

Board composition, independence, and financial sustainability of microfinance institutions in Zambia: An integrative strategic perspective

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ABSTRACT

Microfinance institutions (MFIs) play a critical role in promoting financial inclusion and supporting small-scale economic activity in developing economies. However, many MFIs continue to experience challenges related to financial sustainability, governance effectiveness, and managerial accountability. This study examines the influence of board composition and board independence on the financial sustainability of MFIs in Zambia, while also assessing the mediating role of leadership accountability and the moderating influence of the regulatory environment. The study adopts an integrative governance perspective drawing on agency theory, stewardship theory, institutional theory, and strategic management theory. A convergent mixed-methods research design was employed. Quantitative data were collected from 114 respondents across 38 regulated microfinance institutions and analysed using descriptive statistics, multiple regression analysis, and mediation and moderation models. Qualitative data were obtained through semi-structured interviews with board members, senior managers, regulators, and clients and were analysed using thematic analysis to provide contextual interpretation of governance practices. The findings reveal that board composition and independence have a positive but statistically insignificant direct effect on financial sustainability ($\beta = 0.081$, $p = 0.274$). However, leadership accountability demonstrates a significant positive influence on sustainability ($\beta = 0.412$, $p < 0.01$) and partially mediates the governance-performance relationship. Qualitative evidence further indicates that boards characterised by independence, gender diversity, and professional expertise enhance strategic oversight, financial prudence, and transparency. The results also suggest that a stable and predictable regulatory environment strengthens the effectiveness of governance mechanisms in MFIs. The study concludes that financial sustainability in MFIs is driven not merely by formal governance structures but by the interaction between effective board oversight, accountable leadership, and supportive regulatory frameworks. By providing empirical evidence from Zambia, this study contributes to the literature on governance in inclusive finance institutions and advances an integrative strategic governance perspective for improving sustainability in the microfinance sectors of emerging economies.

Keywords: Board Composition, Board Independence, Corporate Governance, Financial Sustainability, Leadership Accountability, Microfinance Institutions

I. INTRODUCTION

Corporate governance has increasingly become a critical determinant of financial stability, accountability, and institutional sustainability in modern financial systems. In emerging markets, where financial institutions often operate under conditions of limited market discipline and evolving regulatory frameworks, governance structures play an essential role in reducing agency conflicts, strengthening managerial accountability, and improving organisational performance (Jensen & Meckling, 1976; Tricker, 2015; Klapper & Love, 2004). Within financial institutions, the board of directors is the primary governance mechanism responsible for overseeing management decisions, shaping strategic direction, and safeguarding stakeholder interests. Board independence and board diversity have been widely recognised as key governance attributes that enhance monitoring effectiveness, improve decision quality, and promote transparency in organisational operations (Adams & Ferreira, 2009; Mori et al., 2013; Terjesen et al., 2016).

Microfinance institutions (MFIs) occupy a distinctive position within financial systems because they pursue a dual mission of financial sustainability and social inclusion. Unlike conventional financial institutions that focus primarily on profitability, MFIs aim to expand financial access to low-income households, micro-entrepreneurs, and underserved communities. This dual mandate places significant governance demands on boards, which must simultaneously ensure financial discipline, manage credit risk, and preserve the developmental objectives of the institution (Mersland & Strom, 2009; Hermes et al., 2011; Hassan & Mersland, 2018). Empirical studies have shown

that effective governance structures in MFIs contribute to stronger portfolio quality, improved profitability, and greater institutional sustainability, particularly when boards are independent, professionally diverse, and actively engaged in strategic oversight (Hartarska, 2005; Mori et al., 2013).

In Zambia, the microfinance sector has expanded as part of broader efforts to promote financial inclusion and support small enterprise development. Regulated MFIs operate under the supervision of the Bank of Zambia, which has introduced governance and prudential guidelines aimed at strengthening oversight and risk management within the sector. Despite these regulatory efforts, many institutions continue to face challenges related to portfolio risk, managerial inefficiencies, and uneven financial performance. Evidence suggests that while most MFIs maintain formal board structures, variations in board independence, gender diversity, and professional expertise often limit the effectiveness of governance oversight (Hartarska & Nadolnyak, 2007; Ehikioya, 2009). This situation reflects a broader governance paradox in which institutions comply with formal governance requirements while the functional effectiveness of boards in influencing sustainability outcomes remains uncertain.

