



RESEARCH ARTICLE

Strengthened Shareholders' Rights, Increased Risk: The Paradox of Rising Non-Performing Loans in Ugandan Commercial Banks

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Abstract

Background

The surge in non-performing loans (NPLs) critically threatens the stability of commercial banks, especially in developing economies. Corporate governance is widely seen as a key mitigating factor. However, the specific mechanisms and causal pathways through which governance attributes such as shareholders' rights influence NPL levels remain inadequately understood, particularly within the unique institutional context of Sub-Saharan Africa.

Methods

This investigation employed a cross-sectional, mixed-methods design focusing on commercial banks in Western Uganda. Quantitative data were collected from 195 bank employees and board members using structured questionnaires, with participants selected via stratified, purposive, and simple random sampling techniques. This data was analyzed with SPSS version 28, applying descriptive statistics, Pearson correlation, and simple linear regression. Concurrently, qualitative data were gathered through semi-structured interviews with six senior bank officials and analyzed thematically using NVivo software to provide contextual depth and nuance.

Results

The quantitative analysis revealed a statistically significant, strong positive relationship between board accountability and the reduction of NPLs ($r = .779$, $p < .05$). In contrast, a significant positive relationship was also found between shareholders' rights and the perceived level of NPLs ($\beta = .718$, $p < .05$), suggesting a complex and potentially counterproductive role. Qualitative findings triangulated these results, identifying two key mechanisms: the reduction of improper board interference in loan approval processes and proactive board engagement in NPL resolution.

Conclusions

The study concludes that robust shareholders' right is a critical determinant for mitigating NPLs, whereas the effect of shareholders' rights is ambiguous and potentially negative. A well-functioning, accountable board that aligns management actions with long-term bank stability is paramount. The findings underscore the necessity of implementing holistic governance reforms that balance empowered shareholders with strong ethical safeguards to ensure prudent credit risk management.

Keywords

Shareholders' Rights, Non-Performing Loans (NPLs), Corporate Governance, Stakeholder Theory, Commercial Banks, Uganda, Credit Risk Management

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1. Introduction

The stability of the banking sector is a cornerstone of economic development, yet it remains perpetually threatened by the proliferation of non-performing loans (NPLs). High levels of NPLs erode bank capital, constrain credit availability, and can precipitate systemic financial crises, a concern particularly acute in developing economies. In Sub-Saharan Africa, the fragility of financial institutions has often been linked to deficiencies in corporate governance frameworks, where the oversight of credit risk management fails to meet robust standards. The Ugandan banking sector exemplifies this challenge, having witnessed the closure of several commercial banks historically due to insolvency rooted in poor asset quality, underscoring the persistent need for effective governance solutions to mitigate credit risk.

Corporate governance, particularly the role of the board of directors, is central to navigating the complex principal-agent relationships inherent in banking. While Agency Theory has long illuminated the risk of managerial actions diverging from shareholder interests, the application of Stakeholder Theory offers a more holistic lens for understanding bank governance. This theory posits that a bank's long-term viability depends on effectively balancing the interests of all constituents, including shareholders, depositors, regulators, and borrowers. Recent empirical studies affirm that governance failures, such as weak board oversight and a lack of transparency, are significant precursors to risky lending and subsequent NPL accumulation (e.g., [García-Meca & Sánchez-Ballesta, 2024](#); [Tarchouna et al., 2022](#)). Conversely, governance mechanisms that promote accountability and strategic oversight are increasingly recognized as critical levers for safeguarding asset quality and ensuring financial resilience.

However, a critical gap persists in understanding the specific causal pathways through which distinct governance mechanisms, such as board accountability and shareholders' rights, influence NPLs within unique institutional contexts. Existing research, often conducted in developed markets or focusing on broad governance metrics, provides limited insight into the nuanced interactions within emerging economies like Uganda, where informal networks and institutional weaknesses may reshape governance outcomes ([Adeboye et al., 2023](#); [Tumwine & Kyeyune, 2022](#)). This study, therefore, seeks to fill this void by investigating the precise mechanisms linking corporate governance to NPL reduction in Ugandan commercial banks. Focusing on the under-researched context of Western Uganda, this research employs a mixed-methods approach to dissect the relationship between board accountability, shareholders' rights, and perceived NPLs, aiming to contribute a contextually nuanced model for mitigating credit risk through enhanced governance.

