

Staff Motivation and Debt Recovery Performance: Evidence from Tier III Microfinance Deposit-Taking Institutions in Kampala, Uganda

Kikomeko Joseph¹ & Ogbe Augustine Alloysius PhD¹

¹ School of Graduate Studies, Muteesa I Royal University (MRU), Kampala, Uganda

Correspondence: Kikomeko Joseph, School of Graduate Studies, Muteesa I Royal University (MRU), Kampala, Uganda.

doi:10.63593/FMS.2788-8592.2026.03.004

Abstract

Non-performing loans (NPLs) continue to present a substantial impediment for Tier III microfinance deposit-taking institutions (MDIs) in Uganda. Although the wider banking sector recorded an average NPL ratio of around 5.4% in early 2024, MDIs experienced significantly higher levels of credit risk, with ratios reaching approximately 8.0%. The present investigation delineated the influence of multidimensional staff motivation upon debt recovery performance within the urban milieu of Lubaga Division in Kampala. A quantitative cross-sectional design was adopted, and data were collected from 113 loan officers drawn from Pride Microfinance, FINCA Uganda, and UGAFODE Microfinance Limited. The findings tentatively suggest that staff motivation may possess substantial explanatory power concerning recovery performance, potentially accounting for 75.2% of the observed variation in debt recovery outcomes. Among the motivational dimensions, extrinsic motivation appears to emerge as the strongest predictor of performance ($\beta = 0.426$). However, goal-related factors showed the highest simple correlation with recovery performance ($r = 0.789$), indicating a notable inconsistency between correlation and regression results. This observed pattern seemingly indicates a potential suppression effect, wherein goal-setting might partially function as a proxy for financial incentives rather than an autonomous motivational driver.

Overall, the study concludes that while strong extrinsic incentives can significantly enhance loan recovery in high-pressure urban microfinance environments, they must be carefully managed. If not properly balanced with ethical lending and recovery practices, such incentives may unintentionally contribute to aggressive collection behavior, borrower distress, and the risk of debt recycling.

Keywords: staff motivation, debt recovery, microfinance, non-performing loans (NPLs)

1. Background of the Study

Microfinance institutions emerged globally as a developmental response to financial exclusion, particularly among low-income populations who lacked access to formal banking services. The modern microfinance movement is widely associated with the Grameen Bank model pioneered in Bangladesh in the late 1970s and 1980s, which demonstrated that collateral-free lending to the poor could achieve high repayment rates when supported by group lending mechanisms and social accountability systems (Yunus, 2007). Over time, this model was adapted across developing economies, including Sub-Saharan Africa, where financial exclusion remained a major barrier to economic participation.

In Uganda, microfinance development gained momentum in the 1990s as part of financial sector liberalization reforms aimed at improving access to credit for small enterprises and rural households (Goodwin-Groen, 2003). The introduction of regulated Microfinance Deposit-Taking Institutions (MDIs) under the Microfinance Deposit-Taking Institutions Act, 2003 (Sanchez et al., 2013) marked a significant institutional milestone. This

framework created a tiered financial system, with Tier III MDIs regulated by the Bank of Uganda (Sanchez et al., 2013). These institutions were designed to bridge the gap between informal credit providers and commercial banks by offering savings mobilization and credit services to underserved populations.

However, despite their developmental role, MDIs have historically struggled with portfolio quality. High levels of non-performing loans (NPLs) have persisted due to borrower income volatility, weak enforcement mechanisms, and high operational risks associated with small loan sizes and unsecured lending (Cull et al., 2019; Ledgerwood, 2013). This challenge has become more pronounced in urban centers such as Kampala (Emenike et al., 2018), where economic informality and fluctuating cash flows make debt recovery particularly complex. Consequently, institutional sustainability has increasingly depended not only on credit expansion but also on effective loan recovery systems driven by staff performance and motivation.

Microfinance deposit-taking institutions (MDIs) play a pivotal role in promoting financial inclusion by extending credit and savings services to low-income households and small enterprises often excluded from mainstream banking systems (Hilary & Christian, 2024). In Kampala's densely populated divisions such as Lubaga, these institutions operate within highly dynamic informal economies characterized by small-scale trade, market vending, and irregular income flows. This environment creates both opportunities for financial inclusion and significant risks for loan repayment performance.

Recent global and regional evidence indicates that while the banking sector has generally improved its asset quality, microfinance institutions, particularly Tier III MDIs, continue to experience elevated levels of credit risk and non-performing loans (Duho, 2023; Muindi et al., 2026). In Uganda, these challenges are compounded by post-pandemic economic recovery pressures, inflationary trends, and fluctuating household incomes, which have weakened borrowers' repayment capacity. As a result, loan recovery performance has become a critical determinant of institutional sustainability and liquidity stability.

Within this context, loan officers play a central operational role as frontline agents responsible for credit monitoring, borrower engagement, and debt recovery enforcement. Their effectiveness depends not only on technical competence but also on motivational dynamics that shape effort, persistence, and ethical behavior in recovery processes. Agency theory explains this relationship by highlighting the potential divergence between institutional goals (principal) and employee behavior (agent), where weak incentives or misaligned reward structures may lead to reduced effort and increased loan default risk (Agarwal & Ben-David, 2018; Eisenhardt, 1989).

Complementary theoretical perspectives further deepen this understanding. Self-Determination Theory emphasizes the role of autonomy, competence, and relatedness in sustaining intrinsic motivation, while Goal-Setting Theory explains how specific and challenging targets enhance persistence and performance outcomes (Locke & Latham, 2002). These frameworks collectively suggest that debt recovery performance is not solely a technical function, but a behavioral outcome shaped by multiple motivational dimensions.

Despite the strategic importance of MDIs in Uganda's financial ecosystem, several persistent challenges continue to undermine debt recovery performance. One of the most critical issues is the rising level of non-performing loans, which threatens institutional liquidity, depositor confidence, and long-term sustainability. Although regulatory oversight by the Bank of Uganda and UMRA has strengthened financial discipline, enforcement challenges remain due to borrower vulnerability and operational inefficiencies (Bank of Uganda, 2023; Bank of Uganda, 2022).

Another emerging issue is the declining effectiveness of traditional recovery approaches in increasingly complex urban economies. Borrowers in Kampala's informal sector often experience irregular income streams, making rigid repayment schedules difficult to sustain. This has increased the importance of adaptive recovery strategies driven by motivated loan officers who can engage clients effectively, negotiate repayment plans, and maintain long-term relationships.

From a human resource perspective, motivational challenges among loan officers have become increasingly evident. Extrinsic incentives such as bonuses and commissions are widely used, but concerns remain regarding their long-term sustainability and potential to encourage aggressive recovery practices. At the same time, intrinsic motivation factors such as job satisfaction, recognition, and professional development are often under-emphasized in institutional design, despite their importance in sustaining ethical and consistent performance (Deci & Ryan, 2020; Musimenta et al., 2021).

Environmental and institutional constraints further complicate recovery performance. Limited transport resources, system inefficiencies, and bureaucratic delays often reduce the ability of loan officers to effectively follow up delinquent borrowers. Additionally, regulatory frameworks, while necessary for financial stability, may sometimes impose procedural rigidity that slows down recovery processes (Menghini et al., 2024).

The importance of this study lies in its attempt to address these interconnected challenges by examining how

multidimensional staff motivation influences debt recovery performance in Tier III MDIs in Kampala. Understanding this relationship is critical for improving operational efficiency, reducing NPLs, and strengthening institutional resilience in a financially constrained environment.

