



Corporate governance, enterprise risk management, and corporate failure: Evidence from financial institutions in Zambia

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Recommended Reference: Bwato, V., Kamanga, N., & Yohane, R. (2026). Corporate governance, enterprise risk management, and corporate failure: Evidence from financial institutions in Zambia. *African Quarterly Social Science Review*, 3(1), 422–435.

<https://doi.org/10.51867/AQSSR.3.1.34>

ABSTRACT

This study sought to examine the effect of financial performance, corporate governance quality, and enterprise risk management on corporate failure. The sample size of six was drawn from the financial institutions listed on the Lusaka Stock Exchange in Zambia. The study adopted a mixed-method approach in analyzing data for the period 2020 to 2024. The quantitative analysis focused on financial performance using the Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to Risk (CAMELS) approach and regression analysis. On the qualitative side, the study analyzed corporate governance quality and enterprise risk management (ERM) maturity levels based on the firm disclosures for the same period. The findings of the study indicate that firms experience financial distress, evidenced by low levels of capitalization, decline in earnings, and liquidity challenges. Additionally, there is evidence that poor corporate governance structures and ERM systems are not sufficiently effective in mitigating risks and enhancing financial stability, which exacerbates the financial distress faced by the firms. Consequently, these challenges worsen the financially distressed situation that the firms are operating under. Using panel data (2020–2024) from six firms registered on the Lusaka Securities Exchange, this study estimates three regression models predicting financial distress (Z-score), performance (ROA/ROE), and company value (Tobin's Q). The distress model explains 66% of the variation in stability ($R^2 = 0.66$), indicating that board independence, capital strength, liquidity, and regulatory compliance lower failure risk. Non-performing loans significantly increase vulnerability ($\beta = -0.52$, $p < 0.01$). Profitability models ($R^2 = 0.63$ and 0.61) show that good governance and appropriate capital/liquidity lead to higher returns, but inefficiency and low asset quality hinder success. The company value model ($R^2 = 0.68$) indicates that profitability, governance quality, capital adequacy, and compliance increase market valuation, whereas asset deterioration decreases it. Overall, stronger governance, effective risk management, and regulatory discipline are linked to greater stability, better performance, and increased market value. The regression analysis above indicates that the relationship between ERM and governance quality is both negative and statistically significant. The implication is that good corporate governance practices and ERM are effective in reducing the probability of corporate failure. The delayed regulatory intervention can lead to corporate failures that are preventable. Investrust Bank Plc is an example of the effects of regulatory delays. Therefore, financial performance, corporate governance practices, and ERM have an effect on the success of firms. The study recommends that policymakers in the financial services sector should ensure good corporate governance practices; ERM and financial performance are frequently monitored to reduce the likelihood of business failure.

Keywords: Corporate Governance, CAMELS, Corporate Failure, Enterprise Risk Management, Emerging Market, Financial Service Institutions, Zambia

I. INTRODUCTION

Considering the role that is played by the financial services sector, such as savings mobilisation, provision of credit facilities, transfer of funds, and financial risk management, it is vital that it remains stable. Without financial resilience, the economy remains vulnerable to erosion of GDP. Jensen & Meckling (1976) and Claessens & Yurtoglu, (2013) noted that the sector has experienced several challenges, such as banking crises and corporate failures of financial institutions across the developed and emerging economies. Critically, these constraints grow especially in developing economies such as Zambia. Studies have indicated that corporate failures is function of many factors such as financial distress, poor corporate governance practices and enterprise risk management which fails to detect and mitigate the likelihood of business failures (Parker, Peters, & Turetsky, 2002; Piesse et al., 2013; Gennaro & Nietlispach, 2021).

Therefore, this study focuses on financial performance, corporate governance and ERM as indicators of business failure. Financial service institutions are essential to modern economies because they mobilise deposits, allocate capital, facilitate payment systems, and manage financial risks (Bank of Zambia, 2024; Laeven & Levine, 2009). As such, this

position is important to the sector's financial stability and resilience. A financially resilient and stable banking sector boosts investor confidence and promotes foreign direct investment, especially in emerging nations (Laeven & Levine, 2009). However, the global financial system remains essentially unpredictable, with business failures causing significant economic and social costs (Laeven & Levine, 2009). For example, the 2007-2009 global financial crisis, driven by the collapse of subprime mortgage markets and systemic deficiencies in financial regulation, resulted in widespread financial suffering across both advanced and emerging economies (Claessens, Kose, & Terrones, 2010).

Corporate governance provides the institutional framework for boards of directors to oversee management, align organisational goals with stakeholder interests, and restrict excessive risk-taking (Lie, 2023). Corporate governance is especially important in the financial services sector because of the fiduciary character of banking and insurance activities and the systemic consequences of failure (Basel Committee, 2011). The weak board monitoring, low independence, and insufficient risk governance systems have all been linked to excessive risk-taking and institutional instability (Adams and Mehran, 2012; Pathan, 2009). Effective Enterprise Risk Management (ERM) frameworks emphasise risk appetite articulation, board-level risk oversight, and the incorporation of risk considerations into strategic decision-making. Empirical research suggests that ERM adoption, when backed by strong corporate governance procedures, improves financial performance and business value (Hoyt and Liebenberg, 2011). It simply means that firms can fail with boards in place that do not understand that ERM is a tool that they must use to avoid corporate failures.

Africa faces similar corporate governance and Enterprise Risk Management (ERM) vulnerabilities as other parts of the world, particularly in the financial services industry (Talabi, Md Taib & Binti Jalaludin, 2025). However, structural and institutional constraints frequently exacerbate these vulnerabilities. Many African countries suffer supervisory capacity constraints, changing regulatory frameworks, inadequate enforcement mechanisms, and highly concentrated ownership structures, which are frequently typified by family control, state ownership, or dominating shareholders (Kong et al., 2020). These dynamics have a substantial impact on governance quality and risk supervision methods within financial institutions, increasing the risk of institutional fragility and failure (Basel Committee, 2011; Beck et al., 2014).