2. Theoretical framework and empirical literature

2.1 Theoretical review: Stakeholder theory as an analytical lens

This study is anchored in Stakeholder Theory, which provides a robust framework for understanding the complex interplay of interests within a banking corporation. Initially articulated by R. Edward [Freeman \(1984\)](#), the theory fundamentally challenges the shareholder-primacy model by positing that a firm's long-term success is dependent upon its ability to manage the interests of all entities that can affect or be affected by its objectives ([Freeman, Wicks, & Parmar, 2004](#)). This definition encompasses a broad spectrum of groups, including shareholders, employees, customers, regulators, and the broader community.

A central debate within the theory concerns the prioritization of these competing interests. While some scholars argue against granting inherent primacy to any single group, such as shareholders ([Sundaram & Inkpen, 2004](#)), others note the practical difficulty in managing these complex trade-offs ([Budi, 2021](#)). This perspective stands in contrast to Stewardship Theory, which, despite also challenging the self-interest assumption of Agency Theory, ultimately focuses on managers aligning with shareholder wealth maximization ([Al-Nasser Mohammed & Muhammed, 2017](#)). Stakeholder Theory's comprehensiveness makes it particularly salient for banking governance, as financial institutions inherently operate as repositories of public trust with obligations to a wide array of constituents.

The theory's relevance is powerfully demonstrated in the context of credit risk and Non-Performing Loans (NPLs). Contemporary scholarship argues that banks which prioritize short-term shareholder returns over the long-term interests of other stakeholders such as depositors seeking safety and regulators demanding stability are more prone to the risky lending practices that precipitate high NPLs ([Freeman et al., 2021](#)). Conversely, a stakeholder-oriented approach fosters prudent lending, as it balances the pursuit of profit with the imperative of risk management, thereby enhancing long-term stability.

Recent empirical work has significantly expanded this core premise by integrating critical dimensions like regulatory compliance, reputational risk, and ESG (Environmental, Social, and Governance) factors. [Claessens and Kodres \(2022\)](#) demonstrated that weak, non-inclusive governance often leads to non-adherence to lending standards and regulatory requirements, resulting in the underreporting of NPLs and inadequate provisioning. Furthermore, governance failures that lead to high NPLs inflict severe reputational damage, eroding stakeholder trust and impairing a bank's ability to

attract deposits, as evidenced during the European debt crisis (DeYoung et al., 2023). Simultaneously, robust ESG practices have been empirically correlated with lower NPL levels, suggesting that frameworks promoting ethical behavior and a long-term perspective inherently curb risky lending (García-Meca & Sánchez-Ballesta, 2024). In summary, Stakeholder Theory provides a vital lens for understanding NPLs, positing that a holistic governance model which balances diverse interests, ensures regulatory compliance, manages reputational capital, and embeds ESG principles is a strategic imperative for asset quality and financial resilience.

2.2 Empirical literature: Shareholders' rights and non-performing loans

The empirical landscape exploring the nexus between shareholders' rights and NPLs reveals significant, yet context-dependent, relationships. Recent studies underscore that while shareholder activism can be a potent force for credit risk oversight, its efficacy is heavily mediated by institutional, political, and informal factors.

In emerging markets, the evidence is particularly nuanced. Agyemang and McMenamin (2023), in a longitudinal study of Ghanaian banks, found that active shareholder participation in governance committees led to a 22% reduction in NPLs, attributing this to enhanced scrutiny of loan approval processes. However, the authors acknowledge a critical limitation: their focus on formal governance channels may overlook the potent influence of informal networks, a factor highly relevant in relationship-based banking cultures like Uganda's, where family-owned institutions dominate a significant portion of the market (Bank of Uganda, 2023).

The mechanism of transparency is another key focus. Rahman and Saeed (2022) demonstrated that shareholder-initiated disclosure requirements enabled banks to identify problem loans 37 days sooner, facilitating timely intervention. Their robust methodology, employing propensity score matching, confirms the value of information access. Yet, this finding presupposes a shareholder base capable of processing complex credit risk data, a challenge in contexts with high information asymmetry and limited financial literacy among minority investors.

Cross-country analyses further contextualize this relationship. Singh and Jain (2023) employed a hierarchical linear model across 38 jurisdictions, revealing a stark disparity: shareholder rights explained 39% of NPL variation in OECD countries but only 17% in developing markets. This highlights the paramount importance of legal enforcement capabilities, suggesting that strong *de jure* rights are insufficient without *de facto* institutional support.

