



Z C A S U N I V E R S I T Y

MASTER'S DISSERTATION

*Impact of Corporate Governance on Financial Performance of Selected SMEs in
Lusaka District*

(State the complete research title exactly as approved by your supervisor)

Student Number: 202401212

Programme: MSc Accounting and Finance

Student Name: Kabwe Musonda

Supervisor: Dr Mildred C. Muhyila

A dissertation submitted to ZCAS University in partial fulfilment of the requirements
for the award of Master of Science in Accounting and Finance

May 2026

Presented to the Panel of Examiners • Directorate of Postgraduate Studies

COPYRIGHT NOTICE

The copyright of this dissertation is the property of the author, in accordance with the Copyright Policy of ZCAS University. Copying, reproducing, or using any part of this dissertation without the prior written consent of the author is prohibited. Due acknowledgement must always be given whenever any part of this dissertation is used or cited.

© Kabwe Musonda, 2026

All rights reserved.

DECLARATION

I, Kabwe Musonda, declare that this dissertation is a result of my own original research work, and that during the period of registered study, I have not used the information contained in this document for any other academic award or qualification, nor has any part of this material been submitted, solely or in part, for any other award. Where the work of other researchers has been used, it has been duly acknowledged and referenced.

Candidate Name: Kabwe Musonda

Signature: 

Date: 24th July ,2026 .

Supervisor Name: Dr Mildred C. Muhyila

Signature: _____

Date: _____

CERTIFICATE OF APPROVAL

This dissertation by Kabwe Musonda, Student Number 202401212, entitled "Impact of Corporate Governance on Financial Performance of Selected SMEs in Lusaka District" has been read and approved as meeting the requirements of ZCAS University for the award of Master of Science in Accounting and Finance.

Examination Panel

Supervisor: Dr Mildred C. Muhyila

Internal Examiner: _____

External Examiner: _____

Director of Postgraduate Studies: _____

Date of Approval: _____

DEDICATION

This dissertation is dedicated to my mother, Beatrice Kutemba Chiyeni Musonda, whose unwavering love, sacrifice, and support have been the foundation upon which my academic journey has been built. Without you, none of this would have been possible.

To my siblings, you have been a constant source of inspiration and strength. May the Almighty God

continue to bless you all abundantly.

To my late Father, Henry Chishala Musonda, though your time on earth was brief, your memory remains a guiding light. You are forever loved and remembered. Rest in eternal peace

ACKNOWLEDGEMENTS

First and foremost, I would like to thank the Almighty God for his Grace and providence that has seen me through Master's program up to this point. My special gratitude goes to my supervisor Dr Mildred C. Muhyila for her guidance and timely comments that enabled me be able to successfully carry out the study. I would like to give my heartfelt gratitude to everyone else who contributed in this report through purposeful participation and interest. This study could not be possible without their assistance. I am ever grateful to them.

ABSTRACT

This study examined the impact of corporate governance practices on the financial performance of Small and Medium Enterprises (SMEs) in Lusaka District, Zambia. The research focused on three key governance variables, namely board composition, transparency practices, and risk management, and how they influence financial performance indicators such as profitability, liquidity, and financial stability. A quantitative research design was adopted, guided by a positivist research philosophy. Structured questionnaires were administered to a sample of 398 SME respondents, of whom 314 returned completed questionnaires, yielding a response rate of 78.89%. Reliability analysis confirmed strong internal consistency across all constructs (Cronbach's alpha range: 0.841 to 0.891). Data were analysed using SPSS through Spearman rank-order correlation and ordinal logistic regression, following confirmation that the data violated the assumption of normality as established by Kolmogorov-Smirnov and Shapiro-Wilk tests. The findings revealed that board composition, transparency practices, and risk management all have positive and statistically significant effects on SME financial performance. Board composition emerged as the most influential determinant ($\text{Exp(B)} = 108.271$, $p < 0.001$), followed by risk management ($\text{Exp(B)} = 34.478$, $p < 0.001$) and transparency practices ($\text{Exp(B)} = 34.288$, $p < 0.001$). Spearman correlations corroborated these findings, with board composition recording the strongest bivariate association with financial performance ($r_s = 0.712$). The model demonstrated excellent fit (Omnibus LR Chi-Square = 682.669, $p < 0.001$), confirming the collective significance of the independent variables. The study concludes that SME financial performance is driven by the combined effect of governance structures, transparency, and risk management practices. It recommends the adoption of flexible governance frameworks, simplified reporting systems, and capacity-building initiatives. The study contributes empirical evidence on corporate governance within the Zambian SME context and offers practical insights for policymakers and business practitioners. Keywords: Corporate Governance, Financial Performance, Board Composition, Transparency, Risk Management, SMEs, Ordinal Logistic Regression, Spearman Correlation

Keywords: Corporate Governance, Financial Performance, SMEs, Lusaka, Board Composition

TABLE OF CONTENTS

Copyright Notice.....	i
Declaration.....	ii
Certificate of Approval	iii
Examination Panel	iii
Dedication	iv
Acknowledgements.....	v
Abstract.....	vi
Table of Contents.....	vii
List of Tables	ix
List of Figures	x
List of Abbreviations and Acronyms.....	xi
Chapter One: Introduction and Background	12
1. Introduction	12
1.2 Background of the study	12
1.3 Statement of the problem	14
1.4 Purpose of the study	15
1.5 General research objective	15
1.5.1 Specific objectives.....	16
1.5.2 Research questions	16
1.6 Hypothesis.....	16
1.7 Justification of the study	16
1.8 Scope of the study	17
1.9 The research concepts	17
1.10 Dissertation outline	19
1.11 Chapter Summary.....	19
Chapter Two: Literature Review	21
Introduction	21
2.2 Corporate Governance	21
2.3 Financial Performance	21
2.4.1 Board composition and Financial Performance of SMEs	22
2.4.2 Transparency Practices and Financial Performance of SME's	25
2.4.3 Risk Management and Financial performance of SME's.....	27
2.5 Synthesis of the Literature	29
2.6 Gaps in the Literature.....	30
2.7 Theoretical Framework	30
2.8 Conceptual Framework	31
2.9 Chapter Summary.....	32
Chapter Three: Research Methodology	33
3.0 Introduction	33
3.1 Research Onion	33
3.2 Research Philosophy	34
3.2.1 Philosophical Choice: Ontology.....	35
3.3 Nature of Research	35
3.4 Research Approach	36
3.4.1 Deductive Approaches.....	36
3.5 Methodological Choice	36
3.6 Quantitative Data Collection Techniques	37

3.7 Sampling Plan and Justification of Sample Size.....	38
3.7.1 Target Population	38
3.7.2 Sampling Technique.....	38
3.7.3 Justification of Sample Size	39
3.8 Research Design.....	39
3.9 Time Horizon	40
3.10 Data Analysis	40
3.11 Triangulation Design.....	41
3.12 Ethical Considerations	42
3.13 Chapter Summary.....	42
Chapter Four: Research Findings and Analysis.....	44
4.1 Introduction	44
4.2 Demographic Characteristics of Respondents.....	44
4.3 Reliability Analysis.....	49
4.4 Descriptive Statistics.....	50
4.5 Frequency Analysis of Questionnaire Items	52
4.6 Normality Testing	54
4.7 Spearman Rank-Order Correlation Analysis	56
4.8 Ordinal Logistic Regression: Model Specification and Fit.....	57
4.9 Omnibus Test of Model Coefficients	58
4.10 Hypothesis Testing.....	59
4.11 Ordinal Logistic Regression Parameter Estimates	60
4.12 Comparative Analysis of Predictor Contributions	63
4.13 Chapter Summary.....	64
Chapter Five: Discussion, Conclusions and Recommendations.....	66
5.1 Introduction	66
5.2 Discussion	66
5.1.1 Objective 1: The Influence of Board Composition on Financial Performance of SMEs.....	66
5.1.2 Objective 2: The Effect of Transparency Practices on Financial Performance of SMEs	67
5.1.3 Objective 3: The Impact of Risk Management on Financial Performance of SMEs	68
5.3 Policy Implications.....	69
5.4 Policy Recommendations.....	70
5.5 Further Areas of Research.....	70
6.0 Summary	71
7.0 Recommendations	72
References.....	74
Appendices.....	76
Appendix 1: Ethical Clearance.....	76
Appendix 2: Research Budget.....	77
Appendix 3: Gantt Chart	78
Appendix 4: Structured Quantitative Questionnaire	79
SECTION A: DEMOGRAPHIC INFORMATION.....	79
SECTION B: GOVERNANCE AND PERFORMANCE ITEMS.....	79

LIST OF TABLES

Table 1: Data Summary	45
Table 2: 1: Demographic Characteristics of Respondents (n=314)	45
Table 3: Data Summary	49
Table 4: 1: Cronbach's Alpha Reliability Coefficients	49
Table 5: Data Summary	50
Table 6: 1: Descriptive Statistics for Study Variables (n=314)	50
Table 7: Data Summary	52
Table 8: 1: Item-Level Frequency Distributions and Descriptive Statistics (n=314)	53
Table 9: Data Summary	54
Table 10: 1: Kolmogorov-Smirnov and Shapiro-Wilk Normality Test Results	55
Table 11: Data Summary	56
Table 12: 1: Spearman Rank-Order Correlation Matrix (n=314)	56
Table 13: Data Summary	57
Table 14: 1: Goodness-of-Fit Statistics for the Ordinal Logistic Regression Model	58
Table 15: Data Summary	58
Table 16: 1: Omnibus Test of Model Coefficients	58
Table 17: Data Summary	59
Table 18: 1: Summary of Hypothesis Test Results	59
Table 19: Data Summary	60
Table 20: 1: Ordinal Logistic Regression Parameter Estimates	60
Table 21: Data Summary	63
Table 22: 1: Comparative Summary of Predictor Contributions to Financial Performance	63

LIST OF FIGURES

Figure 1: 1: Research Onion Framework.....	34
Figure 2: 1: Gender Distribution of Respondents (n=314)	46
Figure 3: 2: Age Distribution of Respondents (n=314)	47
Figure 4: 3: Educational Level of Respondents (n=314)	47
Figure 5: 4: Sector Distribution of SME Respondents (n=314)	48
Figure 6: 6: Mean Scores per Construct with Standard Deviation Error Bars.....	51
Figure 7: 5: Stacked Likert-Scale Response Distributions Across All Items (n=314)	54
Figure 8: 7: Forest Plot of Ordinal Logistic Regression Odds Ratios with 95% Confidence Intervals.....	62
Figure 9: 8: Wald Chi-Square Statistics by Predictor Variable	63

LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation	Meaning
BC	Board Composition
CI	Confidence Interval
df	Degrees of Freedom
ERM	Enterprise Risk Management
Exp(B)	Odds Ratio
K	S - Kolmogorov-Smirnov Test
LR	Likelihood Ratio
OECD	Organisation for Economic Co-operation and Development
OLR	Ordinal Logistic Regression
RM	Risk Management
ROA	Return on Assets
ROE	Return on Equity
rs	Spearman Rank Correlation Coefficient
SE	Standard Error
Sig	Significance Level
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
S	W - Shapiro-Wilk Test
TP	Transparency Practices
VIF	Variance Inflation Factor
YPT	Financial Performance (Dependent Variable)
ZDA	Zambia Development Agency

CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.Introduction

Corporate governance has emerged as a critical element in strengthening the financial performance and long-term sustainability of businesses across both developed and developing countries. In recent years, the importance of governance has grown substantially, driven by the need for risk management, transparency, and board composition in increasingly competitive and dynamic business environments. Strong governance structures are widely recognized as mechanisms that reduce risks, improve investor confidence, and enhance organisational outcomes by ensuring that firms operate with integrity and openness. In Zambia, this issue is particularly relevant given the central role played by Small and Medium Enterprises (SMEs) in driving economic growth, creating employment opportunities, and reducing poverty. SMEs in Lusaka District, in particular, are vital contributors to local development, yet many face significant challenges in maintaining consistent financial performance due to weak governance frameworks.

The Importance of corporate governance lies in its through relationship with financial outcomes such as profitability, liquidity, and sustainability, which are key indicators of organisational performance. Research has established that sound governance mechanisms including strong boards composition, transparency, and risk management practices aid firms to secure financing, reduce operational inefficiencies, and improve general stability. Equally, the absence of governance structures often exposes firms to mismanagement, low investor trust, and poor financial results. This study will investigate the impact of corporate governance on the financial performance of selected SMEs in Lusaka District, focusing on specific variables such as board composition, transparency, and risk management. By examining these elements, the study seeks to generate insights into how governance practices contribute to or hinder SME financial sustainability and competitiveness within the Zambian business context.