The empirical research on African banking systems demonstrates that weak board independence, political influence, regulatory forbearance, and inadequate risk governance frameworks all contribute to banking sector instability. In many jurisdictions, risk management frameworks are still compliance-driven rather than strategically incorporated into corporate governance structures, decreasing resilience to macroeconomic shocks (IMF, 2018). Zambia, being a developing country, faces similar systemic and governance concerns to many African financial systems. Over the last decade, the Bank of Zambia has implemented a number of regulatory and supervisory reforms aimed at strengthening prudential oversight, capital adequacy requirements, and corporate governance standards in accordance with international best practices (Bank of Zambia, 2017; Basel Committee, 2011). Despite of these reforms, institutional departures and failures in Zambia's financial industry have persisted, indicating underlying structural and governance deficiencies (Chiumya, 2005).

Investrust Bank Plc, for example, encountered financial hardship and halted operations in 2004 due to capital deficiency, liquidity issues, and governance flaws, despite regulatory intervention (Chiumya, 2005; Bwato, Kamanga & Yohane, 2026). Such institutional failures emphasize the continuing gap between regulatory change and effective governance implementation inside developing-country's financial institutions. Therefore, this recent failure raises questions on policy reforms, the role of the regulator, corporate governance and ERM quality.

1.1 Statement of the Problem

The Zambia financial services sector has enhanced prudential regulation and corporate governance norms in recent years, although financial distress and institutional failure in the financial services industry persist. The conventional monitoring systems prioritize financial performance indicators as major indications of stability. However, recent institutional failures indicate that performance measures alone may not give effective early warning, especially when governance flaws, poor risk management procedures, and delayed supervisory actions overlap.

The fall of Investrust Bank Plc demonstrates the inadequacies of existing preventive systems and highlights the need for more integrated analytical methodologies that take into account both financial performance and the quality of regulatory monitoring.

Empirical research in Zambia has not thoroughly investigated how regulatory supervision influences or moderates the relationship between worsening financial performance and eventual corporate failure. Much of the existing literature examines financial ratios, governance structures, and regulatory frameworks separately, without considering how these factors interact over time. This fragmented approach hampers the ability of regulators, boards, and policymakers to create context-specific early warning systems and intervention methods for emerging market financial ecosystems.



1.2 The Research Gap

Despite extensive research on corporate failure and financial distress prediction, most studies focus on developed economies and rely heavily on financial ratio-based models that do not explicitly incorporate corporate governance and Enterprise Risk Management (ERM) as structural determinants of institutional resilience (Altman, 1968; Beaver, 1966; Laeven & Valencia, 2020). Governance and ERM are usually studied in isolation or as peripheral variables, rather than as interacting mechanisms influencing financial performance and organisational survival (Adams & Mehran, 2012; Hoyt & Liebenberg, 2011). Furthermore, empirical evidence from Sub-Saharan Africa is scarce, fragmented, and frequently descriptive, with insufficient modelling of governance-risk-performance links in emerging capital markets (Talabi, Md Taib & Binti Jalaludin, 2025; Beck et al., 2014).

The study's novel contribution is the development of an integrated empirical model that investigates corporate governance frameworks, ERM implementation, and financial performance as joint predictors of corporate failure in a growing African financial market scenario. By focusing on financial institutions listed on the Lusaka Securities Exchange, the study fills geographic and methodological gaps in current work while also providing context-specific information from Zambia. It advances theoretical debates in corporate governance and risk management by empirically testing whether governance quality and ERM adoption improve financial performance and reduce institutional vulnerability in a regulated financial services environment (Basel Committee, 2011).

1.3 Research Objective

The study set out to look at five (5) objectives and however this article is premised to focus on objective number three (3) of this study which is to examine the interplay between corporate governance, enterprise risk management, financial performance, and firm value in explaining corporate failure among financial service institutions.

II. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Theoretical Foundations of Corporate Failure in Financial Service Institutions

Financial service institutions (FSIs) differ fundamentally from non-financial firms due to their high leverage, opacity of asset quality, maturity transformation function, and systemic interconnectedness. These structural characteristics amplify agency conflicts and increase vulnerability to governance failures (Laeven & Levine, 2009; Berger, Imbierowicz, & Rauch, 2016). Consequently, corporate failure in financial institutions is rarely attributable to financial distress alone; rather, it often emerges from deeper governance and risk management deficiencies.

The intellectual roots of governance-related failure can be traced to classical economic thought. Adam Smith (1776) observed that managers entrusted with “other people’s money” may not exercise the same vigilance as owners. This concern was later formalised by Berle and Means, who documented the separation of ownership and control in modern corporations (Mizruchi, 2004). Building on this foundation, Agency Theory provides a structured explanation of corporate failure by emphasizing conflicts of interest between shareholders, boards, and managers (Jensen & Meckling, 1976). In banking institutions, these agency conflicts may encourage excessive risk-taking, earnings manipulation, and inadequate risk disclosure when monitoring mechanisms are weak (Adams & Mehran, 2012; Berger et al., 2016).

While agency theory focuses primarily on shareholder–manager conflicts, Stakeholder Theory extends the governance framework by recognising the interests of depositors, regulators, employees, and the broader economy (Freeman, 1984). Given the systemic importance of financial institutions, governance mechanisms must safeguard not only shareholders but also public confidence and financial stability.

This study further draws on Enterprise Risk Management (ERM) Theory, which posits that organisations adopting a holistic, enterprise-wide approach to risk identification and mitigation are better positioned to withstand adverse shocks (Togunde, 2024). ERM theory emphasizes risk appetite articulation, integrated risk governance, and strategic alignment. However, ERM effectiveness is contingent upon strong board oversight and accountability structures; without active governance involvement, ERM may become symbolic or compliance-driven rather than substantive (Stulz, 2015).