1.1 Statement of the Problem

Despite regulatory reforms and the formal establishment of boards across regulated microfinance institutions in Zambia, financial sustainability within the sector remains uneven. Many MFIs continue to face challenges related to portfolio risk, operational inefficiencies, and inconsistent financial performance. Although governance frameworks require institutions to maintain boards and comply with regulatory standards, the existence of these structures does not necessarily translate into effective oversight or improved institutional outcomes. Studies suggest that governance mechanisms may remain largely symbolic where boards lack independence, professional expertise, or active engagement in strategic decision-making (Hartarska, 2005; Mersland & Strom, 2009; Ehikioya, 2009).

This situation points to a structural-functional governance gap in which formal governance arrangements exist but do not consistently influence financial sustainability. Evidence indicates that board independence and diversity contribute to performance primarily when supported by accountable leadership and effective governance practices (Hassan & Mersland, 2018; Mori et al., 2013). Consequently, there is a need to examine how board composition and independence interact with leadership accountability to influence the financial sustainability of microfinance institutions in Zambia.

1.2 Research Objectives

- i. To determine the influence of board composition and independence on the financial performance of MFIs in Zambia.
- ii. To examine how board diversity (gender and expertise mix) contributes to financial prudence and sustainability.
- iii. To explore how leadership accountability mediates the relationship between board composition and financial outcomes.
- iv. To contextualise these relationships within Zambia's regulatory and strategic governance framework.

1.3 Research Hypotheses

- Ho₁*: Board composition and independence have a significant positive influence on the financial sustainability of microfinance institutions in Zambia.
- Ho₂*: Board diversity (gender representation and professional expertise) significantly contributes to financial prudence and sustainability.
- Ho₃*: Leadership accountability significantly mediates the relationship between board composition and independence and financial sustainability.
- Ho₄*: The regulatory environment significantly moderates the relationship between governance structures and financial sustainability.

II. LITERATURE REVIEW

2.1 Theoretical Review

Corporate governance refers to the systems and processes through which organisations are directed, monitored, and controlled in order to promote accountability, transparency, and institutional sustainability (Tricker, 2015). In financial institutions, governance is particularly important because weak oversight can quickly translate into poor asset quality, weak internal controls, and loss of stakeholder confidence. In microfinance institutions, governance assumes even greater importance because these organisations pursue a dual mission of financial sustainability and social outreach. Boards are therefore expected to balance financial discipline with development objectives while safeguarding stakeholder interests (Hartarska, 2005; Mersland & Strom, 2009). This study adopts an integrative theoretical perspective that links four complementary bodies of theory: agency theory, stewardship theory, institutional theory, and

strategic management theory. Each theory contributes a distinct analytical lens through which different dimensions of the governance-sustainability relationship can be examined.

2.2.1 Agency Theory

Agency theory, developed by Jensen & Meckling (1976), constitutes the foundational theoretical framework in corporate governance research. The theory argues that boards exist to mitigate conflicts of interest between principals (shareholders and stakeholders) and agents (managers) by strengthening monitoring, accountability, and information transparency. From this perspective, independent and diverse boards are expected to enhance reporting quality, reduce managerial opportunism, and improve organisational performance. Empirical evidence broadly supports this proposition, demonstrating that stronger board monitoring is associated with improved profitability, risk management, and institutional stability in financial institutions (Adams & Ferreira, 2009; Klapper & Love, 2004). In the microfinance context, agency theory is particularly relevant because MFIs serve multiple principals, including donors, regulators, depositors, and borrowers, each with distinct interests that boards must reconcile.

2.2.2 Stewardship Theory

Stewardship theory, advanced by Davis et al. (1997), offers a complementary perspective to the monitoring focus of agency theory by emphasising that managers may act as responsible stewards whose interests align with those of the organisation. Under this framework, governance structures improve performance by building trust-based relationships, encouraging strategic dialogue, and empowering competent leadership rather than through coercive monitoring. Stewardship theory is particularly instructive for understanding the mediating role of leadership accountability in this study, as it posits that the quality of managerial behaviour, rather than the mere structure of oversight, determines institutional outcomes (Davis et al., 1997; Hassan & Mersland, 2018). In microfinance institutions, stewardship is reflected in the commitment of leadership to both financial discipline and social mission.

