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# Assessing Corporate Governance Practices on the Financial Performance of Banking Industry in Zambia

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**Abstract**

Corporate Governance plays a critical role in enhancing financial stability, accountability, and performance sustainability within the Banking Industry. This study examined the relationship between Corporate Governance practices and Financial Performance in the Zambian Banking Industry using panel data from fifteen commercial Banks over the period 2014 to 2024. The study focused on key governance mechanisms, including Board Independence, Managerial Experience, and Audit Committee characteristics, while controlling for Board Meeting Frequency and Firm Size. Financial Performance was measured using Return on Assets (ROA) and Return on Equity (ROE). The study adopted a quantitative research approach with an explanatory research design based on the positivist paradigm and employed panel data regression techniques, including Pooled Ordinary Least Squares, Fixed Effects, and Random Effects models. Model selection was guided by the Breusch–Pagan Lagrange Multiplier test and the Hausman specification test. Diagnostic tests for heteroskedasticity, serial correlation, and cross-sectional dependence were conducted, and robust standard errors were applied to ensure reliable estimation results. The empirical findings revealed mixed effects of Corporate Governance mechanisms on Financial Performance in the Zambian Banking Industry. Board Meeting Frequency emerged as the only governance variable with a positive and statistically significant effect on operational profitability measured by ROA. This suggests that active Board engagement strengthens oversight and improves decision-making efficiency in Banks. In contrast, Board Independence, Managerial Experience, and Audit Committee membership did not show statistically significant effects on ROA in the robust model. Furthermore, none of the governance variables significantly influenced shareholder profitability measured by ROE, indicating that equity returns may be driven more by broader financial and macroeconomic conditions than by internal governance structures alone. The study concludes that governance effectiveness in the Banking Industry depends more on the quality of Board processes than on structural compliance. The findings provide policy and managerial implications for strengthening governance practices to enhance financial stability and investor confidence in Zambia.

## 1. Introduction and Background

Corporate Governance (CG) refers to a system of rules, responsibilities, and oversight arrangements through which a company is directed and controlled in order to protect the interests of stakeholders and shareholders and promote accountability. It aims to increase value through the company's established arrangements and controls. (Ntim, 2017). It encompasses the mechanisms, structures, practices, principles, and processes used to set corporate objectives, manage risks and performance, and ensure long-term sustainability. This includes the roles and responsibilities of Boards of Directors, as well as the way the Board interacts with management, shareholders, regulators, and other stakeholders. Corporate governance, by combining established policies, structures, and best practices in internal control, provides a framework that guides organizations toward responsible, transparent, and efficient organizational management. This, in turn, contributes to improved corporate performance, strengthens investor trust, and, in the long run, supports broader economic development. Corporate Governance has become increasingly important in modern financial management due to its vital role in fostering accountability, transparency, risk management, and organizational performance. More specifically, it provides the institutional arrangements through which organizations are controlled while balancing the interests of shareholders, management, regulators, customers, and other stakeholders (Tricker, 2015).

Generally, increasing evidence from prior studies suggests that companies with effective Corporate Governance practices are more likely to record better performance in terms of achieving higher stock returns, lower financing costs, and improved market confidence. In contrast, poor governance can lead to agency conflicts, unethical conduct, weak oversight, and financial scandals that can cause reputational damage, which can undermine the company's stability and lead to its downfall (Fink, 2020). Historically, weak governance structures have been linked to major corporate failures and financial crises, including global scandals like Enron, which revealed how deficiencies in Board oversight, financial disclosure, and internal control systems can expose companies to serious governance breakdowns. As a result, regulators and scholars have placed greater emphasis on governance mechanisms, such as Board Independence, Audit Committee effectiveness, Managerial Competence, and active Board monitoring as key factors for institutional resilience and Financial Performance (Jensen and Meckling, 1976; Shleifer and Vishny, 1997).

Financial institutions play a vital role in contributing to the development and growth of an economy by supporting savings, lending, investment, and financial intermediation. For this reason, they require the implementation of strategic, well-formulated policies and governance systems, as they continue to serve as the backbone of the financial Sector, facilitating the efficient allocation and management of an economy's financial resources. In particular, the Banking Industry is especially important because it channels funds through the economy, allocates credit, safeguards depositors' funds, promotes financial inclusion, and supports macroeconomic stability. These functions make governance effectiveness within Banks especially important, as governance failures may not only affect a single institution but may threaten a wider financial system and cause instability. The financial crisis of 2008 is a reminder of the importance of a well-functioning financial system, which, when in existence, translates to a healthy economy. Since the crisis, several studies have been conducted on financial institutions, especially the Banking Industry, whose Financial Performance should be brought to the forefront. This is because the success of the Banking Industry is measured not only by its ability to expand and develop sustainably, but by its contribution to, and importance in, developing and driving national economic growth (Markonah & Prasetyo, 2022). To enhance efficient Financial Performance, it is imperative for businesses or companies in the Financial Sector to have Good Corporate Governance (GCG) strategies in place, as effective governance mechanisms can lead to better decision-making, risk management, and long-term value creation for shareholders (Sarbanes-Oxley Act, 2002)

The theoretical justification for strong CG is largely grounded in Agency Theory, which explains the conflicts of interest that arise between principals who are shareholders and agents being managers, and highlights the role of governance structures in reducing the costs that arise when there is absence of these structures, known as agency costs, information asymmetry, and managerial opportunism (Jensen and Meckling, 1976). Empirical literature generally suggests that well-governed firms tend to demonstrate improved operational efficiency, profitability, investor confidence, and access to capital. However, the strength and direction of governance performance relationships often vary across countries, Sectors, and institutional environments, particularly in emerging economies where regulatory frameworks and institutional quality differ (Hoang and Zoltán, 2024).

Within the Banking Industry, as earlier mentioned, governance effectiveness is closely linked to strategic oversight, loan monitoring, regulatory compliance, and risk management practices, all of which influence Financial Performance indicators such as Return on Assets (ROA) and Return on Equity (ROE). Nonetheless, evidence from both International and African studies remains mixed, suggesting that governance outcomes depend not only on formal governance structures but also on-Board effectiveness, institutional quality, and regulatory enforcement.

In Zambia, the Banking Industry plays a significant role in economic development, financial inclusion, and financial system stability. Despite increasing global interest in Corporate Governance, limited empirical research exists on the relationships between governance performance and the Zambian Banking Industry. This study, therefore, sought to address this gap by empirically examining the relationship between selected CG mechanisms, including Board Independence, Managerial Experience, Audit Committee characteristics, and Financial Performance using panel data analysis. By doing so, the study aimed to provide policy-relevant insights and Sector-specific evidence that can contribute to strengthening governance effectiveness, financial stability, and investor confidence in Zambia's Banking Industry.

The relationship between Corporate Governance and Financial Performance is a complex and evolving field that remains an active area of academic debate and research. Although multiple pieces of evidence indicate that effective governance can improve transparency, accountability, and decision-making, which collectively improve financial and non-Financial Performance, the evidence is not always uniform across contexts as existing challenges and trade-offs must also be taken into account (Tricker, 2015). Corporate Governance has increasingly gained prominence in Banking and Finance research because financial crises and changing stakeholder expectations have drawn attention to the growing complexity of financial systems, exposing weaknesses in institutional oversight and risk management frameworks. In financial institutions, effective governance structures are therefore considered essential in promoting accountability, strategic discipline, and organizational sustainability, as weak oversight can create consequences beyond an organization.