Systems Theory offers additional insight by conceptualizing financial institutions as interdependent subsystems embedded within broader regulatory and macroeconomic environments (Mele, Pels & Polese, 2010). From this perspective, corporate failure arises from interactions among governance weaknesses, ineffective risk management, and external shocks. This framework is particularly relevant in emerging markets, where regulatory capacity constraints and macroeconomic volatility may intensify firm-level vulnerabilities.

Taken together, these theoretical perspectives suggest that corporate failure is best understood as the outcome of interacting governance, risk management, regulatory, and financial performance dynamics rather than isolated financial distress indicators.

2.2 Empirical Review

2.2.1 Corporate Governance and Institutional Stability

Empirical research consistently identifies corporate governance as a critical determinant of institutional stability. Governance mechanisms such as board independence, board size, audit committees, and disclosure quality play a central role in monitoring managerial behaviour and constraining excessive risk-taking (Adams & Mehran, 2012; Pathan & Faff, 2013).

Strong governance structures enhance transparency and investor confidence, thereby contributing to improved financial performance and firm value (Haj-Salem et al, 2020). Cross-country evidence from developed economies demonstrates a robust and positive association between governance quality and firm performance (Haj-Salem et al, 2020). Similar findings are reported in emerging markets; for example, Iqbal et al., (2020) documents a positive governance–performance relationship in Indonesia confirm comparable outcomes in other developing contexts.

However, governance effectiveness in African financial systems is often constrained by concentrated ownership structures, limited enforcement capacity, and weak regulatory oversight. Although many countries have adopted governance codes aligned with international best practices, implementation quality varies significantly across institutions operating within the same regulatory environment. This divergence partly explains differing stability outcomes among firms subject to identical formal regulations.

2.2.2 Enterprise Risk Management and Financial Performance

The empirical literature generally supports a positive relationship between ERM adoption and financial performance. Firms implementing mature ERM frameworks tend to exhibit higher profitability, improved capital efficiency, and reduced earnings volatility (Hoyt & Liebenberg, 2011; McShane, Nair, & Rustambekov, 2011).

In the banking sector, Ellul and Yerramilli (2013) demonstrate that stronger risk controls are associated with lower tail risk and enhanced resilience during financial crises. Similarly, Stulz (2015) argues that effective risk management enables institutions to undertake value-enhancing risks while avoiding catastrophic losses.

Despite these positive findings, ERM effectiveness is highly dependent on governance quality. Studies indicate that ERM systems yield optimal benefits when boards actively engage in risk oversight and integrate risk considerations into strategic decision-making. Where ERM is implemented merely as a compliance exercise, its influence on managerial behaviour and institutional stability remains limited.

2.2.3 The Role of Regulation and Institutional Oversight

Regulatory oversight plays a crucial moderating role in shaping governance and risk management outcomes. Ellul and Yerramilli (2013) find that corporate governance mechanisms significantly influence firm value, particularly in companies with high liquidity positions. Their findings further indicate that institutional ownership exerts a substantial effect on firm valuation. The study concludes that governance mechanisms must be implemented substantively rather than symbolically to achieve long-term growth and stability.

In the banking sector, regulatory frameworks such as Basel III capital and liquidity requirements strengthen prudential safeguards by reinforcing capital adequacy and supervisory review mechanisms (Basel Committee on Banking Supervision, 2011). However, regulatory effectiveness varies across jurisdictions, particularly in emerging markets where supervisory capacity constraints may weaken enforcement.

2.2.4 Gaps identified in the Literature

Most existing studies examine corporate governance, ERM, financial performance, and regulatory oversight in isolation. Even where these variables are analysed jointly, the evidence is largely drawn from developed economies. Limited empirical research integrates governance, ERM, and CAMELS indicators within a unified failure-prediction framework in emerging African markets.

This study addresses this gap by empirically modelling the interaction effects among corporate governance, enterprise risk management, and CAMELS indicators in explaining corporate failure among financial service institutions listed on the Lusaka Securities Exchange in Zambia. By adopting an integrated modelling approach, the study contributes both conceptually and regionally to the literature on financial institution stability.

2.3 The Conceptual Framework

The figure below presents the visual interaction between the variables corporate governance, enterprise risk management, financial performance, firm value, regulation and corporate failure. The frameworks shows clearly the interplay which is that no single variable is responsible for institutional failure but a multifaceted interplay between the variables under study.

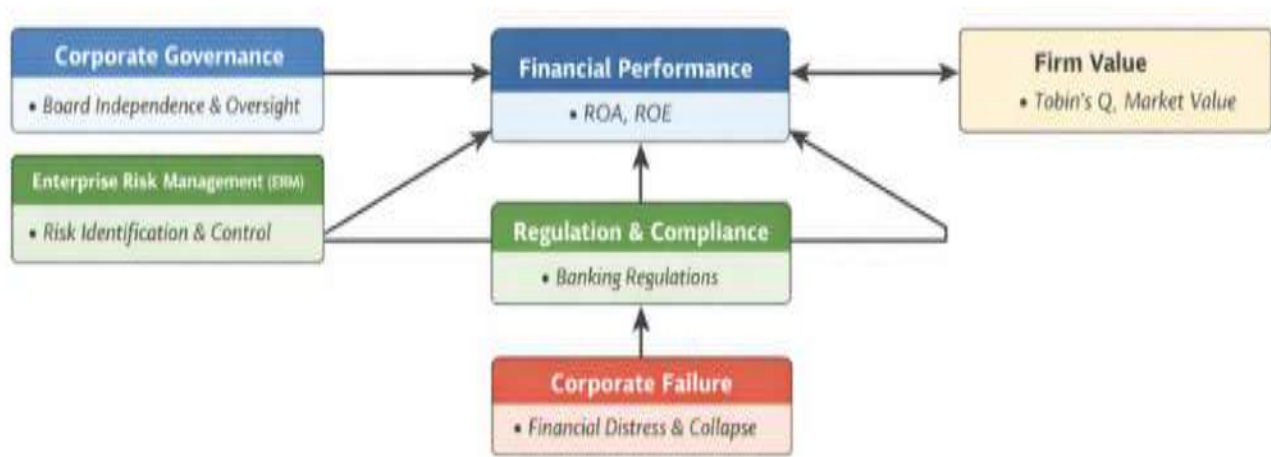


Figure 1
Conceptual Framework

III. METHODOLOGY

3.1 Research Design

This study adopts an explanatory quantitative research design which applied the panel data analysis strategy. The quantitative approach is appropriate because it helps the researcher to discuss the indicators of corporate failure through corporate governance, financial performance and ERM. By determining the relationship amongst these variables will help analyse the impact they have on corporate performance.

