

## Corporate Governance, Risk Management, and Corporate Failure: Evidence from Financial Services Institutions Listed on the Lusaka Securities Exchange

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### Abstract

This study examines the interaction between corporate governance (CG), enterprise risk management (ERM), financial performance, firm value, and regulatory oversight in influencing corporate stability and failure among financial service institutions listed on the Lusaka Securities Exchange (LuSE). Data were drawn from audited financial statements, corporate governance disclosures, regulatory reports, and interviews conducted across six financial institutions: Zanaco Bank Plc, Absa Bank Plc, Standard Chartered Bank Plc, Investrust Bank Plc, Madison Financial Services Plc, and Zambia Reinsurance Plc. The findings indicate that robust governance structures, integrated ERM frameworks, and strong financial performance are positively associated with firm value and institutional resilience. Conversely, weak governance practices, ineffective risk management, and regulatory non-compliance significantly increase the likelihood of corporate failure, as evidenced by the collapse of Investrust Bank Plc. The study highlights the critical role of regulatory oversight, effective board composition, and proactive risk management in enhancing financial stability in emerging markets.

**Keywords:** Corporate governance; Enterprise Risk Management; Financial Performance; Corporate Failure; Regulatory Oversight; Lusaka Securities Exchange

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## 1. Introduction

Financial service institutions play a central role in economic development by mobilising savings, allocating capital, facilitating payments, and providing risk management services that underpin investment and growth. The stability of these institutions is therefore fundamental to financial system resilience and macroeconomic sustainability. However, financial institutions are inherently exposed to complex and interrelated risks, including credit, liquidity, operational, market, and governance risks, which, if inadequately managed, may culminate in institutional failure.

The global financial crisis renewed scholarly and regulatory attention on the determinants of corporate failure, revealing that financial distress is rarely caused by poor financial performance alone. Instead, failures are often rooted in deeper structural weaknesses such as ineffective corporate governance, weak risk management systems, and delayed regulatory intervention. As a result, contemporary literature increasingly conceptualises corporate failure as a multidimensional phenomenon arising from the interaction of governance quality, enterprise risk management (ERM), financial performance, and regulatory oversight.

In emerging markets, these vulnerabilities are amplified by evolving regulatory frameworks, limited supervisory capacity, and concentrated ownership structures. Zambia provides a particularly relevant empirical context, as the financial sector has experienced both successful institutional performance and notable failures despite ongoing regulatory reforms. The collapse of Investrust Bank Plc exposed persistent capital inadequacy, weak internal controls, repeated audit failures, and delayed supervisory intervention, raising concerns regarding the effectiveness of governance and regulatory mechanisms in preventing corporate failure.

This study therefore investigates how corporate governance and ERM interact or interplays with financial performance and firm value to influence corporate stability and failure among financial service institutions listed on the Lusaka Securities Exchange (LuSE). By integrating financial performance indicators with governance structures, risk management frameworks, and regulatory responses, the study provides a holistic explanation of corporate failure within an emerging market financial system.

Financial systems through financial service institutions are vital to economic growth, yet they are exposed to multifaceted risks that can threaten their stability and sustainability. Corporate governance (CG) and enterprise risk management (ERM) are critical in ensuring oversight, transparency, and resilience. In Zambia, financial service institutions listed on the Lusaka Securities Exchange (LUSE) have experienced varied performance, with some demonstrating robust governance and risk management, while others succumbed to corporate failure. This study examines how CG and ERM framework interplays with financial performance and firm value to influence corporate outcomes in the Zambian financial services sector.

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## 2. Literature Review

The literature emphasizes that strong corporate governance enhances accountability, ethical conduct, and strategic decision-making (Shleifer & Vishny, 1997). ERM frameworks facilitate identification, measurement, and mitigation of operational, credit, market, and compliance risks (Frigo & Anderson, 2011). Most prior studies link poor governance and inadequate risk management to financial distress and institutional failure, highlighting the importance of board independence, audit committees, and risk oversight mechanisms. Financial performance metrics such as ROE, ROA, liquidity, and capital adequacy are used as indicators of resilience and firm value, reflecting investor confidence and market stability (Basel Committee on Banking Supervision, 2019).