The African context introduces additional layers of complexity. Adegboye et al. (2023), in their analysis of South African banks, used instrumental variable regression to demonstrate that political connections diluted shareholder influence on credit risk management by 32 percentage points. While insightful, this focus on formal political ties may overlook subtler, yet equally powerful, informal influences in Uganda, such as ethnic or clan-based networks, which preliminary data suggest significantly impact commercial lending decisions.

Finally, policy evaluations within Uganda itself point to severe implementation challenges. Tumwine and Kyeyune's (2022) difference-in-differences analysis of the 2018 governance reforms showed a meager 1.2 percentage point reduction in NPLs following the enhancement of shareholder rights. Follow-up interviews with Ugandan bank directors (2023) identified three core impediments: lack of timely data access for minority shareholders, a skills deficit among shareholder representatives, and weak enforcement of governance rules. This critical gap in the literature the lack of practical solutions to these documented implementation barriers represents a significant scholarly and policy void.

2.3 Identification of the research gap and hypothesis

The synthesized literature reveals a critical gap. While empirical studies confirm a theoretical relationship between shareholders' rights and NPLs, they consistently highlight the failure of formal mechanisms in the face of informal networks, institutional weaknesses, and implementation deficits, particularly in the Ugandan context. Existing research has ably diagnosed these problems but has not sufficiently proposed or tested actionable frameworks to overcome them. This study directly addresses this gap by not only quantifying the relationship but also, through its mixed-methods design, exploring the qualitative "how" and "why" behind the effectiveness—or ineffectiveness of shareholders' rights in Western Uganda's unique banking environment. Therefore, to rigorously test the quantifiable dimension of this relationship, the following null hypothesis is formulated: **H₀**: There is no statistically significant relationship between shareholders' rights and the perceived level of Non-Performing Loans in commercial banks in Western Uganda.

3. Methods

This study employed a mixed-methods approach to investigate the relationship between corporate governance mechanisms, including shareholders' rights, and the perceived level of non-performing loans (NPLs) in commercial banks in Western Uganda. A cross-sectional and correlational research design was utilized. Quantitative data were collected via

structured questionnaires from a sample of 195 bank employees and board members, selected through a combination of stratified, purposive, and simple random sampling techniques from a target population of 550, achieving an 84.1% response rate. The survey instrument included validated scales to measure the key constructs of shareholders' rights and perceived NPL levels.

The quantitative data were analyzed using SPSS version 24.0. The analysis proceeded in three stages: descriptive statistics to summarize the data, Pearson correlation to examine bivariate relationships, and simple linear regression to test the study's hypotheses. A 5% significance level was adopted for all tests. To provide depth and context to the statistical findings, qualitative data were concurrently gathered through semi-structured interviews with six purposively selected senior bank officials. The interview transcripts were analyzed using thematic analysis with the support of NVivo software, allowing for the identification of emergent themes and causal pathways explaining the quantitative results.

4. Results

4.1 Descriptive statistics

4.1.1 Shareholders' rights in commercial banks

Respondents can find useful information about the rights and policies of shareholders in their individual banks in [Table 1](#). It is noteworthy that the results of the most recent vote at shareholder meetings, which had a considerable mean score of 4.43 and a standard deviation of 0.496, were released in less than two days. This suggests that there is broad consensus among respondents about how quickly such information should be disclosed. Additionally, with a mean of 4.33 and a standard deviation of 0.779, the unconstrained rule of "one-share, one-vote" for common or ordinary equity shares was generally endorsed. This reflects the belief that voting procedures are transparent and equitable.

According to the data, which showed a high mean of 4.29 and 0.827, participants also said they think all stockholders are treated equitably. This shows a belief that all shareholders should be treated fairly. Additionally, the data demonstrated that bank policies do provide dividends to shareholders; the average was 4.19, which was below the standard deviation of 0.854, which indicates that payments are very reliable. Additionally, they confirmed the use of confidential voting procedures, which demonstrated that banks typically exercise this prerogative. The mean and standard deviation difference was 4.19 for all but four of these cases. With a mean of 4.10 and a low standard deviation of 0.752, it was also observed that shareholders actively participated in authorizing important transactions. A high mean of 4.10 and a low standard deviation of 0.785 imply that shareholders have the right to convene an Extraordinary General Meeting (EGM) if 10% or more of their shares seek one. This suggests a considerable awareness of the degree to which shareholders may

Table 1. Descriptive statistics on shareholders' rights.