The study also justifies key conceptual relationships central to its framework. First, staff motivation is conceptualized as a multidimensional construct comprising intrinsic, extrinsic, goal-related, environmental, and personal factors. Second, debt recovery performance is understood not only in terms of financial outcomes but also process efficiency, compliance adherence, and client relationship management. Third, contextual factors such as regulation, technology, and institutional support are recognized as moderators that shape the effectiveness of motivational drivers.

By integrating these concepts, the study addresses a critical gap in existing literature, which often treats motivation and performance as linear relationships rather than dynamic and interdependent systems. This research therefore provides both theoretical and practical contributions by explaining why extrinsic incentives often dominate in high-pressure microfinance environments, while also highlighting the complementary roles of intrinsic, environmental, and personal factors.

In summary, the background demonstrates that although MDIs are essential for financial inclusion, their sustainability is increasingly threatened by weak debt recovery systems influenced by complex motivational and contextual factors. The following sections review relevant literature, present the methodological approach, analyze empirical findings, and provide conclusions and policy recommendations.

1.1 Problem Statement

Microfinance deposit-taking institutions (MDIs) play a critical role in advancing financial inclusion by providing credit and savings services to low-income individuals and small enterprises that are typically excluded from formal banking systems (Cull et al., 2019; Ledgerwood, 2013). In Uganda, particularly in urban areas such as Kampala, Tier III MDIs have become essential financial intermediaries supporting informal sector livelihoods through small-scale lending and savings mobilization (Bank of Uganda, 2023). Despite this important role, these institutions continue to face persistent challenges related to loan portfolio quality, especially high levels of non-performing loans (NPLs), which threaten their liquidity, sustainability, and depositor confidence (World Bank, 2022).

Empirical data indicate that, while the broader banking sector in Uganda has demonstrated enhancements in asset quality in recent years, Microfinance Deposit-taking Institutions (MDIs) are subject to comparatively elevated credit risk exposure, attributable to borrower income instability, weak collateral structures, and restricted enforcement capacity (Bank of Uganda, 2023). In urban settings such as Kampala, these challenges are further intensified by the prevalence of informal income generation among most borrowers, fluctuating liquidity, and economic shocks, such as post-COVID-19 recovery pressures and inflationary constraints (International Monetary Fund (IMF), 2023). Consequently, debt recovery performance often remains suboptimal, which may impede institutional profitability and long-term sustainability.

Prior scholarly investigations have sought to elucidate loan performance and recovery outcomes by delineating sundry factors, including credit risk management, borrower characteristics, and institutional efficiency. Nevertheless, a substantial segment of this scholarship appears to have primarily concentrated upon macro-level financial determinants or borrower-side variables, exhibiting insufficient consideration for the behavioral role of employee's instrumental to recovery outcomes; specifically, loan officers (Cull et al., 2019; Ledgerwood, 2013). Where staff-related factors are addressed, studies frequently conceptualize motivation as a singular construct, predominantly emphasizing monetary incentives while often disregarding the more expansive motivational ecosystem, which encompasses intrinsic, goal-related, environmental, and personal dimensions.

Furthermore, empirical evidence from Uganda and similar developing economies appears fragmented and context-specific. Few studies have comprehensively examined how multiple motivational dimensions interact to influence debt recovery performance in Tier III MDIs, especially within urban environments such as Kampala where operational pressures are high and recovery targets are stringent, thereby suggesting a critical gap in the understanding of the relative contribution and interaction of different motivational factors in shaping recovery outcomes.

In addition, existing research has not sufficiently addressed the integration of motivation theories with practical debt recovery systems, particularly how extrinsic incentives, intrinsic satisfaction, goal-setting mechanisms, technological tools, and environmental conditions jointly influence loan officer behavior. This deficiency in integrated frameworks potentially constrains institutions' capacity to devise balanced incentive systems that not only enhance recovery rates but also ensure ethical compliance and long-term sustainability.

It is also evident that while extrinsic motivation is widely applied through commissions and performance bonuses, there is limited empirical consensus on whether these incentives alone are sufficient or whether they

produce unintended consequences such as aggressive recovery practices and weakened client relationships (Gneezy et al., 2019). This leaves a gap in evidence-based policy formulation for human resource and credit management strategies within MDIs.

Therefore, the core problem addressed in this study is that despite the central role of loan officers in debt recovery, Tier III MDIs in Kampala continue to experience high and persistent levels of non-performing loans, suggesting that existing motivational and management strategies are insufficiently effective or poorly aligned with recovery performance objectives.

To address this problem, this study investigates how multidimensional staff motivation, including intrinsic, extrinsic, goal-related, environmental, and personal factors, influences debt recovery performance in selected Tier III MDIs in Kampala. By integrating agency theory and motivation theories, the study provides a more comprehensive explanation of recovery outcomes and offers evidence-based recommendations for improving staff motivation systems, strengthening recovery efficiency, reducing NPLs, and enhancing institutional sustainability.

1.2. Purpose of the Study

The purpose of this study is to examine the influence of staff motivation on debt recovery performance in selected Tier III Microfinance Deposit-Taking Institutions in Kampala, Uganda. The study specifically investigates how intrinsic, extrinsic, goal-related, environmental, and personal motivational factors affect the efficiency, effectiveness, and compliance of debt recovery processes.

1.3 Research Objectives

The study was guided by the need to understand the relationship between staff motivation and debt recovery performance in Tier III MDIs in Kampala, Uganda. It intended to respond to gaps in evidence regarding how different motivational dimensions influence recovery outcomes. This study was directed by the following specific objectives:

- 1) To examine the effect of intrinsic motivation factors on debt recovery performance in selected Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, Uganda.
- 2) To assess the influence of extrinsic motivation factors on debt recovery performance in selected Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, Uganda.
- 3) To determine the effect of goal-related motivation factors and technology use on debt recovery performance in selected Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, Uganda.
- 4) To evaluate the impact of environmental factors on debt recovery performance in selected Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, Uganda.
- 5) To establish the influence of personal motivation factors on compliance and overall debt recovery performance in selected Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, Uganda.

1.4 Research Questions

The present study endeavors to address the subsequent research questions, which not only align directly with its delineated objectives but also serve to guide the formulation of interview protocols:

- 1) How do intrinsic motivation factors influence debt recovery performance in selected Tier III MDIs in Kampala, Uganda?
- 2) What is the effect of extrinsic motivation factors on debt recovery performance in selected Tier III MDIs in Kampala, Uganda?
- 3) How do goal-related motivation factors and technology use influence debt recovery performance in selected Tier III MDIs in Kampala, Uganda?
- 4) What is the impact of environmental factors on debt recovery performance in selected Tier III MDIs in Kampala, Uganda?
- 5) How do personal motivation factors influence compliance and overall debt recovery performance in selected Tier III MDIs in Kampala, Uganda?

1.5 Significance of the Study

- 1) **Academics.** This study may contribute to the existing body of knowledge on motivation and performance through the provision of empirical evidence delineating the influence of multidimensional staff motivation upon debt recovery within microfinance institutions. This analysis could further fortify theoretical understanding through the integration of agency theory, goal-setting theory, and various motivation theories, specifically within the contextualization of Tier III Microfinance Deposit-taking

Institutions (MDIs) in Uganda.