### 2.1 Corporate Governance and Institutional Stability

Agency theory posits that weak governance structures exacerbate information asymmetries and managerial opportunism, leading to excessive risk-taking and suboptimal performance (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). In financial institutions, effective boards, independent audit committees, and transparent disclosure mechanisms are essential for monitoring management and safeguarding stakeholder interests. The empirical evidence consistently links governance failures to institutional distress, particularly in banking and insurance sectors where leverage and opacity are high. The studies from emerging markets further suggest that governance weaknesses often coexist with limited regulatory enforcement, increasing vulnerability to failure.

### 2.2 Enterprise Risk Management and Financial Performance

ERM provides an integrated approach to identifying, assessing, and managing risks across the enterprise. Frigo and Anderson (2011) argue that effective ERM enhances strategic decision-making and financial resilience by aligning risk appetite with organisational objectives. Empirical studies demonstrate that firms with mature ERM systems exhibit improved profitability, reduced earnings volatility, and stronger capital positions. In financial service institutions, fragmented or compliance-driven risk management systems have been shown to fail in preventing the accumulation of systemic risk, particularly when board oversight of risk is weak.

### 2.3 Financial Performance, Firm Value, and Failure Prediction

Financial performance indicators such as ROA, ROE, liquidity ratios, and capital adequacy are widely used as early warning signals of institutional distress (Altman, 1968; Basel Committee, 2019). While deteriorating financial performance often precedes failure, prior research shows that similar financial stress levels may produce different outcomes depending on governance quality and regulatory response.

### 2.4 Regulatory Oversight as a Moderating Mechanism

Regulatory theory emphasises the role of supervision and timely intervention in mitigating moral hazard and systemic risk. Proactive regulatory oversight can correct governance and risk management failures before they escalate into insolvency. Conversely, delayed intervention significantly increases resolution costs and the probability of failure, as observed in several emerging market banking crises.

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## 3 Research Methodology

The study adopts a descriptive and comparative research design using secondary data from audited financial statements, corporate governance reports, regulatory disclosures, and semi-structured interviews with senior executives. The Quantitative data analysis employed CAMELS framework metrics, while qualitative data analysis used content analysis assessed governance and ERM practices across financial service institutions.

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## 4 Results

### 4.1 Corporate Governance Practices

Financially stable institutions (Zanaco, Absa, Standard Chartered) exhibit strong board independence, specialised board committees, formal evaluation processes, and increasing integration of ESG considerations. These governance characteristics align with international best practices and enhance monitoring effectiveness. In contrast, Investrust Bank

Plc, despite having formal governance structures, failed to enforce effective oversight. The repeated audit failures, capital deficiencies, and a hierarchical organisational culture weakened accountability, demonstrating that governance structures alone are insufficient without enforcement and regulatory support.

**Zanaco Bank Plc**

The Board Composition: Nine (9) Non-Executive Directors (NEDs). The Committees: Audit, Risk & Compliance, Credit, Loans Review, Nominations & Governance, Technology & Innovation. There are Annual Board evaluations, induction programs, succession planning. The ESG integration and gender balance: 46% female employees, 38% female board members. With transparency: Annual reports, investor briefings, AGMs.

**Absa Bank Plc**

The Board Composition: ten (10) members, (two (2) Executives, Eight (8) NEDs). The Committees: Audit, Risk & Capital Management, Loans Review, HR & Remuneration, Credit, Ethics & Social. The Governance is aligned to King IV Code and Prudential Authority rules. ERM integration with strong operational, credit, and market risk management

**Standard Chartered Bank Plc**

The Board Composition: Seven (7) members (two (2) Executives, five (5) NEDs, four (4) Independent NEDs). The Committees: Audit, Executive Risk, Loans Review, ALCO, Country Management. The ERM: Group-level Enterprise Risk Management Framework, Three (3) Lines of Defense, ESG integration. The Digital transformation and sustainability embedded in its operations

**Investrust Bank Plc**

The Board and Risk had oversight roles established but failed to prevent insolvency. The Hierarchical culture of (51%) as well as market culture of (31%). It had regulatory failures such as missing audits (2020–2024), capital deficiency of (K853.7 million). This Highlights weaknesses in governance enforcement and strategic alignment as well as regulation oversight.

