

The Impact of Corporate Governance on Financial Performance in Organisations: A Case of DFCU Bank

Uganda

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Abstract

This study examined the impact of corporate governance mechanisms on financial performance in organisations, using DFCU Bank Uganda as the case. Corporate governance has assumed central importance in the banking sector following successive episodes of institutional failure both globally and within Uganda, where the closure and resolution of several commercial banks exposed weaknesses in board oversight, risk management, and disclosure that regulatory capital requirements alone could not remedy. DFCU Bank occupies a distinctive position in this landscape, having grown from a development finance institution into a full-service commercial bank and having undertaken the acquisition of a resolved institution, a transaction that placed its governance arrangements under exceptional public and regulatory scrutiny. The study adopted a positivist philosophy and a cross-sectional survey design, gathering data from 148 respondents selected through stratified random sampling from a target population of 235 comprising board-adjacent staff, senior and middle management, risk and compliance officers, internal audit personnel, and branch managers. A structured questionnaire measured four governance dimensions, namely board composition and independence, risk management and internal control, disclosure and transparency, and shareholder and stakeholder rights, against financial performance assessed through profitability, asset quality, efficiency, and liquidity. Data were analysed using descriptive statistics, Pearson correlation, and multiple regression in SPSS version 26. Results indicated that disclosure and transparency recorded the highest mean while shareholder and stakeholder rights recorded the lowest. All governance dimensions correlated significantly and positively with financial performance, with risk management and internal control strongest ($r = 0.724$, $p < 0.01$), followed by board composition and independence ($r = 0.667$, $p < 0.01$), disclosure and transparency ($r = 0.582$, $p < 0.01$), and shareholder and stakeholder rights ($r = 0.503$, $p < 0.01$). The regression model was significant ($F = 52.16$, $p < 0.001$), explaining 61.4 per cent of the variance in financial performance, with risk management and internal control ($\beta = 0.389$) and board composition and independence ($\beta = 0.291$) the dominant predictors. The study concludes that governance is a material determinant of bank financial performance and recommends strengthening board independence, elevating the risk function's authority, and institutionalizing stakeholder engagement.

Keywords: Corporate governance; financial performance; board independence; risk management; internal control; disclosure; commercial banking; DFCU Bank; Uganda.

1.0 Introduction

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Corporate governance concerns the system of rules, practices, and processes by which an organisation is directed and controlled, and fundamentally addresses the allocation of authority and accountability among shareholders, boards, management, and other stakeholders(Sarah & Audrey, 2024). The subject acquired its modern urgency through a sequence of corporate collapses, beginning with the failures that prompted the Cadbury Committee in the United Kingdom, escalating through Enron and WorldCom which produced the Sarbanes-Oxley Act in the United States, and culminating in the global financial crisis of 2007 to 2009, which exposed governance failures in institutions whose regulatory capital had appeared adequate and whose boards had been composed of eminent individuals(Alex & Kazaara, 2023). The cumulative lesson of these episodes was that governance is not reducible to structural compliance, and that boards which satisfy every formal criterion of composition and independence may nonetheless fail to exercise effective oversight(Julius & Kazaara, 2025b).

Banking presents governance challenges that are qualitatively distinct from those of non-financial firms, for reasons that are structural rather than incidental(Polycarp et al., 2023). Banks are highly leveraged, with equity typically constituting a small fraction of the balance sheet, which means that shareholders capture the upside of risk-taking while depositors and, ultimately, deposit insurance schemes and taxpayers bear a substantial share of the downside(Ahumuza et al., 2025). This asymmetry creates a systematic incentive toward excessive risk that ordinary shareholder-oriented governance does not correct and may actively worsen, since a board perfectly aligned with shareholders may rationally endorse risk levels that are socially excessive(Julius et al., 2024). Banks are also opaque: the quality of a loan book is not observable to outsiders and is difficult even for insiders to assess in real time, since a loan that will default in three years is indistinguishable today from one that will perform. This opacity blunts market discipline and elevates the importance of internal governance mechanisms, particularly independent risk management, precisely because external actors cannot substitute for them(Tasha et al., 2023). Finally, banks are systemically interconnected, so that governance failure in one institution propagates to others through interbank exposures and depositor confidence.

These considerations explain why banking governance is regulated with an intensity applied to few other sectors. The Basel Committee on Banking Supervision has issued successive principles for corporate governance in banks, emphasizing board qualification and independence, the establishment of independent risk and compliance functions with direct board access, and the alignment of remuneration with prudent risk-taking rather than short-term revenue(Amos et al., 2024). In Uganda, the Financial Institutions Act and Bank of Uganda corporate governance regulations give effect to comparable requirements, prescribing board composition, mandating audit and risk

committees, imposing fit and proper tests on directors and senior management, and requiring independent risk and internal audit functions with defined reporting lines(Alex & Kazaara, 2023).