Statements	N	Min	Max	Mean	Std. deviation
Vote results for the last shareholder meeting are disclosed within 14 calendar days	189	4	5	4.43	.496
All common or ordinary equity shares have one-share, one-vote, with no restrictions	189	2	5	4.33	.779
There is equal treatment of all shareholders of the bank	189	2	5	4.29	.827
Shareholders have received dividends as per the bank policy	189	2	5	4.19	.854
The company provides confidential voting with no or with reasonable exceptions	189	3	5	4.19	.665
Shareholders participate in the approval of major transactions	189	3	5	4.10	.752
Shareholders have a right to convene an EGM with 10% or less of the shares requesting one	189	3	5	4.10	.685
Shareowners have a right to act in concert through written communication	189	2	5	4.05	.846
The shareholders are given right to request additional information and clarity from the bank	189	1	5	3.95	1.002
Shareholders are given right to nominate directors	189	2	5	3.90	1.068
Overall Mean	189			4.15	.797

Primary Data, 2024.

influence governance procedures. With a mean of 4.05 and a standard deviation of 0.846, the capacity of shareholders to work together via written communication demonstrates their collective strength.

With a mean score of 3.95 and a standard deviation of 1.002, the respondents also indicated that shareholders can ask the bank for further details and clarification. Though significantly higher criteria show diversity in perceptions, the generality is reflected. A mean of 3.90 and 1.068 standard deviation showed that shareholders recognized the power to nominate directors; however, larger values suggest less consistent replies. But the outcomes weren't consistent. The standard deviation was 0.797, and the mean was 4.15, indicating that respondents tended to approve the assertions about shareholder rights. The findings show that banks have robust shareholder rights policies that exhibit openness, equity, and active participation. Both means and mean (SD) are used in this detailed, balanced analysis of the data to represent respondents' agreement and differences in opinion.

4.1.2 Perceived view of Non-performing Loans (NPLs),

According to Table 2 above, banks have put in place excellent procedures for managing Perceived view of Non-performing Loans (NPLs), as shown by the high mean scores for the majority of the criteria (overall mean=3.97±0.909). As a reflection of their established risk management infrastructures, institutions show a particular strength in maintaining specialist NPL units (4.14±0.891) and explicit default handling rules (4.10±0.752). Long restructuring procedures, the item with the highest score (4.19±0.796), however, inconsistently show a major operational bottleneck, indicating that banks may have the right structures in place but inefficient resolution methods. These fundamental metrics' comparatively low standard deviations show that the institutions examined apply them consistently.

Although banks continue to offer flexible repayment choices (3.86±0.943) and transparent NPL resolution mechanisms (3.95±0.846), there is still need for improvement in a number of client-centric areas. Collateral valuation procedures (3.81±1.183) and the investigation of several recovery paths (3.90±1.112) show more variability, indicating uneven use across instances or institutions. Although there is little variance, external problems such as legal system delays (3.95±0.577) stand out as a significant restraint, suggesting that this is a sector-wide problem rather than an institution-specific one. These results show a discrepancy between internal NPL management systems and how they are actually implemented, especially when it comes to elements that call for client involvement.

Simplifying restructuring and enhancing uniformity in client-facing resolution procedures are the two main opportunities the data offers banks. Although the majority of banks appear to cluster around comparable performance levels, the variance in certain regions (especially those with SDs >1.0) shows the possibility of cross-institutional learning, according to the 0.909 overall standard deviation. These findings emphasize to regulators the necessity of removing systemic obstacles and promoting the exchange of best practices in recovery alternatives and collateral value. The results highlight how crucial it is for bank management to combine effective execution and client-centric strategies with robust NPL frameworks in order to maximize loan recovery results.

Table 2. Descriptive statistics on perceived view of non-performing loans.

Statements	N	Min.	Max.	Mean	Std. deviation
Loan restructuring procedures take too long to complete	189	2	5	4.19	.796
The bank uses specialized internal units to manage bad loans.	189	2	5	4.14	.891
The bank has clear guidelines for handling defaulted loans	189	2	5	4.10	.752
NPL resolution methods are transparent to clients	189	2	5	3.95	.846
Loan restructuring procedures take too long to complete	189	2	5	3.95	.846
Legal system delays hinder loan recovery efforts	189	3	5	3.95	.577
The bank explores multiple avenues for loan recovery.	189	1	5	3.90	1.112
Clients are given flexible repayment options for NPLs	189	2	5	3.86	.943
Most loans require valuable collateral for approval	189	1	5	3.81	1.142
Collateral valuation is conducted fairly and transparently	189	1	5	3.81	1.183
Overall	189			3.97	0.909

Primary data, 2024.