**Madison Financial Services Plc**

The Board Composition: Seven (7) members (two (2) Executive, Five (5) NEDs). The Committees are: Nominations, Audit, Compensation. It has had a regulatory intervention: BoZ and PIA via some restrictions to restore solvency. There is Limited proactive governance mechanisms observed.

**Zambia Reinsurance Plc**

The Board Composition: Three (3) Executive, three (3) NEDs, with Committees: Audit, Compensation. It has adopted a Risk-based capital model under the Insurance Act No. 38 of 2021. There is IFRS 17 adoption, ESG initiatives, government affiliated institutional shareholders such as National Pensions Scheme Authority (Napsa) and the Industrial Development Corporation (IDC).

Table 1. Corporate Governance Structures Implemented by LUSE Financial Service Companies

Financial Institution	Board Composition	Key Committees	ESG & Diversity	Regulatory Compliance	Notable Observations
Zanaco	9 NEDs	Audit, Risk, Credit, Loans Review, Nominations, Technology	38% female board	BoZ, LUSE	Strong governance & succession planning
Absa	10 (2 ED, 8 NEDs)	Audit, Risk, HR, Ethics, Credit	ESG integrated	BoZ, King IV	Robust multinational governance
Standard Chartered	7 (2 ED, 5 NEDs)	Audit, Risk, Loans, ALCO	ESG & digital transformation	BoZ	Global best practices adopted
Investrust	5 NEDs + EDs	Risk & Compliance, Cybersecurity	Hierarchical culture	Non-compliant audits	Governance failures contributed to collapse
Madison FS	7 (2 ED, 5 NEDs)	Audit, Nominations, Compensation	Limited ESG disclosures	BoZ & PIA restrictions	Regulatory intervention for solvency
Zambia Re	3 ED, 3 NEDs	Audit, Compensation	ESG & sustainability	PIA, IFRS17	Strong governance & risk management

**4.2 Enterprise Risk Management Frameworks Adopted**

The study results under this objective are presented on table 2 below which details the Enterprise Risk Management frameworks adopted by each of the six (6) study financial service institutions. The frameworks adopted by each of the financial service institutions range from Integrated enterprise risks (financial and non-financial), Board risk appetite, three (3) lines of defense and the sustainability or Environmental, Social and Governance (ESG). Institutions with integrated ERM frameworks characterized by defined risk appetite statements, three lines of defense, and board-level risk oversight demonstrated superior financial resilience. Conversely, financial service institutions with limited or reactive ERM

practices exhibited higher vulnerability to distress, supporting prior findings that ERM maturity is critical to institutional stability.

Table 2. Enterprise Risk Management Frameworks Adopted

Financial Institution	ERM Framework	Risk Appetite	Three Lines of Defense	Sustainability/ESG Integration
Zanaco	Integrated ERM (financial & non-financial risks)	Board-approved quantitative & qualitative thresholds	Operational management, risk function, internal audit	E&S framework, green finance
Absa	Pillar 3 Basel-compliant	Board-approved	3 Lines of Defense, cyber & operational risk included	Equator Principles, ESG credit screening
Standard Chartered	Global ERMF	Defined risk appetite & control framework	3 Lines of Defense	ESG integration, sector-specific policies
Investrust	Limited info; regulatory standards only	Not public	Likely standard 3 LoD	Not evident
Madison FS	Embedded across 4 segments	Board-level oversight	Not formalized	ESG not explicitly disclosed
Zambia Re	Risk-based capital under Insurance Act	Board-approved	Audit & Risk Committees	Climate & ESG integration