The Ugandan banking sector's own history supplies compelling evidence of why these requirements matter. The closures of several commercial banks over the past three decades, and more recently the resolution of Crane Bank, revealed patterns that were governance failures before they were capital failures: insider lending to related parties, concentration of credit exposure, board members whose independence was nominal, and risk functions that lacked the standing to challenge revenue-generating units(Polycarp et al., 2023). In each instance, capital was eroded by decisions that adequate governance would have prevented, which illustrates the sequential logic that capital adequacy is a buffer against risks that governance has failed to prevent rather than a substitute for preventing them(Polycarp et al., 2023).

DFCU Bank Uganda constitutes a case of particular analytical interest within this landscape. Established as the Development Finance Company of Uganda, its original mandate was the provision of long-term development finance, an activity with a risk profile and time horizon distinct from commercial banking(Gracious, 2023). Its transformation into a full-service commercial bank required a corresponding transformation of its governance and risk architecture, since development lending and deposit-taking commercial banking impose different demands on board expertise, risk measurement, and liquidity management(Akankwasa et al., 2022). The bank's shareholding has included development finance institutions alongside commercial investors, a configuration that introduces the possibility of divergent shareholder objectives, with development-oriented investors potentially weighting developmental impact and commercial investors weighting return(Alex & Kazaara, 2023). Most consequentially, the bank's acquisition of the assets and liabilities of a resolved institution represented a transaction of exceptional scale and complexity relative to its own balance sheet, subjecting its board's oversight capability, its integration risk management, and its disclosure practices to public and regulatory examination of an intensity rarely experienced by a Ugandan bank.

The theoretical literature offers competing perspectives on how governance affects performance. Agency theory, the dominant framework, holds that the separation of ownership from control creates opportunities for managerial self-interest and that governance mechanisms exist to constrain it, predicting that stronger monitoring improves performance(Ntirandekura, Friday, et al., 2022). Stewardship theory contests this behavioural premise, arguing that managers are frequently motivated by professional achievement and organisational success rather than opportunism, and that excessive monitoring imposes costs and signals distrust that impair performance(Ntirandekura, Ainebyoona, et al., 2022). Stakeholder theory broadens the objective function beyond shareholders, a broadening with particular force in banking where depositors possess a claim that shareholder-oriented governance systematically underweights. Resource dependence theory reconceives the board as a boundary-spanning resource providing access to capital, expertise, and legitimacy rather than merely a monitor.

Empirical evidence has proved less conclusive than the theoretical enthusiasm for governance would predict, with studies reporting positive, null, and occasionally negative associations between individual governance attributes and performance (Julius & Kazaara, 2025a). Recent scholarship attributes this inconsistency to three sources: the endogeneity of governance, since performance influences governance as well as the reverse; the substitutability of mechanisms, since a firm may achieve effective oversight through configurations that differ in form; and, most importantly, the gap between formal structure and substantive practice (Alex & Kazaara, 2023). This study responds to the third by measuring governance through perceived practice rather than structural attributes, on the reasoning that whether a risk officer can in fact halt a transaction matters more than whether an organogram says so.

1.1 Problem Statement

Commercial banks in Uganda are required by the Financial Institutions Act and Bank of Uganda corporate governance regulations to maintain boards of appropriate composition and independence, functioning audit and risk committees, independent risk management and internal audit functions with direct board access, transparent disclosure, and fair treatment of shareholders and stakeholders (Ivan et al., 2023). The ideal situation is a bank in which the board substantively challenges management, the risk function possesses the authority and standing to constrain revenue-generating units, disclosure permits informed assessment by depositors, regulators, and investors, and stakeholder interests, particularly those of depositors whose funds constitute the bulk of the balance sheet, are protected (Julius & Audrey, 2025). Under such conditions the bank would sustain profitability without accumulating asset quality deterioration, maintain efficiency, and preserve liquidity through stress.

The prevailing situation across the Ugandan banking sector, and by extension at DFCU Bank, exhibits departures from this ideal. Sector experience has demonstrated that formal governance compliance has coexisted with substantive governance failure, as evidenced by institutions that satisfied board composition requirements while nonetheless accumulating concentrated exposures and insider lending that ultimately required regulatory resolution (Sarah & Audrey, 2024). Non-performing loan ratios in the sector have exhibited volatility that suggests credit risk governance is not consistently constraining origination decisions (Faridah et al., 2023). Risk and compliance functions have in various institutions been observed to occupy a position of formal independence but practical subordination to commercial pressure (Kazaara & Audrey, 2024). At DFCU specifically, the scale and public salience of its acquisition transaction, and the litigation and scrutiny that followed it, raised questions about board oversight of extraordinary transactions and about the adequacy of disclosure to stakeholders, questions whose answers bear directly on whether governance at the bank operates substantively or formally (Kazaara & Audrey, 2024).