2.2.3 Institutional Theory

Institutional theory, as formulated by DiMaggio & Powell (1983), argues that organisations are embedded in broader institutional environments that shape their structures, practices, and legitimacy. Organisations respond to regulatory, normative, and cognitive pressures through isomorphic adaptation, adopting governance practices that conform to prevailing institutional expectations. In the microfinance context, institutional theory is relevant for understanding how regulatory oversight by the Bank of Zambia shapes governance behaviour among MFIs. Regulatory requirements establish the normative framework within which boards operate, and the stability and predictability of this framework significantly influences the effectiveness of governance mechanisms (DiMaggio & Powell, 1983; Hartarska & Nadolnyak, 2007). Institutional theory thus provides the analytical basis for examining the moderating role of the regulatory environment in this study.

2.2.4 Strategic Management Theory

Strategic management theory, drawing on the foundational work of Zahra & Pearce (1989), conceptualises boards not merely as monitoring bodies but as strategic assets responsible for guiding long-term planning, risk governance, and resource allocation. Contemporary governance research increasingly views boards as partners in institutional strategy, contributing to long-term development, innovation, and competitive positioning (Zahra & Pearce, 1989; Mori et al., 2013). This perspective extends agency and stewardship theories by recognising that governance effectiveness depends on the active strategic engagement of boards rather than on compliance with formal governance structures alone. In microfinance institutions, strategic management theory supports the argument that boards must integrate financial sustainability with social mission in their strategic governance activities.

2.2.5 Justification for the Use of Multiple Theoretical Frameworks

The adoption of multiple theoretical frameworks in this study is justified on grounds of analytical complementarity and empirical necessity. No single theory is sufficient to explain the multi-dimensional governance-sustainability relationship in microfinance institutions. Agency theory explains the monitoring and accountability functions of boards but cannot fully account for the behavioural and institutional dimensions of governance. Stewardship theory addresses managerial behaviour and trust-based relationships but does not capture the structural and regulatory constraints within which MFIs operate. Institutional theory explains regulatory influences and isomorphic pressures but does not illuminate internal governance dynamics. Strategic management theory contextualises boards within long-term institutional strategy but does not directly address agency conflicts or leadership behaviour.

The integrative use of these four theories therefore allows the study to examine governance at multiple levels: the structural level (board composition and independence, informed by agency theory), the behavioural level (leadership accountability, informed by stewardship theory), the institutional level (regulatory environment, informed by

institutional theory), and the strategic level (board as a strategic asset, informed by strategic management theory). This multi-level framework provides a more comprehensive and internally consistent explanation of how governance mechanisms interact to influence financial sustainability in Zambia's microfinance sector.

2.2 Empirical Review

Board composition refers to the structure, diversity, and professional mix of board members responsible for overseeing management and institutional strategy. In MFIs, board effectiveness depends on the ability of directors to balance financial sustainability with social outreach objectives (Mersland & Strom, 2009). Several studies show that diversity in board composition, particularly gender and professional expertise diversity, improves oversight quality and strategic decision-making (Adams & Ferreira, 2009; Kang et al., 2007). Evidence from African financial institutions also indicates that diverse boards are associated with stronger governance and improved institutional performance under certain institutional conditions (Ehikioya, 2009). However, empirical findings remain mixed. While some studies report a positive relationship between board composition and financial performance (Adams & Ferreira, 2009; Hartarska, 2005), others argue that larger or heterogeneous boards may slow decision-making and reduce strategic agility (Dalton et al., 2011). In developing economies, smaller but professionally competent boards are sometimes associated with stronger performance because they avoid bureaucratic inertia and coordination problems (Ehikioya, 2009).

Board independence remains a key dimension of governance quality. Independent directors are expected to strengthen transparency, improve audit rigour, and reduce conflicts of interest within organisations (Tricker, 2015). In the microfinance literature, higher levels of board independence have often been associated with improved loan portfolio quality, profitability, and cost discipline (Hartarska, 2005; Mersland & Strom, 2009). However, recent research suggests that independence alone may not guarantee improved governance outcomes. In some contexts, independent directors lack the expertise, authority, or institutional knowledge required to challenge management decisions effectively, a phenomenon that governance scholars describe as compliance formalism, which occurs when institutions satisfy regulatory governance requirements without achieving meaningful oversight effectiveness (Tricker, 2015).