As companies adapt to a shifting business environment and evolving stakeholder demands, they must therefore balance short-term financial performance and long-term sustainability and stakeholder expectations. Lessons from past governance failures and responding to emerging trends can therefore help companies to strengthen their oversight structures and improve outcomes for stakeholders. (Cadbury Report, 1992). Weak CG has frequently been associated with financial misreporting, unethical management behavior, and major corporate scandals as evidenced by global corporate scandals and financial crises at Enron, Parmalat, Tyco, WorldCom, and other US institutions (Dibra, 2016). In response to such failures, reforms such as the Sarbanes-Oxley Act (SOX), passed by the U.S. Congress in 2002, were introduced to strengthen accountability in financial reporting and help restore investor trust and confidence in the financial markets. Even after the reforms, the failure of Lehman Brothers, one of the largest investment Banks in the United States, in 2008, showed that governance and risk management weaknesses were still present in major financial systems.

The British economy was also severely impacted by the global financial crisis, to the point that taxpayers' funds had to be used to save institutions, including the Royal Bank of Scotland, Lloyds Bank, and Halifax Bank of Scotland (BBC, 2013). This crisis demonstrated how failures in large Banks can trigger wider economic costs, including costly government intervention. This led to renewed efforts in several countries to revise governance codes and strengthen transparency and Board accountability standards. For example, the U.K. Federal Reporting Council updated its CG code, which was formerly known as "the combined code." The code asserts that ignoring its principles leads to consequences such as increased vulnerability or poor performance, whereas CG contributes to better company performance by helping a Board discharge its duties in the best interests of shareholders (Financial Reporting Council, 2008). Despite some setbacks brought on by the global financial crisis, the Banking industry in the United Kingdom has grown remarkably as a result of surviving restrictions on interest rates, income streams, and regulations (Ajibade, et al., 2020). These developments show that governance reforms remain important even where the Banking Industry recovers and grows.

In many emerging economies, including Zambia, Banking institutions face additional governance and performance challenges linked to bad debts, asset quality, excessive reliance on public Sector lending, insufficient capitalization, and credit risk (Hammond, et al., 2022). These conditions make effective CG particularly important in ensuring financial stability, prudent risk management, and sustainable institutional performance. Since the system of governance is closely related to performance, the prospects for the Banks may seem bleak if no proper governance systems are in place. In Zambia, the financial Sector was not directly affected by the 2008 financial crisis, but earlier episodes of Bank failure between 1995 and 2000 weakened public confidence and highlighted the importance of effective governance in the sector. Several Bank closures in Zambia were widely associated with governance and management weaknesses. Among the major governance concerns were Board oversight, poor credit administration, connected party lending, and inadequate risk management systems. In some cases, governance concerns involved concentration of authority and overlapping leadership roles that weakened independent oversight as this is a key CG issue known as CEO duality. (Fundanga, 2011). Taken together, these episodes point to serous weaknesses in governance structures and oversight. Zambia's focus on CG therefore dates back to the early 2000s and was influenced by the need for effective governance to ensure investor confidence and sustainable economic growth. In this regard, in 2003, the Securities Exchange Commission (SEC) introduced the first Code of Corporate Governance for Public Companies, which was later revised in 2008 to align with international standards. These historical episodes underscored the critical importance of strengthening governance frameworks to enhance institutional resilience, depositor protection, and financial Sector stability. They also contributed to increased regulatory attention toward CG reforms aimed at improving and strengthening

accountability, transparency, and ethical leadership.

Despite the presence of these regulatory frameworks, governance weaknesses have continued to affect part of Zambia's Banking Industry as evidenced by its having had its fair share of financial meltdowns. Recent industry challenges have renewed attention to governance issues such as Board oversight in the form of limited Board Independence, inadequate management experience, and their possible influence on Financial Performance. For example, Banks such as Atlas Mara Bank, which is now part of Access Bank, that investors could have assumed were sound, turned out to be in trouble as they faced significant volatility, and this could be attributed to subpar Financial Performance and subpar CG. This suggests that institutional strength does not always guarantee sound governance or stable performance Another example is Invest Trust Bank, which was recently closed by the Bank of Zambia (BOZ). According to Lusakatimes (2024), the inadequate governance at Investrust Bank was caused by the threat of choosing to ignore the boundaries between competence and inconsistency. Concisely, weak governance and deficiencies in Board oversight can compromise a country's financial stability. This reinforces the need to examine governance and performance more closely.

### 1.2 Statement of the Problem

Academic interest in Corporate Governance predates many of the recent corporate scandals, although such scandals intensified research in the area. (Rossi, et al., 2015). This sustained interest reflects the importance of governance to almost all fields in shaping organizational performance, investor confidence, and financial stability, especially in financial institutions. Governance failures and fraud in the Banking industry have therefore increased the need for further empirical research on how governance affects performance. (Banda, 2019; Ajibade et al., 2020), (Bayelign, et al., 2022).

Some empirical studies such as (Ajibade et al., 2020; Markonah and Prasetyo, 2022; Nambalirwa and Kabanda, 2024) report that Banks with effective CG practices, including independent Boards, an experienced management team, and fully functional Audit Committees, tend to achieve stronger Financial Performance, measured through indicators such as Return on Assets (ROA) and Return on Equity (ROE). By contrast, weak governance arrangements may increase risk-taking, reduce accountability, and weaken efficiency.

However, the broader literature on the relationship between CG and Financial Performance remains mixed and inconclusive; positive findings in some settings are not consistently replicated in others, especially in developing economies where other results are insignificant or context-dependent relationships because of institutional quality and regulatory enforcement may be weaker (Rossi et al., 2015; Habib et al., 2022). These inconsistencies suggest that governance may affect different aspects of performance differently. For instance, stronger Board involvement may improve operational efficiency without necessarily increasing shareholder returns, while formal structures such as Board Independence and Audit Committee alone may be insufficient unless they are supported by effective implementation.

Banks occupy an important position in Zambia's financial system, making governance in the sector a matter of policy relevance and financial stability. (IMF African, 2023). The sector also makes a substantial contribution to the national economy, which increases the importance of strong governance arrangements. Its assets make up around 41 percent of GDP (IMF African, 2023). Within this context, the link between CG, investor confidence, and Financial Performance is especially important and a key thematic area, as outlined in the Eighth National Development Plan, within a good governance environment. Recent assessments have also pointed to governance weaknesses that require stronger transparency and accountability. (IMF African, 2023). If left unaddressed, such weaknesses may undermine institutional confidence and contribute to Bank distress ( Affes & Jarboui, 2023).

Despite the global growing recognition of the importance of effective CG in combating such issues and thereby improving Financial Performance and resulting in enhanced investor confidence, and having advanced CG reforms, studies focusing specifically on Zambian Banks remain limited. Numerous studies conducted on the Zambian context were not Bank-specific, focusing on either state-owned listed or unlisted firms with limited CG practices (Banda, 2019; Mumba, et al, 2022; Chiwele, 2024; Chikuta, 2020). Other research conducted targeted Banks in other sub-Saharan parts of Africa due to the stock markets in those countries being among the best-performing on the continent and therefore qualified for international comparisons (Ajibade et al., 2020; Hammond, et al., 2022; Markonah and Prasetyo, 2022). Past experiences of financial Sector instability and governance failures in Zambia highlight the urgent need to evaluate how governance structures influence Bank performance. Limited Sector-specific empirical evidence constrains the ability of regulators, policymakers, investors, and Bank management to design governance frameworks that effectively enhance profitability, operational efficiency, and stakeholder confidence within commercial Banks.

Therefore, this study sought to uncover the underlying mechanisms that drive the relationship between CG and Financial Performance, and given this Sector's systemic importance to economic stability, it called for a deeper exploration of how governance mechanisms can influence financial outcomes. It aimed at helping policymakers and regulators design effective frameworks that can strengthen governance effectiveness, prevent Bank failures, and promote financial stability and investor confidence. If this is not addressed, there is a risk of further Bank instability, which may negatively affect the country's economy. The study also identified gaps in the literature and formed a basis for further empirical investigations or the generalization and advancement of CG and finance theories.