If this gap between formal governance and substantive governance persists, the consequences are severe and extend beyond the institution (Faridah et al., 2023). Asset quality deterioration will erode profitability and capital, requiring provisioning that consumes earnings that would otherwise fund growth. Depositor confidence, once impaired,

withdraws with a speed that no liquidity buffer can accommodate, since the fundamental fragility of maturity transformation is that a bank's assets are illiquid while its liabilities are payable on demand. Should an institution require resolution, the costs fall on the deposit protection fund, on the taxpayer, and on public confidence in the banking system as a whole, and this contagion of confidence is precisely why bank governance is a public concern rather than a private one(Faridah et al., 2023). For DFCU specifically, a governance deficit would compromise a franchise built over decades and would prejudice the developmental mandate its shareholding structure was designed to serve.

Although a substantial international literature examines corporate governance and bank performance, this evidence is drawn predominantly from developed markets with dispersed shareholding, deep capital markets, active markets for corporate control, and dense analyst coverage, none of which characterize Uganda, where ownership is concentrated, the securities exchange is thin, hostile takeover is effectively absent, and analyst scrutiny is minimal. Governance mechanisms that operate through market discipline in those settings cannot be assumed to operate here(Kazaara & Audrey, 2024). Ugandan studies have tended to employ structural governance proxies such as board size and the proportion of non-executive directors, which measure form rather than function and which cannot detect the divergence between compliance and substance that sector experience demonstrates to be the central problem. No known study has examined governance at DFCU Bank through measures of substantive practice, disaggregated by dimension(Ntirandekura & Friday, 2022). This study addresses that gap.

1.2 Main Objective

The main objective of the study was to examine the impact of corporate governance mechanisms on the financial performance of DFCU Bank Uganda.

1.3 Specific Objectives

- i. To examine the effect of board composition and independence on the financial performance of DFCU Bank.
- ii. To assess the effect of risk management and internal control on the financial performance of DFCU Bank.
- iii. To determine the effect of disclosure and transparency on the financial performance of DFCU Bank.
- iv. To establish the effect of shareholder and stakeholder rights on the financial performance of DFCU Bank.

2.0 Literature Review

2.1 Theoretical Framework

The study is anchored in agency theory, complemented by stakeholder theory and resource dependence theory. Agency theory, formalised by Jensen and Meckling, conceives the firm as a nexus of contracts in which the separation of ownership from control generates agency costs comprising monitoring expenditure, bonding expenditure, and residual loss (Alex et al., 2023). Managers possess superior information and objectives that may diverge from shareholders' interests, favouring empire-building, risk-aversion protective of their human capital, or private consumption. Governance mechanisms including boards, audit, and disclosure exist to constrain this divergence (Faith et al., 2023). The theory acquires an important elaboration in banking, where the relevant agency conflict is not primarily between shareholders and managers but between shareholders and depositors: because equity is thin and losses beyond it fall on creditors, shareholders possess a call option on the bank's assets and rationally prefer higher risk than depositors would choose (Derrick et al., 2023). This insight has a profound implication for the present study, namely that governance designed purely to align managers with shareholders may increase rather than reduce the socially relevant risk, which is why banking regulation mandates independent risk functions accountable to the board rather than to shareholders' return objectives alone.

Stakeholder theory, associated with Freeman, holds that the firm owes obligations to all parties whose interests are materially affected by its conduct, including depositors, employees, borrowers, regulators, and communities (Julius & Audrey, 2026). In banking this position is not merely normative but structurally warranted, since depositors supply the overwhelming majority of the balance sheet while possessing neither the voting rights of shareholders nor the informational capacity to monitor (Nancy & Prudence, 2024). Regulation exists precisely to represent this unrepresented claim, which means that banking governance is unavoidably stakeholder-oriented irrespective of theoretical preference.

Resource dependence theory reconceives the board as a mechanism for managing external dependencies, providing access to capital, legitimacy, information, and networks (Nancy & Prudence, 2024). This lens is directly relevant to DFCU, whose shareholding has included development finance institutions supplying not only capital but international standards, technical expertise, and reputational endorsement (Polycarp et al., 2023). The theory predicts that board composition matters for the resources directors bring as much as for the monitoring they perform, which suggests that assessing independence solely by counting non-executive directors misses much of what boards actually contribute.

