assets, Loan Loss Ratio, Operating Expense Ratio)
17. How do you analyze your financial performance compared to industry benchmarks?

The End

Thank you