3.2 Population and Sampling Techniques

The population of the study constitutes financial companies listed on the Lusaka Stock Exchange. However, since the study focused on financial sector institutions, the research drew its sample population of the six (6) only listed firms for the period 2020 to 2024. The study used a purposive sampling technique to gather data from four (4) Banks, one (1) company listed as financial service and one (1) re-insurance company. The study considered data from 2020 to 2024. The inclusion criteria also considered corporate failures experienced by the Zambia financial sector which is key to explaining issues that lead to their failure.

3.3 Data Sources and Collection Methods

The study used secondary data in form audited financial statements, relevant publications from regulator (Bank of Zambia and Pensions Insurance Authority) and other documents published between 2020 and 2024. This secondary data provided the study with indisputable (objective) facts that are not subjective. This means that the study's findings were based on factual information. Further, to enhance the credibility and contextual interpretation of the quantitative findings, qualitative evidence from regulatory reports and public statements is used descriptively, without forming part of the econometric estimation.

3.4 Operationalisation of the Variables

3.4.1 Corporate Failure

Corporate failure (CF) is operationalised as a binary variable reflecting the occurrence of regulatory intervention, resolution, or institutional collapse. The variable takes a value of one (1) for firm-year observations characterised by regulatory takeover, resolution measures, or failure, and zero (0) otherwise.

3.4.2 Financial Performance, Corporate Governance and Enterprise Risk Management

Financial Performance: These variables were operationalised by measuring capital adequacy ratio, return on equity (ROE), non-performing loan ratio, and return on assets (ROA), and sensitivity to market risk. The study used these ratios to determine profitability, liquidity, solvency and any other risks of corporate failure. *Corporate Governance:* Corporate governance was measured using an index which considered the following features of the board of directors: independence, size, chairperson and chief executive officers' roles, committees and quality and level of disclosures. Each attribute is scored based on compliance with regulatory guidelines and best practice principles, and the composite



index is standardized to facilitate comparison across institutions and time. *Enterprise Risk Management Index (ERMI)*: ERM maturity is measured using a composite ERM index derived from institutional disclosures. This index reflects the depth of ERM implementation rather than mere formal adoption. The variables for this index include the presence of risk statements, risk management committees, the role of ERM in strategic planning, three-lines-of-defence model, reporting frequency on risk and risk appetite

3.4.3 Endogeneity and Mitigation strategy

Endogeneity is a methodological challenge when investigating the relationship between corporate governance, Enterprise Risk Management (ERM), financial performance, and organizational failure. Governance arrangements and firm performance may be set concurrently, resulting in simultaneity bias. While strong governance systems can improve financial performance, high-performing organizations may have more resources and incentives to implement stronger governance and ERM frameworks (Adams & Mehran, 2012; Wintoki, Linck, & Netter, 2012). If not addressed properly, this reciprocal interaction might result in biased and inconsistent parameter estimates.

Endogeneity can result from three main sources: (i) reverse causality, (ii) omitted variable bias, and (iii) unobserved firm heterogeneity. First, reverse causality is possible since profitable institutions may actively increase governance and ERM systems, rather than governance only driving performance. Second, neglected macroeconomic or institutional factors such as regulatory intensity or ownership concentration can have an impact on both governance quality and financial performance. Third, time-invariant business features (such as organizational culture and historical ownership arrangements) may influence both governance and performance. To address these issues, this work applies numerous econometric strategies:

i. Lagging Independent Variables: Governance and ERM variables are introduced in a lagged (t-1) relationship to financial performance and business failure metrics (t). This temporal separation mitigates simultaneity bias and increases causal inference by guaranteeing that governance features occur before observed financial results (Wintoki et al., 2012).

ii. Firm Fixed Effects Estimation: To account for unobserved, time-invariant firm-specific variability, we use a fixed-effects panel regression model. The model isolates within-firm fluctuations over time by distinguishing consistent factors specific to each institution (Wooldridge, 2010). This approach is especially useful in financial services research, because structural traits can endure over time.

iii. Time-fixed effects Year dummies are introduced to account for macroeconomic shocks, regulatory changes, and systemic events that effect all institutions at the same time (for example, regulatory tightening following the financial crisis). This lowers omitted variable bias due to similar time trends. Checks for robustness to verify that the results are stable; further robustness tests are performed using other performance indicators and governance proxies. To account for any variance discrepancies, heteroskedasticity-robust standard errors are used as needed. Collectively, these measures improve the empirical model's internal validity and minimise the possibility that observed correlations between corporate governance, ERM, and financial performance are the result of endogeneity bias rather than actual causal mechanisms.

iv. By integrating temporal ordering and adjusting for unobserved heterogeneity, the analysis enhances its conclusions about the drivers of corporate failure in Zambia's financial services sector.

3.5 Estimation Technique and Diagnostic Considerations

The data was analysed using the logistic regression. This is relevant to the study since it provides the statistical significance of variables that predict corporate failure. Further, it produces consistent and efficient estimates for binary dependent variables and allows for direct interpretation of marginal effects on failure probability.

3.7 Ethical Considerations

Since there was no human interaction in this study, no harm was caused to human beings. As such, the study does not pose any ethical risks related to informed consent. However, even though reliance was placed on secondary data, the study presents and interprets results as they are without bias.