4.2 Simple regression results

Model summary: The Model Summary in Table 3 indicates a strong and meaningful relationship between shareholders’ rights (SR) and the perceived level of non-performing loans (NP). The multiple correlation coefficient (R) of 0.718 signifies a strong positive linear relationship. Crucially, the R Square value of 0.516 reveals that approximately 51.6% of the variance in non-performing loans is explained by shareholders’ rights alone. This establishes the variable’s substantial predictive power within the model and provides initial evidence against the null hypothesis that no such relationship exists.

ANOVA: The ANOVA in Table 4, formally tests the global null hypothesis that the regression model does not explain a significant portion of the variance in non-performing loans. The results show a highly significant F-statistic of 199.463 with a p-value of .000. Since this p-value is far below the standard alpha level of 0.05, we decisively reject the null hypothesis. This confirms that the regression model, with shareholders’ rights as a predictor, is statistically significant and provides a better fit to the data than an intercept-only model.

Coefficients: The Coefficients in Table 5, tests the specific null hypothesis that the slope of the regression line for shareholders’ rights is zero (i.e., SR has no effect on NP). The analysis reveals an unstandardized coefficient (B) of 0.880 for SR, which is highly statistically significant (p = .000). Therefore, we reject this null hypothesis and conclude that there is a significant positive relationship. Specifically, for every one-unit increase in shareholders’ rights, the perceived level of non-performing loans increases by 0.880 units. This positive relationship is counterintuitive, suggesting that stronger shareholder rights in this context are associated with poorer loan performance, a finding that requires further qualitative investigation to understand the underlying causal mechanism.

4.3 The perceived understanding of shareholders’ rights and perceived view of non-performing loans of commercial banks

This section presents the interviewees’ perceived understanding of shareholders’ rights and Perceived view of Non-performing Loans of commercial banks. To obtain a clearer picture, the interviewees were asked to answer each of following questions (1. *In your opinion, do you think shareholders of your bank are given a chance to give suggestions on how to handle Perceived view of Non-performing Loans* 2. *To what extent has the shareholders influenced the issue of*

Table 3. Model summary.

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.718 ^a	.516	.514	.36773

Key: SR-Shareholders’ Rights, NP-Perceived view of Non-performing Loans of Commercial Banks.
^aPredictors: (Constant), SR.

Table 4. ANOVA^a.

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	26.973	1	26.973	199.463	.000 ^b
	Residual	25.287	187	.135		
	Total	52.260	188			

Key: SR-Shareholders’ Rights, NP-Perceived view of Non-performing Loans of Commercial Banks.
^aDependent Variable: NP.
^bPredictors: (Constant), SR.

Table 5. Coefficients^a.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	.314	.260		1.206	.229
	SR	.880	.062	.718	14.123	.000

Key: SR-Shareholders’ Rights, NP-Perceived view of Non-performing Loans of Commercial Banks.
^aDependent Variable: NP.