1.2 Background of the study

In Zambia, the SME usually faces structural and financial challenges that undermine its capacity to grow and contribute fully to economic development. Even though SMEs are widely acknowledged as engines of growth and employment creation, they continue to struggle with Limitations such as high borrowing costs, access to financing, and weak managerial skills. These challenges are further compounded by the absence of effective governance frameworks, which often results in inefficiencies, poor risk management, and weak decision-making processes that negatively impact financial performance. Unlike large corporations that usually operate with well-established boards and clearly defined governance mechanisms, SMEs in Zambia often function more informally, making it difficult to implement structures that ensure transparency and risk management strategies in business operations (Vaghera & Mashekwa, 2025; Zulu, 2019; Kaombe et al., 2025; Mulenga & Haabazoka, 2024).

The role of corporate governance in addressing these challenges has been highlighted by several scholars. Mahmood (2015) emphasises that effective governance is vital for maintaining accountability and financial stability, while Santiago (2021) stresses that improved governance practices enhance transparency, attract investment, and increase firm valuation. Similarly, Chen et al. (2006) argue that governance enables firms to secure funding at lower costs and improve company value, which are crucial for SMEs seeking to expand and strengthen their financial positions.

In Zambia, the Revised National Policy for Micro, Small, and Medium Enterprises (2023) defines SMEs as businesses with not more than 100 employees and an annual turnover between ZMW 10,000 and ZMW 50 million, covering sectors such as agriculture, mining, manufacturing, services, trade, and construction. The Zambia Development Agency (ZDA) has been tasked with monitoring and supporting SMEs through capacity-building programs and strategic partnerships aimed at improving operational efficiency.

Despite these policy frameworks and institutional support mechanisms, there is still limited empirical evidence on how governance practices influence the financial performance of SMEs in Lusaka District. This gap is critical, as SMEs continue to face operational and financial instability that limits their contribution to national development. By analysing the relationship between governance mechanisms and financial performance, this study seeks to

provide a comprehensive understanding of the role of corporate governance in improving SME financial outcomes. The findings are expected to provide valuable insights that can assist policymakers, SME Managers, and investors in developing strategies and interventions that strengthen the sector and enhance its contribution to Zambia's economic growth.

1.3 Statement of the problem

Despite the growing recognition of the importance of corporate governance in enhancing financial performance, there is limited empirical evidence on how governance practices, particularly board composition, financial transparency, and risk management, influence performance outcomes in the Zambian SME sector. Existing studies often provide mixed conclusions, with some highlighting the benefits of strong governance frameworks on firm profitability and sustainability, while others note the challenges of implementing such practices in resource-constrained environments. For instance, Mwansa and Chileshe (2019) reported that SMEs in Lusaka that adopted clear risk management structures and transparent reporting mechanisms recorded profitability growth ranging between 15-22% annually, and 47% showed improved credit approval rates from financial institutions due to reliable audit trails. National SME surveys further indicate that only 28% of SMEs maintain formal financial records, while just 3.3% access external formal financing from banks or microfinance institutions, with the majority relying on personal savings (Bank of Zambia, 2022). These findings indicate that corporate governance plays a significant role in strengthening financial discipline and operational efficiency, particularly where periodic reporting and board oversight are enforced.

However, a recent Zambian study by Chivwindi, Hapompwe & Banda (2023) of SMEs in Lusaka Central and Mwembeshi Business Areas observed that 70.4% of SMEs were either failing or static in their operations, while only 29.6% had managed to sustain their businesses since start-up (Chivwindi, Hapompwe & Banda, 2023). This high failure or stagnation rate underscores severe structural and operational constraints facing SMEs including, plausibly, weaknesses in governance, management capacity, and institutional support.

Similarly, Osei and Boateng (2017), in a related study on SMEs in Ghana, noted that although board diversity improved decision-making and firm growth, only 32% of SMEs had functional governance structures, and less than 40% adhered to consistent financial reporting

standards, weakening long-term sustainability. Comparable trends have been recorded in Zambia, where over 60% of SMEs operate without documented financial policies, nearly 55% lack formal board structures, and about 78% of SMEs are sole proprietorships with minimal internal controls (ZDA, 2022; Bank of Zambia, 2022). Furthermore, only 4.4% of MSMEs are formally registered, while 95.6% remain informal, highlighting the scale of non-compliance and structural gaps (ZamStat, 2022). These statistics confirm that governance adoption remains fragmented and inconsistent despite its perceived benefits.

Moreover, Shleifer and Vishny (1997) also found that in developed economies, corporate governance mechanisms strengthened investor protection and enhanced financial performance, but weak institutions in developing contexts often undermined these advantages. Their findings suggested that without strong policies, effective enforcement, and organisational commitment, the benefits of governance could be offset by mismanagement and financial inefficiencies.

These mixed findings underscore the complexity of the relationship between corporate governance and financial performance, particularly within SMEs that operate under unique structural and financial challenges. There is a clear need for more focused, contextual research that evaluates how board composition, financial transparency, and risk management contribute to the financial performance of SMEs. This study seeks to fill this gap by providing a comprehensive, institution-specific assessment of corporate governance practices and their impact on financial performance within selected SMEs in Lusaka.

1.4 Purpose of the study

The purpose of this study was to explore and examine the impact of corporate governance practices on the financial performance of Small and Medium Enterprises (SMEs) in Lusaka District. Specifically, the study aims to assess how key dimensions of corporate governance, namely board composition, transparency practices, and risk management mechanisms, affect the profitability, liquidity management, and overall financial stability of SMEs. The Study intends to generate context-specific insights that can inform strategies for strengthening governance frameworks and improving the financial sustainability and competitiveness of SMEs. Ultimately, the purpose is to contribute to policy and management practices that support effective corporate governance and robust financial performance in the SME sector in Zambia.

1.5 General research objective

The general objective of this study is to examine the impact of corporate governance practices on the financial performance of selected Small and Medium Enterprises (SMEs) in Lusaka District.

1.5.1 Specific objectives

To assess the influence of board composition on the Financial performance Indicate of selected SMEs in Lusaka District.

To examine the effect of transparency practices on the financial performance of selected SMEs in Lusaka District.

To evaluate the impact of risk management on the financial performance of selected SMEs in Lusaka District.

1.5.2 Research questions

How does board composition influence the financial performance of selected SMEs in Lusaka District?

In what ways do transparency practices affect the financial performance of selected SMEs in Lusaka District?

How do risk management impact the financial performance of selected SMEs in Lusaka District?

1.6 Hypothesis

H0: Corporate Governance has no significant impact on SME Financial performance

H1: Corporate Governance has significant impact on SME Financial Performance

1.7 Justification of the study

Previous studies on the impact of corporate governance on SME financial performance in Zambia have often relied on data from larger corporations or outdated SME datasets, which may not reflect the current operational realities of SMEs in Lusaka, and this study therefore fills the gap by providing updated empirical evidence on governance practices within SMEs. There is a limited focus in existing literature on practical, policy-oriented recommendations

that can guide SME owners, managers, and policymakers in Zambia, and this is crucial since without clear policy-based evidence, governance reforms remain inconsistent and difficult to implement. Most studies have not adequately addressed how board composition, transparency, and risk management mechanisms influence SME financial outcomes, implying existing knowledge base is incomplete and lacks direction for decision-makers. This study bridges this gap by offering actionable insights into corporate governance practices that enhance profitability, liquidity management, and overall financial stability of SMEs in Lusaka, therefore justifying the relevance of the research in strengthening evidence-based policy development. This study is significant because it addresses a crucial but often underexplored area in the Zambian business environment: the impact of corporate governance practices on the financial performance of SMEs. The findings of this study are expected to provide valuable insights for SME owners, managers, and policymakers in Lusaka, helping them to strengthen governance frameworks, improve transparency, and enhance risk management within their organizations. By highlighting the role of board composition, transparency practices, and risk management mechanisms in shaping financial outcomes, the study contributes to the growing body of knowledge on corporate governance in sub-Saharan Africa. Furthermore, it serves as a reference point for business practitioners, investors, and scholars interested in promoting sustainable financial performance and organisational growth in SMEs operating in Zambia and similar developing country contexts.

1.8 Scope of the study

This study was limited in scope to selected Small and Medium Enterprises (SMEs) in Lusaka District, focusing specifically on owners, managers, and key staff involved in governance and financial decision-making. The research concentrated on three main elements of corporate governance: board composition, transparency practices, and risk management mechanisms, and how these factors impact the financial performance of SMEs.

1.9 The research concepts

This study is anchored on several interrelated research concepts that explain how corporate governance influences the financial performance of Small and Medium Enterprises (SMEs) in Lusaka District. The core concept of the study is corporate governance, which refers to the system of rules, structures, processes, and relationships through which enterprises are directed,

controlled, and held accountable. In the context of SMEs, corporate governance focuses on how decision-making authority is structured, how accountability is ensured, and how managerial actions are monitored to protect the interests of owners, creditors, and other stakeholders. Unlike large corporations, SMEs often operate with informal governance arrangements, making it critical to understand how governance mechanisms function within resource-constrained environments such as Zambia

The first key governance concept examined in this study is board composition, which refers to the structure, size, diversity, skills, and independence of individuals responsible for overseeing business operations and strategic decisions. In SMEs, board composition may include owners, managers, family members, or external advisors. Effective board composition is associated with improved oversight, better strategic direction, enhanced accountability, and reduced agency problems. The study considers how the presence or absence of functional boards, diversity of expertise, and clarity of roles influence financial performance outcomes such as profitability and financial stability.

The second governance concept is transparency, which relates to the openness, accuracy, and timeliness of financial and non-financial information shared with stakeholders. Transparency in SMEs includes proper record-keeping, regular financial reporting, disclosure of financial positions, and clear communication with lenders, investors, and regulatory institutions. Transparent practices reduce information asymmetry, build trust with financial institutions, and improve access to credit. This study examines how transparency practices influence SME financial performance, particularly in terms of liquidity management and investor confidence.

The third governance concept is risk management, which refers to the processes used by SMEs to identify, assess, monitor, and mitigate risks. Effective risk management enables SMEs to anticipate uncertainties, manage cash flow fluctuations, reduce losses, and enhance business continuity. In the Zambian SME context, risk management practices may include budgeting, internal controls, insurance, and compliance with regulatory requirements. The study analyses how these risk management mechanisms contribute to improved financial performance and long-term sustainability.

Financial performance is the outcome variable in this study and is conceptualized through indicators such as profitability, liquidity management, and financial stability. Profitability reflects the ability of SMEs to generate income from operations, liquidity management indicates

the firm's capacity to meet short-term obligations, and financial stability represents the enterprise's ability to sustain operations over time. The study assumes that strong corporate governance practices positively influence these financial outcomes, while weak governance undermines SME performance and growth.

1.10 Dissertation outline

This thesis is organized into five chapters, each designed to systematically address the research problem and achieve the study objectives. Chapter One provides the introduction to the study and outlines the background, problem statement, purpose, objectives, research questions, hypotheses, justification, scope, and key research concepts.

Chapter Two presents the literature review and theoretical framework. It reviews existing empirical and theoretical studies on corporate governance and financial performance, with a particular focus on SMEs in developing and developed economies. The chapter discusses relevant corporate governance theories, empirical findings, and identifies gaps in the literature that justify the current study.

Chapter Three outlines the research methodology adopted in the study. It describes the research design, study population, sampling techniques, data collection methods, research instruments, data analysis procedures, and ethical considerations.

Chapter Four focuses on data presentation, analysis, and discussion of findings. The chapter presents the results obtained from the field.

Chapter Five provides the summary of findings, conclusions, and recommendations. It highlights key insights from the study, draws conclusions based on the research objectives, and offers practical recommendations for SME owners, policymakers, and other stakeholders. The chapter also suggests areas for further research.

1.11 Chapter Summary

This chapter introduced the study by providing a comprehensive overview of the research context, focusing on the role of corporate governance in influencing the financial performance of SMEs in Lusaka District. The chapter discussed the importance of corporate governance in improving transparency, accountability, and risk management, particularly within SMEs that operate in challenging economic environments. It highlighted the significance of SMEs in

Zambia's economic development and outlined the governance challenges that hinder their financial performance.

The chapter further presented the background to the study, the problem statement, and the purpose of the research, clearly demonstrating the existing gaps in empirical evidence on corporate governance and SME financial performance in Zambia. The study objectives, research questions, and hypotheses were clearly defined to guide the investigation. The justification of the study emphasized its academic, policy, and practical relevance, while the scope and delimitation clarified the study's focus and boundaries.