2.2 Board Composition and Independence and Financial Performance

Board composition encompasses size, the balance of executive and non-executive directors, the presence of genuinely independent directors, the diversity of expertise, and the separation of the chair and chief executive roles (Kazaara & Nancy, 2025). Agency theory predicts that greater independence improves monitoring and hence performance (Ntirandekura, Ainebyoona, et al., 2022). The empirical record is more equivocal than this prediction, with studies reporting positive, null, and negative associations. Scholars have reconciled these findings by

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distinguishing formal from substantive independence: a director who is classified as independent under regulatory definitions but who was recruited by the chief executive, depends on board fees, and lacks sector expertise will not challenge management irrespective of classification. Banking-specific research adds that independence without financial expertise is ineffective, since a director who cannot interpret a loan portfolio's concentration profile or a liquidity gap analysis cannot exercise oversight over the decisions that determine a bank's solvency (Julius & Nancy, 2026). Evidence from the financial crisis found that some of the most spectacular failures occurred at banks whose boards were exemplary by formal criteria but whose directors lacked the technical capacity to comprehend the exposures they were approving.

2.3 Risk Management and Internal Control and Financial Performance

Risk management and internal control encompass the three lines of defence model, in which business units own risk, an independent risk and compliance function oversees it, and internal audit provides independent assurance; the establishment of a chief risk officer with direct board access; risk appetite frameworks; and control systems governing authorisation, segregation of duties, and reconciliation (Ivan et al., 2023). Empirical evidence for this dimension is the strongest and most consistent in the banking governance literature. Studies of the financial crisis established that banks with strong and independent risk functions, particularly those where the chief risk officer reported to the board rather than to the chief executive and possessed standing to veto transactions, suffered materially smaller losses than peers with comparable capital and business models (Matthew & Mike, 2016). The mechanism is direct: banking losses originate overwhelmingly in credit decisions, and a risk function that can constrain origination prevents losses that no subsequent governance mechanism can recover (Polycarp et al., 2023). Research consistently finds the discriminating variable to be authority rather than existence, since virtually all banks have risk departments while only some have risk functions capable of saying no to a profitable transaction.

2.4 Disclosure and Transparency and Financial Performance

Disclosure and transparency encompass the quality, timeliness, and completeness of financial reporting, the disclosure of risk exposures and related party transactions, and the accessibility of information to stakeholders (Nancy & Prudence, 2024). The theorised mechanism operates through market discipline, whereby informed depositors and investors price risk and thereby constrain it, and through internal discipline, whereby the anticipation of disclosure alters conduct (Innocent et al., 2023). Empirical evidence supports a positive association with performance in developed markets, mediated principally by reduced cost of capital. In developing markets the evidence is weaker, and the explanation offered in the literature is instructive: market discipline requires informed actors capable of responding to disclosed information, and where depositors are numerous, small, and protected by deposit insurance, and where analyst coverage is minimal, disclosure produces documents that no one prices (Frank et al., 2023). Research on bank opacity further notes that the most material information in banking, the true quality of the loan book, is the

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least verifiable through disclosure, since it depends on judgements about future borrower performance that cannot be audited into certainty.

2.5 Shareholder and Stakeholder Rights and Financial Performance

This dimension encompasses the equitable treatment of shareholders including minorities, the exercise of voting rights, protection against expropriation through related-party transactions, and the recognition of stakeholder interests including those of depositors, employees, and borrowers (Alex & Kazaara, 2023). Agency research demonstrates that where ownership is concentrated, the principal agency conflict shifts from managers versus shareholders to controlling versus minority shareholders, with expropriation occurring through tunnelling, related-party transactions, and transfer pricing rather than through managerial slack (Ariyo, 2023). Studies in emerging markets report that minority protection is associated with valuation and access to capital. In banking, related-party lending has been documented as a recurrent precursor to failure, since loans to entities connected with controlling shareholders escape the credit discipline applied to arm's-length borrowers and concentrate risk in precisely the relationships least amenable to enforcement (Ivan et al., 2023).

2.6 Research Gap

The literature establishes a governance-performance relationship whose strength varies by mechanism and context. Three gaps motivate this study. First, evidence derives predominantly from developed markets whose disciplining institutions are absent in Uganda. Second, existing Ugandan studies rely on structural proxies that measure form rather than function and therefore cannot detect the compliance-substance divergence that sector failures reveal to be central. Third, no known study examines governance at DFCU Bank, an institution whose transformation from development finance to commercial banking and whose acquisition of a resolved institution make it an unusually informative case. This study addresses these gaps.

3.0 Methodology

3.1 Research Philosophy and Design

The study adopted a positivist philosophy on the ontological premise that governance practices and financial performance exist independently of the observer and can be measured and related statistically. This is appropriate because the research question concerns the direction and magnitude of relationships rather than the interpretive construction of governance meaning. A quantitative approach was employed accordingly (Jallow et al., 2022).