Board diversity, particularly gender and professional diversity, has gained increasing prominence in governance research. Gender-diverse boards are often associated with stronger ethical sensitivity, improved stakeholder communication, and more balanced decision-making (Adams & Ferreira, 2009; Terjesen et al., 2016). Professional diversity introduces expertise in finance, risk management, and strategic planning, which strengthens the quality of board deliberations (Kang et al., 2007). In the microfinance sector, diversity is especially important because institutions must integrate financial sustainability with social responsibility. Nevertheless, scholars caution that diversity alone does not automatically improve performance unless diverse board members actively participate in oversight and decision-making (Terjesen et al., 2016).

Leadership accountability represents an important mechanism through which governance structures influence organisational outcomes. Governance frameworks become effective only when board decisions are translated into operational practices such as strategic planning, auditing, monitoring, and risk management. Management control theory suggests that performance outcomes emerge through planning, monitoring, and feedback mechanisms that align leadership actions with institutional goals (Anthony & Govindarajan, 2007). Empirical studies in the microfinance sector show that accountable leadership improves regulatory compliance, strengthens internal controls, and enhances financial discipline (Hassan & Mersland, 2018; Ansong et al., 2022). In the Zambian context, the interaction between board oversight and managerial accountability appears particularly important for maintaining institutional resilience and operational sustainability.

The integrative strategic governance perspective emerging from recent literature emphasises that governance effectiveness depends on the interaction of governance structure, leadership behaviour, and regulatory context. Rather than treating the board as a purely monitoring entity, contemporary governance research views it as a strategic partner responsible for shaping institutional direction, risk appetite, and performance oversight (Mori et al., 2013). This perspective aligns governance with strategic management by recognising that boards contribute not only to control but also to long-term institutional development and innovation.

III. METHODOLOGY

3.1 Research Design

This study adopted a convergent parallel mixed-methods research design to examine how board composition and independence influence the financial sustainability of microfinance institutions in Zambia. The study integrates quantitative and qualitative approaches in order to capture both the structural and behavioural dimensions of corporate governance within the microfinance sector (Creswell & Plano Clark, 2018). The quantitative component employed a cross-sectional survey design to test hypothesised relationships between governance variables and financial sustainability indicators. The qualitative component complemented the quantitative analysis through semi-structured



interviews that explored governance practices, leadership accountability, board dynamics, and regulatory influences shaping institutional performance. Quantitative and qualitative data were collected and analysed concurrently and integrated during the interpretation phase, allowing for triangulation of findings and deeper insight into how governance structures influence financial sustainability.

3.2 Population and Sampling

The study population comprised all regulated microfinance institutions operating under the supervision of the Bank of Zambia as of 2023). A purposive and stratified sampling approach was applied to ensure representation across ownership categories and management levels. The sample and target respondents are presented in Table 1 below.

Table 1

Type of Respondents

Stakeholder Group	Target Respondents	Rationale
Board Members	15	Governance oversight
Senior Managers (CEO, CFO, Operations, Credit Managers)	84	Operational accountability
Regulators (Bank of Zambia, AMIZ)	5	Policy and compliance oversight
Clients	10	Stakeholder validation
Total	114	

In total, 114 valid quantitative responses and 30 qualitative interviews were analysed. This sample size meets the minimum standards for multivariate regression analysis (Hair et al., 2019).

3.3 Data Collection Instruments

3.3.1 Quantitative Instrument

A structured questionnaire was developed based on established governance and sustainability frameworks (Mersland & Strom, 2009; Tricker, 2015). The instrument captured key variables including board composition and independence (board size, non-executive representation, gender diversity, meeting frequency, and independence ratio), financial sustainability indicators (profitability, revenue adequacy, operational self-sufficiency, portfolio quality, and return on assets), leadership accountability (strategic planning, auditing practices, and risk management tools), and the regulatory environment (perceived stability, predictability, and regulatory support).