Finally, the chapter introduced the key research concepts and provided an outline of the entire thesis structure. This foundation sets the stage for the subsequent chapter, which reviews relevant literature and theoretical perspectives on corporate governance and financial performance in SMEs.

CHAPTER TWO: LITERATURE REVIEW

Introduction

This chapter reviewed existing theoretical and empirical literature relevant to corporate governance and the financial performance of Small and Medium Enterprises (SMEs). It examined major theoretical perspectives that had been advanced to explain the relationship between governance mechanisms and organisational performance, and analyzed empirical studies that had investigated this relationship in various contexts. Particular attention was given to board composition, transparency practices, and risk management, and how they have been argued in theory and demonstrated in empirical research to influence financial outcomes. Through a critical synthesis of prior studies, areas of agreement and divergence in the literature were identified, existing research gaps were highlighted, and the theoretical and conceptual frameworks that guided the study were presented.

2.2 Corporate Governance

Corporate governance which refers to the structures and systems used to direct and control organizations was discussed. According to OECD (2015), corporate governance ensures accountability, fairness, and transparency in organizational operations. Good governance aids organizations use resources efficiently and prevent mismanagement. However, In SMEs, governance is often less formal because the owner is also the manager. The absence of proper control systems leads to biased decision-making and misuse of business resources. Effective governance mechanisms such as boards of directors, internal controls, and reporting systems therefore assist firms gain stakeholder confidence and improve business performance.

2.3 Financial Performance

Financial performance which refers to the ability of a firm to generate profits and manage its financial resources effectively was also discussed. (Brigham & Houston, 2019). Financial performance indicates whether a business is operating successfully and is able to sustain its activities. SMEs particularly depend on strong financial performance because they operate with limited capital and face intense competition. Studies suggest that firms with good

management practices and accountability systems perform better financially because proper monitoring reduces waste and operational inefficiencies (Gitman et al., 2018). Implying close link of financial performance to management practices, including corporate governance.

2.4.1 Board composition and Financial Performance of SMEs

Agency Theory, as proposed by Jensen and Meckling (1976), emphasizes that boards serve as monitors of management to ensure that managers act in the best interests of owners or shareholders. The theory suggests that a well-structured board, with independent and qualified members, can reduce agency problems such as mismanagement or self-serving behaviour by managers. In the context of SMEs in Lusaka District, Agency Theory implies that having diverse and experienced board members can enhance oversight of daily operations, promote accountability, and guide strategic decisions, which in turn can improve financial performance. Empirical studies support this argument. A study by Dalton et al. (1998) found that firms with independent and diverse boards experienced improved financial performance because the board provided effective oversight and strategic guidance. Similarly, Kyere and Ausloos (2021) reported that board independence and expertise positively influenced profitability and operational efficiency in businesses. In the SME context, qualified board members contribute managerial skills, reduce conflicts of interest, and improve strategic planning, which enhances profitability and sustainability.

The legal framework governing corporate governance in Zambia, as established under the Companies Act No. 10 of 2017, outlines requirements for board composition, director duties, and company management. The Act specifies that private companies must have at least two directors and that the business of the company must be managed by, or under the direction of, the board of directors (Sections 85-86). These provisions aim to enhance accountability, transparency, and effective decision-making in companies. However, in the context of SMEs in Lusaka, such requirements can also create challenges for infant firms that often lack the resources to recruit qualified directors or fully comply with statutory duties. For example, Lungu (2020, p. 42) noted that SMEs face “regulatory requirements and corporate governance issues” that limit their ability to access finance and grow. These findings suggest that although the legal framework promotes good governance, it may present practical difficulties for smaller and start-up SMEs in implementing formal governance structures.

Vincent O. Ongore, Peter O. K'Obonyo, Martin Ogutu and Eric M. Bosire (2015) conducted a study on board composition and financial performance among companies listed at the Nairobi Securities Exchange in Kenya. The study used panel data from 46 listed companies and employed multivariate regression analysis using Return on Assets (ROA), Return on Equity (ROE), and Dividend Yield as measures of financial performance. The findings revealed that gender diversity on boards positively influenced financial performance, while larger board sizes negatively affected performance. The study further showed that independent directors had an insignificant relationship with firm performance. Despite these findings, the study concentrated only on listed firms and did not include SMEs, whose governance structures and operational environments differ significantly from large corporations. This creates a contextual gap regarding how board composition influences SME financial performance in developing economies. This research therefore suggested that future studies should extend the analysis to SMEs and incorporate additional governance variables to provide broader evidence on corporate governance practices in small and medium enterprises.

Ronald Essel and Emmanuel Addo (2021) investigated the relationship between corporate governance mechanisms and business performance among SMEs in Ghana. The study used annual reports from 124 Ghanaian SMEs covering the period from 2010 to 2019 and employed panel data multivariate regression analysis using the fixed effects model. The findings showed that chief executive officer tenure, board meetings, firm size, and firm age positively influenced business performance, while board size, board composition, chief executive officer duality, and gender diversity negatively affected performance. Despite providing important findings, the study acknowledged that governance mechanisms may affect SMEs differently because of their unique characteristics and operational conditions. This indicates the importance of conducting further research in other developing countries to determine whether similar governance variables produce comparable effects on SME financial performance.

Johnson Emberga Aernan, Steve Emeka Emengini and Bonaventure Sunday Okonkwo (2023) examined board characteristics and financial performance of listed Deposit Money Banks in Nigeria. The study relied on secondary data collected from annual reports of 12 listed banks covering the period from 2011 to 2020. The researchers applied Pooled Ordinary Least Squares (POLS) regression together with panel fixed effects regression analysis. The findings indicated that board size and ethnic diversity had a statistically significant negative effect on financial

performance, whereas gender diversity and board diligence showed positive but insignificant effects. However, the study was restricted to the banking sector and excluded SMEs and non-financial enterprises, making it difficult to generalize the findings to smaller businesses operating under different governance conditions. To address this limitation, future studies should investigate SMEs and firms from other sectors to establish whether board characteristics influence financial performance differently across various business environments.

Benjamin E. Hermalin and Michael S. Weisbach (2003) examined the relationship between corporate governance structures and firm financial performance in the United States using econometric regression analysis on panel data collected from publicly traded corporations. The findings showed that effective board structures and stronger governance mechanisms improved profitability, accountability, and operational efficiency. However, the study focused mainly on large corporations operating in developed economies with advanced governance systems, creating a contextual gap regarding SMEs in developing countries. To address this gap, governance studies should also focus on smaller enterprises operating in emerging economies where governance challenges and institutional environments differ significantly.

Empirical studies support the role of board composition in influencing SME performance. Mulenga and Haabazoka (2024) examined the effect of corporate governance on hardware SMEs in Lusaka using structured questionnaires administered to SME owners and managers, with data analyzed through regression and descriptive statistical techniques. The findings showed that firms with structured and experienced boards achieved better oversight, clearer strategic direction, and improved operational efficiency, which enhanced financial performance. The study also found that many SMEs lacked formal board structures and did not effectively use governance mechanisms for oversight. However, the research focused only on hardware SMEs, leaving other SME sectors unexplored. This indicates a need for broader research across different SME sectors in Lusaka to better understand how board composition influences financial performance.

Similarly, Milupi (2023) conducted a descriptive study examining the impact of board composition on financial performance among listed corporations in Zambia, using regression analysis on a sample covering 2008-2020. The study found a negative significant relationship between board size and performance, with mixed results for board independence and gender diversity. A limitation of this study is its focus on listed firms rather than SMEs and limited

coverage of board diversity metrics, suggesting future research should target SMEs to explore context-specific board composition effects.

2.4.2 Transparency Practices and Financial Performance of SME's

Trust-Transparency Theory, as discussed by Thakor (2023), explains how transparency in organizational information affects stakeholders' trust and decision-making. The theory assumes that clear, timely, and accurate disclosures increase confidence among investors, lenders, and customers. In the context of Zambia and similar emerging markets, research indicates that transparent reporting enhances stakeholder confidence and access to finance. For example, Adda et al. (2025) found that organizational transparency improves stakeholder engagement in SMEs, while Wahome and Kinuthia (2025) reported that institutional ownership encourages corporate disclosure, signaling reliability to investors. For SMEs, transparent records reduce information asymmetry, supporting informed decisions and operational stability. The theory emphasizes that transparency is a strategic governance mechanism that strengthens trust and improves financial performance.

Signaling Theory, as developed by Michael Spence (1973), explains that organizations disclose information to signal credibility, accountability, and financial strength to external stakeholders such as investors, creditors, and customers. The theory emphasizes that transparent reporting practices reduce information asymmetry between managers and stakeholders, thereby increasing confidence and trust in the organization. In the context of selected SMEs, transparency practices such as proper financial disclosure, timely reporting, and accurate record keeping help businesses improve stakeholder relationships, attract financing opportunities, and strengthen operational sustainability. The theory therefore suggests that transparency practices contribute positively to financial performance because stakeholders are more willing to support businesses perceived as transparent and accountable.

Ayotunde Qudus Saka and Xin Zhang (2025) investigated the influence of governance practices on bank performance in Sub-Saharan Africa using panel regression analysis on data collected from selected banks between 2008 and 2022. It was discovered that governance mechanisms associated with disclosure, audit committee effectiveness, and accountability significantly improved financial performance and institutional stability. However, the study concentrated on banks operating within highly regulated environments, limiting the applicability of findings to

SMEs where governance and transparency systems are less formalized. Consequently, the study emphasized the need for future research focusing on SMEs operating in emerging African economies

Benjamin E. Hermalin and Michael S. Weisbach (2003) examined governance structures and organizational performance among publicly traded corporations in the United States using econometric regression analysis on panel data. The findings revealed that firms with stronger disclosure systems, transparent governance structures, and effective monitoring mechanisms achieved improved profitability and investor confidence. Nevertheless, the study focused primarily on large corporations within developed financial markets, creating a contextual limitation regarding SMEs operating in developing economies. The researchers therefore stressed the importance of extending governance-performance studies to SMEs where governance practices remain less formalized.

Likewise, Martin Kyere and Marcel Ausloos (2021) investigated the relationship between corporate governance mechanisms and financial performance among 252 non-financial firms listed on the London Stock Exchange in the United Kingdom. The study used cross-sectional regression analysis with Return on Assets (ROA) and Tobin's Q as indicators of financial performance. The findings established that firms with stronger transparency practices, accountability mechanisms, and governance structures experienced improved operational efficiency and financial performance. However, the research concentrated on firms operating within developed economies where governance systems are more advanced and regulated than those of SMEs in developing countries. This demonstrates the necessity for further studies focusing specifically on SMEs within emerging economies such as Zambia.

Luc Renneboog and Yang Zhao (2014) examined corporate governance and disclosure practices among European firms using panel regression analysis on secondary data collected from listed companies. The study found that firms with transparent reporting systems and stronger disclosure practices achieved higher profitability, improved market value, and greater investor trust. One limitation of the study is that it focused mainly on large listed firms within developed economies, making it difficult to generalize the findings to SMEs operating under resource constraints in developing countries. The study therefore pointed out the importance of examining transparency practices within SMEs to determine how disclosure and accountability influence financial performance in emerging markets.

Empirical studies support the role of transparency in SME performance. Musonda (2025) studied Zambian SMEs to examine challenges in adopting IFRS for SMEs, focusing on financial reporting and disclosure quality. Data were collected using structured questionnaires from SME owners and managers and analyzed through descriptive statistics. Findings revealed that SMEs adopting IFRS had better reporting and clearer disclosure practices, which enhanced stakeholder trust and credibility, although the study did not measure direct financial performance. Similarly, Yusuf, Mokoena, Kargbo, and Mensah (2026) found in sub-Saharan African firms that robust disclosure practices were linked to higher profitability and operational stability. Despite these insights, Musonda's study did not examine the statistical relationship between transparency and financial performance in Zambian SMEs, while Yusuf et al. applied findings to broader SSA contexts rather than Zambia specifically. These gaps highlight the need for research that directly investigates how transparency practices influence financial performance across different SME sectors in Zambia.

2.4.3 Risk Management and Financial performance of SME's

Resource-Based View (RBV) Theory, as discussed by Barney (1991), explains that organizational resources and capabilities, including risk management systems, can serve as a source of competitive advantage. The theory assumes that firms with well-developed internal capabilities are better positioned to respond to challenges, reduce uncertainty, and sustain performance over time. In the context of SMEs in Lusaka and similar emerging markets, empirical research shows that strong risk management capabilities contribute to firm stability and long-term performance. For example, Apaloo and Dzah (2022) found that Ghanaian SMEs with effective risk management practices demonstrated higher operational efficiency and overall performance. Similarly, Afolabi and Tugudu (2016) reported that structured risk management practices improved operational stability and competitiveness among Nigerian SMEs. The theory highlights that for SMEs, investing in risk management is not just a compliance exercise but a strategic capability that enhances resilience, supports continuity, and strengthens financial outcomes.