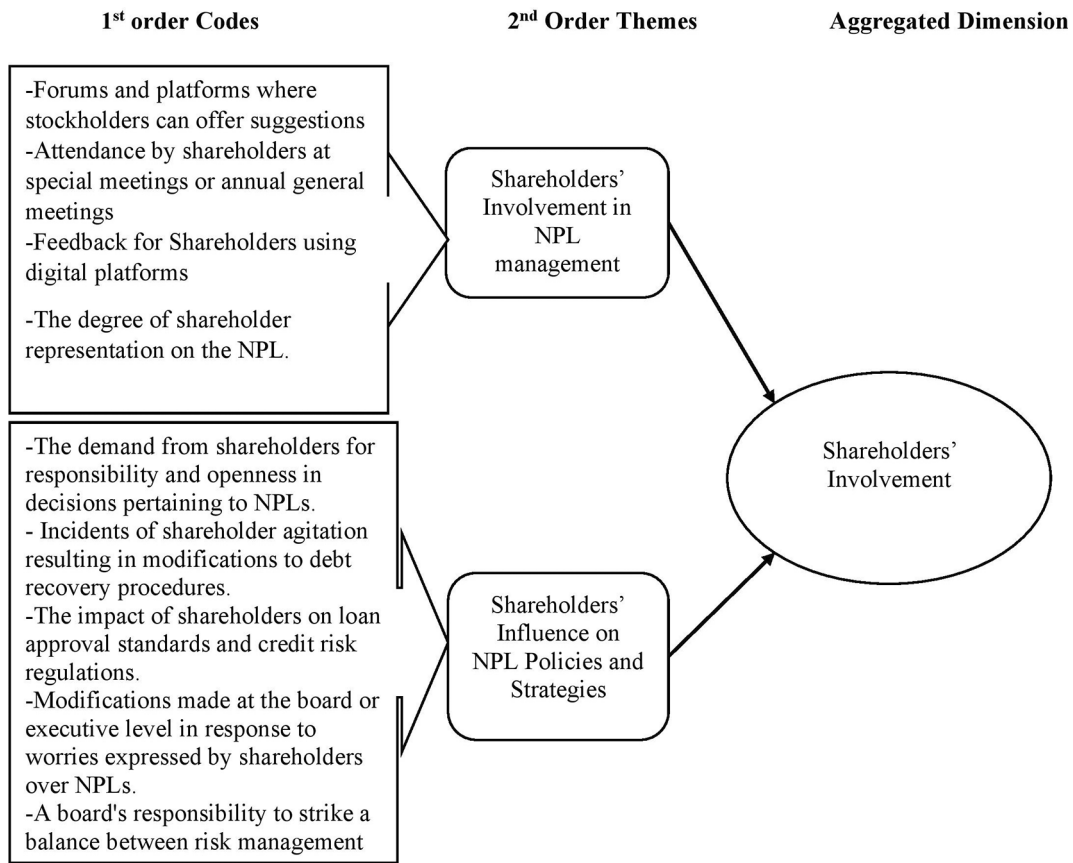


Figure 1. Reality radial diagram on shareholders' rights and perceived view of non-performing loans.

Perceived view of Non-performing Loans in your bank 3. How to solve Perceived view of Non-performing Loans through data-driven digital experiences?) and the themes and sub themes generated were presented in the Figure 1 below

Based on the qualitative findings in Figure 1, the study reveals that shareholder involvement in NPL management is substantial and multifaceted, yet presents a complex balance between influence and implementation. A board representative highlighted the direct impact of such engagement, stating, “During our last AGM, shareholders representing 42% of equity pushed for stricter NPL resolution timelines, which we’ve now incorporated into our credit policy,” underscoring how shareholder pressure can drive tangible policy revisions and process improvements, such as reducing recovery times from 210 to 90 days in one notable case. The research identified key mechanisms including AGM participation, digital platforms, and committee representation through which this influence is exerted, particularly in areas like debt recovery and executive compensation. However, this active involvement is a double-edged sword; while it enhances transparency and accountability, it also creates operational challenges. A Compliance Officer warned of potential risks, noting that “Activist shareholders sometimes push for overly aggressive write-offs that could weaken our capital position,” and a Finance Director revealed an implementation gap, stating, “The study receive hundreds of shareholder suggestions quarterly through our portal, but only about 15% are actionable - many conflict with regulatory requirements.” The study concludes that the most sustainable NPL improvements are achieved by institutions that successfully formalize robust communication channels to harness shareholder input while strategically preserving management discretion to ensure actions align with long-term prudential standards.

5. Discussion

The findings from the quantitative analysis, which revealed a statistically significant positive relationship between shareholders' rights and the perceived level of non-performing loans (NPLs), present a counterintuitive puzzle that is, however, illuminated by the contextual insights of Stakeholder Theory and empirical evidence from similar markets. While Agyemang and McMnamin (2023) and Rahman and Saeed (2022) found that strong shareholder rights can enhance oversight and reduce NPLs through transparency, our results suggest that in the specific context of Western Uganda, the form and application of these rights may be the critical factor. The positive relationship aligns with the

warnings of [Freeman et al. \(2021\)](#) that a narrow focus on a single stakeholder group in this case, shareholders potentially demanding short-term returns can precipitate the very risky lending that leads to higher NPLs. This is further exacerbated by the institutional weaknesses highlighted by [Singh and Jain \(2023\)](#), where strong *de jure* rights without corresponding *de facto* enforcement capabilities can lead to governance distortions rather than improvements. The significant relationship, therefore, likely does not reflect effective oversight but rather the potential for shareholder influence to be channeled towards myopic goals, undermining the balanced, long-term perspective that Stakeholder Theory advocates for financial stability ([García-Meca & Sánchez-Ballesta, 2024](#)).