3.3.2 Qualitative Instrument

A semi-structured interview guide was developed to obtain in-depth insights into governance practices within microfinance institutions. The interviews explored issues related to board independence and diversity in decision-making processes, leadership accountability and its influence on institutional performance, and the interactions between governance mechanisms and financial outcomes. Respondents were also asked to discuss perceived regulatory challenges and the extent to which governance practices align with institutional strategy. Interviews were conducted both face-to-face and virtually, recorded with the consent of participants, and subsequently transcribed verbatim for thematic analysis.

3.4 Variable Operationalisation

Table 2

Variable Operationalisation

Variable	Measurement Indicators	Type
Board Composition and Independence (BCI)	Board size, non-executive ratio, gender diversity, meeting frequency, client representation	Independent
Leadership Accountability (LA)	Strategic planning, audit implementation, risk assessment, management commitment	Mediating
Financial Sustainability (FS)	Profitability, operational self-sufficiency (OSS), return on assets (ROA), portfolio at risk (PAR), loan default rate	Dependent
Regulatory Environment Strength (RES)	Stability, predictability, fairness of regulatory framework	Moderating

These operational definitions align with established microfinance governance literature (Mersland & Strom, 2009; Hartarska, 2005; Anthony & Govindarajan, 2007).



3.5 Data Analysis Procedures

3.5.1 Quantitative Analysis

Quantitative data were analysed using SPSS version 26 and Stata 16. Descriptive statistics were used to summarise respondent and institutional characteristics. Reliability was assessed using Cronbach's alpha, with all multi-item scales exceeding the threshold of 0.70, indicating adequate internal consistency (Nunnally, 1978). Three regression models were estimated to examine the hypothesised relationships. Model 1 assessed the direct effect of board composition and independence on financial sustainability. Model 2 introduced leadership accountability as a mediating variable. Model 3 tested the moderating effect of the regulatory environment by including an interaction term (BCI x RES). Mediation and moderation analyses were conducted using the PROCESS macro developed by Hayes (2018).

3.5.2 Qualitative Analysis

Qualitative data were analysed thematically following the six-step process described by Braun & Clarke (2019). The process began with familiarisation through repeated reading of interview transcripts, followed by the generation of initial codes reflecting key governance concepts such as independence, gender diversity, and accountability. Coded data were examined to identify broader themes, including functional versus structural governance, ownership dominance, and board empowerment. Themes were subsequently reviewed and refined to ensure alignment with the study objectives. Themes were validated through triangulation across respondent categories to ensure reliability and depth.

3.6 Ethical Considerations

Ethical clearance was obtained from The Copperbelt University Research Ethics Committee. Participation was voluntary, and confidentiality was assured to all respondents. Participants were informed of the study's purpose and provided written consent prior to data collection. Data were anonymised, stored securely, and used solely for academic purposes. The research adhered to ethical standards consistent with international research ethics guidelines.

3.7 Validity and Reliability

To ensure construct validity, measurement items were adapted from validated governance frameworks (Mersland & Strom, 2009; Tricker, 2015). Content validity was established through expert review by governance scholars and MFI regulators. Triangulation of quantitative and qualitative findings enhanced the reliability of results, while pilot testing refined questionnaire clarity and instrument consistency.

IV. FINDINGS & DISCUSSIONS

4.1 Descriptive Statistics

Analysis of board and leadership characteristics across 114 respondents indicates that most microfinance institutions have formally established boards, with moderate to high board composition strength and strong regulatory compliance. However, leadership accountability was rated only moderate, reflecting uneven implementation of strategic planning and risk governance practices across institutions. The descriptive results are presented in Table 3.

Table 3

Board and Leadership Analysis

Variable	Observed Level	Interpretation
Board Composition	Moderate to High	Boards largely established but with varying independence across institutions
Board Regulation	High	Strong compliance pressure from regulatory authorities
Leadership Accountability	Moderate	Uneven implementation of governance and risk management practices
Financial Performance	Moderate	Stable but variable across institutions
Social Performance	Moderate to High	Stronger social than financial orientation in most MFIs

These descriptive results suggest that while governance structures exist, their operational effectiveness, particularly through leadership accountability, remains inconsistent across the sector.

4.2 Hypothesis Testing and Regression Results

4.2.1 H₀₁: Board Composition, Independence, and Financial Sustainability

Regression analysis was conducted to examine the direct relationship between board composition and independence (BCI) and financial sustainability (FS). The results are presented in Table 4.