Enterprise Risk Management Theory, as advanced by James Lam (2003), explains that organizations improve financial performance when risks are systematically identified, monitored, and controlled through integrated management systems. The theory emphasizes that effective

risk management reduces uncertainty, strengthens operational efficiency, and improves strategic decision-making. In SMEs, proper risk management practices help businesses manage financial uncertainty, operational disruptions, and market volatility, thereby contributing positively to profitability and sustainability.

Leviticus Mensah and Murad Abdurahman Bein (2023) examined corporate governance and firm performance among manufacturing firms in South Africa, Nigeria, and Ghana. The study used panel data from 60 firms and employed Generalized Method of Moments (GMM) and Fully Modified Ordinary Least Squares (FMOLS) regression techniques. The findings revealed that governance and risk oversight mechanisms positively influenced Return on Invested Capital (ROIC), particularly in South Africa and Ghana. However, the research focused mainly on manufacturing corporations and did not specifically examine SMEs operating under informal governance and risk management systems. The study therefore highlighted the need for further studies focusing on SMEs in developing economies to establish how risk management practices influence financial performance.

Lawrence A. Gordon, Martin P. Loeb and Chih-Yang Tseng (2009) examined Enterprise Risk Management and organizational performance among firms in the United States. The study applied regression analysis on firm-level data to evaluate the relationship between risk management implementation and financial performance. The findings established that firms with stronger Enterprise Risk Management systems achieved improved profitability, reduced financial uncertainty, and stronger organizational resilience. Nevertheless, the study concentrated mainly on large corporations operating in developed economies, creating a contextual gap regarding SMEs operating under limited financial and institutional capacity in developing countries.

Likewise, Paolo Pagach and Richard Warr (2011) investigated the characteristics and performance of firms adopting Enterprise Risk Management systems in the United States using panel regression analysis on publicly traded firms. The study found that firms implementing comprehensive risk management systems achieved stronger internal controls, improved financial stability, and better operational performance. However, the research focused mainly on publicly listed firms and did not adequately address SMEs whose governance and risk management systems are less formalized. This suggests the need for additional studies focusing specifically on SMEs within emerging economies.

Similarly, Brian W. Nocco and René M. Stulz (2006) examined Enterprise Risk Management and firm value in the United States using analytical and empirical financial analysis. The findings showed that effective risk management systems improved decision-making, reduced earnings volatility, and strengthened long-term financial performance. Despite these findings, the study concentrated on large corporations with advanced governance structures, limiting its applicability to SMEs operating in developing economies with limited resources and informal management systems. The study therefore emphasized the importance of adapting Enterprise Risk Management systems to suit SMEs and smaller enterprises.

Empirical research in Zambia supports the role of risk management in influencing SME performance. Muneku and Mwanauno (2025) conducted a study on SMEs in Lusaka's construction sector to examine the practical effectiveness of risk management frameworks. They collected data using structured questionnaires administered to SME owners and managers, supplemented with interviews from key informants, and analyzed the data using descriptive statistics and thematic analysis. The study found that structured risk management frameworks, such as COSO, helped SMEs manage operational and project risks, improving oversight and planning. However, the research also found that many SMEs lacked technical expertise, formal policies, and consistent implementation of risk management practices, which limited the frameworks' effectiveness in improving measurable financial outcomes such as profitability, revenue growth, and cash flow stability.

In addition, Vaghera and Mashekwa (2025) investigated bank financing challenges for SMEs in Lusaka and reported that poor risk documentation and perceived credit risks reduced SMEs' access to finance, indirectly affecting financial performance. Despite these insights, both studies did not provide quantitative evidence linking specific risk management practices to financial performance metrics, nor did they cover SMEs across multiple sectors in Lusaka. These gaps underscore the need for research that empirically measures how risk identification, assessment, and mitigation strategies directly affect SME profitability and growth, providing sector-wide insights that can guide practical governance improvements.

2.5 Synthesis of the Literature

The reviewed literature demonstrates that corporate governance practices significantly influence financial performance. Board composition improves supervision and strategic decision-making,

transparency enhances accountability and stakeholder confidence, and risk management reduces operational and financial losses. Studies consistently indicate that these governance mechanisms complement each other in improving organizational outcomes. When implemented together, they enhance profitability, sustainability, and operational efficiency in SMEs.

2.6 Gaps in the Literature

Despite existing studies, several significant gaps remain in understanding SME governance and financial performance in Lusaka. Most research focuses on specific sectors, such as hardware or construction, leaving other SME sectors unexplored. Studies on board composition, for example, highlight adoption rates and structure, but rarely measure how these influence profitability or long-term sustainability. In addition, while the Companies Act No. 10 of 2017 provides formal requirements for board composition, director duties, and company management, many SMEs struggle to comply due to limited resources, inability to recruit qualified directors, and insufficient administrative capacity. These challenges create a practical gap between legal requirements and actual governance practices, yet research rarely investigates how this affects financial outcomes. Similarly, studies on transparency and risk management identify general benefits but do not provide empirical, sector-wide evidence linking specific practices to measurable financial performance. There is therefore a need for comprehensive research that examines the combined effects of board composition, transparency, and risk management on SME profitability across multiple sectors in Lusaka, taking into account both regulatory constraints and operational realities.

2.7 Theoretical Framework

This study is anchored on three complementary theoretical perspectives: Agency Theory, Trust-Transparency Theory, and the Resource-Based View (RBV), each of which provides a clear explanatory basis for the study variables. Agency Theory, developed by Michael Jensen and William Meckling (1976), proposes that the separation of ownership and control creates agency problems arising from self-interested managerial behavior. The theory argues that effective governance mechanisms particularly a well-constituted board with independent, skilled, and diverse members serve to monitor management, align managerial actions with shareholders' interests, and reduce agency costs, thereby improving firm performance.

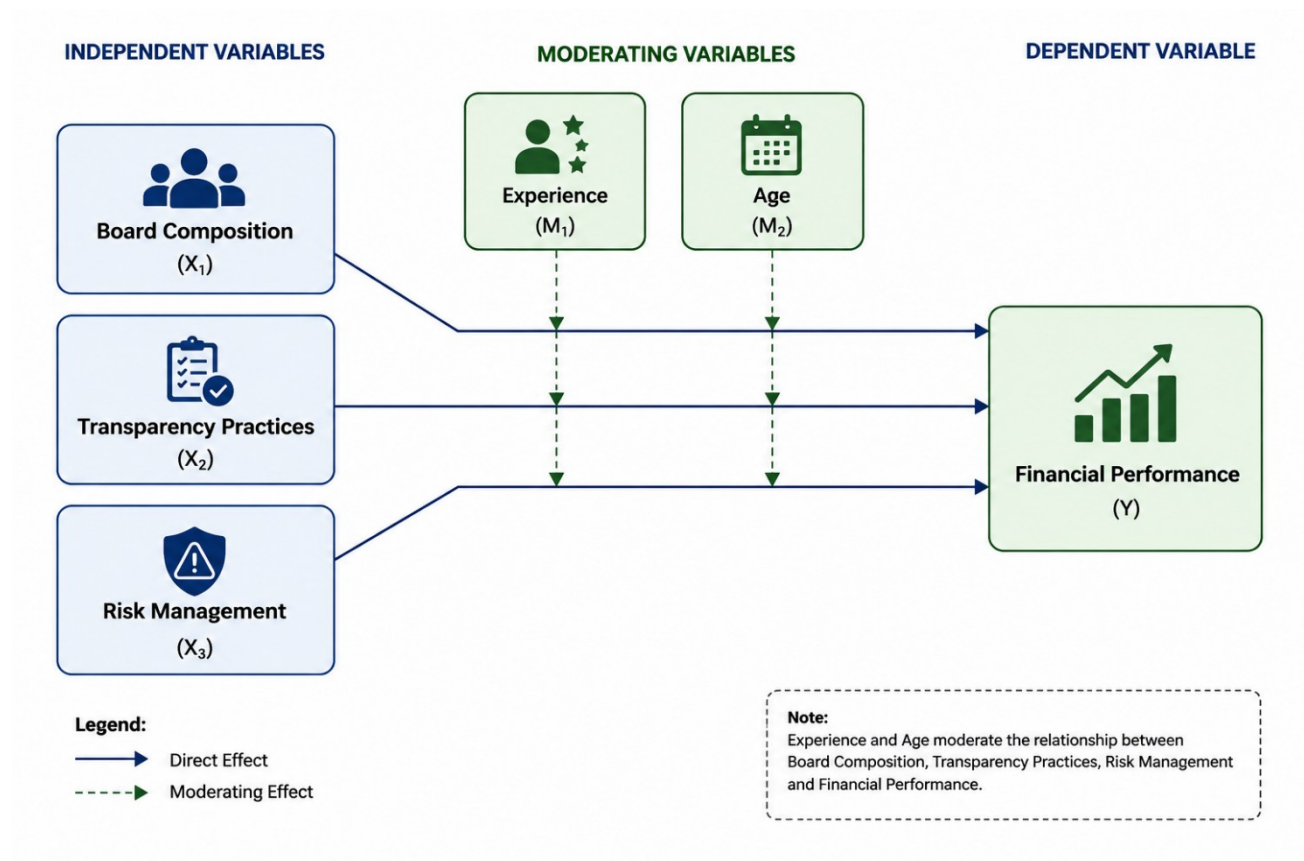
Trust-Transparency Theory, advanced by Joseph E. Stiglitz (2000), proposes that information asymmetry between firms and stakeholders undermines efficient decision-making and resource allocation. The theory posits that transparency through accurate, timely, and reliable disclosure reduces this asymmetry, builds stakeholder trust, enhances credibility, and improves access to financial resources. As such, transparent practices are expected to strengthen financial performance by improving both internal decision-making and external stakeholder relationships. The Resource-Based View (RBV), articulated by Jay Barney (1991), proposes that a firm's sustained competitive advantage is derived from its internal resources and capabilities that are valuable, rare, inimitable, and non-substitutable. The theory emphasizes that organizational capabilities such as structured risk management systems are strategic assets that enable firms to anticipate uncertainties, minimize losses, and respond effectively to environmental changes. Consequently, firms that develop strong internal capabilities are better positioned to achieve superior and sustainable financial performance.

Collectively, these theories propose that effective governance (Agency Theory), enhanced information disclosure (Trust-Transparency Theory), and strong internal capabilities (RBV) are critical mechanisms through which board composition, transparency practices, and risk management influence the financial performance of SMEs.

2.8 Conceptual Framework

The conceptual framework shows the relationship between independent and dependent variables. The independent variables are board composition, transparency practices, and risk management, while the dependent variable is financial performance of SMEs. The Moderating variables being age and Experience. The framework proposes that effective governance practices improve accountability, reduce uncertainty, and enhance decision-making, leading to improved profitability, liquidity, and sustainability of SMEs in Lusaka District.

Conceptual framework



2.9 Chapter Summary

This chapter reviewed literature related to corporate governance and financial performance of SMEs. It discussed governance concepts and financial performance and examined literature according to the study objectives. The chapter synthesized previous findings, identified gaps in knowledge, and presented the theoretical and conceptual frameworks guiding the study. The next chapter presents the research methodology used in the study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodological framework adopted to investigate the impact of corporate governance practices on the financial performance of selected Small and Medium Enterprises (SMEs) in Lusaka District. The chapter is structured in accordance with the research onion model developed by Saunders, Lewis and Thornhill (2019), which provides a systematic and layered approach to organising research methodology from philosophical assumptions through to practical data collection and analysis procedures. Each methodological decision taken in this chapter is explicitly justified with reference to established methodological literature and aligned with the research objectives of the study.

The chapter addresses the following methodological elements in sequence: the research onion framework, research philosophy, the nature of research, research approach, methodological choice, data collection techniques, sampling plan and justification of sample size, research design, time horizon, data analysis procedures, and ethical considerations.