- 2) **Practitioners/Industry.** The findings may provide assistance to managers of Tier III Microfinance Deposit-taking Institutions (MDIs) in the design of effective staff motivation systems, thereby potentially enhancing debt recovery performance. Furthermore, this inquiry may offer practical insights regarding the equilibration of financial incentives, non-financial motivation, and operational conditions, which may conduce to improved efficiency and a reduction in non-performing loans.
- 3) **Policy Makers.** The study informs regulatory authorities such as the Bank of Uganda and the Uganda Microfinance Regulatory Authority (UMRA) in developing policies that support sustainable microfinance operations. It guides the formulation of fair incentive structures and strengthened regulatory frameworks for debt recovery practices.
- 4) **Society.** The study may benefit society through the strengthening of the performance and long-term sustainability of microfinance institutions, entities that assume a pivotal role in the provision of financial services to low-income households and nascent enterprises. Consequently, an improvement in debt recovery mechanisms could enhance financial stability and foster inclusive economic development.

1.6 Scope of the Study

- 1) **Location.** The study is conducted in selected Tier III Microfinance Deposit-Taking Institutions operating in Kampala, Uganda, with particular focus on institutions located in Lubaga Division due to its high concentration of informal economic activities.
- 2) **Population.** The study targets loan officers, credit officers, recovery staff, and branch managers involved in loan monitoring and debt recovery processes within selected MDIs.
- 3) **Variables.** The independent variable is staff motivation, operationalized through intrinsic, extrinsic, goal-related, environmental, and personal factors. The dependent variable is debt recovery performance, measured using indicators such as recovery rate, efficiency, timeliness, and compliance with recovery procedures.
- 4) **Timeframe.** The study covers the period 2020–2025 in order to capture post-pandemic recovery trends and current operational dynamics within Tier III MDIs.
- 5) **Limitations.** The study faces limitations such as respondent bias, limited access to confidential institutional data, and time constraints during field data collection. These limitations are addressed through triangulation of data sources, careful design of research instruments, and adherence to ethical research procedures.

2. Literature Review

2.1 Theoretical Review

The theoretical foundations for understanding staff motivation in microfinance institutions are grounded in several complementary frameworks that explain both behavioral drivers and organizational dynamics.

One key perspective is Agency Theory, which explains the potential conflict between loan officers (agents) and the institution (principal). According to this theory, employees may prioritize personal interests over organizational goals when incentives and monitoring systems are weak (Jensen & Meckling, 1976). In the context of Microfinance Deposit-Taking Institutions (MDIs), where loan officers manage high-risk loan portfolios with limited collateral, carefully designed incentive structures are essential to reduce agency costs and discourage opportunistic behavior.

Motivation theories provide further insight into what drives employee performance. Maslow's Hierarchy of Needs suggests that individuals must first satisfy basic needs, such as financial security, before they can focus on higher-level needs like recognition and self-fulfillment (Maslow, 1943). In microfinance settings, this implies that adequate compensation is a prerequisite for deeper commitment to demanding recovery tasks.

Similarly, Herzberg's Two-Factor Theory distinguishes between hygiene factors (such as salary, supervision, and working conditions) and motivators (such as achievement, recognition, and responsibility) (Herzberg et al., 1959). While hygiene factors prevent dissatisfaction, they do not necessarily enhance performance. Motivators, on the other hand, are responsible for driving higher levels of effort and productivity. However, in resource-constrained environments, such as many Sub-Saharan African microfinance institutions, hygiene factors often take on greater importance because unmet basic needs can significantly hinder performance (Islam & Ismail, 2014).

Complementing these perspectives is Expectancy Theory, which posits that employees are motivated when they believe that their effort will lead to improved performance and, ultimately, to desirable rewards (Vroom, 1964).

This theory is particularly relevant in performance-driven environments like microfinance, where clear links between effort, outcomes, and incentives can significantly influence recovery behavior.

Empirical evidence from East Africa consistently supports the link between motivation and loan recovery performance. Studies conducted in Kenya and Tanzania show that extrinsic rewards, such as performance-based bonuses and commissions, significantly improve recovery rates. At the same time, intrinsic factors, including supervisory support, autonomy, and recognition, have been found to enhance employee engagement and job satisfaction.

Goal-related practices also play a critical role. Clear performance targets and regular feedback mechanisms help loan officers track progress and adjust their strategies, especially when supported by digital systems for monitoring repayments. This aligns with Goal-Setting Theory, which emphasizes the importance of specific and challenging goals in improving performance (Locke & Latham, 2002).

In addition, environmental factors such as logistical support, access to transport, and clarity of institutional procedures exert influence upon the determination of recovery outcomes. When these systems are inadequate, even highly motivated staff may encounter impediments to the achievement of effective performance. Personal characteristics, including experience, discipline, and conscientiousness, may additionally bolster compliance and ethical behavior during the recovery process.

In the Ugandan context, existing studies may delineate similar trends while concurrently underscoring salient contextual dynamics. The post-COVID-19 period, for example, appears to have exacerbated workload pressures on loan officers, thereby impeding the sustainment of high performance without adequate incentives and institutional support. These conditions could be construed to reaffirm the salience of balanced motivation systems that combine both financial and non-financial elements.

Despite these contributions, notable lacunae persist. Few studies have specifically scrutinized the prevalence of extrinsic motivation in Tier III MDIs, particularly within urban settings such as Kampala. Additionally, limited research has integrated environmental and personal factors into a comprehensive framework that elucidates the interplay among distinct motivational dimensions.

This study builds on existing literature by synthesizing these perspectives and proposing that, although myriad factors may exert influence upon recovery performance, extrinsic motivation arguably furnishes the most immediate and potent leverage within high-pressure microfinance environments. At the same time, it highlights the limitations of relying solely on intrinsic motivation in low-resource settings and emphasizes the need for integrated approaches that harmonize individual incentives with institutional objectives.

2.2 Review by Study Objectives

2.2.1 Intrinsic Motivation and Debt Recovery Performance (Objective 1)

Intrinsic motivation refers to internal psychological drivers such as recognition, autonomy, professional growth, supportive supervision, and a sense of achievement. In microfinance institutions, particularly Tier III Microfinance Deposit-Taking Institutions (MDIs), these factors are critical in shaping how loan officers approach arduous assignments such as debt recovery. Recovery activities often require persistence, emotional intelligence, and ethical judgment, all of which are may be demonstrably influenced by intrinsic motivation.

Theoretical foundations of intrinsic motivation are rooted in Herzberg's Two-Factor Theory and Maslow's Hierarchy of Needs. Herzberg et al. (1959) argue that intrinsic factors such as achievement, recognition, and responsibility enhance job satisfaction but do not necessarily guarantee improved performance in the absence of adequate external conditions. Similarly, Maslow (1943) posits that higher-order needs, such as esteem and self-actualization—drive behavior only after basic needs are fulfilled. While these classical theories provide a foundational understanding, more recent perspectives such as Self-Determination Theory emphasize that intrinsic motivation, particularly autonomy and competence, can directly influence performance quality (Ryan & Deci, 2020).

Empirical studies in Sub-Saharan Africa provide mixed but insightful evidence. For instance, Musimenta et al. (2021) found that supervisory support and recognition significantly improved employee engagement and reduced burnout among microfinance staff in Uganda. Similarly, Kiggundu et al. (2023) reported that employees who perceived their roles as meaningful demonstrated greater persistence in loan recovery processes. However, other studies suggest that intrinsic motivation alone is insufficient in high-pressure financial environments. Banyarwanda and Ssekiziyivu (2022) observed that while intrinsic factors improved the quality of client interactions, they did not significantly increase recovery rates without accompanying financial incentives.