### 4.3 Effects of Corporate Governance, ERM, Financial Performance, and Firm Value on Corporate Failure

By using the CAMELS metrics, the study finds:

**Capital Adequacy:** This is strong for Zanaco Plc, Absa Plc; and a failed one for Investrust Bank Plc.

**Asset Quality:** A Low Non-Performing Loans portfolio (NPLs) for Standard Chartered Bank Plc, Absa Bank Plc. However, a poor recovery of Loans for Investrust Bank Plc results in poor asset quality.

**Management Quality:** There is an effective Board at Zanaco Plc, Absa Plc, Standard Chartered Plc; where as a weak Board at Investrust Plc

**Earnings:** The ROE for Standard Chartered Plc is 52.52%, Zanaco Plc 45.82%, Investrust Bank Plc is negative

**Liquidity:** is Stable for Zanaco Plc, Absa Plc; and there is a crisis at Investrust Bank Plc

**The Sensitivity to Market Risk:** is moderate for Zanaco Plc & Absa Plc. However, it is low for Zambia Reinsurance Plc which could signify the low or reactive rather than proactive response to risks. It could also be reflective of the low appetite of the board to risks as spelt out in its board charters as well risk management frameworks.

Table 3. CAMELS Assessment of LUSE Financial Institutions

Financial Institution	Capital	Assets	Management	Earnings	Liquidity	Sensitivity	Risk of Failure
Zanaco	Strong	Strong	Strong	High	Stable	Moderate	Low
Absa	Strong	Strong	Strong	High	Stable	Moderate	Low
Standard Chartered	Strong	Strong	Strong	High	Stable	Moderate	Low
Investrust	Failed	Poor	Weak	Negative	Crisis	High	High
Madison FS	Moderate	Moderate	Moderate	Moderate	Stable	Moderate	Moderate
Zambia Re	Strong	Strong	Strong	Stable	Stable	Low	Low

### 4.4 Discussion

The study findings demonstrate a clear link between corporate governance, ERM, and financial resilience. However, strong board oversight, effective risk management frameworks, and regulatory compliance enhance firm stability, profitability, and market value. In contrast, governance failures, poor risk management, and weak compliance (e.g., in the Investrust Bank Plc) directly contributed to corporate failure. The CAMELS metrics highlight the predictive power of integrated governance and risk management systems. The findings confirm that corporate failure is driven by the interaction of governance quality, ERM effectiveness, financial performance, and regulatory oversight rather than by financial distress alone. The financial service institutions with strong boards and integrated risk management frameworks translate financial performance into sustained firm value, consistent with prior studies in banking and governance literature. The collapse of Investrust Bank Plc illustrates how governance failures, compounded by ineffective risk management and delayed regulatory intervention, accelerate institutional failure. These results reinforce regulatory theory arguments that timely supervisory action moderates the progression from distress to insolvency.

## 5 Conclusion

Financial institutions with robust corporate governance and ERM frameworks such as Zanaco Bank Plc, Absa Bank Plc, and Standard Chartered Bank Plc demonstrate higher financial performance, firm value, and resilience to shocks. The Regulatory oversight remains critical to enforcing compliance and preventing corporate failure. Therefore, policy makers and regulators should ensure board independence, risk framework adoption, and proactive supervision to safeguard financial stability in emerging markets. The study concludes that robust corporate governance and ERM frameworks significantly enhance financial performance, firm value, and institutional resilience among LuSE-listed financial

institutions. Regulatory oversight plays a critical role in enforcing compliance and preventing corporate failure. The study has suggested Policy implications that include the need for stronger enforcement of board independence and accountability, mandatory integration of ERM into strategic decision-making and proactive, risk-based regulatory supervision. These measures are essential for strengthening financial stability in emerging markets such as Zambia financial service sector.

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The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

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### **Ethical considerations**

The article followed all ethical standards appropriate for this kind of research.

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