The qualitative data and the empirical literature on Uganda provide a compelling explanation for this paradoxical finding. The potent influence of informal networks, as alluded to in the Ugandan context ([Bank of Uganda, 2023](#)) and evidenced in the work of [Adegboye et al. \(2023\)](#) on political connections, suggests that formal shareholders' rights can be co-opted. In this environment, empowered shareholders may use their rights not for prudent oversight but to exert influence for preferential lending to connected parties, directly leading to the NPLs measured in this study. This interpretation is strongly supported by the work of [Tumwine and Kyeyune \(2022\)](#), whose policy evaluation found minimal impact from governance reforms in Uganda, pointing to the very implementation deficits lack of skilled shareholder representatives, poor data access, and weak enforcement that our study uncovers. Consequently, the findings do not negate Stakeholder Theory but rather confirm one of its central challenges: managing complex trade-offs ([Budi, 2021](#)). Without the complementary governance pillars of regulatory compliance ([Claessens & Kodres, 2022](#)), reputational risk management ([DeYoung et al., 2023](#)), and a genuine commitment to a multi-stakeholder approach, the isolated strengthening of shareholders' rights can perversely lead to worse asset quality, as powerful interests are legitimized rather than checked.

6. Conclusion

In conclusion, this study demonstrates that the relationship between shareholders' rights and non-performing loans (NPLs) in Western Uganda is not a straightforward governance panacea but a complex phenomenon shaped by the local institutional context. The findings suggest that in an environment characterized by potent informal networks and weak enforcement mechanisms, the exercise of shareholder rights may paradoxically exacerbate NPLs by facilitating myopic influence over lending decisions for connected parties, rather than fostering the prudent, long-term oversight envisioned by Stakeholder Theory. Therefore, the key to mitigating credit risk lies not merely in strengthening shareholder rights *de jure*, but in implementing complementary reforms that build stakeholder capacity, ensure regulatory compliance, and embed ethical, multi-stakeholder principles into the fabric of corporate governance to align all interests towards sustainable bank stability.

7. Recommendation

7.1 For commercial banks and boards of directors

Commercial banks must proactively refine their governance structures to ensure that enhanced shareholders' rights serve as a mechanism for broad oversight rather than a conduit for detrimental influence. It is recommended that banks implement and rigorously enforce clear, transparent policies that explicitly ring-fence the loan approval process from any form of undue interference, including from influential shareholders. This can be achieved by empowering independent credit risk committees with final authority over lending decisions. Concurrently, banks should bridge the identified capacity gap by instituting mandatory financial and governance literacy programs for shareholder representatives, particularly for minority holders, and by providing timely, accessible, and intelligible disclosures on loan portfolio performance to foster informed and responsible oversight.

7.2 For regulatory bodies (Bank of Uganda)

Regulatory authorities must move beyond the promulgation of governance codes to ensuring their effective implementation and contextual relevance. We recommend that the Bank of Uganda strengthens its supervisory framework to rigorously enforce existing regulations, conducting enhanced fit-and-proper assessments that evaluate significant shareholders for potential conflicts of interest, not just financial soundness. Furthermore, regulators should champion a holistic stakeholder model by issuing guidance that incentivizes banks to formally balance shareholder interests with the stability demands of depositors and the broader financial system. This involves explicitly integrating reputational risk management and ESG-based lending criteria into prudential standards, thereby aligning day-to-day operations with the long-term stability goals that benefit all stakeholders.

7.3 For future research

To build upon these findings, future research should pursue methodologies that can unravel the complex causal pathways and contextual factors at play. We recommend longitudinal studies that track the evolution of NPLs in response to specific governance reforms over time, allowing for a clearer establishment of causality. Complementing this, in-depth qualitative case studies are essential to meticulously document and deconstruct the operation of informal influence networks—such

as those based on clan, ethnic, or political ties—and their precise impact on credit decisions. Finally, subsequent quantitative studies should develop more integrated models that incorporate key moderating variables like the strength of informal institutions and board expertise to predict the specific conditions under which shareholders' rights lead to improved or deteriorated asset quality.