From a critical perspective, intrinsic motivation appears to play a supportive rather than dominant role in debt recovery performance. It enhances professionalism, ethical conduct, and long-term client relationships but lacks the immediacy required to drive performance under strict recovery targets. Therefore, intrinsic motivation is best

understood as a stabilizing and quality-enhancing factor that requires reinforcement from extrinsic and structural mechanisms.

2.2.2 Extrinsic Motivation and Debt Recovery Performance (Objective 2)

Extrinsic motivation refers to external rewards such as salaries, bonuses, commissions, and performance-based incentives. In microfinance institutions, where performance is closely monitored and tied to financial outcomes, extrinsic motivation plays a central role in influencing employee behavior.

This relationship is well explained by Expectancy Theory (Vroom, 1964), which posits that employees are motivated when they believe their effort will lead to performance and that performance will result in valued rewards. Additionally, Agency Theory (Jensen & Meckling, 1976) highlights the importance of incentive systems in aligning employee actions with organizational goals, particularly in environments where direct supervision is limited.

Recent empirical evidence strongly supports the effectiveness of extrinsic motivation in improving debt recovery performance. Okello and Ntayi (2022) found that performance-based bonuses significantly increased recovery rates among loan officers in East African microfinance institutions. Similarly, Namatovu et al. (2023) reported that commission-based systems enhanced follow-up intensity and prioritization of delinquent accounts. These findings suggest that extrinsic incentives create a direct and measurable link between effort and outcomes, making them particularly effective in high-pressure environments.

However, the literature also raises important concerns. Studies in behavioral economics indicate that excessive reliance on financial incentives can lead to unintended consequences, including unethical practices and short-termism (Gneezy et al., 2019). In microfinance contexts, this may manifest as aggressive recovery tactics that damage client relationships and institutional reputation. Musau et al. (2022) highlight that poorly designed incentive systems can undermine long-term sustainability by prioritizing immediate recovery over client retention.

Comparatively, while intrinsic motivation enhances quality, extrinsic motivation drives quantity and intensity of effort. From a critical standpoint, extrinsic motivation emerges as the most powerful immediate driver of debt recovery performance, but it must be carefully balanced with ethical guidelines and institutional controls to avoid adverse outcomes.

2.2.3 Goal-Related Motivation, Technology, and Recovery Performance (Objective 3)

Goal-related motivation focuses on the role of clearly defined targets, performance measurement systems, and feedback mechanisms in guiding employee behavior. In microfinance institutions, loan officers typically operate under strict recovery targets, which structure their daily activities and priorities.

The theoretical underpinning for this relationship is Goal-Setting Theory (Locke & Latham, 2002), which posits that specific and challenging goals improve performance by directing attention, increasing effort, and fostering persistence. In recent years, technological advancements have significantly enhanced the effectiveness of goal-setting mechanisms. Digital loan tracking systems, mobile collection platforms, and real-time dashboards enable continuous monitoring and feedback.

Empirical evidence suggests that technology plays a critical role in enhancing recovery performance. According to the World Bank (2022), digital financial systems improve transparency and efficiency in loan monitoring, thereby reducing default rates. Similarly, GSMA (2023) reports that mobile-enabled financial services in Africa have improved operational efficiency and data accessibility in microfinance institutions. In Uganda, the increasing adoption of financial technology has strengthened accountability and facilitated real-time decision-making.

Despite these advantages, the literature indicates that the effectiveness of goals and technology is contingent upon their integration with incentive systems. Targets that are not linked to rewards often fail to motivate employees, while technological tools that do not influence performance evaluation are underutilized. Furthermore, excessive monitoring enabled by technology may increase stress and reduce job satisfaction (Tarafdar et al., 2020).

From a critical perspective, goal-related factors and technology function as performance enablers and amplifiers rather than independent drivers. They enhance the effectiveness of both intrinsic and extrinsic motivation but depend on proper alignment with organizational incentives and employee needs.

2.2.4 Environmental Factors and Recovery Process Performance (Objective 4)

Environmental factors refer to the organizational and operational conditions within which loan officers perform their duties. These include logistical support, transport availability, institutional procedures, system reliability, and regulatory frameworks.

Recent literature increasingly emphasizes the importance of enabling environments in shaping performance outcomes. Studies by the African Development Bank (2022) and the International Monetary Fund (2023) highlight that infrastructural and operational constraints significantly affect financial service delivery in developing economies. In microfinance contexts, poor transport systems, system downtimes, and bureaucratic delays can hinder effective debt recovery.

Empirical studies in African microfinance institutions demonstrate that environmental constraints may significantly constrain performance, irrespective of employee motivation. For instance, Musimenta et al. (2021) identified the reduction in effectiveness of loan recovery efforts through inadequate logistical support in Uganda. Concurrently, Nuwagaba (2022) documented the negative impact of delays in approval processes and system inefficiencies upon recovery timelines.

In comparison, whereas motivation theories predominantly focus on individual behavior, environmental perspectives emphasize structural limitations. Crucially, the underestimation of environmental factors frequently occurs within traditional models; nevertheless, these factors possess the capacity to entirely neutralize motivational impetus under unfavorable conditions.

Consequently, environmental factors warrant conceptualization not merely as facilitating elements but as requisite necessary conditions for performance realization. Without adequate institutional support and operational efficiency, even highly motivated employees may not achieve desired recovery outcomes.

2.2.5 Personal Motivation, Compliance, and Regulatory Adherence (Objective 5)

Personal factors such as experience, integrity, discipline, and professional values exert an influence upon the approach of loan officers to their professional duties, particularly in relation to compliance and regulatory adherence. In microfinance institutions, maintaining compliance while achieving performance targets may often constitute a significant challenge.

Recent governance literature delineates the growing exigency of regulatory compliance within financial institutions. According to the Consultative Group to Assist the Poor (CGAP, 2022), adherence to ethical standards and regulatory guidelines proves essential for the sustainability of microfinance operations. Similarly, Basel-aligned financial conduct studies (2023) delineate the inherent risks associated with non-compliance, encompassing reputational damage and pecuniary penalties.

Empirical evidence suggests that experienced and well-trained employees tend to balance performance and compliance effectively. Kiggundu et al. (2023) determined that experienced loan officers' adoption of more strategic and ethical recovery approaches served to preserve client relationships concurrently with the achievement of targets. In contrast, less experienced employees were predisposed to engage in non-compliant practices under duress.

Crucially, the literature delineates a tension between performance incentives and regulatory adherence. High extrinsic motivation may encourage risk-taking and shortcuts, particularly when oversight is weak. The necessity of comprehensive training, mentorship initiatives, and ethical leadership in the cultivation of personal motivation is thus underscored.

Thus, personal factors play a moderating role within the motivational framework, thereby potentially facilitating the attainment of performance that is both sustainable and compliant with institutional and regulatory requirements.

2.2.6 Synthesis and Research Gap

The reviewed literature elucidates the susceptibility of debt recovery performance within microfinance institutions to the influence of a complex interaction of intrinsic, extrinsic, goal-related, environmental, and personal factors. Each of these dimensions consequently offers a differential contribution to performance outcomes.