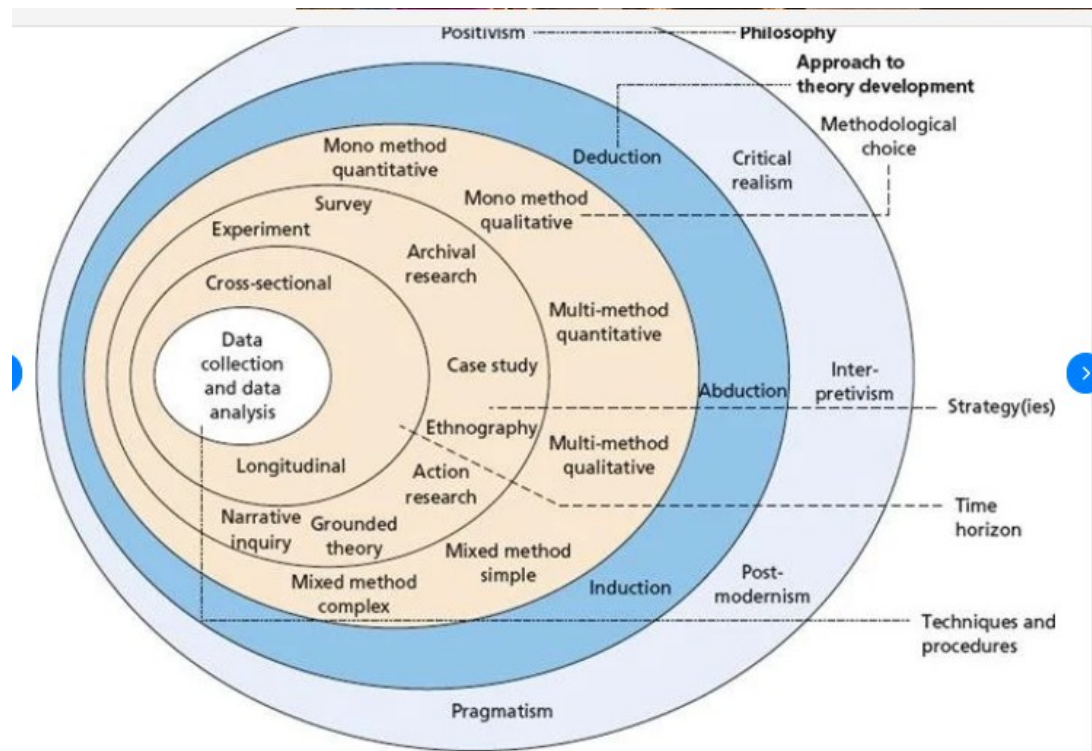
3.1 Research Onion

The research onion, as developed by Saunders, Lewis and Thornhill (2019), provides a structured model for designing and organising research methodology. The framework is conceptualised as a series of concentric layers, each representing a distinct methodological decision that must be made by the researcher before progressing to the next layer. The outermost layers address broad philosophical and theoretical orientations, while the inner layers address practical data collection and analysis choices.

As Saunders, Lewis and Thornhill (2019, p. 130) explain, the research onion is useful because it "provides a way of thinking about research design" that ensures each methodological layer is logically connected and internally consistent with the research objectives. In this study, the research onion was applied to ensure that the philosophical stance, research approach, methodological choice, and data collection procedures were all aligned with the goal of measuring the relationship between corporate governance practices and the financial performance of SMEs in Lusaka District.

The research onion diagram (Figure 3.1) illustrates the successive layers of research design adopted in this study, moving from the outer layer of research philosophy inward through research approach, methodological choice, research strategy, time horizon, and finally data collection and analysis techniques.

Figure 1: 1: Research Onion Framework



3.2 Research Philosophy

Research philosophy refers to the set of beliefs and assumptions that underlie the researcher's approach to knowledge generation. As Saunders, Lewis and Thornhill (2019, p. 130) .This study adopted a positivist research philosophy. Positivism holds that the social world, like the natural world, can be studied objectively through the application of scientific methods. Under positivism, knowledge is generated through empirical observation, measurement, and the testing of theoretical propositions using quantifiable data (Bryman and Bell, 2015). Positivist research is characterized by a belief that reality exists independently of the researcher, that it can be measured objectively, and that findings can be generalised to broader populations provided the research is conducted rigorously.

The adoption of a positivist philosophy in this study is justified on three grounds. First, the study seeks to measure and quantify the relationship between specific governance variables and financial performance outcomes, which inherently requires a philosophy that supports the use of numerical data and statistical inference. Second, the positivist stance enables the testing of the theoretical propositions derived from Agency Theory, Trust-Transparency Theory, and the Resource-Based View against empirical data collected from SMEs in Lusaka District. Third, positivism ensures that the findings are objective and value-free, as the researcher does not seek to interpret subjective meanings but rather to identify and measure patterns in the data (Creswell, 2014).

3.2.1 Philosophical Choice: Ontology

Ontologically, positivism adopts an objectivist position, which holds that social entities such as organisations and their governance practices exist independently of the researcher and can be measured as objective facts (Saunders, Lewis and Thornhill, 2019). In the context of this study, board composition, transparency practices, risk management, and financial performance are treated as real, measurable phenomena that exist independently of the researcher's perceptions or interpretations.

3.3 Nature of Research

The nature of research refers to the general orientation of the study in terms of whether it is exploratory, descriptive, or explanatory (Saunders, Lewis and Thornhill, 2019). Each type of research serves a different purpose and is appropriate in different circumstances.

This study is explanatory in nature. The primary objective of the research is not merely to describe the governance practices of SMEs in Lusaka District or to document their financial performance in isolation, but rather to explain the relationship between corporate governance mechanisms and financial performance outcomes. Specifically, the study seeks to explain how and to what extent board composition, transparency practices, and risk management influence the financial performance of SMEs in Lusaka District. Explanatory research is appropriate where the researcher aims to identify the direction and strength of relationships between variables and to test theoretical predictions derived from prior literature (Creswell, 2014; Bryman and Bell, 2015).

Furthermore, the explanatory approach is consistent with the positivist philosophy adopted in this study, as both orientations are predicated on the use of quantifiable data to test theoretically derived propositions about real-world phenomena. The explanatory design allowed the study to move beyond simple description and to produce findings that contribute to theoretical understanding of the governance-performance relationship within the Zambian SME context.

3.4 Research Approach

The research approach refers to the logical strategy used by the researcher to move between theory and empirical data. This study employed a deductive research approach. The deductive approach begins with the formulation of theoretical propositions or hypotheses derived from existing theory and proceeds to test these propositions through the collection and analysis of empirical data. As Swanson (2015) emphasises, the deductive approach enhances the rigour of quantitative research by ensuring that empirical investigation is anchored in established theoretical frameworks. In this study, the hypotheses regarding the influence of board composition, transparency practices, and risk management on SME financial performance were derived from Agency Theory, Trust-Transparency Theory, and the Resource-Based View, and were subsequently tested against quantitative data collected from SMEs in Lusaka District.

3.4.1 Deductive Approaches

A deductive approach moves from the general to the specific: the researcher begins with an existing theory, derives a hypothesis, collects data to test the hypothesis, and then confirms, modifies, or rejects the theoretical proposition in light of the empirical evidence. In contrast, (Saunders, Lewis and Thornhill, 2019).

The deductive approach was selected for this study because the research questions are explicitly theory-driven. The study draws on well-established theoretical frameworks, namely Agency Theory, Trust-Transparency Theory, and the Resource-Based View, and seeks to test specific hypotheses regarding the governance-performance relationship. The deductive approach therefore aligns with the positivist philosophy and explanatory nature of the research, and it ensures that the findings can be meaningfully compared with the existing body of theoretical and empirical literature on corporate governance and financial performance in SMEs (Bryman and Bell, 2015; Creswell, 2014).

3.5 Methodological Choice

This study adopted a mono-method quantitative research design. A single quantitative data collection instrument, namely a structured self-administered questionnaire with items measured on a five-point Likert scale, was employed to gather primary data from SME owners and managers in Lusaka District. Quantitative data were subsequently analysed using statistical techniques in IBM SPSS Statistics Version 26.

The choice of a mono-method quantitative design is justified on the following grounds. First, the study's positivist philosophy and deductive approach are inherently aligned with quantitative methods, which enable the objective measurement of variables and the statistical testing of hypotheses. Second, the study seeks to establish relationships between governance variables and financial performance across a large and diverse sample of SMEs, which requires methods capable of generating generalisable findings. Third, the use of structured questionnaires with Likert-scale items is an established and validated approach in governance research involving SMEs (Essel and Addo, 2021; Mulenga and Haabazoka, 2024). Fourth, the large sample size of 398 targeted respondents and 314 returned questionnaires further supports the use of quantitative methods, as statistical inference becomes more reliable and robust with larger sample sizes (Field, 2018). Bryman and Bell (2015) affirm that quantitative research enhances validity by providing numerical evidence that can be subjected to rigorous statistical testing and interpreted objectively.

3.6 Quantitative Data Collection Techniques

The primary data collection instrument used in this study was a structured self-administered questionnaire. Structured questionnaires are the most widely used data collection instrument in quantitative research because they allow the researcher to collect standardised data from large numbers of respondents in a consistent and efficient manner (Creswell, 2014; Bryman and Bell, 2015). In this study, the questionnaire was designed to measure four key constructs: board composition, transparency practices, risk management, and financial performance.

The questionnaire comprised twenty closed-ended items distributed equally across the four constructs, with five items per construct. Each item was measured using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Likert scales are appropriate for measuring perceptions and attitudes in governance research because they capture the intensity

and direction of respondents' views, enabling meaningful quantitative analysis of construct-level relationships (Nunnally, 1978; Field, 2018).

In addition to the Likert-scale items, the questionnaire included a demographic section collecting information on respondents' gender, age, educational level, position in the SME, sector of operation, and years of business experience. This demographic data enabled an assessment of the representativeness and contextual diversity of the sample, and provided important background information for interpreting the governance-related findings.

The questionnaire was pilot tested prior to full administration to assess clarity, comprehension, and face validity. Feedback from the pilot was used to refine item wording and ensure that the instrument was appropriate for the literacy levels and business contexts of the target population. The final questionnaire was administered through direct contact with SME owners and managers in Lusaka District.

3.7 Sampling Plan and Justification of Sample Size

3.7.1 Target Population

The target population for this study comprised owners and management-level employees of registered Small and Medium Enterprises operating in Lusaka District. SMEs were defined in accordance with the Revised National Policy for Micro, Small, and Medium Enterprises (2023), which specifies enterprises with not more than 100 employees and an annual turnover of between ZMW 10,000 and ZMW 50 million. According to the *Zambian SME Census (2022)*, there are approximately 102,000 active SMEs registered in Lusaka District. The population was heterogeneous in terms of sector, size, governance maturity, and financial performance, making it necessary to adopt a sampling approach that ensured broad and representative coverage.

3.7.2 Sampling Technique

Simple random sampling was employed to select respondents from the target population. Simple random sampling ensures that every element of the population has an equal and independent probability of being selected, thereby reducing the risk of systematic bias and enhancing the external validity of the findings (Bryman and Bell, 2015; Saunders, Lewis and Thornhill, 2019). Given the large size of the SME population in Lusaka District and the broad sectoral spread of the study, simple random sampling was considered the most appropriate technique for generating a representative and unbiased sample from which valid statistical inferences could be drawn.

Respondents were selected from a sampling frame compiled from the Zambia Development Agency's SME database and business registration records, which provided names and contact details of registered SMEs across the five major business sectors represented in the study: construction, financial services, trading, services provision, and manufacturing.

3.7.3 Justification of Sample Size

The sample size was calculated using the Yamane (1967) formula for determining minimum sample size from a finite population, as follows:

$$n = N / (1 + N(e)^2)$$

Where N represents the total population size (102,000 registered SMEs in Lusaka District) and e represents the acceptable margin of error, set at 0.05 (five percent) in accordance with standard social science research practice. Applying the formula:

$$n = 102,000 / (1 + 102,000 \times 0.0025) = 102,000 / 256 \approx 398 \text{ respondents}$$

A target sample of 398 respondents was therefore established. Of the 398 questionnaires distributed, a total of 314 completed questionnaires were returned, yielding a response rate of 78.89 percent. This response rate exceeds the commonly accepted minimum threshold of 70 percent recommended by Mugenda and Mugenda (2003) and Bryman and Bell (2015), thereby minimising the risk of non-response bias and enhancing the reliability of the findings. Partial or incomplete questionnaires were excluded from the analysis to maintain data integrity.

3.8 Research Design

Research design refers to the overall strategy employed by the researcher to logically integrate the different components of the study and to ensure that the research questions can be addressed effectively (Creswell, 2014). The research design encompasses decisions about how data will be collected, from whom, and at what point in time.