## 2 Literature Review

### 2.1 Previous Studies

Financial Performance is a crucial aspect of any organization, as it reflects the effectiveness of its operations and decision-making processes. It is a key indicator of the success and sustainability of a business, as well as a measure of its profitability, liquidity, solvency, and efficiency (Akbar et al., 2016). The impact of Financial Performance is multifaceted, influencing various stakeholders such as investors, creditors, managers, employees, and regulators. A company's Financial Performance directly affects its ability to attract capital, make strategic decisions, and ultimately create value for its shareholders. Positive Financial Performance signals growth, profitability, and stability, enhancing the organization's reputation and market position. On the other hand, poor Financial Performance can lead to financial distress, Bankruptcy, and a loss of investor confidence, impacting the sustainability and viability of the business (Bachtiar, 2016).

### 2.2 Global Perspective

Markonah & Prasetyo (2022) investigated the effect of good Corporate Governance (GCG) on Financial Performance at Banks in Indonesia through the mediating role of corporate asset growth. Theoretically, the study's results were expected to enrich and complete the collection of understanding in the

financial management area, specifically with those phenomena related to Banking Financial Performance and factors that influenced it. The population of this research was a Bank that had a Corporate Governance Perception Index (CGPI) rating from 2011 to 2020. The study used saturated sampling; thus, the whole population was a sample member. Data analysis used Structural Equation Modelling, SEM. GCG has a direct or indirect impact on Banking Financial Performance, according to the findings of this study. Improved GCG results in increased public confidence, which is reflected in an increase in total assets, as well as improved Banks' Financial Performance. As a result, it can be stated that corporate assets largely mitigated the impact of GCG on Bank Financial Performance in Indonesia. Through this rapid growth from corporate assets, the Bank can maximize the market expansion, which is ultimately able to improve Banking Financial Performance (Markonah & Prasetyo, 2022).

Perera et al (2020) carried out a study to examine the impact of Corporate Governance on the Financial Performance of Commercial Banks in Sri Lanka. Data covering the period from 2012 to 2019 were collected from the annual reports of 12 listed domestic Commercial Banks. Correlation and multiple regression analyses were employed to analyse the data. The findings revealed a negative relationship between Board size and Financial Performance, measured by return on assets (ROA) and return on equity (ROE), as well as a negative relationship between Board Independence and ROA and ROE. On the contrary, CEO duality was found to have a positive and significant effect on both ROA and ROE of domestic Commercial Banks. The study implies that adhering to CG guidelines and having an appropriate governance structure is essential for enhancing Bank performance. It further suggests that regulators and policymakers should strengthen the enforcement of CG codes, while management should focus on governance practices, such as CEO duality, that contribute to improved Financial Performance and increased Bank value. (Perera, et., 2021)

In another study done by Ajibade, et al (2020), on the effect of CG and Financial Performance in the Banking Industry of Nigeria and the United Kingdom. The study analysed secondary data collated from the annual reports of ten listed Banks, each from the Nigerian and UK stock exchange markets. Using a multiple regression model, the study examined the combined effect of Board size, Board composition, audit committee, and firm size on the performance of the listed Banks. The result shows that CG variables have a significant effect on the Financial Performance of the Nigerian and UK Banking Industrys. (Ajibade, et al., 2020).

## 2.3 African Perspective

A study was carried out by Hammond, P., et al, 2022, to analyse the relationship among corporate reporting, corporate governance, going concern, and investor confidence for Banks in the sub-region. Data ranging from 2011 to 2020 were collected from published financial statements of selected financial Banks in Ghana, Nigeria, and South Africa. The Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to analyse the data, and it revealed that there is a positive relationship and effect between going concern, corporate reporting, governance, and investor confidence. The implication is that management should enhance and disclose the CG mechanisms of financial institutions in order to improve their ability to continue operations and increase investor confidence. Furthermore, GCG promotes accountability, quality, reliability, and integrity in financial statements, which boosts investor trust (Hammond, et al., 2022).

A study was conducted by Aluoch (2023) to examine the relationship among Corporate Governance, financial characteristics, macroeconomic variables, and the Financial Performance of Banking firms listed on the Nairobi Securities Exchange, Kenya. Data covering the period from 2006 to 2020 were collected from the annual reports of 11 listed commercial Banks, while macroeconomic data were sourced from the Central Bank of Kenya and the Kenya National Bureau of Statistics. Using a longitudinal descriptive research design and panel data analysis, the study found that CG, financial characteristics, and macroeconomic variables jointly serve as significant predictors of Banks' Financial Performance. Specifically, financial leverage, interest rates, and inflation rates had a significant effect on return on assets, whereas CG, investments, liquidity, and GDP growth rate showed insignificant effects on return on assets. Additionally, financial leverage, inflation rates, and GDP growth rates significantly influenced Tobin's Q, while CG investments, liquidity, and interest rates had insignificant effects. The study concluded that sound CG, together with appropriate financial and macroeconomic management, is essential for enhancing the Financial Performance of listed Commercial Banks, implying that Banks should strictly comply with Corporate Governance guidelines issued by the Central Bank of Kenya and the Capital Markets Authority. (Aluoch, 2023).

Nambalirwa S and Kabanda R (2024) conducted a study to empirically analyze the relationship between CG quality and accounting and market measures of Financial Performance among all licensed commercial Banks operating in Uganda from 2016 to 2021. The CG practices included Board independence, Board size, Audit Committee effectiveness, Risk management committee effectiveness, and Internal audit effectiveness, while Financial Performance was measured by ROA and ROE. The study population comprised 34 Banks, targeting 50 respondents, with primary data collected through semi-structured questionnaires distributed to senior risk, audit, and compliance managers. Secondary financial data was obtained from annual reports during the specified period. The data were analyzed using correlation analysis and multiple regression analysis. The findings indicated that Corporate Governance is crucial for commercial Banks, and all CG variables significantly impact the performance of the sampled Banks.

## 2.4 Zambian Perspective

Chikuta (2020), in trying to investigate the effect of Corporate Governance on the Financial Performance of State-Owned Enterprises (SOEs) in Zambia, focused on SOEs in Lusaka, Zambia, from 2011 to 2020. Financial Performance of SOEs was measured using return on assets, while CG attributes included Board composition, independent committees, Board size, and firm size. A random sample of 165 respondents was selected for the study, of which 125 respondents completely answered the questionnaires, giving a response rate of 75.7%, which was very satisfactory. The data was analysed using descriptive statistics and multiple regression analysis. The study found a positive correlation between Corporate Governance and the Financial Performance of SOEs, and that independent committees, Board size, and Board composition impacted the Financial Performance of SOEs. Furthermore, the research found that the bigger the size of the firm, the higher the standings of its Financial Performance are due to effective corporate governance. This implies that exercising excellent CG enhances the Financial Performance of SOEs and vice versa. (Chikuta, 2020).

Milupi (2023), in his study, examined whether there is a relationship between Board composition (Board size, Board independence, and Board gender diversity) and the Financial Performance of listed corporations in Zambia. This research utilized a descriptive study. A sample of five corporations out of a population of twenty-two listed on the Lusaka Securities Exchange (LuSE) was selected using the proportional stratified sampling technique. The study period spanned from 2008 to 2020. The research extracted and analyzed secondary data from the annual audited financial statements and reports available on the respective corporations' websites and the African Financials website into Excel. Stata version 14.2 software was utilized for statistical and regression analysis. The study concluded that a relationship exists between Board composition and Financial Performance, evidenced by the correlations between various Board composition attributes, such as Board size, Board independence, and Board gender diversity, with Financial Performance. (Milupi, 2023).