IV. FINDINGS & DISCUSSION

4.1 Effect of Corporate Governance, ERM, Financial Performance, Firm Value, Regulation on Corporate Failure

Empirical analysis shows a meaningful relationship between corporate governance quality, ERM effectiveness, financial performance, and firm value. Financial service Institutions with stronger corporate governance and integrated risk management frameworks tended to exhibit more stable profitability, healthier capital positions, and greater resilience to shocks. Conversely, weak governance and ineffective risk oversight were associated with declining



performance indicators and heightened vulnerability. These findings highlight the interconnected nature of governance, risk management, and financial outcomes.

4.2 Descriptive Statistics and Preliminary Analysis

Table 1 presents the descriptive statistics for all variables included in the empirical analysis. The results indicate substantial heterogeneity in financial performance, corporate governance quality, and ERM maturity across the sampled financial service institutions. Capital adequacy ratios vary widely, reflecting differences in balance sheet strength and risk absorption capacity. While some institutions consistently maintain capital buffers above regulatory thresholds, others exhibit persistent capital shortfalls during the study period.

Table 1
Descriptive Statistics and Correlation Matrix

Study Variable	Mean	Std. Dev.	Min	Max	CF	CGPI	ERMI	CAR	ROA	LIQ
CF	0.17	0.38	0	1	1	-	-	-	-	-
CGPI	0.64	0.12	0.38	0.82	-0.46	1	-	-	-	-
ERMI	0.61	0.15	0.33	0.85	-0.51	0.62	1	-	-	-
CAR	14.8	4.6	-3.1	26.4	-0.59	0.48	0.52	1	-	-
ROA	2.7	3.1	-11.2	8.9	-0.63	0.41	0.46	0.55	1	-
LIQ	39.4	8.2	18.6	61.3	-0.57	0.44	0.47	0.51	0.49	1

The profitability indicators as measured by return on assets and return on equity, show marked dispersion, with several firm-year observations recording negative earnings. Liquidity ratios similarly display significant variation, highlighting differences in funding structures and short-term resilience. These patterns suggest that the listed financial service institutions operate under materially different risk and performance conditions despite being subject to the same regulatory framework.

The corporate governance and ERM indices also exhibit notable variation. Therefore, institutions with higher governance scores tend to demonstrate stronger disclosure practices, greater board independence, and more developed committee structures. Similarly, ERM scores indicate that while some institutions have fully integrated enterprise-wide risk management frameworks, others rely on fragmented or compliance-driven risk practices. The correlation analysis reveals that corporate governance quality and ERM maturity are positively correlated with capital adequacy, profitability, and liquidity, and negatively correlated with corporate failure incidence. The strong positive correlation between the corporate governance index and the ERM index suggests that institutions with robust governance structures are more likely to embed risk management at a strategic level. Importantly, no correlation coefficients exceed conventional thresholds associated with multicollinearity, supporting the stability of the regression models.

4.2 CAMELS Indicators and Corporate Failure

Table 2 shows the baseline logistic regression findings based on CAMELS indicators. Odds ratios are presented with coefficients for easy reading. Capital adequacy is connected with corporate failure, both negatively and statistically significantly. The odds ratios show that institutions with stronger capital buffers have significantly lower failure probabilities, highlighting the prudential necessity of loss-absorbing capital in maintaining institutional confidence. The earnings performance (ROA and ROE) has a considerable negative relationship with failure risk. The marginal effects indicate that consistent profitability significantly reduces the expected probability of failure, emphasizing the importance of internal capital generation and operational sustainability. In contrast, poor earnings performance raises institutional vulnerability.

Liquidity also emerges as an important variable. Lower liquidity ratios enhance the chance of failure, demonstrating that financial instability can cause distress even when solvency indicators appear to be acceptable.

Despite the statistical significance of the CAMELS variables, the baseline model's explanatory power remains weak. This suggests that financial metrics alone cannot adequately predict institutional survival, prompting the addition of governance and risk management variables. Table 2 reports the results of the baseline logistic regression model examining the relationship between CAMELS indicators and corporate failure. The results demonstrate that financial performance variables are significant predictors of failure probability, consistent with regulatory and empirical literature.



Table 2
Logistic Regression Results – CAMELS Model

Study Variable	Coefficient (B)	Std. Error	z-stat	P-value
Capital Adequacy (CAR)	-0.183	0.061	-3.01	0.003***
Asset Quality (NPL)	0.146	0.058	2.52	0.012**
Management Quality	-0.211	0.083	-2.54	0.011**
Earnings (ROA)	-0.297	0.091	-3.26	0.001***
Liquidity	-0.168	0.072	-2.33	0.020**
Constant	2.741	0.912	3.01	0.003****

* p < 0.01, ** p < 0.05

In addition, capital adequacy emerges as a statistically significant determinant of corporate failure. Institutions with lower capital adequacy ratios exhibit a substantially higher likelihood of failure, underscoring the central role of capital buffers in absorbing losses and sustaining confidence. This finding aligns with prudential theory and confirms the relevance of capital regulation in the Zambian financial sector. The earnings performance, captured by return on assets and return on equity, is also negatively and significantly associated with failure probability. Persistent losses weaken internal capital generation, erode investor and depositor confidence, and constrain management’s ability to respond to adverse shocks. Liquidity similarly plays a critical role, with lower liquidity ratios significantly increasing the probability of corporate failure. This result highlights the vulnerability of institutions facing funding pressures, particularly in environments characterised by limited access to wholesale funding markets. While CAMELS indicators effectively identify financial distress, the explanatory power of the baseline model remains moderate. This suggests that financial performance alone does not fully explain why some institutions fail while others survive, reinforcing the need to incorporate governance and risk management variables into the analysis.

4.3 Corporate Governance, ERM, and Interaction Effects

Table 3 shows the enlarged model, which includes the Corporate Governance Index (CGI), Enterprise Risk Management Index (ERMI), and their interaction term. Governance and ERM variables significantly improve model fit, as evidenced by increased likelihood ratio statistics and pseudo-R² values, highlighting their incremental explanatory contribution. Corporate governance quality has a negative and statistically significant correlation with corporate failure. Institutions with better board oversight, independence, and disclosure standards are less likely to fail, even after accounting for financial performance.