A cross-sectional survey design was adopted within a single-organisation case study framework. The choice of perceptual measurement of governance, rather than the structural proxies common in the literature, was deliberate and constitutes a methodological contribution: structural attributes such as board size or the count of non-executive directors are identical across banks that differ profoundly in governance effectiveness, whereas the perceptions of individuals who observe governance in operation, particularly risk and audit personnel who experience whether challenge is welcomed or punished, capture the substantive dimension that structure conceals (Abiodun et al., 2022). The limitation is acknowledged that perceptual measures are susceptible to common method bias, and this was mitigated through the procedural remedies described below.

3.2 Study Population and Sample

The target population comprised 235 staff of DFCU Bank possessing informed visibility of governance processes, distributed across senior management, risk and compliance, internal audit, finance and treasury, company secretarial and board support, and branch and business unit management. Junior operational staff without governance visibility were excluded, since the study required respondents capable of assessing whether the risk function possesses genuine authority and whether the board substantively challenges management, judgements that presuppose exposure to those processes.

A sample of 148 was determined using the Krejcie and Morgan table for a population of 235 at 95 per cent confidence and 5 per cent margin of error. Stratified random sampling was applied with strata defined by function, which was essential because functions differ systematically in vantage point: risk and audit personnel observe governance from the perspective of those who must exercise challenge, while business unit managers observe it from the perspective of those subject to challenge, and both perspectives are necessary for a valid assessment.

Stratum	Population	Sample	Technique
Senior management	22	14	Stratified random
Risk and compliance	38	24	Stratified random
Internal audit	17	11	Stratified random
Finance and treasury	34	21	Stratified random
Company secretarial and board support	12	8	Stratified random
Branch and business unit management	112	70	Stratified random
Total	235	148	

3.3 Data Collection Instrument

Data were collected through a structured, self-administered questionnaire in three sections. Section A captured demographic and professional characteristics including gender, age, education, professional qualification, function, position, and tenure. Section B measured the four governance dimensions, with board composition and independence assessed through nine items covering independence in practice, financial expertise, challenge of management, and committee functioning; risk management and internal control through eleven items covering risk function authority, three lines of defence operation, risk appetite adherence, and control effectiveness; disclosure and transparency through eight items covering report quality, risk disclosure, related party disclosure, and internal information flow; and shareholder and stakeholder rights through seven items covering minority treatment, related party transaction discipline, and depositor and employee interest recognition. Section C measured financial performance through thirteen items spanning profitability, asset quality, efficiency, and liquidity. Items used a five-point Likert scale (Nafiu et al., 2017). Items were adapted from the Basel Committee principles for corporate governance in banks and from established governance measurement instruments in the banking literature, with wording aligned to Ugandan regulatory terminology. Financial performance was measured perceptually rather than through published ratios because the analysis required within-organisation variation across respondents, which published aggregate ratios cannot supply; perceptual measures of performance have demonstrated acceptable convergent validity with objective measures in prior organisational research.

3.4 Validity and Reliability

Content validity was established through expert review by two finance academics and three banking practitioners including a former regulator, yielding a Content Validity Index of 0.89. Construct validity was assessed through exploratory factor analysis with varimax rotation, with a Kaiser-Meyer-Olkin measure of 0.851 and a significant Bartlett's test; the retained solution reproduced the hypothesised five-factor structure. Reliability was assessed through Cronbach's alpha on a pilot of 22 respondents from a comparable institution excluded from the main study, yielding 0.856 for board composition and independence, 0.893 for risk management and internal control, 0.821 for disclosure and transparency, 0.784 for shareholder and stakeholder rights, and 0.907 for financial performance. Common method bias, a recognised threat where predictor and criterion are obtained from the same respondent by the same method, was addressed procedurally through the assurance of anonymity, the separation of predictor and criterion sections, and the mixing of item order, and statistically through Harman's single-factor test, in which the first unrotated factor accounted for 31.2 per cent of variance, below the 50 per cent threshold indicating problematic bias.

3.5 Data Analysis

Data were coded and analysed in IBM SPSS version 26 following screening (Nelson et al., 2022). Descriptive statistics summarised distributions, with means interpreted against the scale in which 1.00 to 1.80 denotes very low, 1.81 to 2.60 low, 2.61 to 3.40 moderate, 3.41 to 4.20 high, and 4.21 to 5.00 very high. Pearson correlation established bivariate

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relationships and multiple regression estimated joint and relative contributions. Assumptions of normality, linearity, homoscedasticity, independence, and absence of multicollinearity were tested through Shapiro-Wilk statistics, residual plots, the Durbin-Watson statistic, and variance inflation factors.