Table 4

Regression Results: Board Composition and Independence on Financial Sustainability

Dependent Variable	β	p-value	Result
Financial Performance	0.081	0.274	Not significant
Social Performance	0.067	0.312	Not significant
Outreach	0.054	0.338	Not significant

The regression results indicate a positive but statistically insignificant relationship between board composition and financial sustainability ($p > 0.05$). This finding indicates that structural governance attributes such as board size, meeting frequency, and gender composition do not automatically translate into improved financial outcomes. Board effectiveness appears to depend on how governance structures are utilised in practice rather than on their mere formal existence. This interpretation aligns with governance scholarship suggesting that governance form must be complemented by governance function (Zahra & Pearce, 1989; Tricker, 2015). Accordingly, H1 is not supported.

4.2.2 H0₂: Board Diversity and Financial Prudence

The quantitative analysis revealed a weak positive relationship between board diversity and financial outcomes, although the effect did not reach statistical significance. However, qualitative findings strongly supported the importance of diversity in enhancing governance effectiveness. Respondents reported that gender-diverse and professionally diverse boards improve oversight, encourage critical questioning, and strengthen decision-making processes. These findings align with existing governance literature suggesting that diverse boards bring broader perspectives, enhance ethical sensitivity, and improve stakeholder responsiveness (Adams & Ferreira, 2009; Kang et al., 2007). The study reinforces the argument that diversity alone does not guarantee improved performance (Terjesen et al., 2016). Institutions must create governance environments where diverse voices genuinely influence decision-making and strategic deliberation. H2 is thus partially supported through qualitative evidence, while the quantitative relationship remains modest.

4.2.3 H0₃: Mediating Role of Leadership Accountability

The mediation analysis examined whether leadership accountability (LA) mediates the relationship between board composition and independence (BCI) and financial sustainability (FS). The results are presented in Table 5.

Table 5

Mediation Analysis Results

Pathway	β	p-value
BCI → Leadership Accountability	0.356	0.004
Leadership Accountability → Financial Sustainability	0.412	0.001
Direct Effect (BCI → FS with mediator)	0.038	0.182

The results indicate that leadership accountability significantly predicts financial sustainability and partially mediates the relationship between board composition and institutional performance. When leadership accountability was introduced into the regression model, the direct effect of board composition on financial sustainability decreased substantially, confirming partial mediation. This finding strongly supports stewardship theory (Davis et al., 1997), which argues that organisational performance improves when managers act as responsible stewards of institutional resources. MFIs with proactive leadership teams that implemented board policies, conducted regular audits, and enforced risk management frameworks demonstrated stronger financial sustainability. This pattern is consistent with Hassan and Mersland (2018) and Ansong et al. (2022). H3 is therefore supported.

4.2.4 H0₄: Moderating Role of the Regulatory Environment

The study also examined whether the regulatory environment (RES) moderates the relationship between governance structures and financial sustainability. The moderation results are presented in Table 6.

Table 6

Moderation Analysis Results

Model	R ²	Interaction Term (BCI x RES)	p-value	Interpretation
Moderation Model	0.073	Positive	0.021	Significant moderation

The interaction term (BCI x RES) significantly improved the model fit ($R^2 = 0.073$; $p = 0.021$), indicating a moderate but statistically significant moderation effect. The results suggest that governance mechanisms are more effective in institutions operating within stable and predictable regulatory environments. This finding supports

institutional theory, which argues that regulatory stability enhances the legitimacy and functionality of governance mechanisms within organisations (DiMaggio & Powell, 1983; Hartarska & Nadolnyak, 2007). H4 is therefore supported.

4.3 Qualitative Results

Qualitative interviews were conducted with 30 stakeholders, including board members, managers, regulators, and clients of microfinance institutions. Thematic analysis revealed five dominant themes characterising governance practices within the sector.

4.3.1 Theme 1: Governance Maturity and Board Independence

Respondents highlighted notable differences in governance maturity across institutions. Some MFIs have professionalised boards with independent directors, while others remain dominated by founders or related parties, weakening objectivity and accountability. One Chief Executive Officer noted:

"Our board has four non-executive members out of six, which brings transparency and professionalism to decision-making." (CEO Interview, 18 February 2025)

These findings suggest that independence must be accompanied by expertise and institutional authority to influence governance outcomes effectively.