This lends credence to the claim that governance frameworks reduce excessive risk-taking while increasing resilience. The ERM maturity also has a negative, statistically significant impact. Institutions with established risk appetite frameworks, board-level risk oversight, and integrated risk reporting processes have a reduced failure rate. Importantly, the magnitude of the ERM impact grows when the interaction term is included, implying conditional effectiveness. In addition, Table 3’s extended logistic regression results have incorporated corporate governance, ERM, and their interaction term. The inclusion of these variables significantly improves the explanatory power of the model, as indicated by higher likelihood ratio statistics and pseudo-R² values.

Table 3
Corporate Governance, ERM Interaction Regression Results

Study Variable	Coefficient (β)	Std. Error	z-stat	p-value
CAR	-0.129	0.058	-2.22	0.026 **
ROA	-0.231	0.084	-2.75	0.006 ***
CGI	-1.842	0.642	-2.87	0.004 ***
ERMI	-1.476	0.611	-2.41	0.016 **
CGI × ERMI	-2.318	0.892	-2.6	0.009 ***
Constant	3.912	1.238	3.16	0.002 ***

Note: ** p < 0.05, *** p < 0.01

4.3.1 Interpretation of CGI and ERMI Interaction

The interaction term between corporate governance and ERM is negative and statistically significant, giving empirical evidence for the complementarity of governance and risk management systems. The findings show that ERM is most effective at reducing failure risk when entrenched in strong governance systems. In institutions with poor governance, ERM frameworks may exist formally but lack enforcement authority or strategic influence. Risk identification may not result in corrective action due to board independence, managerial dominance, or insufficient



supervision capacity. As a result, the efficiency of ERM appears to be determined by governance quality. The findings also show a potential threshold effect. ERM's protective influence grows significantly as governance quality exceeds a certain threshold. Under this threshold, incremental gains in ERM maturity result in minimal decreases in failure probability. This conclusion shows that governance serves as an enabling framework for ERM, rather than a substitute mechanism.

The corporate governance quality exhibits a negative and statistically significant relationship with corporate failure. Institutions with stronger governance structures are less likely to experience failure, even after controlling for financial performance. This finding supports the argument that effective board oversight, independence, and disclosure mitigate excessive risk-taking and enhance institutional resilience. The enterprise risk management maturity also displays a negative and significant effect on failure probability. Therefore, institutions with integrated ERM frameworks, formal risk appetite statements, and board-level risk oversight are better equipped to anticipate and manage adverse shocks. However, the magnitude of the ERM coefficient increases substantially when the interaction term is included, indicating that ERM effectiveness is conditional on governance quality.

The interaction term between corporate governance and ERM is negative and statistically significant, providing strong empirical support for the interplay hypothesis. This result indicates that ERM is most effective in reducing corporate failure risk when embedded within strong corporate governance structures. In institutions with weak governance, ERM frameworks appear less capable of mitigating financial distress, suggesting that risk management systems without effective board oversight may be largely symbolic. These findings demonstrate that corporate failure is driven not only by financial distress but also by the interaction between governance structures and risk management practices. The results confirm that governance and ERM jointly shape how financial performance translates into institutional survival or failure.

4.4 CAMELS-Based Institutional Assessment

Furthermore, to complement the regression analysis, Table 4 presents CAMELS-based institutional profiles for each sampled institution. The profiling reveals clear differences in financial health and risk exposure across institutions. Zanaco Bank Plc, Absa Bank Zambia Plc, and Standard Chartered Bank Zambia Plc consistently exhibit strong capital adequacy, stable earnings, and adequate liquidity throughout the study period. These institutions also record higher corporate governance and ERM scores, suggesting a reinforcing relationship between financial performance, governance quality, and risk management maturity. In contrast, Investrust Bank Plc displays persistent weaknesses across multiple CAMELS dimensions, particularly capital adequacy and liquidity. These weaknesses are accompanied by low governance and ERM scores, reflecting limited board oversight and fragmented risk management practices. The convergence of financial distress, weak governance, and immature ERM frameworks provides a clear empirical explanation for the institution's eventual failure.

Table 4
CAMELS Scores by Institution

Financial Service Institution	Capital	Asset Quality	Management	Earnings	Liquidity	Sensitivity	Composite Risk
Zanaco Plc	Strong	Strong	Strong	Strong	Stable	Moderate	Low
Absa Plc	Strong	Strong	Strong	Strong	Stable	Moderate	Low
Standard Chartered Plc	Strong	Very Strong	Strong	Very Strong	Stable	Moderate	Low
Madison FS Plc	Adequate	Moderate	Moderate	Weak	Tight	High	Medium
Zambia Reinsurance Plc	Adequate	Strong	Moderate	Moderate	Stable	Low	Medium
Investrust Bank Plc	Weak	Poor	Weak	Negative	Crisis	High	Severe

The failure of Investrust Bank Plc in 2024 further illustrates the role of regulatory timing in corporate failure dynamics. Prolonged financial distress and governance deficiencies were evident well before the institution's collapse, yet corrective intervention occurred at a late stage. This outcome underscores the importance of proactive supervision by the Bank of Zambia and highlights how delayed regulatory action can allow institutional vulnerabilities to escalate into failure.

4.4.1 Case Example: The Investrust Bank Plc

The experience of Investrust Bank Plc serves as a practical example of the interaction effect. Prior to its liquidation, the institution experienced persistent capital deficiency, earnings decline, and liquidity difficulties. While formal risk management systems existed, governance flaws hampered effective oversight and prompt corrective action.



The empirical interaction finding implies that under weak governance settings, ERM frameworks may become purely symbolic. The course of Investrust shows this dynamic: financial instability, paired with weak governance monitoring, undermined risk management systems' ability to avert institutional collapse.