Extrinsic motivation appears to be a primary determinant of recovery performance, exhibiting immediate and potent effects, while intrinsic motivation serves to augment quality, foster sustainability, and promote employee well-being. Goal-related factors and technology function as amplifiers, providing structure and guidance to performance, whereas environmental factors may delineate the operational feasibility of performance. Conversely, personal factors may facilitate the alignment of performance with ethical and regulatory standards.

However, several gaps persist within the extant body of literature. Specifically, these lacunae include: (1) a tendency for existing studies to scrutinize variables in isolation rather than within an integrated framework; (2) constrained empirical research specifically concentrated upon Tier Three (III) Microfinance Deposit-taking Institutions (MDIs) in Uganda, particularly within urban contexts such as Kampala; (3) insufficient consideration afforded to the relative strength and interaction of diverse motivational factors; and (4) a significant oversight regarding the tension between performance incentives and regulatory compliance.

This study addresses these gaps by adopting a comprehensive approach that integrates multiple motivational dimensions to explain debt recovery performance. It further argues that while all factors are important, extrinsic motivation provides the strongest immediate leverage, but its effectiveness depends on alignment with intrinsic, environmental, and regulatory mechanisms.

3. Methodology

The study adopted a mixed-methods research approach, integrating both quantitative and qualitative methods to provide a comprehensive understanding of the relationship between staff motivation and loan recovery performance in microfinance institutions. Specifically, a convergent parallel mixed design was employed, where quantitative and qualitative data were collected concurrently, analyzed independently, and later merged during interpretation. This design is widely recommended in social science research for enhancing triangulation, validity, and contextual depth of findings (Creswell, 2018).

The study was conducted in three licensed Tier III Microfinance Deposit-taking Institutions (MDIs) in Kampala, namely Pride Microfinance, FINCA Uganda, and UGAFODE, purposively selected due to their strong presence in urban lending and recovery operations. The target population consisted of credit-related staff, including loan officers, recovery officers, and branch credit supervisors. This focus aligns with prior microfinance studies which emphasize frontline credit staff as key actors in portfolio quality and loan recovery outcomes (Jensen & Meckling, 1976; Locke & Latham, 1984).

A total population of 140 staff was estimated across the three institutions. For the quantitative strand, a sample size of 113 respondents was selected using stratified random sampling, ensuring proportional representation across institutions and job categories. Stratified sampling is considered appropriate in organizational studies because it reduces sampling bias and improves representativeness across heterogeneous groups. In addition, a qualitative sample of 12 key informants was purposively selected, comprising 3 branch managers, 6 senior loan/recovery officers, and 3 credit supervisors. Purposive selection is consistent with qualitative inquiry principles, where participants are chosen based on their knowledge and experience relevant to the phenomenon under study (Patton, 2014).

Table 1. Distribution of Respondents

Category of Respondents	Population	Quantitative Sample	Qualitative Sample
Pride Microfinance Staff	50	40	4
FINCA Uganda Staff	55	43	4
UGAFODE Staff	35	30	4
Total	140	113	12

Quantitative data were collected using a structured self-administered questionnaire developed from validated psychometric scales. Motivational constructs were adapted from Deci and Ryan's Self-Determination Theory, while goal-setting variables were informed by Locke and Latham's Goal-Setting Theory (1984). For the assessment of recovery performance, key indicators encompassed perceived repayment rates; the management of portfolio-at-risk (PAR); and trajectories in non-performing loans (NPLs).

Qualitative data were collected using key informant interview (KII) guides and document review, focusing on internal recovery reports, credit manuals, PAR aging reports, and NPL summaries. These instruments enabled deeper exploration of institutional practices and motivational dynamics that could not be fully captured through structured questionnaires.

Quantitative data were analyzed using SPSS version 26, employing descriptive statistics, Pearson correlation, and hierarchical multiple regression analysis. Qualitative data were analyzed using thematic content analysis, involving transcription, coding, categorization, and development of themes. This approach aligns with qualitative research standards that emphasize meaning-making and pattern identification rather than numerical generalization (Braun & Clarke, 2006).

Findings from both datasets were integrated during interpretation using a triangulation strategy, allowing comparison and confirmation of results across methods. Data were presented using tables, thematic narratives, and comparative discussion, ensuring that statistical trends were explained and enriched by qualitative insights. This mixed-method integration enhanced the robustness, depth, and contextual validity of the study findings, consistent with established mixed-methods research practice.

4. Results and Analysis

4.1 Intrinsic Motivation and Debt Recovery Performance (Objective 1)

This section examined how intrinsic motivation factors, such as supervisory support, communication quality, and workplace encouragement, affect debt recovery performance in selected Tier III Microfinance Deposit-Taking Institutions (MDIs) in Kampala, Uganda. Recovery performance was evaluated based on recovery rates and the efficiency of handling delinquent accounts.

The quantitative findings showed that intrinsic motivation factors were generally rated highly by loan officers, with mean scores ranging from approximately 3.8 to 4.5 on a 5-point scale. Correlation analysis revealed a strong positive relationship between intrinsic motivation and recovery performance ($r = 0.654$). However, regression analysis indicated a moderate but statistically significant predictive effect ($\beta = 0.334$), suggesting that while important, intrinsic motivation is not the strongest driver of performance.

These findings were strongly supported by loan officers' lived experiences. One respondent explained:

"When my supervisor gives clear feedback and stands with me on difficult cases, I feel more confident and I am able to recover loans much faster and with less stress. The guidance helps me approach each client strategically instead of pushing blindly. Even when a client becomes stubborn or aggressive, knowing that I have backing from my supervisor reduces anxiety and allows me to remain patient. Teamwork in the branch also plays a very important role because we share experiences and successful strategies during our daily meetings. You don't feel like you are carrying the burden alone. This kind of support makes the whole recovery process smoother and less exhausting."

However, an additional participant articulated a constraint:

"Support from supervisors and colleagues is important and motivating, but without some form of incentive, it becomes very difficult to sustain the pressure of meeting monthly targets especially when you have many non-performing loans in your portfolio. You can have all the encouragement in the world, but at the end of the day you still have bills to pay and targets to meet."

Intrinsic motivation fosters an enhancement of confidence, consistency, and the quality of interactions with clients. However, it primarily appears to fulfill a supportive function rather than serving as the principal determinant of performance. This aligns with Herzberg's Two-Factor Theory (1959), which posits that intrinsic factors may enhance job satisfaction; however, they might not be wholly sufficient to propel performance absent extrinsic remuneration. Similarly, Maslow's Hierarchy of Needs (1943) similarly postulates that higher-level motivational factors manifest efficacy solely subsequent to the gratification of fundamental financial requirements.

4.2 Extrinsic Motivation and Debt Recovery Performance (Objective 2)

The second objective delineated the influence of extrinsic motivational factors, specifically, bonuses, commissions, and salary adjustments, upon recovery performance.

Quantitative results indicated that extrinsic factors attained the highest mean ratings (mean ≈ 4.0) and exhibited the strongest correlation with performance ($r = 0.685$). Furthermore, these factors notably emerged as the most salient predictor within the regression model ($\beta = 0.426$, $p < .001$).

Loan officers unequivocally articulated the centrality of financial incentives. A single respondent elucidated:

"You cannot separate recovery performance from money. If there is no bonus at the end of the month, many people simply relax and stop pushing as hard as they should. Personally, I know that the commission is what really drives me because it directly affects what I take home to support my family. Targets are clearly communicated, but what pushes us to go the extra mile is the financial reward attached to achieving them. Sometimes the pressure for bonuses makes officers become too aggressive with clients, and that can damage relationships, but that is the system we work in and we have learned to operate within it."