Banda (2019) investigated the relationship between CG structures and the Financial Performance of companies listed on the Lusaka Stock Exchange

(LUSE) from 2009 to 2017. The study employed a mixed-methods approach, combining quantitative data from 19 companies with qualitative insights gathered from 46 questionnaires and 15 interviews. A random effects panel regression model was utilized to examine the relationship between Corporate Governance structures, specifically the Board of directors and managerial ownership, and Financial Performance. The study yielded mixed results between statistical data and stakeholder opinions; for instance, there was no significant impact of CEO-Chair Separation, Non-Executive Directors (NEDs), and Risk Committees on performance, whereas Board Size, Audit Committees, and Managerial Ownership exhibited a positive and significant relationship with Financial Performance. (Banda, 2019).

Chiwele (2024) conducted a study to examine the effect of Corporate Governance on the Financial Performance of firms listed on the Lusaka Stock Exchange (LuSE). Data were obtained from eight publicly traded companies and analysed using correlation and regression techniques to assess the impact of key CG mechanisms, namely Board size, Board Independence, and Audit Committees, on Financial Performance. The findings revealed a positive relationship between Board Size and Revenue, suggesting that larger Boards may enhance Financial Performance through diverse expertise and improved governance practices. On the contrary, the study found a negative relationship between Board Independence and Revenue, indicating that higher levels of independence may not necessarily translate into better financial outcomes, possibly due to an overemphasis on risk control. In addition, the presence of Audit Committees showed a positive association with Revenue, underscoring their role in promoting financial transparency and regulatory compliance. This study contributes to the CG literature in developing economies by highlighting that the effects of governance mechanisms on Financial Performance vary depending on firm-specific and market conditions, implying that governance practices should be tailored to circumstantial realities. (Chiwele, 2024).

## 2.5 Critique of Existing Literature

Contextual Gap: Although numerous studies have produced documentary proof indicating that Corporate Governance impacts Financial Performance, there is surprisingly little academic evidence, particularly in developing nations like Zambia, in the Banking Industry. The studies conducted in the Zambian context, like (Banda, 2019; Chikuta, 2020; Milupi., 2023), mainly focus on Lusaka Securities Exchange (LuSE)-listed companies and State-Owned Enterprises (SOEs). They therefore exclude a significant segment of the Zambian financial Sector, such as commercial Banks, Microfinance Institutions, and Insurance companies. As a result, current studies may not accurately reflect governance practices across the Zambian financial system, which plays a pivotal role in financial inclusion and economic development.

Variable Gap: Furthermore, the studies cover a narrow scope of governance variables, with a few examining critical governance mechanisms like Managerial Experience, Audit Committees, and CEO duality and gender diversity, as seen in Banda 2019, Milupi (2023), and Chiwele 2024.

Theoretical Gap: There is an inconsistent use of theoretical frameworks, evidenced by the absence of theories like Agency Theory and Stakeholder Theory, which could enhance conceptual clarity and allow for better integration with the global context. Complementary theories, such as Stewardship and Resource Dependence theories, which could enrich the understanding of governance-performance dynamics, are overlooked.

Methodological Gap: Many studies use cross-sectional or descriptive designs with limited inferential analysis. Few have used panel data or dynamic regression models to capture trends over time.

## 2.6 Theoretical Framework

### Agency Theory

Jensen & Meckling (1976), agency theory provides the main theoretical foundation for this study. The theory explains the relationship between owners, as principals, and managers, as agents, within an organization. In a company setting, shareholders delegate decision-making authority to managers, creating a principal-agent relationship (Isingoma, 2018). Agency theory emerged from concerns about delegated authority, conflicting interests, and risk-bearing between owners and managers.

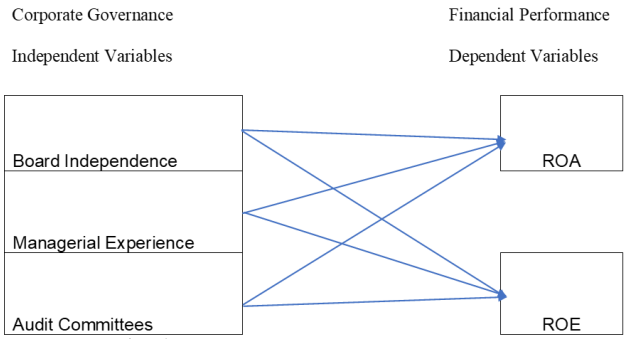
The potential for an overzealous agent to act and perform against the principal's best interests due to self-interest lies at the root of the agency dilemma. This separation creates agency costs arising from monitoring, control, and misaligned incentives. On the other hand, the principal bears more risk when the agent breaches the agreement. Subsequently, the first agency issue arose from modifications in risk-sharing. Because the two parties may differ in objectives and risk preferences, it is difficult to design a perfect control arrangement. For this reason, governance mechanisms are needed to monitor management and reduce opportunistic behavior. This perspective is consistent with shareholder-oriented views that emphasise managerial accountability to investors and the protection of shareholder interests such as Shareholder Theory (Millon, 2013), where emphasis is placed on the responsibility of corporate management to maximize shareholder value or wealth and to safeguard investor rights. This can be achieved by fostering accountability and transparency through governance practices, such as independent Boards and Audit committees, which are expected to enhance Bank performance and improve financial outcomes by enhancing decision-making processes and stakeholder relationships (Chiwele, 2024).

### Stewardship Theory

Stewardship Theory (Donaldson & Davis, 1991) complements Agency Theory by proposing that managers may act in the organization's best interests rather than solely out of self-interest. They act as stewards, and their motives align with the organization's objectives. From this perspective, experienced and competent managers can contribute positively to firm value through sound strategic decisions.

The theory supports the concept of having competent and well-qualified managers as they will positively influence performance, both financial and non-financial, without necessitating the need for excessive external control, which is a cost.

## 2.7 Conceptual Frameworks




***Source: Author (2020)***

Figure 1: Conceptual Framework

## 3 Research Methodology and Design

This study adopts an explanatory research design within a quantitative or deductive research approach to examine the relationship between Corporate Governance mechanisms and Financial Performance in the Zambian Banking Industry. Quantitative research approaches are widely used in empirical financial and Corporate Governance studies because they allow researchers to test hypotheses and examine relationships between variables using statistical techniques. According to Creswell (2014), quantitative research enables the systematic collection and analysis of numerical data to identify patterns, relationships, and causal effects among variables. The study focuses on the Zambian Banking Industry, which plays a critical role in financial intermediation, economic development, and financial stability. Banks are key institutions responsible for mobilizing savings, allocating credit, and facilitating investment within the economy. Given the importance of effective Corporate Governance in financial institutions, the Sector provides an appropriate context for examining how governance mechanisms influence Financial Performance. The population of the study comprises all Banks operating in Zambia. According to the Bank of Zambia, the Banking Industry consists of several domestic and foreign-owned Banks operating under the regulatory supervision of the Central Bank. The study utilised a balanced panel dataset consisting of fifteen Banks operating in Zambia over the period 2014 to 2024. A saturated sampling technique was employed, where all units within the population were included in the study. This approach ensures sampling bias is eliminated and there is enhanced representation and reliability of the findings. The approach is similar to Markonah and Prasetyo (2022), where all relevant units within the population are included to improve the robustness of the empirical analysis. Secondary data were extracted from audited annual reports and financial statements of the Banks and supplemented by selected Bank of Zambia publications and other regulatory disclosures where necessary. Governance variables such as Board Independence, Audit Committee composition, and Board meetings were manually coded from annual reports, while Managerial experience was calculated as the mean average of the number of years the three top executives, such as CEO, CFO, and CFO have served in the Banking or Financial Industry. Financial Performance measures were computed from published Financial Statements. The study covers the period 2014 to 2024, which provides sufficient observations to examine the relationship between Corporate Governance practices and Bank performance over time. The empirical analysis is conducted using Stata statistical software. The study first presents descriptive statistics to summarize the characteristics of the variables used in the analysis. This is followed by a correlation analysis to examine the preliminary relationships between the study variables. To estimate the relationship between Corporate Governance and Financial Performance, the study employs panel regression techniques, including Pooled Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE) models. Model selection is guided by econometric tests such as the Breusch–Pagan Lagrange Multiplier test and the Hausman specification test. To ensure the robustness of the results, several diagnostic tests are performed, including tests for heteroskedasticity, serial correlation, and cross-sectional dependence. Where violations of classical regression assumptions are detected, robust standard errors clustered at the Bank level are used to obtain consistent and reliable estimates. To examine the relationship between Corporate Governance and Financial Performance in the Zambian Banking Industry, the study estimates panel regression models using Return on Assets (ROA) and Return on Equity (ROE) as measures of Financial Performance. The general functional relationship is specified as follows:

$FP\_it=f(CG\_it,Control\_it)$

Where:

- $FP\_it$ represents the Financial Performance of Bank i at time t
- $CG\_it$ represents Corporate Governance variables
- $Control\_it$ represents control variables included in the model

Based on this relationship, the econometric model is specified as:

$$FP\_it=\beta\_0+\beta\_1\ BR\_it+\beta\_2\ ME\_it+\beta\_3\ AC\_it+\beta\_4\ BM\_it+\beta\_5\ SIZE\_it+\epsilon\_it$$

Where:

- $FP\_it$= Financial Performance of Bank i at time t
- $BR\_it$= Board Independence
- $ME\_it$= Managerial Experience
- $AC\_it$= Audit Committee members
- $BM\_it$= Board Meetings
- $SIZE\_it$= Firm size measured as the natural logarithm of total assets
- $\beta\_0$= Intercept
- $\beta\_1$ "–" $\beta\_5$= Coefficients of explanatory variables
- $\epsilon\_it$= Error term

To capture different measures of Financial Performance, the study estimates two separate models:

Model 1: ROA Model

$$ROA\_it=\beta\_0+\beta\_1\ BR\_it+\beta\_2\ ME\_it+\beta\_3\ AC\_it+\beta\_4\ BM\_it+\beta\_5\ SIZE\_it+\epsilon\_it$$

Model 2: ROE Model

$$ROE\_it=\beta\_0+\beta\_1\ BR\_it+\beta\_2\ ME\_it+\beta\_3\ AC\_it+\beta\_4\ BM\_it+\beta\_5\ SIZE\_it+\epsilon\_it$$

# 4 Findings

## 4.1 To Examine the Effect of Board Independence on the Financial Performance of the Zambian Banking Industry

Regarding Corporate Governance characteristics, table 1 below shows the Board independence ratio has an average value of 0.672, indicating that approximately 67 percent of Board members in the sampled Banks are independent directors. The ratio ranges from 0.55 to 0.83, suggesting moderate variation in Board composition across Banks. Table 2 shows that Board independence exhibits a negative and statistically significant correlation with both ROA ($r = -0.313$, $p < 0.01$) and ROE ($r = -0.311$, $p < 0.01$), suggesting that higher proportions of independent directors may be associated with lower short-term Financial Performance within the sample period.

Table 1: Descriptive Statistics of Study Variables.

| Variable | Observations | Mean | Std. Dev. | Minimum | Maximum |
|---|---|---|---|---|---|
| Return on Assets (ROA) | 165 | 0.0343 | 0.0112 | -0.0106 | 0.0582 |
| Return on Equity (ROE) | 165 | 0.2885 | 0.1412 | -0.0659 | 0.7250 |
| Board Independence Ratio | 165 | 0.6720 | 0.0958 | 0.5500 | 0.8300 |

Source: Authors' Computation from Stata

Table 2: Correlation Matrix of Study Variables

| Variables | ROA | ROE | Board Independence | Managerial Experience | Audit Committee | Meetings | Assets | Equity |
|---|---|---|---|---|---|---|---|---|
| **ROA** | 1.000 | 0.661*** | -0.313*** | 0.080 | -0.356*** | -0.115 | 0.420*** | 0.425*** |
| **ROE** | 0.661*** | 1.000 | -0.311*** | 0.172** | -0.244*** | -0.117 | 0.508*** | 0.361*** |
| **Board Independence** | -0.313*** | -0.311*** | 1.000 | 0.159** | 0.438*** | 0.169** | -0.385*** | -0.364*** |

Source: Authors Computation from Stata

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

## 4.2 To Evaluate How Managerial Experience Affects the Financial Performance of the Zambian Banking Industry

Managerial experience shows a weak positive relationship with profitability measures, although the relationship is statistically significant only with ROE ($r = 0.172$, $p < 0.05$) as shown under table 3 below. Descriptive statistics under table 4 below shows managerial experience averages approximately 20.8 years, with values ranging between 15 and 28 years, implying that most Banks in the Zambian Banking Industry are managed by relatively experienced executives.

Table 3: Correlation Matrix of Study Variables

| Variables | ROA | ROE | Board Independence | Managerial Experience | Audit Committee | Meetings | Assets | Equity |
|---|---|---|---|---|---|---|---|---|
| **Managerial Experience** | 0.080 | 0.172** | 0.159** | 1.000 | 0.148 | 0.046 | 0.486*** | 0.471*** |

Source: Authors Computation from Stata

Table 4: Descriptive Statistics of Study Variables

| Variable | Observations | Mean | Std. Dev. | Minimum | Maximum |
|---|---|---|---|---|---|
| Managerial Experience | 165 | 20.836 | 2.445 | 15 | 28 |

Source: Authors' Computation from Stata

## 4.3 To Assess How Audit Committees affect the Financial Performance of the Zambian Banking Industry

Table 5 below shows Audit Committee Size which demonstrates a negative correlation with Financial Performance, while Board meeting frequency exhibits weak and statistically insignificant associations with both ROA and ROE. Regarding control variables, Bank size (log of assets) shows a strong positive relationship with Financial Performance, indicating that larger Banks tend to generate higher returns. The correlation between the log of assets and the log of equity is very high ($r = 0.954$), which is expected since both variables capture firm size characteristics. Importantly, the remaining correlations among the explanatory variables remain below the commonly accepted multicollinearity threshold of 0.80, suggesting that multicollinearity is unlikely to pose a serious econometric concern in the regression analysis.

Table 5: Correlation Matrix of Study Variables

| Variables | ROA | ROE | Board Independence | Managerial Experience | Audit Committee | Meetings | Assets | Equity |
|---|---|---|---|---|---|---|---|---|
| **Audit Committee** | -0.356*** | -0.244*** | 0.438*** | 0.148 | 1.000 | 0.312*** | 0.028 | 0.064 |

Source: Authors Computation from Stata

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6 below shows that Audit Committee size has a mean value of approximately 3.32 members, with a minimum of three and a maximum of six members. This indicates that most Banks maintain relatively small but functional audit committees responsible for financial oversight and governance.