4.5 Robustness and Interpretation of Findings

When all is put together, the empirical results provide robust evidence that corporate failure among listed financial service institutions in Zambia is not solely a function of financial underperformance. While CAMELS indicators remain important early-warning signals, their impact on failure probability is significantly moderated by corporate governance quality and ERM maturity. The interaction effects demonstrate that strong governance enhances the effectiveness of ERM, while weak governance undermines it. This finding explains why institutions with similar financial profiles can experience divergent outcomes and reinforces the need for integrated analytical frameworks that combine financial and non-financial determinants of stability.

4.6 Discussion

4.6.1 Corporate Governance, ERM, and the Dynamics of Corporate Failure

The findings of this study provide strong empirical support for the argument that corporate failure among financial service institutions cannot be explained by financial distress alone. While CAMELS indicators such as capital adequacy, earnings performance, and liquidity significantly predict failure probability, their effects are substantially conditioned by the quality of corporate governance and the maturity of enterprise risk management frameworks. This evidence reinforces the view that corporate failure is a multidimensional phenomenon driven by the interaction of financial and non-financial factors as highlighted by (Purves et al., 2015).

The negative and statistically significant relationship between corporate governance quality and corporate failure confirms the central propositions of agency theory. Effective governance mechanisms—particularly board independence, specialized committees, and transparent disclosure—reduce information asymmetries and constrain managerial opportunism (Akhtaruddin & Haron, 2010). In financial service institutions, where leverage and risk opacity are high, weak governance structures allow excessive risk-taking and delay corrective action, thereby accelerating institutional fragility. The results of this study are consistent with international evidence showing that governance failures are a key precursor to bank distress and collapse (Shtiwi, 2025).

4.6.2 Enterprise Risk Management as a Conditional Risk Mitigator

The empirical results demonstrate that enterprise risk management independently reduces the probability of corporate failure. However, the magnitude and significance of this effect increase markedly when ERM is interacted with corporate governance. This finding is particularly important for understanding why ERM adoption has produced mixed results in prior empirical studies. The evidence suggests that ERM effectiveness is not inherent in the existence of formal risk frameworks, but rather in how these frameworks are governed, monitored, and embedded within organizational decision-making processes (Crawford & Jabbour, 2024).

The institutions with strong governance structures are more likely to integrate ERM into strategic planning, capital allocation, and performance evaluation. In contrast, institutions with weak boards and limited accountability may adopt ERM in a compliance-driven or symbolic manner, reducing its capacity to prevent risk accumulation. This finding supports ERM theory, which emphasizes the role of board-level risk ownership and strategic alignment in translating risk management practices into improved organizational outcomes (Manfreda-Foley, 2025).

4.6.3 Financial Performance, CAMELS Indicators, and Institutional Outcomes

The significance of capital adequacy, earnings stability, and liquidity in the baseline CAMELS model confirms the continued relevance of prudential indicators as early-warning signals of institutional distress. Capital buffers enhance loss-absorbing capacity, stable earnings support internal capital generation, and liquidity ensures short-term survival during periods of market stress. However, the study's results also demonstrate that similar CAMELS profiles can lead to divergent institutional outcomes depending on governance and ERM quality. This finding helps explain why some financial institutions survive prolonged periods of financial stress while others collapse under comparable conditions. Strong governance and integrated ERM frameworks enable institutions to respond proactively to emerging risks, restructure operations, and restore financial stability (Tarullo, 2019). Conversely, weak governance and fragmented risk management amplify the impact of declining financial performance, transforming distress into failure (Musa, 2024).

4.6.4 Regulatory Oversight and the Moderating Role of Supervision

The findings further highlight the critical role of regulatory oversight in shaping corporate failure outcomes. Although regulatory supervision is not explicitly modeled as a separate variable, evidence from the failure of Investrust Bank Plc illustrates how delayed intervention compounds governance and risk management deficiencies. Persistent



capital inadequacy, repeated audit failures, and weak internal controls were evident over several years prior to the institution's collapse, yet decisive supervisory action occurred only at an advanced stage of distress. This outcome supports regulatory theory, which argues that timely intervention is essential for correcting governance failures and preventing the escalation of financial distress into insolvency (Bwato et al., 2026). In emerging markets, supervisory capacity constraints and regulatory forbearance may unintentionally allow institutional weaknesses to persist. The findings therefore underscore the importance of proactive, risk-based supervision by the Bank of Zambia, particularly in enforcing governance and ERM standards among systemically important institutions (Kaluba, 2025).

4.6.5 Implications for African Financial Systems

The results of this study contribute to African empirical literature by providing evidence that corporate failure in emerging financial systems is driven by interaction effects between governance, risk management, and financial performance. This interaction-based perspective extends prior African studies that have focused primarily on financial ratios or isolated governance attributes (Ackah et al., 2024). By demonstrating that ERM effectiveness depends on governance quality, the study offers a more nuanced explanation of institutional resilience and collapse in African financial markets. The findings also carry important practical implications. Regulators and policymakers should move beyond checklist-based compliance assessments toward evaluating how governance and ERM frameworks function in practice (Agarwal, 2025). Similarly, boards of financial institutions should recognize that risk management cannot be delegated entirely to management functions without effective board oversight and accountability mechanisms (Bugalla et al., 2012).

V. CONCLUSIONS & RECOMMENDATIONS

5.1 Conclusion

This study looked at how corporate governance and enterprise risk management (ERM) interact with financial performance to predict corporate failure in financial sector organisations listed on the Lusaka Securities Exchange. The data demonstrate that insufficient capital, declining earnings, and liquidity restrictions all increase the risk of corporate failure. However, institutions with inadequate corporate governance structures and immature ERM frameworks exacerbate these vulnerabilities significantly. Most crucially, the findings show that governance and ERM function as complementing institutional systems. Only when ERM is integrated with solid governance systems can it considerably minimise the likelihood of failure. Where governance quality is low, ERM frameworks tend to be essentially symbolic and ineffective in alleviating financial crisis.