Extrinsic motivation is the main driver of effort and persistence in debt recovery. This strongly supports Vroom's Expectancy Theory (1964), which argues that individuals are more motivated when they expect their efforts to lead to valued rewards. It is also consistent with Agency Theory (Eisenhardt, 1989; Jensen & Meckling, 1976), which emphasizes the role of incentives in aligning employee behavior with organizational goals. However, concerns about aggressive recovery practices reflect the "crowding-out" effect discussed by Frey and Jegen (2001), where excessive reliance on external rewards may undermine intrinsic motivation.

4.3 Goal-Related Motivation, Technology, and Recovery Performance (Objective 3)

This objective explored how goal-setting, digital tools, and performance tracking systems influence debt recovery.

Goal-related factors recorded strong mean scores (approximately 4.1–4.3) and the highest correlation with performance ($r = 0.789$, $p < .01$). However, their effect weakened in the regression model ($\beta = 0.171$), suggesting that their impact may depend on other factors—particularly financial incentives.

One loan officer described the situation as follows:

“We use digital dashboards that show our daily targets and progress in real time. Once you meet your target, the system automatically updates your performance for payment calculation. Technology makes it easy to know exactly where you stand every single day. You can track how many clients you have contacted and how much you have recovered. However, at the end of the day, what really matters most is what you earn when you hit the target because the goals only become truly meaningful when they are connected to the bonus or commission.”

Goals and technology provide structure, clarity, and immediate feedback, but their effectiveness depends heavily on their connection to financial rewards. This supports Goal-Setting Theory (Locke & Latham, 2002), while also indicating that in this context, goals primarily function as tools that activate and reinforce extrinsic motivation.

4.4 Environmental Factors and Recovery Process Performance (Fourth Objective)

This section delineated the influence of workplace conditions and institutional support systems upon recovery process efficacy. Environmental factors exhibited mean scores ranging from approximately 3.9 to 4.2, thereby manifesting a statistically significant positive effect ($\beta = 0.218$, $p = .015$).

One respondent explained:

“When transport is readily available and the systems are working properly, we can follow up clients on time and close cases much faster. Delays in approvals or frequent system downtime can completely slow down recovery even when you are personally motivated and ready to work. Clear procedures and good logistical support also reduce conflicts with clients. Sometimes you have the drive and the targets, but because of a poor working environment you simply cannot perform at your best level.”

Environmental factors act as essential enablers of performance. They determine whether motivation can be effectively translated into results. This is consistent with previous studies emphasizing the importance of institutional support and infrastructure in credit risk management (Jobst, 2018).

4.5 Personal Motivation, Compliance, and Regulatory Adherence (Fifth Objective)

This objective focused upon the manner in which personal attributes, inclusive of experience, discipline, and professional values, exert an influence upon compliance during debt recovery processes. The findings generally indicated moderate-to-high mean scores (approximately 3.9–4.2) and suggested a statistically significant effect upon performance ($\beta = 0.189$, $p = .043$).

A senior officer shared:

“Experienced officers know how to recover money without breaking rules or destroying long-term client relationships. You learn over time that following procedures protects both the client and the institution from bigger problems later. When you are new and the pressure to meet targets is high, it sometimes becomes tempting to ignore small procedures just to close the case quickly and move on.”

Personal maturity and discipline are demonstrably critical in the promulgation of ethical and compliant recovery practices; these attributes, in turn, may facilitate a requisite balance between the imperative for performance and the exigency of responsible, sustainable behavior.

4.6 Integrated Discussion of Findings

Overall, the findings suggest the contingency of debt recovery performance in Tier III MDIs is shaped by a combination of interrelated motivational factors as opposed to a singular influence.

Extrinsic motivation appears to constitute the strongest driver of performance, while intrinsic motivation underpins the maintenance of consistency and the cultivation of job satisfaction. Goals and technology furnish structural frameworks and directional guidance, environmental factors facilitate the execution of operational parameters, and personal attributes assure adherence to ethical mandates.

One respondent elucidated this interaction with notable clarity:

“Even if you are motivated, without the right systems, transport, and incentives, recovery becomes very difficult no matter how hard you try.”

Overall, extrinsic incentives are the main drivers of effort and performance, while intrinsic factors support satisfaction and consistency. Goals and technology provide structure but depend on rewards to be effective. Environmental factors enable task execution, and personal attributes ensure ethical and regulatory compliance. Evidence from Uganda’s microfinance sector suggests that sustainable debt recovery requires a balanced system integrating incentives, institutional support, structured processes, and human factors.

5. Discussion of Findings

5.1 Objective 1: Intrinsic Motivation and Debt Recovery Performance

The findings suggest that intrinsic motivation, particularly supervisory support, effective communication, and teamwork, exercises an important, albeit secondary, influence on debt recovery performance outcomes. While these factors enhance confidence, reduce stress, and improve the quality of borrower engagement, they may not independently constitute the primary impetus for superior performance outcomes.

This suggests that intrinsic motivation primarily strengthens how loan officers approach their work rather than the exertion of effort. Supportive supervision, for instance, facilitates the development of better recovery strategies, remain patient with difficult clients, and sustain professional conduct under pressure. These qualitative improvements contribute to efficiency and consistency but are not, in themselves, sufficient to elevate performance to superior levels.

This pattern aligns with Herzberg's Two-Factor Theory (1959), which distinguishes between motivators (intrinsic factors) and hygiene factors. Intrinsic elements such as recognition and support enhance job satisfaction but do not necessarily increase performance unless supported by external rewards. Similarly, Maslow's Hierarchy of Needs (1943) suggests that higher-order psychological needs only become dominant once basic financial needs are met.

In the context of Tier III microfinance deposit-taking institutions (MDIs) in Kampala, the findings imply that intrinsic motivation acts as a stabilizing force. It improves the quality and sustainability of recovery practices but relies on other motivational drivers—especially financial incentives—to produce robust performance outcomes.

5.2 Objective 2: Extrinsic Motivation and Debt Recovery Performance

In the assessment of debt recovery performance, extrinsic motivation emerged as the most influential factor. Financial incentives such as bonuses and commissions demonstrated a direct influence upon effort levels, persistence, and target achievement among loan officers.

This dominance of extrinsic rewards reflects the highly target-driven nature of microfinance operations, where performance is closely tied to measurable outputs such as recovery rates. The calibration of effort by loan officers appears contingent upon the anticipated financial return, thereby indicating a robust performance–reward linkage.

These findings strongly support Vroom's Expectancy Theory (1964), which posits that individuals are motivated when they believe their effort will lead to performance and, ultimately, to valued rewards. In this case, the clarity of targets and the certainty of financial incentives strengthen this expectancy relationship. The results are also consistent with Agency Theory (Eisenhardt, 1989; Jensen & Meckling, 1976), which emphasizes the role of incentives in aligning employee behavior with organizational objectives.

However, the findings also reveal a critical tension. While incentives increase effort, they may encourage overly aggressive recovery practices that risk damaging client relationships. This reflects the “crowding-out” effect discussed by Frey and Jegen (2001), where excessive reliance on external rewards can weaken intrinsic motivation and lead to unintended behavioral consequences.

Thus, while extrinsic motivation is highly effective in driving performance, it must be carefully managed to avoid undermining long-term sustainability and ethical standards.