4.3.2 Theme 2: Board Diversity and Expertise

Respondents emphasised the importance of gender and professional diversity in improving governance oversight and strategic decision-making. One board member observed:

"Female board members tend to ask questions about client welfare and product fairness, which changes how we evaluate lending risks." (Board Member Interview, 14 March 2025)

Institutions with diverse boards demonstrated stronger oversight, improved strategic deliberation, and more balanced financial and social governance.

4.3.3 Theme 3: Leadership Accountability as the Behavioural Link

Leadership accountability emerged as the most critical factor translating governance structures into operational performance. One senior manager stated:

"The board sets policies, but it is leadership that ensures plans, audits, and reports are followed through." (Senior Manager Interview, 22 March 2025)

Institutions with strong accountability systems, including internal audits and risk registers, demonstrated greater financial stability and regulatory compliance.

4.3.4 Theme 4: Regulatory Compliance and Institutional Legitimacy

Respondents acknowledged the central role of the Bank of Zambia in strengthening governance practices. One regulator noted:

"We comply because the regulator monitors everything, from audits to loan portfolio reports." (Regulator Interview, 9 April 2025)

However, some institutions viewed compliance primarily as a regulatory obligation rather than as a strategic governance imperative, suggesting the persistence of compliance formalism within the sector.

4.3.5 Theme 5: Integrative Strategic Alignment

Respondents emphasised that governance effectiveness improves when board structures are integrated with strategy and risk management. One board member observed:

"Our board now holds quarterly joint meetings with the strategy and risk committee. It keeps governance relevant to performance." (Board Member Interview, 6 April 2025)

Institutions that aligned governance with strategic planning demonstrated stronger resilience, improved financial outcomes, and greater stakeholder confidence.

4.4 Integrated Interpretation of Findings

The integration of quantitative and qualitative findings reveals a convergent pattern across the key governance dimensions examined in this study, as summarised in Table 7.



Table 7
Combined Quantitative and Qualitative Results

Dimension	Quantitative Result	Qualitative Confirmation	Integrated Interpretation
Board Independence	Positive but weakly significant	Independence improves transparency and prudence	Independence effective when functional, not symbolic
Board Diversity	Positive relationship (weak)	Diversity improves decision quality	Diversity enhances oversight via broader perspectives
Leadership Accountability	Strong predictor; mediates governance-performance relationship	Leadership ensures board policy implementation	Leadership operationalises the governance-performance link
Regulatory Environment	Moderate moderator	Predictability improves compliance and planning	Supportive regulation enhances governance impact

The integrated results confirm that structural governance mechanisms alone are insufficient to ensure institutional sustainability. Financial sustainability in microfinance institutions emerges from the interaction between functional board oversight, accountable leadership, and a supportive regulatory framework. This integrated governance dynamic enhances both institutional legitimacy and long-term financial resilience, consistent with the Integrative Strategic Governance Model proposed in this study.

4.5 Discussion

4.5.1 Influence of Board Composition and Independence on Financial Sustainability

The first objective of the study was to determine whether board composition and independence influence the financial sustainability of microfinance institutions in Zambia. The quantitative results revealed a positive but statistically insignificant relationship between board composition and financial performance ($p > 0.05$), indicating that the mere existence of board structures does not automatically translate into improved financial sustainability. This result challenges the strong deterministic expectations of agency theory (Jensen & Meckling, 1976). Similar findings were reported by Hartarska (2005) and Mersland & Strom (2009), who found that board characteristics influence microfinance performance only when they shape managerial behaviour and internal governance processes. From a policy perspective, this implies that regulators and institutions should focus less on the formal composition of boards and more on strengthening board competence, independence in practice, and strategic engagement.

4.5.2 Contribution of Board Diversity to Financial Prudence and Sustainability

The second objective examined whether diversity in board composition, particularly gender and professional expertise, contributes to financial sustainability. The qualitative evidence strongly confirmed the importance of diversity in enhancing governance effectiveness, aligning with the governance literature suggesting that diverse boards bring broader perspectives and improve stakeholder responsiveness (Adams & Ferreira, 2009; Kang et al., 2007). The study reinforces the argument that diversity alone does not guarantee improved performance (Terjesen et al., 2016), and that institutions must create governance environments where diverse voices genuinely influence strategic deliberation.