Corporate failure in emerging financial markets is thus not just the result of financial instability, but also of how governance institutions affect the translation of risk data into strategic action. This study set out to empirically examine how corporate governance and enterprise risk management interact with financial performance to influence corporate failure among financial service institutions listed on the Lusaka Securities Exchange. The findings demonstrate that weak capital adequacy, declining earnings, and liquidity pressures significantly increase the likelihood of corporate failure. However, these financial vulnerabilities are substantially amplified in institutions characterised by weak corporate governance structures and immature enterprise risk management frameworks.

5.2 Summary Recommendations

The study proposes a set of coordinated reforms aimed at strengthening institutional resilience and enhancing supervisory effectiveness within Zambia's financial sector. These recommendations are directed at financial institutions, regulators, and government policymakers, reflecting the shared responsibility for maintaining financial stability.

At the institutional level, financial service providers are encouraged to reinforce governance structures by ensuring board independence, strengthening oversight mechanisms, and enforcing fit-and-proper standards for directors and senior executives. Greater attention should also be given to embedding enterprise risk management frameworks that are integrated, independent, and aligned with internationally recognised standards. Strengthened compliance systems, improved regulatory reporting processes, and the use of structured early warning diagnostics are recommended to support continuous monitoring rather than reactive correction. Maintaining capital buffers above minimum thresholds, diversifying funding sources, and improving asset quality management are further measures considered essential for enhancing financial resilience.

For regulators, the study recommends incorporating predictive diagnostic tools into supervisory practice to complement existing on-site and off-site monitoring frameworks. A more consistent enforcement regime, supported by transparent sanctions and time-bound corrective actions, would reinforce market discipline. Investment in supervisory data infrastructure, including standardized reporting templates and regulatory technology solutions, is also advised to improve the timeliness and reliability of risk detection. Strengthening fit-and-proper assessments for directors and senior management is emphasized; given the central role leadership quality has played in past institutional failures.

At the policy level, the research calls for periodic review and harmonization of financial sector legislation to address emerging systemic risks. Enhancing corporate transparency through improved disclosure standards, stronger audit oversight, and beneficial ownership reporting would further support accountability. Broader sector-wide risk awareness initiatives through capacity building, academic regulator collaboration, and adoption of modern risk analytics are also encouraged. Finally, formalizing professional oversight of directors through statutory recognition of a governing body could strengthen accountability and ethical standards across boards. Taken together, these recommendations advocate a shift from fragmented oversight toward a more integrated, preventive framework for financial sector governance and stability.

5.3 Policy Implications

The findings of this study carry several important implications for regulatory and supervisory practice in Zambia's financial sector.

5.3.1 Governance Reforms for the Bank of Zambia

The Bank of Zambia should move beyond formal compliance checks and adopt a more substantive approach to assessing governance effectiveness. Key priorities include enforcing minimum standards for board independence, reducing executive dominance, and preventing excessive concentration of tenure. Risk committees should be strengthened, with all listed financial institutions required to maintain separate, independent board-level risk committees. Board competency should be reinforced through mandatory certification and ongoing professional development in areas such as risk governance and financial management. Annual board performance evaluations, externally facilitated at least once every three years, should become standard, and clear accountability mechanisms must be implemented to ensure that inaction on early warning signals triggers supervisory consequences. Governance oversight should also involve structured board interviews and documented evidence demonstrating how risk reports inform strategic decision-making.

5.3.2 Mandatory Enterprise Risk Management (ERM) Disclosure

The study recommends that ERM reporting be made a mandatory component of listed financial institutions' annual reports. Such disclosure should include formal board approval of a risk appetite statement, detailed reporting lines within the risk governance system, and evidence linking risk appetite to capital planning and strategic objectives. Annual reports should also summarize the results of stress tests and scenario analyses, along with board-level discussions of emerging threats. Aligning disclosure practices with international frameworks, such as the Treadway Commission's Committee of Sponsoring Organisations (2017), can enhance transparency for investors and depositors. However, regulators should emphasize the substance of reporting over a mere checklist approach, ensuring that disclosures meaningfully reflect governance and risk practices.

5.3.3 Assessing ERM Effectiveness beyond Compliance

Supervisory assessment of ERM should move beyond documentation to include outcome-based and behavioural indicators. Metrics could include alignment of capital allocation with risk appetite limits, responsiveness to threshold breaches, the depth and frequency of board engagement on risk issues, and the integration of stress test results into capital or liquidity strategies. Near-miss analyses that document lessons from internal control failures can further inform supervisory evaluations. An ERM effectiveness scoring model combining qualitative board assessments with quantitative risk-performance consistency indicators can provide a robust framework for supervision.

5.3.4 Strengthening Risk-Based Supervision and Early Intervention

The findings support the adoption of a proactive, risk-based supervisory approach. The Bank of Zambia should implement early warning thresholds triggered by governance and ERM shortcomings, rather than relying solely on capital-based indicators. Remedial action plans should be initiated when persistent weaknesses are identified, and governance remediation programs should be mandated before financial indicators reach critical levels. Targeted thematic examinations focusing on the integration of governance and risk are also recommended. Early supervisory intervention is critical, as weak governance systems accelerate financial deterioration.

5.3.5 Board-Level Responsibility and Institutional Culture

Effective risk governance cannot be entirely delegated to management or internal risk functions. Boards must take ownership of the institution's risk appetite, continuously monitor capital-risk alignment, and embed ERM into strategic planning cycles. CEO and executive remuneration should be linked to risk-adjusted performance rather than



short-term profitability. Institutions that fail to internalize the governance-risk nexus remain structurally vulnerable, even when financial indicators appear stable.

The overarching policy lesson of this study is clear: simply raising capital and liquidity requirements is insufficient to ensure long-term stability. Sustainable resilience in emerging economies depends on fundamental institutional reforms that integrate governance quality and ERM maturity into supervisory frameworks. Corporate strength is determined not only by financial ratios but also by whether governance structures effectively convert risk information into timely corrective action.

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