5.3 Objective 3: Goal-Related Motivation, Technology, and Recovery Performance

The study found that goal-setting mechanisms and technological tools provide essential structure and direction to the recovery process. Digital dashboards, performance tracking systems, and clearly defined targets enable loan officers to monitor progress in real time and adjust their strategies accordingly.

However, their influence on performance appears to be conditional rather than direct. Goals and technology are most effective when they are linked to financial incentives, suggesting that they function more as facilitators of motivation than as independent drivers.

This finding is consistent with Goal-Setting Theory (Locke & Latham, 2002), which emphasizes that specific and challenging goals improve performance by focusing attention and increasing effort. In this context, technology enhances this process by providing immediate feedback and transparency.

At the same time, the reduced effect of goal-related factors in the regression analysis suggests a mediating relationship, where goals and technology strengthen the impact of extrinsic motivation rather than acting alone. In other words, targets become meaningful because they are tied to rewards, and technology becomes valuable because it makes performance measurable and visible.

Therefore, goal-setting and digital systems should be understood as enabling mechanisms that operationalize

motivation rather than as primary sources of motivation themselves.

5.4 Objective 4: Environmental Factors and Recovery Process Performance

Environmental and institutional factors appear to play a pivotal facilitative function in debt recovery performance. Elements such as transport availability, system reliability, and clear operational procedures are directly instrumental in influencing the capacity of loan officers to effectuate their responsibilities with efficacy.

These findings elucidate the insufficiency of motivation in the absence of a supportive work environment. The performance of even highly motivated officers may, indeed, be impeded by logistical constraints, systemic inefficiencies, or procedural delays, thereby compromising their efforts.

This alignment with existing scholarship underscores the pivotal role of organizational infrastructure in the determination of performance outcomes. Research conducted by Obeng and Krah (2016) and Emenike et al. (2018) suggests the criticality of institutional support systems in the facilitation of effective credit risk management.

In this study, environmental factors may be conceptualized as the mediating construct between motivation and performance. Their influence dictates the translatability of motivational impetus into tangible outcomes. The absence of adequate resources and functional systems appears to significantly diminish the impact of both intrinsic and extrinsic motivation.

5.5 Objective 5: Personal Motivation, Compliance, and Regulatory Adherence

The findings suggest that personal attributes, specifically experience, discipline, and professional values, may exert a considerable influence upon the assurance of compliance and ethical conduct during debt recovery processes.

Experienced loan officers typically possess superior capacity for the reconciliation of performance imperatives with adherence to institutional policies and regulatory frameworks; furthermore, their inclination toward the utilization of appropriate recovery strategies typically manifests in the preservation of client relationships, concurrently facilitating the attainment of desired results.

This observation thus appears to reflect the significant role of professional maturity in the shaping of behavior. While incentives may indeed stimulate performance, personal values and accumulated experience appear to exert considerable influence upon the methodology by which such performance is achieved. Conversely, less experienced officers may exhibit heightened vulnerability to the compromising of standards under duress, thereby underscoring the critical importance of robust training and mentorship programs.

These findings suggest that personal motivation operates as a regulatory mechanism within the broader motivational system. Such motivation may thereby facilitate the achievement of performance in a responsible and sustainable manner, potentially mitigating the risks associated with reputational damage and regulatory non-compliance.

5.6 Overall Discussion

Collectively, the findings suggest that the achievement of debt recovery performance within Tier III Microfinance Deposit-Taking Institutions (MDIs) is not solely attributable to a singular factor; rather, it is influenced by an intricate, interconnected system of motivations and enabling conditions.

Specifically, extrinsic motivation constitutes the primary determinant of effort and results; conversely, intrinsic motivation typically augments job satisfaction and consistency. Moreover, goal-setting and technological advancements demonstrably provide structural frameworks and real-time feedback; simultaneously, environmental factors enable the execution of strategies, and personal attributes generally ensure ethical compliance.

This integrated perspective suggests that effective debt recovery appears to necessitate a balanced approach. Over-reliance on financial incentives may produce short-term gains but risks undermining long-term relationships and ethical standards. Conversely, focusing only on intrinsic or environmental factors without adequate incentives could conceivably lead to suboptimal performance.

In line with recent evidence from the Ugandan microfinance sector, it is posited that sustainable recovery performance may be contingent upon the alignment of incentives, the strengthening of institutional support systems, the leveraging of technology, and the fostering of professional discipline among loan officers.

6. Strategic Solutions and Recommendations

6.1 For MDI Management

A more balanced and forward-looking incentive structure appears essential for microfinance deposit-taking institutions (MDIs) for the sustenance of both portfolio quality and staff performance. Current recovery-driven

reward systems tend to overemphasize short-term loan collection at the expense of long-term client relationships (Pril & Godfroid, 2017; Rigol & Roth, 2021). To address this, MDIs may consider the adoption of a Balanced Scorecard approach, wherein staff appraisal systems extend beyond recovery targets to encompass indicators such as client retention rates, and social welfare outcomes. This would help align employee behaviour with the dual mandate of microfinance, financial sustainability and social impact.

In addition, the prioritization of digital transformation appears judicious. The adoption of mobile-first loan management dashboards, automated borrower reminders, and real-time milestone tracking, can significantly reduce administrative burdens on loan officers. This shift would allow staff to spend less time on administrative documentation and more time on meaningful client engagement, credit monitoring, and problem-solving, which are critical for enhancing repayment conduct.

The adoption of an efficiency wage strategy by Microfinance Deposit-taking Institutions (MDIs) may warrant consideration. Benchmarking salaries against 2024 commercial bank pay levels may help mitigate the persistent efflux of skilled loan officers from MDIs to Tier One financial institutions; moreover, competitive remuneration not only improves retention but also stabilizes institutional memory, an aspect deemed essential for efficacious debt recovery.

6.2 Recommendations for Regulators: The Bank of Uganda (BoU) and the Uganda Microfinance Regulatory Authority (UMRA)

The purview of regulatory oversight ought to extend beyond traditional financial indicators to encompass human capital risk factors. Specifically, institutions, including the Bank of Uganda (BoU) and the Uganda Microfinance Regulatory Authority (UMRA) are advised to integrate the assessment of staff turnover rates and the auditing of incentive systems into the established CAMELS supervisory framework. Elevated staff turnover, particularly, warrants designation as an early warning signal, as it frequently precipitates disruptions in borrower relationships and may foreshadow increases in non-performing loans (NPLs).

Furthermore, the promotion of Small and Medium-sized Enterprise (SME)-specific financial product innovation by regulators is warranted. This endeavor encompasses the encouragement of Microfinance Deposit-taking Institutions (MDIs) to devise tailored loan products, featuring flexible repayment structures and grace periods, which are particularly congruent with the irregular and seasonal cash flow patterns characteristic of small and medium-sized enterprises situated in urban centers such as Kampala.

7. Conclusion

This study posits that staff motivation may constitute a principal determinant of debt recovery performance within Ugandan Microfinance Deposit-taking Institutions, potentially elucidating over three-quarters of the variance in recovery outcomes. While extrinsic incentives remain highly effective in driving short-term performance, particularly in competitive urban environments, the long-term viability of the sector appears contingent upon the adoption of a more integrated approach.

The trajectory of microfinance performance may reside in the judicious combination of financial incentives with advanced digital systems and robust ethical safeguards. When properly structured, staff motivation can be treated not just as a human resource concern, but as a micro-prudential management tool that supports portfolio quality, reduces non-performing loans, and strengthens the role of MDIs in promoting inclusive economic growth in Uganda and the wider Sub-Saharan region.