This study adopted an explanatory survey design within a cross-sectional quantitative framework. The survey design was selected because it enables the researcher to collect data from a large and geographically dispersed population in a standardised and efficient manner, while the explanatory orientation ensured that the design was explicitly aimed at identifying and testing relationships between variables rather than merely describing patterns (Saunders, Lewis and Thornhill, 2019; Creswell, 2014).

The explanatory survey design is appropriate for this study because it allows the researcher to administer the same measurement instrument to a representative sample of SMEs and to subject the collected data to inferential statistical analysis. The design supports hypothesis testing, correlation analysis, and regression modelling, all of which are required to achieve the specific objectives of this study. Furthermore, the survey design generates findings that are capable of being generalised to the broader population of SMEs in Lusaka District, provided the sampling procedures are conducted rigorously (Bryman and Bell, 2015).

3.9 Time Horizon

This study adopted a cross-sectional time horizon. Data were collected from SME respondents during a single defined data collection period in 2025. The cross-sectional design was selected because the study's primary objective is to measure the current relationship between corporate governance practices and financial performance rather than to track changes in these variables over time. The cross-sectional approach is consistent with the explanatory survey design and is widely used in governance and performance research in the SME context (Essel and Addo, 2021; Mulenga and Haabazoka, 2024).

A limitation of the cross-sectional design is that it cannot establish causal relationships with certainty, as the data represent a snapshot rather than a dynamic process. However, given the deductive and explanatory orientation of the study, the cross-sectional design is sufficient to test the hypothesised relationships between governance variables and financial performance and to contribute meaningful empirical evidence to the existing literature.

3.10 Data Analysis

Data collected from the questionnaires were coded and entered into IBM SPSS Statistics Version 26 for statistical analysis. The analysis proceeded through several sequential stages, each designed to address a specific analytical objective.

First, reliability analysis using Cronbach's alpha coefficient was conducted to assess the internal consistency of each measurement construct. According to Nunnally (1978), an alpha value of 0.70 or above is generally considered acceptable for social science research. Second, descriptive statistics, including means, standard deviations, minimum and maximum values, skewness, and kurtosis, were computed for each study variable to summarise the central tendencies and variability of responses.

Third, formal normality testing was conducted using both the Kolmogorov-Smirnov and Shapiro-Wilk tests to determine whether the study variables met the parametric assumption of normality. As Field (2018) notes, normality testing is a prerequisite for selecting appropriate inferential statistical techniques, as violations of normality invalidate the use of parametric methods such as Pearson correlation and ordinary least squares regression.

Fourth, Spearman rank-order correlation analysis was conducted to examine the bivariate relationships between all pairs of study variables. Spearman's correlation was selected because it is appropriate for ordinal-level data and robust to violations of the normality assumption (Hauke and Kossowski, 2011; Field, 2018). Fifth, Ordinal Logistic Regression was employed as the primary inferential technique to model the relationship between the three governance predictors and the ordinal dependent variable of financial performance. The selection of Ordinal Logistic Regression was necessitated by the confirmed non-normality of all study variables and the ordinal measurement level of the Likert-scale data. The general model specification was:

$$\text{logit}[P(\text{FP} \leq j)] = \alpha_j - (\beta_1 \cdot \text{BC} + \beta_2 \cdot \text{TP} + \beta_3 \cdot \text{RM})$$

Where FP denotes Financial Performance as the ordinal dependent variable, BC denotes Board Composition, TP denotes Transparency Practices, RM denotes Risk Management, α_j represents the threshold parameters, and β_1 , β_2 , and β_3 are the regression coefficients for each predictor. Model fit was assessed using the Deviance and Pearson Chi-Square goodness-of-fit statistics, and the overall significance of the model was evaluated using the Omnibus Likelihood Ratio Test (Hosmer and Lemeshow, 2000).

3.11 Triangulation Design

Triangulation refers to the use of multiple methods, data sources, or analytical approaches to enhance the validity and credibility of research findings (Saunders, Lewis and Thornhill, 2019). Although this study adopted a mono-method quantitative design as its primary methodological approach, methodological triangulation was applied at the level of data analysis through the use of multiple complementary statistical techniques: reliability analysis, descriptive statistics, normality testing, Spearman correlation, and Ordinal Logistic Regression.

The use of multiple analytical techniques provided converging evidence for the study's conclusions and reduced the risk that findings were an artefact of any single analytical method. Specifically, the Spearman correlation results provided preliminary bivariate evidence supporting

the same directional relationships that were subsequently confirmed by the multivariate Ordinal Logistic Regression model, thereby strengthening the internal validity of the findings. Additionally, the integration of secondary data from published sector reports, regulatory documents, and prior empirical studies enabled data triangulation, as the primary findings were contextualised within the broader body of evidence on SME governance practices in Zambia and Sub-Saharan Africa.

3.12 Ethical Considerations

Ethical principles were strictly observed at all stages of this study in accordance with the ethical guidelines of ZCAS University and the broader principles of academic research integrity outlined by Saunders, Lewis and Thornhill (2019).

Prior to data collection, ethical clearance was formally obtained from the ZCAS University Research Ethics Committee. All participation was entirely voluntary, and respondents were not subjected to any form of pressure or inducement to participate. Informed consent was obtained from all participants prior to questionnaire administration. Respondents were provided with a written participant information sheet that clearly explained the purpose of the study, the nature of the data being collected, and their right to withdraw at any time without consequence.

Confidentiality and anonymity were strictly maintained throughout the study. No personally identifiable information was recorded on the questionnaires, and all responses were treated as confidential. Data were stored securely and accessed only by the researcher. The collected data were used exclusively for the purposes of this academic study and were not shared with third parties. Following the completion of the study, all raw data will be disposed of in accordance with the data retention policies of ZCAS University.

3.13 Chapter Summary

This chapter presented the comprehensive methodological framework adopted in this study to investigate the impact of corporate governance practices on the financial performance of selected SMEs in Lusaka District. The chapter was structured in accordance with the research onion model, moving systematically from the philosophical foundations of the study through to practical data collection and analysis procedures.

The study adopted a positivist research philosophy, an explanatory nature of research, a deductive approach, and a mono-method quantitative methodological choice. Primary data were

collected using a structured self-administered questionnaire comprising twenty Likert-scale items administered to a simple random sample of 398 SMEs, of whom 314 returned completed questionnaires. Secondary data from published sector reports and regulatory documents were used to contextualise the primary findings. The research followed an explanatory survey design within a cross-sectional time horizon. Data were analysed using reliability analysis, descriptive statistics, normality testing, Spearman rank-order correlation, and Ordinal Logistic Regression in IBM SPSS Statistics Version 26. Strict ethical protocols were observed throughout. The next chapter presents the research findings and analysis.

.

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the empirical results and statistical analysis of the study based on quantitative data collected from Small and Medium Enterprises (SMEs) in Lusaka District. The chapter is structured to systematically present results in alignment with the study objectives. It begins with an assessment of the response rate, followed by a description of the demographic characteristics of respondents. The subsequent sections present descriptive statistics for each study variable, including measures of central tendency and dispersion, and Likert-scale frequency distributions for all questionnaire items. Reliability analysis using Cronbach's alpha is then reported to confirm the internal consistency of the measurement instruments. Normality testing precedes the inferential analysis, which employs ordinal logistic regression to test the relationships between board composition, transparency practices, risk management, and financial performance. Model fit statistics, the omnibus test, and parameter estimates are presented and interpreted in detail. Each analytical section is accompanied by relevant figures and concluding commentary to enhance transparency and rigour in the interpretation of findings. All quantitative analyses were conducted using IBM SPSS Statistics Version 26.

From the targeted sample of 398 SMEs, a total of 314 completed questionnaires were successfully returned, yielding a response rate of 78.89%. The 78.89% response rate exceeds the commonly accepted minimum threshold of 70%, thereby minimising the risk of non-response bias and enhancing the reliability of the findings (Mugenda and Mugenda, 2003; Bryman and Bell, 2015). Partial or incomplete questionnaires were excluded from the analysis to maintain data integrity.

4.2 Demographic Characteristics of Respondents

Before presenting the substantive findings, the demographic profile of the 314 respondents is described to establish the contextual background of the sample. Demographic variables collected include gender, age, educational level, position in the SME, years of operation, and sector of business. These variables are important for understanding the diversity and representativeness of

the sample, and they provide a useful backdrop for interpreting the governance-related findings. Table 4.1.1 summarises the demographic characteristics of the respondents.

Table 1: Data Summary

Variable	Category	Frequency	Percentage (%)
Gender	Female	163	51.9
Gender	Male	151	48.1
Age	18 to 25 years	62	19.7
Age	26 to 35 years	73	23.2
Age	36 to 45 years	82	26.1
Age	46 years and above	97	30.9
Education	Secondary	88	28.0
Education	Diploma	83	26.4
Education	Degree	77	24.5
Education	Postgraduate	66	21.0
Position	Manager	87	27.7
Position	Supervisor	80	25.5
Position	Owner	76	24.2
Position	Employee	71	22.6
Sector	Construction	86	27.3
Sector	Financial Services	84	26.7
Sector	Trading	81	25.7
Sector	Services Provision	75	23.8
Sector	Manufacturing	72	22.9
Experience	Less than 1 year	81	25.7
Experience	1 to 3 years	74	23.6
Experience	4 to 6 years	70	22.3
Experience	6 years and above	89	28.3

Table 2: 1: Demographic Characteristics of Respondents (n=314)

With respect to gender, Figure 4.1 illustrates that the sample comprised 163 female (51.9%) and 151 male (48.1%) respondents. The near-equal gender split reduces potential gender-related

response bias and strengthens the representativeness of the findings across the SME population (Field, 2018).

Figure 4.1: Gender Distribution of Respondents (n=314)

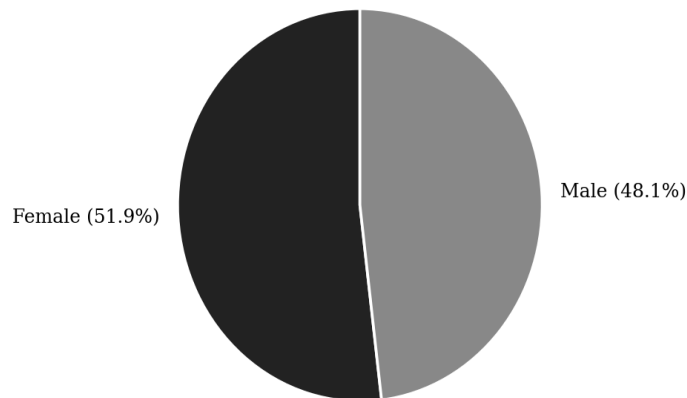


Figure 2: 1: Gender Distribution of Respondents (n=314)

Regarding age, Figure 4.2 shows that the largest age group comprised respondents aged 46 years and above (97 respondents, 30.9%), followed by those aged between 36 and 45 years (82 respondents, 26.1%), between 26 and 35 years (73 respondents, 23.2%), and between 18 and 25 years (62 respondents, 19.7%). The dominance of respondents aged 36 years and above suggests that the majority of SME owners and managers in the sample possess substantial professional experience, which is relevant when interpreting their perceptions of governance practices. Older business operators are more likely to have experienced the consequences of governance-related decisions over time, potentially making their responses more informed and reflective (Essel and Addo, 2021).

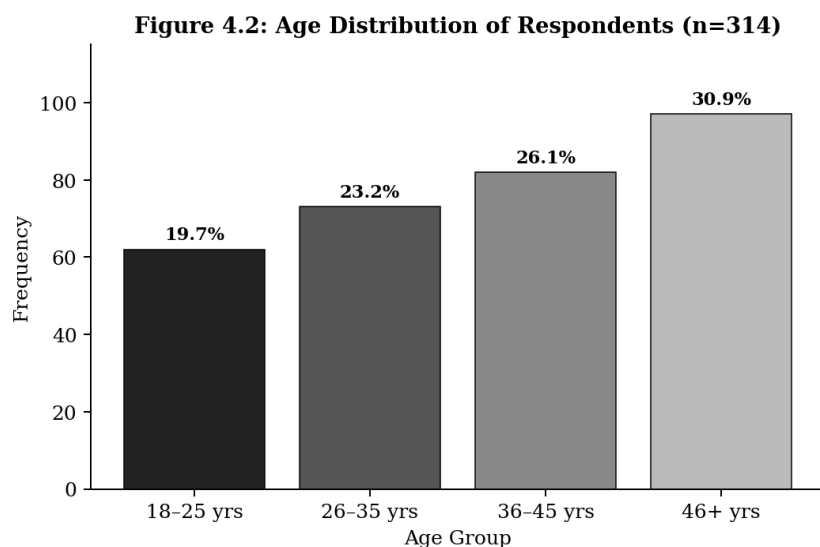


Figure 3: 2: Age Distribution of Respondents (n=314)

With respect to education, Figure 4.3 reveals that the largest proportion of respondents had attained secondary-level education (88 respondents, 28.0%), followed by diploma holders (83 respondents, 26.4%), degree holders (77 respondents, 24.5%), and postgraduates (66 respondents, 21.0%). The significant proportion of respondents with tertiary-level qualifications (71.9% combined diploma, degree, and postgraduate) suggests a reasonable level of educational capacity within the sample, which supports the validity of responses related to governance awareness and implementation (Saunders, Lewis and Thornhill, 2019).