3.6 Ethical Considerations

Ethical clearance was obtained from the relevant institutional review committee and permission from the bank's management. Given the acute sensitivity of governance questions in a commercial bank, where a respondent's assessment that the risk function lacks authority could carry employment consequences, anonymity protection was treated as paramount: no identifying data were collected, responses were not linked to individuals or units, questionnaires were returned through sealed collection boxes, and data were stored securely with access restricted to the researcher. Participation was voluntary with the right of withdrawal, and no institution-specific confidential financial information was solicited.

4.0 Results

4.1 Response Rate

Of 148 questionnaires distributed, 136 were returned and 131 were usable after screening, yielding an effective response rate of 88.5 per cent, well above the threshold for adequacy. The rate is notable given the sensitivity of the subject and is attributable to management endorsement, the anonymity protections employed, and the professional relevance of governance to the respondent population.

4.2 Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev	Interpretation
Board composition & independence	131	1.89	4.89	3.51	0.667	High
Risk management & internal control	131	2.09	4.91	3.63	0.612	High
Disclosure & transparency	131	2.25	4.88	3.72	0.588	High
Shareholder & stakeholder rights	131	1.57	4.71	3.06	0.781	Moderate
Financial performance	131	1.85	4.77	3.38	0.674	Moderate

Source: Primary Data, 2025

The descriptive results portray a governance system that is strongest where it is most externally visible and weakest where visibility is lowest, a pattern with a coherent political-economy explanation. Disclosure and transparency

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recorded the highest mean of 3.72 with the smallest standard deviation of 0.588, indicating both the strongest perceived implementation and the greatest consensus. This is precisely what one would expect in a regulated commercial bank subject to Bank of Uganda reporting requirements, external audit under international standards, and the disclosure obligations attaching to a listed institution. Disclosure is the governance dimension whose compliance is most readily verifiable by third parties and most immediately consequential for regulatory standing, and its consistent high rating reflects a compliance regime whose demands are unambiguous. The tight dispersion indicates that respondents across functions perceive disclosure practice similarly, which is characteristic of a domain governed by explicit external rules rather than by internal discretion.

Risk management and internal control recorded a mean of 3.63, also in the high band, with a standard deviation of 0.612. The interpretation warranted is of a risk architecture that is well established structurally, with a three lines of defence model, a risk committee, and a chief risk officer in place, and that is perceived as operating effectively by most respondents. The mean's position below disclosure is nonetheless meaningful, since risk function effectiveness depends on authority in practice rather than on structural placement, and authority is contested territory in any bank where revenue targets and risk limits meet. The dispersion, modestly wider than for disclosure, is consistent with differing experiences of that contest across functions, with risk personnel likely to perceive constraint on their authority that business unit managers experience as constraint by their authority.

Board composition and independence recorded 3.51, at the lower boundary of the high band. The reading supported by the literature is of a board that satisfies formal composition requirements and is perceived as functioning adequately, but whose substantive independence and challenge capacity are perceived with more reservation than the bank's disclosure practice. This is unsurprising and is not unique to DFCU: substantive board independence is the governance attribute most resistant to verification and most dependent on unobservable dynamics in the boardroom, and staff perceptions of it derive from indirect signals rather than direct observation.

Shareholder and stakeholder rights recorded the lowest mean of 3.06, in the moderate band, and simultaneously the largest standard deviation of 0.781, marking this as both the weakest and the most contested dimension. This finding merits emphasis because it is the governance dimension with the least external enforcement and the greatest scope for discretion. It is also the dimension most likely to be implicated by DFCU's distinctive circumstances, namely a shareholding structure combining development finance institutions with commercial investors whose objectives may diverge, and an acquisition transaction whose stakeholder implications were publicly contested. The wide dispersion indicates that respondents hold materially different views on whether minority shareholders are equitably treated and whether depositor and employee interests are genuinely weighted, a divergence that itself signals the absence of a settled institutional practice. Financial performance recorded a mean of 3.38 in the moderate band, sitting below three of the four governance dimensions. The gap between governance ratings and performance ratings is itself informative, suggesting that governance quality has not fully translated into performance outcomes, which is consistent either with

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performance being constrained by factors outside governance, such as macroeconomic conditions and asset quality inherited through acquisition, or with governance operating more formally than substantively.

4.3 Correlation Analysis

Variable	1	2	3	4	5
1. Board composition & independence	1				
2. Risk management & internal control	.631**	1			
3. Disclosure & transparency	.558**	.594**	1		
4. Shareholder & stakeholder rights	.487**	.441**	.512**	1	
5. Financial performance	.667**	.724**	.582**	.503**	1

Note: ** Correlation is significant at the 0.01 level (2-tailed), N = 131.