References

- Agarwal, S., & Ben-David, I. (2018). Loan prospecting and the loss of soft information. *Journal of Financial Economics*, 129(3), 608–628. <https://doi.org/10.1016/j.jfineco.2018.05.003>
- Bank of Uganda. (2022). *Annual report on microfinance regulation and supervision in Uganda*.
- Bank of Uganda. (2023). *Annual supervision report 2023*. Bank of Uganda. <https://www.bou.or.ug>
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77–101. <https://doi.org/10.1191/1478088706qp063oa>
- Creswell, J. W. (2018). *Designing and Conducting Mixed Methods Research*, 3rd ed. https://catalog.maranatha.edu/index.php?p=show_detail&id=51811
- Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2019). The microfinance business model: Enduring subsidy and modest profit. *The World Bank Economic Review*, 33(1), 221–244. <https://doi.org/10.1093/wber/lhx018>
- Deci, E. L., & Ryan, R. M. (2020). Self-determination theory and the facilitation of intrinsic motivation, social development, and well-being. *American Psychologist*, 75(1), 104–118. <https://doi.org/10.1037/amp0000450>
- Duho, K. C. T. (2023). Determinants of capital adequacy and voluntary capital buffer among microfinance

- institutions in an emerging market. *Cogent Economics & Finance*, 11(2). <https://doi.org/10.1080/23322039.2023.2285142>
- Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *Academy of Management Review*, 14(1), 57–74. <https://doi.org/10.5465/amr.1989.4279003>
- Emenike, K. O., Shieler, B., & Amu, C. U. (2018). Credit Risk Management and Financial Performance of Microfinance Institutions in Kampala, Uganda. *Independent Journal of Management & Production*, 9(1), 153–169. <https://doi.org/10.14807/ijmp.v9i1.658>
- Gneezy, U., Meier, S., & Rey-Biel, P. (2019). When and why incentives (don't) work to modify behavior. *Journal of Economic Perspectives*, 33(4), 1–21. <https://doi.org/10.1257/jep.33.4.1>
- Goodwin-Groen, R. (2003). Microfinance regulation in Uganda: Policy development and institutional framework. In *CGAP Working Paper*. CGAP. <https://www.cgap.org>
- Herzberg, F., Mausner, B., & Snyderman, B. B. (1959). *The motivation to work*, 2nd ed.
- Hilary, M., & Christian, B. J. (2024). The microfinance sector in Uganda: Journey, experiences, lessons, and outlook. *International Journal of Multidisciplinary Comprehensive Research*, 3(1), 99–121. <https://doi.org/10.54660/ijmcr.2024.3.1.99-121>
- International Monetary Fund. (2023). *Financial inclusion in Sub-Saharan Africa: Challenges and opportunities*. IMF. <https://www.imf.org>
- Islam, T., & Ismail, R. (2014). Linking extrinsic motivation and organizational performance: Evidence from microfinance organizations. *Management Research Review*, 37(9), 789–810.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405x\(76\)90026-x](https://doi.org/10.1016/0304-405x(76)90026-x)
- Jobst, A. (2018). Credit Risk Dynamics of Infrastructure Investment. In *World Bank, Washington, DC eBooks*. <https://doi.org/10.1596/29540>
- Ledgerwood, J. (2013). The New Microfinance Handbook: A Financial Market System Perspective. *RePEc: Research Papers in Economics*. <https://econpapers.repec.org/RePEc:wbk:wbpubs:12272>
- Locke, E. A., & Latham, G. P. (2002). Building a practically useful theory of goal setting and task motivation: A 35-year odyssey. *American Psychologist*, 57(9), 705–717. <https://doi.org/10.1037/0003-066x.57.9.705>
- Maslow, A. H. (1943). A theory of human motivation. *Psychological Review*, 50(4), 370–396. <https://doi.org/10.1037/h0054346>
- Menghini, S., Sottini, V. A., & Fratini, R. (2024). From fair market value to judicial market value of real estate. *Aestim*, 84, 19–29. <https://doi.org/10.36253/aestim-15228>
- Muindi, C. W., Koori, J., & Irungu, A. M. (2026). Credit Insurance and Quality of Loan Portfolio of Microfinance Banks in Kenya. *Journal of Finance and Accounting*, 10(1), 43–57. <https://doi.org/10.53819/81018102t5410>
- Musimenta, D., Nkundabanyanga, S. K., & Muhwezi, M. (2021). Motivation and employee performance in Ugandan financial institutions. *African Journal of Economic and Management Studies*, 12(2), 210–225.
- Oc, Y., & Plangger, K. (2021). GIST do it! How motivational mechanisms help wearable users develop healthy habits. *Computers in Human Behavior*, 128, 107089–107089. <https://doi.org/10.1016/j.chb.2021.107089>
- Patton, M. Q. (2014). Qualitative Research & Evaluation Methods: Integrating Theory and Practice. In *Medical Entomology and Zoology*. Japan Society of Medical Entomology and Zoology. <http://ci.nii.ac.jp/ncid/BB18275167>
- Pril, J. D., & Godfroid, C. (2017). How to Reconcile Financial Incentives and Prosocial Motivation of Loan Officers in Microfinance. *RePEc: Research Papers in Economics*. <https://EconPapers.repec.org/RePEc:sol:wpaper:2013/248473>
- Rigol, N., & Roth, B. (2021). Loan Officers Impede Graduation from Microfinance: Strategic Disclosure in a Large Microfinance Institution. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3958631>
- Ryan, R. M., & Deci, E. L. (2020). Intrinsic and extrinsic motivation from a self-determination theory perspective: Definitions, theory, practices, and future directions. *Contemporary Educational Psychology*, 61, 101860–101860. <https://doi.org/10.1016/j.cedpsych.2020.101860>
- Sanchez, I. A., Churchill, C., Collins, D., Earne, J., El-Zoghbi, M., Ferrand, D., Gähwiler, B., Gibson, A., Johnson, S. O., Lauer, K., Ledgerwood, J., Lehman, J., Ribo, I. M., Mcconaghy, P., Miller, C., Nelson, C., O’Keeffe, G., Rutherford, S., Sherk, L., ... Vincze, J. (2013). *The New Microfinance Handbook*.

<https://doi.org/10.1596/978-0-8213-8927-0>

Tarafdar, M., Pullins, E. B., & Ragu-Nathan, T. S. (2020). Technostress: Negative effects on performance and well-being. *Information Systems Research*, 31(2), 432–448. <https://doi.org/10.1287/isre.2019.0890>

Uganda Microfinance Regulatory Authority. (2022a). *Annual report on microfinance regulation and supervision in Uganda*. UMRA. <https://www.umra.go.ug>

Vroom, V. H. (1964). *Work and motivation*.

World Bank. (2022). *Digital financial services and financial inclusion in Sub-Saharan Africa*. World Bank Group. <https://www.worldbank.org>

Y., Muhammad. (2003). *Banker to the poor micro-lending and the battle against world poverty*. http://bvbr.bib-bvb.de:8991/F?func=service&doc_library=BVB01&local_base=BVB01&doc_number=015696519&sequence=000003&line_number=0001&func_code=DB_RECORDS&service_type=MEDIA

Yunus, M. (2007). *Banker to the poor: Micro-lending and the battle against world poverty*. PublicAffairs.

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).