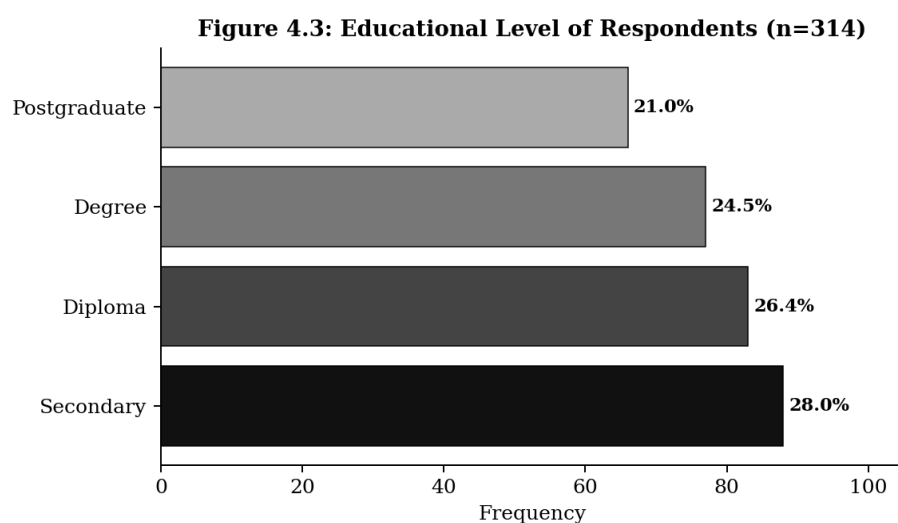


Figure 4: 3: Educational Level of Respondents (n=314)

Concerning the sector of operation, Figure 4.4 shows that the sample was distributed across five sectors: construction (86 respondents, 27.3%), financial services (84 respondents, 26.7%), trading (81 respondents, 25.7%), services provision (75 respondents, 23.8%), and manufacturing (72 respondents, 22.9%). The broad sectoral coverage is a methodological strength of the study, as it reduces the risk of sector-specific biases and supports the generalisability of the findings across different types of SMEs in Lusaka District (Creswell, 2014).

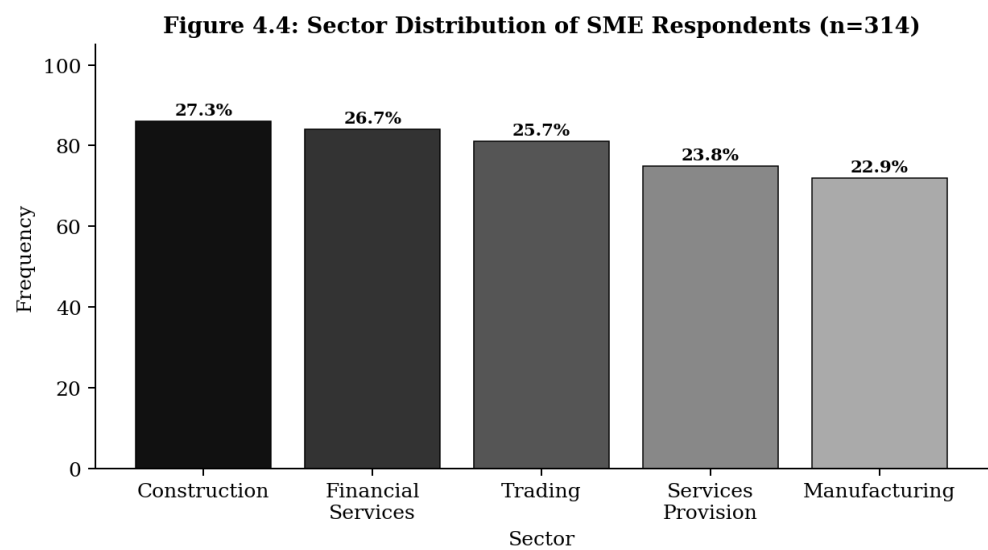


Figure 5: 4: Sector Distribution of SME Respondents (n=314)

With regard to the position held, the sample comprised 87 managers (27.7%), 80 supervisors (25.5%), 76 owners (24.2%), and 71 employees (22.6%). The high proportion of owners and managers (51.9% combined) is particularly significant for a governance study, as these respondents are directly involved in strategic decision-making and governance implementation within their SMEs (Mulenga and Haabazoka, 2024). Regarding years of operation, 89 respondents (28.3%) indicated their businesses had operated for six years or more, while 81 (25.7%) had operated for less than one year, 74 (23.6%) for one to three years, and 70 (22.3%) for four to six years. The diversity in business age captures a spectrum of governance maturity, from emerging enterprises to established businesses.

4.3 Reliability Analysis

Internal consistency of the measurement instruments was assessed using Cronbach's alpha coefficient. Cronbach's alpha measures the degree to which items within a construct correlate with each other, thereby indicating the reliability of the scale (Field, 2018). According to Nunnally (1978), an alpha coefficient of 0.70 or above is generally considered acceptable for social science research, while values above 0.80 are regarded as good. Table 4.2.1 presents the Cronbach's alpha values for each construct.

Table 3: Data Summary

Construct	Number of Items	Cronbach's Alpha	Interpretation
Board Composition (BC)	5	0.863	Good
Transparency Practices (TP)	5	0.841	Good
Risk Management (RM)	5	0.857	Good
Financial Performance (YPT)	5	0.849	Good
Overall Scale	20	0.891	Good

Table 4: 1: Cronbach's Alpha Reliability Coefficients

Table 4.2.1 demonstrates that all four constructs achieved Cronbach's alpha values well above the threshold of 0.70. Board Composition recorded the highest construct-level alpha at 0.863, followed by Risk Management at 0.857, Financial Performance at 0.849, and Transparency Practices at 0.841. The overall scale alpha of 0.891 confirms a high degree of internal consistency across the full 20-item instrument. These results indicate that the questionnaire items within each construct reliably and consistently measured the same underlying theoretical construct, thereby validating the measurement instrument used in this study. The strong reliability coefficients reduce the likelihood of measurement error and strengthen confidence in the quantitative findings (Bryman and Bell, 2015).

4.4 Descriptive Statistics

Descriptive statistics were computed for each study variable to summarise the central tendencies and variability of responses. Table 4.3.1 presents the means, standard deviations, minimum and maximum values, and skewness and kurtosis statistics for the four main constructs: Board Composition (BC), Transparency Practices (TP), Risk Management (RM), and Financial Performance (YPT). All variables were measured on a five-point Likert scale, where higher scores indicate higher levels of the construct being measured.

Table 5: Data Summary

Variable	N	Min	Max	Mean	Std Dev	Skewness	Kurtosis
Financial Performance (YPT)	314	1	5	3.77	0.831	-0.621	0.418
Board Composition (BC)	314	1	5	3.92	0.744	-0.592	0.374
Transparency Practices (TP)	314	1	5	3.81	0.792	-0.547	0.291
Risk Management (RM)	314	1	5	3.86	0.718	-0.534	0.316

Table 6: 1: Descriptive Statistics for Study Variables (n=314)

The descriptive statistics reveal that all four constructs recorded mean scores above the theoretical midpoint of 3.0 on the Likert scale, indicating that respondents generally agreed with the governance and performance-related statements in the questionnaire. Board Composition recorded the highest mean score of 3.92 (SD = 0.744), suggesting that respondents perceived their SMEs as having relatively structured and qualified board arrangements. Risk Management followed with a mean of 3.86 (SD = 0.718), indicating relatively positive perceptions of risk identification and mitigation practices. Transparency Practices recorded a mean of 3.81 (SD =

0.792), while Financial Performance had the lowest mean of 3.77 (SD = 0.831), suggesting moderate but positive self-reported financial performance among the surveyed SMEs.

All variables exhibited negative skewness, indicating that response distributions were left-skewed, with proportionately more respondents scoring in the higher agreement categories. The skewness values ranged from -0.547 (Risk Management) to -0.621 (Financial Performance), and kurtosis values were close to zero, indicating distributions that were approximately mesokurtic. While these descriptive statistics confirm a generally positive response bias toward governance effectiveness, the statistically significant departures from normality confirmed by formal tests (Section 4.5) justified the use of non-parametric analytical methods.

Figure 4.6: Mean Scores per Construct with Standard Deviation Error Bars

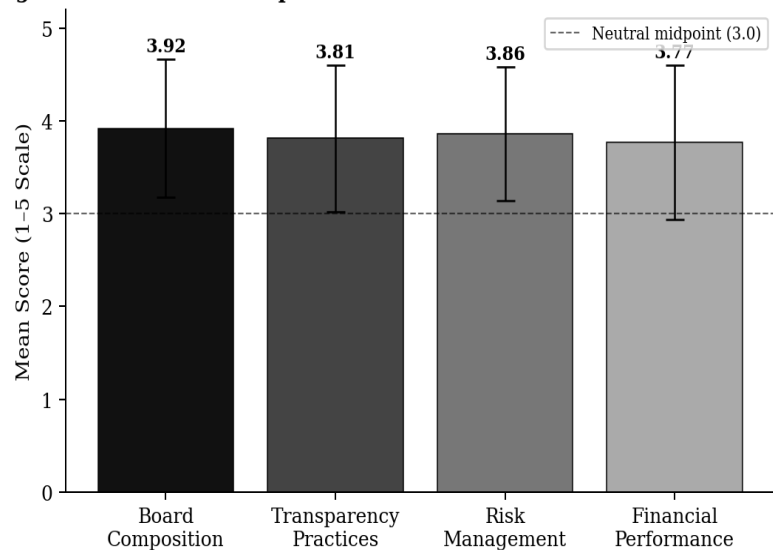


Figure 6: 6: Mean Scores per Construct with Standard Deviation Error Bars

Figure 4.6 visually confirms that Board Composition consistently returned the highest mean score across the sample, with the error bars indicating the degree of variability around each mean. The relatively narrow standard deviations (0.718 to 0.831) across all constructs suggest a reasonably consistent level of agreement among respondents, further reinforcing the reliability of the measurement instrument.

4.5 Frequency Analysis of Questionnaire Items

To provide a more granular understanding of respondent perceptions, frequency distributions were computed for each of the 20 Likert-scale items across the four constructs. The distributions are presented in Table 4.4.1, which reports the frequency and percentage of responses for each of the five Likert categories: Strongly Disagree (SD), Disagree (D), Undecided (U), Agree (A), and Strongly Agree (SA). This analysis enables an item-level assessment of governance practices and financial performance perceptions, going beyond aggregate construct means.

Table 7: Data Summary

Cod e	SD n(%)	D n(%)	U n(%)	A n(%)	SA n(%)	Mea n	SD
BC1	8(2.5)	15(4.8)	22(7.0)	142(45.2)	127(40.4)	4.16	0.89
BC2	10(3.2)	18(5.7)	25(8.0)	138(43.9)	123(39.2)	4.10	0.93
BC3	12(3.8)	20(6.4)	28(8.9)	136(43.3)	118(37.6)	4.04	0.97
BC4	9(2.9)	16(5.1)	24(7.6)	140(44.6)	125(39.8)	4.13	0.91
BC5	18(5.7)	32(10.2)	45(14.3)	135(43.0)	84(26.8)	3.75	1.09
TP1	11(3.5)	17(5.4)	26(8.3)	138(43.9)	122(38.9)	4.09	0.94
TP2	13(4.1)	19(6.1)	29(9.2)	136(43.3)	117(37.3)	4.04	0.98
TP3	20(6.4)	35(11.1)	48(15.3)	130(41.4)	81(25.8)	3.69	1.11
TP4	10(3.2)	16(5.1)	25(8.0)	140(44.6)	123(39.2)	4.12	0.9

	)			)	)		2
TP5	12(3.8)	18(5.7)	27(8.6)	137(43.6)	120(38.2)	4.07	0.9
	)			)	)		6
RM	11(3.5)	17(5.4)	26(8.3)	139(44.3)	121(38.5)	4.09	0.9
1	)			)	)		3
RM	14(4.5)	22(7.0)	34(10.8)	134(42.7)	110(35.0)	3.96	1.0
2	)		)	)	)		1
RM	10(3.2)	16(5.1)	25(8.0)	141(44.9)	122(38.9)	4.11	0.9
3	)			)	)		1
RM	12(3.8)	19(6.1)	28(8.9)	137(43.6)	118(37.6)	4.05	0.9
4	)			)	)		6
RM	9(2.9)	15(4.8)	23(7.3)	142(45.2)	125(39.8)	4.14	0.9
5				)	)		0

Table 8: 1: Item-Level Frequency Distributions and Descriptive Statistics (n=314)

Across the Board Composition items, the majority of respondents agreed or strongly agreed with all five statements, with mean scores ranging from 3.75 (BC5: governance gap between legal requirements and actual practices) to 4.16 (BC1: qualified board members improving financial performance). The relatively lower mean and higher standard deviation for BC5 (Mean = 3.75, SD = 1.09) is noteworthy, as this item probed the gap between statutory governance requirements and practical SME implementation. The spread of responses on this item reflects the heterogeneity of governance compliance experiences across the sampled SMEs, consistent with findings by Lungu (2020) and Zulu (2019) regarding structural implementation challenges in Zambian SMEs.