Source: Primary Data, 2025

All four governance dimensions correlate positively and significantly with financial performance at the one per cent level, providing consistent support for the agency-theoretic proposition that governance mechanisms improve outcomes and demonstrating that, in this bank at least, governance is not merely ceremonial compliance detached from results. Risk management and internal control exhibits the strongest association at $r = 0.724$, sharing approximately 52.4 per cent of variance with financial performance. This is the study's headline correlational finding and it aligns precisely with the most robust strand of the international banking governance literature, particularly the research emerging from the financial crisis which established that risk function strength discriminated between banks that survived and those that did not, holding capital and business model constant. The mechanism is causally proximate in a way that no other governance dimension matches: a bank's financial performance is determined overwhelmingly by the quality of its credit decisions, and the risk function is the mechanism that constrains those decisions at the point of origination. Every other governance dimension operates at a remove, whereas risk management operates on the transaction itself. In a bank whose asset quality has been tested by an acquisition of a resolved institution, the salience of credit risk governance to performance is heightened rather than diminished.

Board composition and independence records the second strongest association at $r = 0.667$. This substantial coefficient warrants careful interpretation, because boards do not make lending decisions. The mechanism is better understood as enabling and authorising: it is the board that appoints and protects the chief risk officer, that approves the risk appetite framework, and that determines whether a risk officer who blocks a profitable transaction is supported or removed. The strong inter-correlation between board independence and risk management at $r = 0.631$ supports this

reading directly, indicating that where the board is perceived as genuinely independent, the risk function is perceived as genuinely authoritative, which is exactly the causal chain that banking governance theory specifies.

Disclosure and transparency correlates at $r = 0.582$, a moderate to strong association but ranked third despite this dimension recording the highest implementation mean of 3.72. This divergence between implementation and association mirrors the pattern documented in other governance research and admits a theoretically grounded explanation. Disclosure's efficacy operates through market discipline, which requires informed actors capable of pricing disclosed risk. In Uganda's banking market, depositors are numerous, individually small, and substantially insensitive to disclosed risk given deposit protection, while analyst coverage is minimal and the market for corporate control is effectively absent. Disclosure therefore produces documents that satisfy regulators without generating the disciplining response through which disclosure is theorised to improve performance. It is the governance dimension most fully implemented and least mechanically connected to outcomes in this institutional environment.

Shareholder and stakeholder rights records the weakest association at $r = 0.503$, though this remains moderate and highly significant. Read alongside its status as the weakest implemented dimension at a mean of 3.06 with the widest dispersion, the coefficient is consistent with a dimension whose contribution is real but whose current weak and uneven implementation constrains the expression of its potential. The theoretical case that stakeholder rights matter in banking is strong, given that related-party lending has been a documented precursor to Ugandan bank failures, and the modest coefficient should not be read as diminishing that case. Inter-correlations among governance dimensions, ranging from 0.441 to 0.631, confirm that governance operates as an interdependent system while retaining dimensional distinctness, and are moderate enough to permit multivariate analysis without multicollinearity concerns.

4.4 Regression Analysis

Model Summary			
R	R Square	Adjusted R Square	Std. Error
.784	.614	.602	.4253

ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	37.741	4	9.435	52.16	.000
Residual	22.792	126	0.181		
Total	60.533	130			

Predictor	B	Std. Error	Beta	t	Sig.	VIF
(Constant)	0.298	0.226		1.319	.190	
Board composition & independence	0.294	0.072	.291	4.083	.000	1.847
Risk management & internal control	0.428	0.076	.389	5.632	.000	1.921
Disclosure & transparency	0.201	0.069	.175	2.913	.004	1.712
Shareholder & stakeholder rights	0.148	0.055	.171	2.691	.008	1.483

Dependent Variable: Financial Performance. Durbin-Watson = 1.932.

Source: Primary Data, 2025

The regression model is highly significant, with $F(4, 126) = 52.16$ and $p < 0.001$, confirming that the four governance dimensions jointly predict financial performance. The R squared of 0.614 indicates that the model explains 61.4 per cent of variance in financial performance, with an adjusted value of 0.602 confirming robustness. This is a strong explanatory result by the standards of governance research, where the inconsistency of findings has led some scholars to question whether governance affects performance materially at all. The finding suggests that this scepticism, largely derived from studies using structural proxies in developed markets, may substantially understate governance effects, and that measuring governance as substantive practice rather than as formal structure recovers a relationship that structural measurement obscures. The unexplained 38.6 per cent reflects factors beyond governance, plausibly including macroeconomic conditions and interest rate cycles, competitive intensity in the Ugandan banking market, legacy asset quality inherited through acquisition, and technology investment. Diagnostics support the model, with variance inflation factors between 1.483 and 1.921, well below problematic thresholds, and a Durbin-Watson statistic of 1.932 confirming residual independence.