Table 6: Descriptive Statistics of Study Variables.

| Variable | Observations | Mean | Std. Dev. | Minimum | Maximum |
|---|---|---|---|---|---|
| Audit Committee members | 165 | 3.321 | 0.634 | 3 | 6 |

Source: Authors' Computation from Stata

## 4.4 Multicollinearity Test (VIF)

Multicollinearity occurs when two or more explanatory variables in a regression model are highly correlated with one another, which can inflate the variance of estimated coefficients and reduce the reliability of statistical inference. In the presence of severe multicollinearity, it becomes difficult to isolate the individual effect of each explanatory variable on the dependent variable. To evaluate the potential presence of multicollinearity among the independent variables, the Variance Inflation Factor (VIF) test was conducted using Stata statistical software. The VIF measures the extent to which the variance of an estimated regression coefficient is increased due to multicollinearity among the explanatory variables. According to standard econometric guidelines, a VIF value greater than 10 is commonly interpreted as evidence of serious multicollinearity, while values below 5 generally indicate that multicollinearity is not a significant concern in the model (Damodar & Porter, 2009; Stock and Watson, 2020). The initial diagnostic results indicated relatively high VIF values for the logarithm of total assets and the logarithm of equity, suggesting strong multicollinearity between these two variables. This result is expected because both variables capture closely related dimensions of Bank size and are therefore highly correlated. To address this issue and improve the stability of the regression estimates, the logarithm of equity was excluded from the regression model, while the logarithm of total assets was retained as the primary control variable representing Bank size. Following the removal of the highly correlated variable, the VIF test was re-estimated. The results, presented in Table 7, show that all VIF values fall well below the commonly accepted threshold of 5, with a mean VIF value of 1.58. This indicates that multicollinearity is not a concern in the final regression specification. Consequently, the explanatory variables included in the model are sufficiently independent to produce reliable and interpretable parameter estimates.

Table 7: Variance Inflation Factor (VIF) Test

| Variable | VIF | 1/VIF |
|---|---|---|
| Ln Assets | 1.94 | 0.516 |
| Board Independence | 1.85 | 0.541 |
| Managerial Experience | 1.61 | 0.621 |
| Audit Committee | 1.41 | 0.708 |
| Meetings | 1.11 | 0.901 |
| Mean VIF | 1.58 | |

Source: Authors' Computation from Stata
* p < 0.10, ** p < 0.05, *** p < 0.01

Table 7: Variance Inflation Factor (VIF) Test
Source: Authors' Computation from Stata
* p < 0.10, ** p < 0.05, *** p < 0.01

## 4.5 Panel Model Estimation

**Static Panel Data Regression Results- Return on Assets**

Table 8 reports the results from pooled Ordinary Least Squares (OLS), fixed effects, and random effects panel regressions examining the relationship between Corporate Governance characteristics and Bank profitability measured by return on assets (ROA). The Breusch–Pagan Lagrangian Multiplier test strongly rejects the null hypothesis that panel effects are absent ($\chi^2 = 408.49$, $p < 0.001$), indicating that panel estimators are preferred over pooled OLS. To determine the most appropriate panel estimator, the Hausman specification test was conducted.

The test yields a chi-square statistic of 10.53 with a probability value of 0.062. Since the p-value exceeds the conventional 5 percent significance level, the null hypothesis that the difference between the fixed and random effects estimators is not systematic cannot be rejected. Consequently, the random effects model is considered appropriate and is adopted as the preferred specification for interpretation. The random effects results indicate that managerial experience has a negative and statistically significant effect on Bank profitability.

The coefficient suggests that increases in managerial experience are associated with a reduction in return on assets. Similarly, the size of the Audit Committee exhibits a negative relationship with profitability and is weakly significant at the 10 percent level, implying that larger audit committees may impose stricter monitoring that potentially limits profit-generating activities. Board meeting frequency demonstrates a positive but weakly significant effect on profitability, suggesting that more frequent meetings may improve oversight and strategic decision-making within Banks. Firm size, measured by the natural logarithm of total assets, shows a positive and highly significant relationship with profitability across all model specifications.

This indicates that larger Banks benefit from economies of scale and operational advantages that enhance their Financial Performance. In contrast, the Board Independence variable does not exhibit a statistically significant effect on profitability in the random effects specification, suggesting that variations in Board composition may not significantly influence Bank performance during the study period.

Table 8: Static Panel Data Regression Results – Return on Assets

| Variables | Pooled OLS | Fixed Effects | Random Effects |
|---|---|---|---|
| Board Independence | 0.009 | -0.014** | -0.008 |
| | (0.010) | (0.007) | (0.006) |
| Managerial Experience | -0.001 | -0.001*** | -0.001*** |
| | (0.0004) | (0.0002) | (0.0002) |
| Audit Committee members | -0.007*** | -0.001* | -0.001* |
| | (0.001) | (0.001) | (0.001) |
| Board Meetings | -0.000 | 0.003* | 0.003* |
| | (0.004) | (0.002) | (0.002) |
| Log Total Assets (Firm Size) | 0.005*** | 0.011*** | 0.008*** |
| | (0.001) | (0.002) | (0.002) |
| Constant | -0.017 | -0.116*** | -0.067*** |
| | (0.019) | (0.032) | (0.022) |
| Observations | 165 | 165 | 165 |
| Banks | | 15 | 15 |
| R-squared | 0.323 | 0.308 | 0.298 |

Source: Author's computation using Stata.

Notes: Standard errors are reported in parentheses. Model selection tests indicate that panel estimators are preferred over pooled OLS according to the Breusch–Pagan Lagrangian Multiplier test ($\chi^2 = 408.49$, $p < 0.001$). The Hausman test fails to reject the null hypothesis of no systematic difference between fixed and random effects estimators ($\chi^2 = 10.53$, $p = 0.062$), indicating that the random effects model is appropriate. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

### Diagnostic Tests ROA Model

To ensure the reliability of the panel regression estimates, several diagnostic tests were conducted. First, the Breusch–Pagan Lagrangian Multiplier test for random effects was applied to determine whether pooled ordinary least squares (OLS) estimation was appropriate. The test produced a chi-bar$^2$ statistic of 408.49 with a probability value of 0.000. Since the p-value is less than the 5 percent significance level, the null hypothesis of no panel effects was rejected, indicating that panel estimation techniques are more appropriate than pooled OLS. Second, the Pesaran cross-sectional dependence test was conducted to assess whether residuals across Banks were correlated. The results yielded a test statistic of 0.875 with a p-value of 0.3815. Because the p-value exceeds the 5 percent significance level, the null hypothesis of cross-sectional independence cannot be rejected. This suggests that cross-sectional dependence is not a significant concern in the dataset. Third, the Wooldridge test for autocorrelation in panel data was employed to examine the presence of serial correlation in the residuals. The test produced an F-statistic of 11.866 with a probability value of 0.0039. Since the p-value is less than 0.05, the null hypothesis of no first-order autocorrelation was rejected, indicating the presence of serial correlation in the model residuals. Given the presence of serial correlation, the regression models were estimated using robust standard errors to ensure consistent and reliable statistical inference. Test under table 9 below.

Table 9: Summary of All Diagnostic Tests (ROA Model)

| Test | Statistic | p-value | Conclusion |
|---|---|---|---|
| Breusch–Pagan LM | 408.49 | 0.000 | Panel effects exist |
| Pesaran CD | 0.875 | 0.3815 | No cross-sectional dependence |
| Wooldridge Serial Correlation | 11.866 | 0.0039 | Serial correlation present |

Source: Author's computation using Stata.