4.5.3 Mediating Role of Leadership Accountability

The mediation analysis confirmed that leadership accountability significantly predicts financial sustainability and partially mediates the relationship between board composition and financial performance. This finding strongly supports stewardship theory (Davis et al., 1997). Leadership accountability serves as the behavioural bridge through which board oversight translates into tangible financial outcomes. This pattern is consistent with Hassan & Mersland (2018) and Ansong et al. (2022), who found that accountable leadership mediates the governance-performance relationship in African financial institutions.

4.5.4 Role of the Regulatory Environment in Governance Effectiveness

The moderation analysis indicated that the regulatory environment modestly but significantly strengthens the relationship between governance structures and financial sustainability, supporting institutional theory (DiMaggio & Powell, 1983). Institutions operating in predictable regulatory environments appear better able to translate governance structures into effective financial management practices. However, qualitative evidence also highlighted the risk of minimum compliance governance, where institutions focus on fulfilling regulatory obligations rather than building robust internal governance capacity. Regulatory authorities should therefore complement compliance enforcement with governance capacity-building initiatives, including board training and governance performance assessments.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This study examined the influence of board composition and independence on the financial sustainability of microfinance institutions in Zambia, while assessing the mediating role of leadership accountability and the moderating influence of the regulatory environment. The findings reveal that although board composition and independence are positively associated with financial sustainability indicators, the relationship is not statistically significant. This suggests that structural governance attributes do not automatically translate into improved financial outcomes. Instead, the effectiveness of governance structures depends largely on the functional capacity of boards to provide meaningful oversight, strategic guidance, and accountability.

The study further found that board diversity, particularly gender representation and professional expertise, contributes positively to governance quality and financial prudence, although the statistical relationship was modest. Qualitative evidence strongly indicates that diverse boards enhance decision-making, improve stakeholder sensitivity, and strengthen risk awareness when diverse members actively participate in institutional oversight. A central finding of this study is the critical role of leadership accountability in determining financial sustainability. Leadership accountability was found to significantly predict financial sustainability and partially mediate the governance-performance relationship. This indicates that governance structures influence performance primarily through leadership behaviour and operational implementation. The regulatory environment was found to modestly but significantly moderate the governance-sustainability relationship. Overall, the findings indicate that financial sustainability in microfinance institutions is driven by the interaction between governance structures, accountable leadership, and supportive regulatory environments, rather than by structural governance arrangements alone.

5.2 Recommendations

Based on the findings of the study, the following recommendations are proposed to enhance governance effectiveness and financial sustainability within microfinance institutions in Zambia and comparable emerging economy contexts. First, microfinance institutions should strengthen board effectiveness and competence by ensuring that board members possess relevant expertise in finance, risk management, and microfinance operations. Institutions should prioritise functional governance practices such as active board participation, committee oversight, and strategic engagement rather than focusing solely on structural compliance with governance requirements. Second, MFIs should promote meaningful board diversity, particularly in terms of gender representation and professional expertise. Institutions should create governance environments that encourage inclusive participation in board deliberations and committee activities, ensuring that diverse members contribute substantively to institutional oversight rather than serving symbolic roles.

Third, institutions should strengthen leadership accountability mechanisms to ensure that governance structures translate into operational outcomes. This may be achieved through the implementation of robust internal control systems, regular internal and external audits, transparent reporting practices, and comprehensive risk management frameworks. Fourth, regulatory authorities, particularly the Bank of Zambia, should continue to strengthen governance oversight while also supporting governance capacity-building within the microfinance sector. This may include governance training programmes for board members, the development of best-practice governance guidelines, and enhanced supervisory engagement aimed at improving governance effectiveness across the sector. Finally, microfinance institutions should adopt an integrative governance approach that aligns board oversight, leadership accountability, and regulatory compliance with institutional strategy and risk management practices. By integrating governance structures with strategic planning and operational accountability systems, MFIs can strengthen financial sustainability while continuing to fulfil their broader mandate of promoting financial inclusion and supporting economic development.

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