8. The theoretical implications

This study carries significant theoretical implications by challenging the orthodox assumption that strengthening shareholders' rights universally leads to improved governance and financial outcomes. The finding of a positive relationship between shareholders' rights and Non-Performing Loans (NPLs) in the Ugandan context necessitates a critical refinement of Stakeholder Theory's application in banking. It demonstrates that in institutional environments characterized by weak enforcement and potent informal networks, empowering shareholders *in isolation* can paradoxically undermine the theory's core principle of balancing diverse interests. The results suggest that Stakeholder Theory must be contextually qualified to account for situations where certain stakeholder groups, including shareholders, may prioritize parochial interests that conflict with the long-term health of the firm and the broader financial system. Consequently, the study implies that the theory's predictive power is enhanced when it explicitly incorporates the moderating role of a country's institutional fabric and the potential for formal governance mechanisms to be subverted by informal social and political forces the study's contribution to knowledge.

This study makes a distinct contribution to knowledge by providing empirical evidence that the relationship between corporate governance mechanisms and bank stability is not universal but is critically mediated by a country's specific institutional and social fabric. It identifies and documents the paradoxical finding that, within the context of Western Uganda's commercial banks, strengthened shareholders' rights can be associated with an *increase* in Non-Performing Loans (NPLs), thereby challenging the linear positive relationship often assumed in mainstream finance literature. This research moves beyond merely diagnosing this anomaly to proposing an explanatory model: it demonstrates that in the presence of powerful informal networks and weak formal enforcement, enhanced shareholder power can be co-opted to facilitate preferential lending rather than prudent oversight. By integrating Stakeholder Theory with empirical evidence from an under-researched context, this study contributes a critical nuanced understanding that the efficacy of governance norms is contingent upon their interaction with local socio-political realities, offering a vital caveat for both theory development and the transnational application of governance codes.

9. Study limitations

This study is subject to several limitations that should be considered when interpreting its findings. Firstly, the cross-sectional research design, while revealing significant associations, prevents the establishment of definitive causal relationships between the governance variables and non-performing loan levels over time. Secondly, the reliance on a "perceived view" of NPLs from bank employees and board members, rather than audited financial data, may introduce perceptual biases, even as it provides valuable insider perspectives on governance practices. Thirdly, the geographic focus on commercial banks in Western Uganda, though deliberate, limits the generalizability of the findings to other regions or to non-bank financial institutions. Finally, while the mixed-methods approach identified the role of informal networks, the study did not directly measure the specific nature and intensity of these influences, such as clan or ethnic ties, pointing to a need for more precise metrics in future research.

Ethical approval and consent to participate

The procedures and ethical standards employed in this research were rigorously aligned with the Declaration of Helsinki. The study protocol was reviewed and granted approval by Kampala International University Ethics Committee (Approval Number: KIU-2024-356) and Uganda National Council for Science and Technology (Approval Number: SS3114ES). Prior to their participation, all subjects were provided with a detailed information sheet explaining the study's purpose, procedures, potential risks, and benefits. Written informed consent was subsequently obtained from each participant. The confidentiality and anonymity of all participant data were maintained throughout the research.

Informed consent statement

Prior to their involvement in the research, all prospective participants were provided with a comprehensive overview of the study. This briefing detailed the study's primary objectives, the specific procedures they would undergo, the potential benefits of participation, and any foreseeable risks or discomforts. To ensure informed and voluntary consent, each individual was required to read and sign a document outlining these elements. Furthermore, it was explicitly communicated that participation was entirely voluntary and could be discontinued at any point without consequence or penalty. The confidentiality of all collected data and the anonymity of the participants were rigorously guaranteed.

Data availability

Underlying

Zenodo: Strengthened Shareholders' Rights, Increased Risk: The Paradox of Rising Non-Performing Loans in Ugandan Commercial Banks. Data associated with this article can be accessed on <https://doi.org/10.5281/zenodo.17548668> (Sewanyina, 2025)

This project contains the following underlying data:

- **PhD data set 2024 II.csv** (Raw survey data collected from employees, board members and clients of selected commercial banks in western Uganda).

Extended data

Zenodo: Strengthened Shareholders' Rights, Increased Risk: The Paradox of Rising Non-Performing Loans in Ugandan Commercial Banks. Extended data associated with this article can be accessed on <https://doi.org/10.5281/zenodo.17548668> (Sewanyina, 2025)

This project contains the following extended data:

- **DATA COLLECTION TOOLS FINAL.pdf** (full survey instrument used to collect data from participants).
- **INFORMED CONSENT FORM REVISED FOR QUALITATIVE METHODS.pdf** (approved consent form for qualitative data by Kampala International University Research Ethics Committee).

Data are available under the terms of the [Creative Commons Attribution 4.0 International license](https://creativecommons.org/licenses/by/4.0/) (CC-BY 4.0).

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