## 4.6 Discussion of Findings

**Effect of Corporate Governance on Return on Assets**

The regression results reveal mixed effects of Corporate Governance mechanisms on Bank performance measured by return on assets (ROA). Among the variables examined, Board meeting frequency emerges as the most influential, showing a positive and statistically significant effect on profitability. This finding underscores the importance of active Board engagement in enhancing oversight and responsiveness. Frequent meetings allow directors to monitor managerial actions more closely, address emerging challenges, and strengthen strategic decision-making. Vafeas (1999) similarly observed that increased Board activity improves effectiveness by facilitating timely supervision, while Adams and Ferreira (2009) argue that active Boards enhance accountability and monitoring functions, ultimately contributing to stronger firm performance. In the Zambian Banking context, this suggests that governance effectiveness is driven less by structural composition and more by the intensity of Board involvement. This interpretation is further supported by Rashid Khan et al. (2020), who emphasise that Board diligence and engagement strengthen governance outcomes through improved monitoring intensity and strategic advisory capacity.

In contrast, the Board independence ratio was found to have no significant effect on ROA. This result implies that variations in Board composition alone may not translate into improved operational outcomes. Prior studies highlight that Board effectiveness depends more on the expertise, independence, and engagement of directors than on numerical ratios (Fama and Jensen, 1983; Dalton et al., 1998). Thus, while independence is often emphasized in governance codes, its impact may be muted if not accompanied by active oversight and strategic guidance. Likewise, empirical evidence suggests that governance performance relationships are often context-dependent, particularly in emerging economies where institutional constraints may limit the effectiveness of structural governance reforms (Rossi, et, al., 2015; Mahrani and Soewarno, 2018; Ajibade et al., 2020; Makki and Lodhi, 2013).

Similarly, managerial experience did not exhibit a statistically significant relationship with ROA. Although experienced managers are expected to bring industry knowledge and strategic insight, their influence on profitability may be contingent on broader institutional factors such as organizational culture, governance frameworks, and incentive alignment. Jensen and Meckling (1976) note that managerial effectiveness is shaped not only by tenure

but also by the extent to which governance structures mitigate agency problems. In Zambia, this may reflect a tendency for experienced managers to adopt risk-averse strategies that stabilize operations but do not necessarily maximize short-term asset returns. This outcome may also reflect stewardship dynamics in which managers prioritise organisational stability and long-term sustainability over short-term profitability objectives (Donaldson and Davis, 1991; Hoang and Zoltán, 2024).

The results also show that Audit Committee membership has no significant effect on ROA. While audit committees are designed to strengthen financial oversight and transparency, their effectiveness depends more on independence, expertise, and diligence than on size. Klein (2002) emphasizes that the quality of Audit Committee members is a more critical determinant of governance effectiveness than numerical representation. This finding suggests that in Zambian Banks, Audit Committees may exist in form but not necessarily in function, limiting their impact on profitability. Additional literature supports the view that Audit Committee effectiveness is influenced by financial expertise and active participation rather than structural existence alone (Salehi, et al., 2021).

Finally, firm size, measured by the logarithm of total assets, exhibited a positive but statistically insignificant relationship with ROA. Larger Banks may benefit from economies of scale, yet these advantages can be offset by operational complexity and regulatory burdens. Demsetz and Villalonga (2001) similarly reported mixed evidence on the size–performance relationship, highlighting that scale does not guarantee efficiency. Further studies indicate that institutional quality and regulatory compliance costs may reduce the profitability advantages typically associated with larger financial institutions in emerging markets (Hoang and Zoltán, 2024).

Taken together, the results suggest that among the governance mechanisms examined, Board meeting frequency is the most meaningful driver of profitability in Zambian Banks. This highlights the importance of active Board engagement as a practical governance tool, reinforcing the view that governance effectiveness depends not only on structural arrangements but also on the intensity of oversight and the quality of Board processes.

**Effect of Corporate Governance on Return on Equity (ROE)**

The regression analysis examining the relationship between Corporate Governance mechanisms and Bank performance measured by return on equity (ROE) reveals that none of the governance variables exerts a statistically significant effect on shareholder returns. Although Board independence ratio, Board meeting frequency, Audit Committee membership, managerial experience, and firm size were included as explanatory variables, the results suggest that variations in these governance characteristics do not meaningfully influence ROE among the sampled Banks during the study period. This finding is consistent with prior empirical studies, which indicate that governance performance relationships are often mixed and context-dependent, particularly in emerging economies where institutional quality, regulatory enforcement, and macroeconomic conditions play a significant role in shaping financial outcomes (Rossi, et al., 2015; Ajibade et al., 2020; Makki and Lodhi, 2023; Hoang and Zoltán, 2024).

This absence of statistically significant relationships may be explained by the nature of ROE as a performance indicator. Unlike return on assets (ROA), which reflects operational efficiency in utilizing assets to generate profits, ROE captures shareholder returns relative to equity financing. As such, ROE is more sensitive to broader financial and strategic factors, including capital structure decisions, leverage, risk exposure, and macroeconomic conditions, than to governance structures alone (Demsetz and Villalonga, 2001). This suggests that governance mechanisms, while important for accountability and oversight, may not directly translate into improved equity returns in the Zambian Banking Industry. Additional evidence suggests that shareholder profitability in Banking Institutions is heavily influenced by external financial dynamics such as regulatory costs, capital adequacy requirements, and financial Sector stability, which may weaken the direct impact of governance mechanisms on equity returns (International Monetary Fund, 2023; Hoang and Zoltán, 2024).

The positive but insignificant coefficient observed for Board meeting frequency implies that more active Boards may contribute to improved oversight and decision-making, though the effect is not strong enough to significantly influence ROE. Vafeas (1999) similarly noted that while frequent Board meetings enhance monitoring, their impact on financial outcomes depends on the quality of deliberations and strategic follow-through rather than frequency alone. This observation is further supported by Rashid Khan et al. (2020) and Adams and Ferreira (2009), who argue that Board activity enhances governance effectiveness primarily through improved oversight processes rather than direct financial outcomes.

Likewise, the positive but insignificant coefficient for the Board Independence ratio suggests that Board composition alone may not significantly affect shareholder returns. Corporate Governance literature emphasizes that Board effectiveness depends more on independence, competence, and engagement of directors than on numerical ratios (Fama & Jensen, 1983). Thus, variations in Board structure may not directly translate into measurable improvements in equity profitability. Empirical evidence from Mahrani and Soewarno (2018) and Villalonga and Amit (2006) indicates that governance structures enhance firm value only when supported by effective implementation, strategic alignment, and strong institutional environments.

Both managerial experience and Audit Committee membership also exhibited statistically insignificant relationships with ROE. This finding indicates that while these mechanisms are important for internal control and risk management, their direct impact on shareholder returns may be limited. Jensen and Meckling (1976) argue that governance mechanisms primarily function to reduce agency conflicts, with benefits often manifesting indirectly through improved efficiency and transparency rather than immediate financial outcomes. This result also supports Stewardship Theory, which suggests that managerial behaviour may be driven by organisational commitment and long-term stability considerations rather than short-term profit maximisation (Donaldson and Davis, 1991) as well as Stakeholder Theory, which emphasises the need to balance diverse stakeholder interests in financial institutions (Freeman, et al., 2010).

Finally, firm size was found to have a negative but statistically insignificant effect on ROE. Larger Banks often face greater operational complexity, regulatory burdens, and diseconomies of scale, which may offset potential advantages of size. Similar mixed evidence has been reported in prior studies, suggesting that scale does not guarantee higher equity returns (Demsetz and Villalonga, 2001). Further studies indicate that firm size effects on Financial Performance are influenced by governance quality, regulatory frameworks, and macroeconomic conditions, particularly in emerging markets (Hoang and Zoltán, 2024).