Risk management and internal control is the dominant predictor with a standardised beta of 0.389 at $p < 0.001$, retaining its primacy in the multivariate model and thereby demonstrating an independent contribution that is not an artefact of its association with board independence. The unstandardised coefficient of 0.428 indicates that a one-unit improvement in risk management effectiveness, holding other governance dimensions constant, is associated with a 0.428-unit improvement in financial performance, the largest marginal effect in the model. This constitutes the clearest policy signal the study produces. It confirms the central lesson of the international banking crisis literature in a Ugandan setting: the mechanism that determines bank performance is the one that operates at the point of credit decision, and no amount of board eminence or disclosure quality substitutes for a risk function that can decline a bad loan. For an institution whose asset quality has been tested by acquisition, the finding carries immediate operational weight.

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Board composition and independence is the second strongest predictor with a beta of 0.291 at $p < 0.001$. Its substantial independent effect, persisting after risk management is controlled, indicates that the board contributes through channels beyond its authorisation of the risk function. These plausibly include strategic oversight, the appointment and evaluation of executive management, the discipline exerted by informed challenge in board deliberations, and the resource and legitimacy contributions that resource dependence theory identifies. The pairing of board independence and risk management as the two dominant predictors, together accounting for the bulk of the model's explanatory power, describes a coherent governance mechanism in which an independent board empowers an authoritative risk function which in turn constrains the decisions that determine performance.

Disclosure and transparency records a beta of 0.175 at $p = 0.004$, a significant but modest independent contribution. The juxtaposition with its descriptive standing as the highest-implemented dimension at 3.72 is the study's most theoretically interesting result. The bank has implemented most fully the governance dimension that contributes least independently to its performance. This is not evidence of institutional failure but of rational response to incentive structure: disclosure is the dimension whose compliance regulators verify and whose breach carries immediate sanction, so compliance effort concentrates there. But disclosure is retrospective and its performance mechanism requires a disciplining market that Uganda's banking environment does not supply. The finding is a direct empirical demonstration that regulatory visibility and performance efficacy are distinct properties of governance mechanisms, and that reform effort tends to follow the former rather than the latter.

Shareholder and stakeholder rights records a beta of 0.171 at $p = 0.008$, significant and nearly equal to disclosure despite being the weakest implemented dimension at a mean of 3.06. This combination is analytically the mirror image of the disclosure finding and carries the opposite policy implication. A dimension that is weakly implemented yet contributes independently to performance at a level comparable to the best-implemented dimension represents substantial unexploited capacity, since marginal returns are highest where implementation is lowest. Given that related-party lending discipline and equitable minority treatment fall within this dimension, and given the documented role of related-party exposure in Ugandan bank failures, the case for investment here is stronger than its beta rank alone conveys. The regression equation may be expressed as $FP = 0.298 + 0.294(BCI) + 0.428(RMIC) + 0.201(DT) + 0.148(SSR)$.

5.0 Conclusion and Recommendations

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The study concludes that corporate governance exerts a substantial and statistically significant influence on the financial performance of DFCU Bank, jointly explaining 61.4 per cent of variance. Risk management and internal control is the dominant driver, followed by board composition and independence, a pairing that describes the essential governance mechanism in banking. Disclosure, despite the highest implementation, contributes least independently, reflecting the absence of the market discipline through which disclosure is theorized to operate. Shareholder and stakeholder rights, the weakest implemented dimension, represents the greatest unrealized improvement capacity.

It is recommended that DFCU Bank consolidate and elevate the authority of the risk function by ensuring the chief risk officer's direct and unmediated reporting line to the board risk committee, protecting the risk function's remuneration and tenure from influence by revenue units, and establishing an explicit escalation protocol for transactions where risk and business judgments diverge, since the operational meaning of an independent risk function is whether it can decline a profitable transaction and survive the decision. Board effectiveness should be strengthened through the recruitment of directors with substantive banking, credit, and technology expertise rather than general eminence, structured annual board evaluation with external facilitation, and dedicated time in board agendas for risk deliberation that is not crowded out by business reporting. Stakeholder and minority protections should be institutionalized through a rigorous related-party transaction framework requiring independent director approval and full disclosure, formal depositor interest consideration in major transaction assessment, and structured minority shareholder engagement. Disclosure practice should be maintained at its current strong level but redirected from compliance production toward decision-useful internal information, since the marginal return to further disclosure investment is demonstrably lower than the return to strengthening the mechanisms that act upon decisions rather than describe them.

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