Overall, the results suggest that Corporate Governance mechanisms alone may not sufficiently explain variations in shareholder returns among Zambian Banks. While governance structures remain essential for ensuring accountability and transparency, ROE appears to be more strongly influenced by external financial and institutional factors. This highlights the need for future research to integrate macroeconomic variables and capital structure considerations when examining the determinants of shareholder profitability in the Banking Industry. This reinforces the argument that governance effectiveness should be evaluated alongside broader Financial Sector dynamics, institutional strength, and economic stability when assessing Bank performance (Rossi,et, al., 2015; International Monetary Fund, 2023; Makki and Lodhi, 2023).

**Integrated Synthesis of ROA and ROE**

The combined analysis of return on assets (ROA) and return on equity (ROE) highlights important distinctions in how Corporate Governance mechanisms influence different dimensions of Bank performance. The results suggest that governance structures exert a more direct effect on operational efficiency, as measured by ROA, than on shareholder returns, as measured by ROE. Specifically, Board meeting frequency emerged as the only governance variable with a statistically significant impact, positively influencing ROA. This underscores the importance of active Board engagement in enhancing oversight, improving responsiveness to operational challenges, and strengthening strategic decision-making. This finding aligns with broader governance literature, which emphasises that behavioural governance practices such as Board diligence, engagement, and monitoring intensity are key drivers of governance effectiveness (Adams and Ferreira, 2009; Rashid Khan et al., 2020; Hoang and Zoltán, 2024).

In contrast, governance variables such as Board independence, managerial experience, and Audit Committee membership did not significantly affect ROA, suggesting that structural arrangements alone are insufficient without active and effective Board processes. This supports the view that governance mechanisms may exist for compliance purposes but may not translate into improved performance unless supported by director expertise, institutional quality, and strategic involvement (Mahrani and Soewarno, 2018; Hoang and Zoltán, 2024).

For ROE, none of the governance variables demonstrated a statistically significant effect. This finding indicates that shareholder returns are shaped more by external financial and strategic factors, including capital structure, leverage, and macroeconomic conditions, than by internal governance mechanisms. This is consistent with empirical studies highlighting that profitability in Banking Industrys is influenced by macro-financial stability, regulatory frameworks, and financial market conditions (Rossi,et, al., 2015; International Monetary Fund, 2023; Makki and Lodhi, 2023).

While Board activity and composition may contribute to improved monitoring and accountability, their influence on equity profitability appears limited in the Zambian Banking context. The negative but insignificant relationship between firm size and ROE further suggests that larger Banks may face diseconomies of scale and regulatory burdens that offset potential advantages of scale.

Taken together, these findings reveal a nuanced picture: governance mechanisms, particularly Board activity, play a meaningful role in enhancing operational efficiency (ROA), but they do not directly translate into improved shareholder returns (ROE). This divergence highlights the importance of distinguishing between short-term profitability and long-term equity performance when evaluating the impact of governance. It also suggests that while governance reforms can strengthen accountability and operational oversight, broader financial and macroeconomic factors remain critical determinants of shareholder value in Zambia's Banking Industry. Additionally, distinguishing between governance structures and governance effectiveness, as well as recognising the role of institutional, regulatory, and macroeconomic factors in shaping Financial Performance outcomes (Mahrani and Soewarno, 2018; Hoang and Zoltán, 2024).

## 5 Conclusions and Recommendations

The regression results for Return on Assets (ROA), based on the final random effects model with robust standard errors, indicate that Board Meeting Frequency has a positive and statistically significant effect on Financial Performance. Specifically, the coefficient for Board Meetings is $\beta = 0.0031$ ($p < 0.01$), implying that an increase in the number of Board meetings leads to an increase in profitability measured by ROA. This finding confirms that active Board engagement enhances monitoring effectiveness, strengthens internal control systems, and improves strategic decision-making, thereby contributing to improved operational efficiency in Banks.

In contrast, Board Independence exhibits a negative coefficient ($\beta = -0.0078$) but is statistically insignificant ($p = 0.610$), indicating that variations in the proportion of independent directors do not significantly influence Bank profitability. This suggests that Board Independence alone may not be sufficient to improve Financial Performance unless supported by effective participation, expertise, and strategic oversight.

Similarly, Managerial Experience shows a negative coefficient ($\beta = -0.0013$) and is statistically insignificant ($p = 0.162$), implying that differences in managerial experience among Banks do not have a meaningful impact on profitability. This indicates that managerial tenure alone does not necessarily translate into improved financial outcomes, and that other organisational and institutional factors may play a more critical role.

The results further indicate that Audit Committee Membership has a negative coefficient ($\beta = -0.0014$) but is statistically insignificant ($p = 0.328$), suggesting that Audit Committee size does not significantly affect Financial Performance. This implies that the effectiveness of audit committees depends more on their functionality, expertise, and level of engagement rather than their structural composition.

Firm Size, measured by the logarithm of total assets, shows a positive coefficient ($\beta = 0.0078$) but is statistically insignificant ($p = 0.161$), indicating that larger Banks do not necessarily achieve higher profitability when governance variables are taken into account.

The model is statistically significant overall, with a Wald $\chi^2$ value of 256.65 ($p < 0.001$), indicating that the explanatory variables jointly influence Financial Performance measured by ROA.

With respect to Return on Equity (ROE), the fixed effects model with robust standard errors indicates that none of the Corporate Governance variables have a statistically significant effect on shareholder returns. Board Independence has a positive coefficient ($\beta = 0.1613$) but is statistically insignificant ($p = 0.247$), while Managerial Experience shows an almost zero coefficient ($\beta = -0.0001$) and is highly insignificant ($p = 0.996$).

Audit Committee membership also exhibits a very small positive coefficient ($\beta = 0.0002$) and is statistically insignificant ($p = 0.995$), while Board Meeting Frequency shows a positive but insignificant coefficient ($\beta = 0.0175$, $p = 0.137$).

Firm Size has a negative coefficient ($\beta = -0.0751$) and is statistically insignificant ($p = 0.690$), suggesting that larger Banks do not necessarily achieve higher returns on equity after controlling for Bank-specific effects.

Although individual variables are insignificant, the overall model is statistically significant ($F = 4.90$, $p < 0.01$), indicating that the variables jointly explain variations in ROE, albeit weakly.

Overall, the findings of the study indicate that Corporate Governance mechanisms influence Financial Performance in a mixed and selective manner. Governance variables appear to have a stronger and more direct effect on operational efficiency measured by ROA than on shareholder profitability measured by ROE.

The results further suggest that governance effectiveness in the Zambian Banking Industry depends more on behavioural governance processes, such as

Board engagement, monitoring intensity, and oversight effectiveness, rather than structural governance mechanisms alone.

In conclusion, Corporate Governance contributes to Financial Performance primarily as a dynamic process of active oversight rather than as a static structural arrangement. Strengthening Board effectiveness, enhancing governance processes, and improving institutional frameworks are therefore essential for promoting financial stability, operational efficiency, and sustainable performance in the Zambian Banking Industry.

### Recommendations for Commercial Banks

Based on the empirical findings, particularly the significant role of Board Meeting Frequency on ROA and the limited impact of structural governance variables, the following recommendations are proposed:

Banks should hold Board meetings regularly with clear, strategic agendas focusing on Financial Performance, risk management, regulatory compliance, and long-term planning.

Boards should prioritise the quality of deliberations and decision-making rather than merely complying with formal governance requirements such as independence ratios or committee structures.

Banks should strengthen Board evaluation systems through periodic assessments of directors' competence, participation, and contribution to strategic oversight. Audit Committees should focus on financial expertise, independence, and active participation rather than committee size alone. Banks should invest in continuous managerial development through leadership training, governance education, and succession planning.

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The author(s) declare that they have no competing or conflict of interest regarding the publication of this manuscript.

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

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