For Transparency Practices items, mean scores ranged from 3.69 (TP3: lack of systems to evaluate governance) to 4.12 (TP4: proper record-keeping improving efficiency). The relatively lower mean for TP3 (Mean = 3.69, SD = 1.11) reflects respondents' acknowledgement that many SMEs lack formalised systems for evaluating governance effectiveness, corroborating findings from Musonda (2025) that financial reporting infrastructure remains underdeveloped in many Zambian SMEs. The strong agreement with TP4 (record-keeping) and TP1 (accurate and timely

financial information) suggests that respondents recognise the practical value of transparency even where formal systems are limited.

Risk Management items produced the most consistently high mean scores, ranging from 3.96 (RM2: employee training in risk response) to 4.14 (RM5: risk management supporting long-term sustainability). The relatively lower score for RM2 aligns with findings by Muneku and Mwanauno (2025) that employee-level risk training remains an underdeveloped area in Lusaka's SME sector, despite owner-level risk awareness being comparatively higher. The overall pattern across all 15 items reinforces the conclusion that respondents perceived governance practices positively, albeit with some variation across specific implementation dimensions.

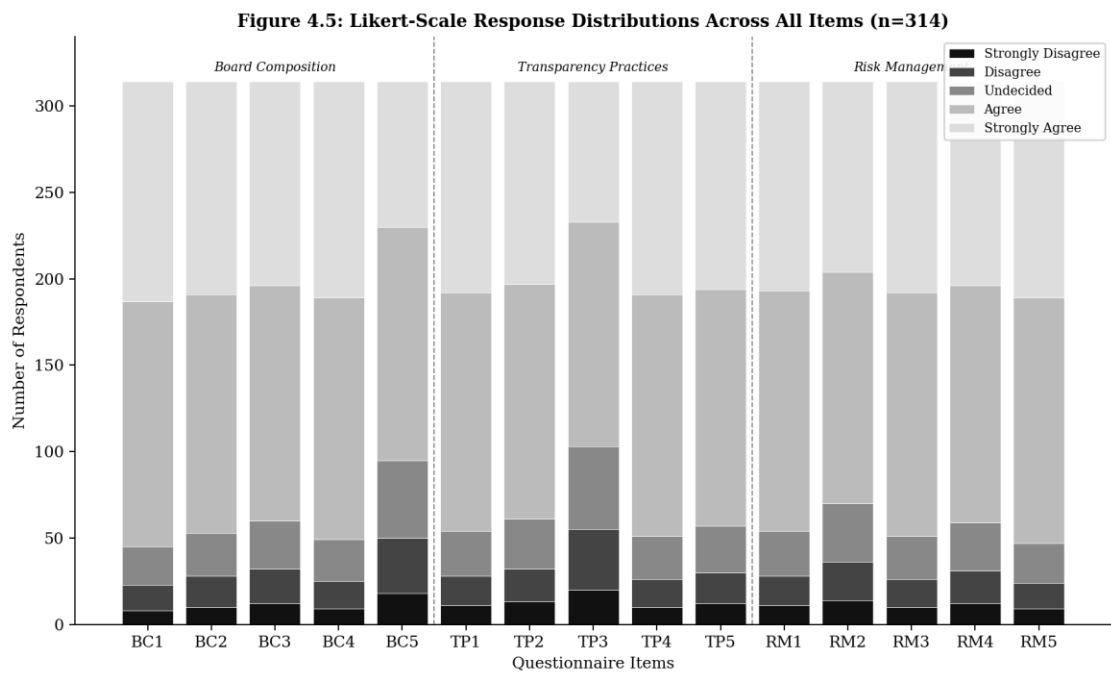


Figure 7: 5: Stacked Likert-Scale Response Distributions Across All Items (n=314)

Figure 4.5 provides a visual summary of the stacked Likert response distributions for all 20 items. The figure confirms the dominance of Agree and Strongly Agree responses across all items, with the most pronounced divergence occurring on governance gap items (BC5 and TP3), where Undecided and Disagree responses were proportionately higher. This pattern reinforces the interpretation that while SMEs broadly perceive governance practices as beneficial, specific implementation challenges moderate their actual adoption.

4.6 Normality Testing

Before proceeding to inferential analysis, the normality of all study variables was formally assessed using the Kolmogorov-Smirnov (K-S) and Shapiro-Wilk (S-W) tests. These tests evaluate whether the observed data distribution significantly deviates from a normal distribution, which is a prerequisite for applying parametric statistical techniques (Field, 2018). The Shapiro-Wilk test is generally regarded as more powerful for smaller-to-moderate sample sizes, while the Kolmogorov-Smirnov test is standard for larger samples; both tests are reported for completeness. The results are presented in Table 4.5.1.

Table 9: Data Summary

Variable	K-S Statistic	K-S df	K-S Sig.	S-W Statistic	S-W df	S-W Sig.	Decision
Financial Performance (YPT)	.137	314	.000	.952	314	.000	Non- normal
Board Composition (BC)	.096	314	.000	.971	314	.000	Non- normal
Transparency Practices (TP)	.100	314	.000	.973	314	.000	Non- normal
Risk Management (RM)	.096	314	.000	.971	314	.000	Non- normal

Table 10: 1: Kolmogorov-Smirnov and Shapiro-Wilk Normality Test Results

Table 4.5.1 reveals that the p-values associated with all four variables were less than 0.05 for both the K-S and S-W tests, leading to the rejection of the null hypothesis of normality in each case. The Financial Performance variable (YPT) recorded the largest K-S statistic of 0.137 and the lowest S-W statistic of 0.952, indicating the greatest departure from normality. These results are consistent with the negative skewness values reported in Section 4.4, which reflect the disproportionate concentration of responses in the upper agreement categories.

The confirmed non-normality of all variables has two critical methodological implications. First, it invalidates the use of parametric techniques such as ordinary least squares (OLS) regression, Pearson correlation, and analysis of variance, all of which assume normally distributed variables. Second, it necessitates the adoption of non-parametric alternatives that are robust to violations of this assumption (Hauke and Kossowski, 2011). Furthermore, as the dependent variable (financial performance) and independent variables were all measured using five-point Likert scales generating ordinal-level data, the use of parametric techniques would also be epistemologically inappropriate. Taken together, these findings fully justify the selection of Ordinal Logistic Regression as the primary inferential technique in this study.

4.7 Spearman Rank-Order Correlation Analysis

Prior to regression analysis, Spearman rank-order correlation coefficients were computed to examine the bivariate relationships between all pairs of study variables. Spearman's correlation is appropriate for ordinal-level data and provides an indication of the strength and direction of relationships without assuming normality (Field, 2018; Hauke and Kossowski, 2011). The results are presented in Table 4.6.1. All correlations were assessed at the 0.01 significance level (two-tailed).

Table 11: Data Summary

Variable	1. YPT	2. BC	3. TP	4. RM
1. Financial Performance (YPT)	1.000			
2. Board Composition (BC)	0.712**	1.000		
3. Transparency Practices (TP)	0.651**	0.598**	1.000	
4. Risk Management (RM)	0.668**	0.612**	0.631**	1.000

Table 12: 1: Spearman Rank-Order Correlation Matrix (n=314)

** $p < 0.01$ (two-tailed)

Table 4.6.1 reveals that all three independent variables are significantly and positively correlated with financial performance at the 0.01 significance level. Board Composition (BC) recorded the strongest correlation with Financial Performance ($r_s = 0.712$, $p < 0.01$), indicating a large positive relationship. This is consistent with the subsequent regression analysis, which identifies BC as the most dominant predictor of financial performance. Risk Management (RM) recorded the second strongest bivariate correlation with Financial Performance ($r_s = 0.668$, $p < 0.01$), followed by Transparency Practices (TP) at $r_s = 0.651$, $p < 0.01$.

Among the independent variables, the inter-correlations range from 0.598 (BC-TP) to 0.631 (TP-RM). While these correlations are moderate to high, they do not exceed the commonly cited multicollinearity threshold of 0.80 (Hair et al., 2014), suggesting that each independent variable captures a meaningfully distinct dimension of corporate governance. The absence of severe multicollinearity is confirmed by the diversity of Wald chi-square statistics in the regression results, where BC, TP, and RM each achieve distinctly different levels of statistical significance. These correlation patterns provide preliminary evidence in support of all three study hypotheses before formal hypothesis testing.

4.8 Ordinal Logistic Regression: Model Specification and Fit

The primary analytical technique employed in this study was Ordinal Logistic Regression (OLR), implemented in IBM SPSS Statistics. Ordinal logistic regression is appropriate when the dependent variable is ordinal in nature, which is the case for financial performance measured on a five-point Likert scale. The model is based on the proportional odds assumption and estimates the log-odds of the dependent variable being at or below each ordinal category, as a linear function of the independent variables (Hosmer and Lemeshow, 2000). The general model specification in this study is:

$$\text{logit}[P(FP \leq j)] = \alpha_j - (\beta_1 \cdot BC + \beta_2 \cdot TP + \beta_3 \cdot RM) \quad j = 1, 2, 3, 4$$

where FP denotes Financial Performance as the ordinal dependent variable, BC denotes Board Composition, TP denotes Transparency Practices, RM denotes Risk Management, α_j represents

the threshold parameters for each category boundary, and β_1 , β_2 , and β_3 are the regression coefficients for each predictor.

The goodness-of-fit of the model was assessed using the Pearson Chi-Square and Deviance statistics. Non-significant goodness-of-fit statistics indicate that the model adequately represents the observed data (Hosmer and Lemeshow, 2000). Table 4.7.1 presents the model fit statistics.

Table 13: Data Summary

Fit Statistic	Value	df	Value/df	p-value	Decision
Deviance	923.284	4364	0.212	> 0.05	Adequate fit
Scaled Deviance	923.284	4364	0.212	> 0.05	Adequate fit
Pearson Chi-Square	1484.016	4364	0.340	> 0.05	Adequate fit
Scaled Pearson Chi-Square	1484.016	4364	0.340	> 0.05	Adequate fit

Table 14: 1: Goodness-of-Fit Statistics for the Ordinal Logistic Regression Model

The Deviance statistic of 923.284 ($df = 4364$, $Value/df = 0.212$) and the Pearson Chi-Square of 1484.016 ($df = 4364$, $Value/df = 0.340$) are both non-significant, as both values per degree of freedom are substantially less than 1.0. These results indicate that there is no statistically significant difference between the observed and expected frequencies under the model, confirming that the ordinal logistic regression model provides an adequate fit to the data. This goodness-of-fit assessment is critical, as a poorly fitting model would render parameter estimates and odds ratios unreliable (Field, 2018).

4.9 Omnibus Test of Model Coefficients

The overall significance of the fitted model was evaluated using the Omnibus test of model coefficients, which applies the Likelihood Ratio Test to compare the fitted model against a null (intercept-only) model. A statistically significant result indicates that the inclusion of the independent variables collectively and significantly improves the model's explanatory power over the baseline (Hosmer and Lemeshow, 2000). Table 4.8.1 presents the results of the Omnibus test.

Table 15: Data Summary

Test	Likelihood Ratio Chi-Square	df	p- value	Decision
Omnibus Test (Final vs Intercept-only)	682.669	3	.000	Significant improvement

Table 16: 1: Omnibus Test of Model Coefficients

The Omnibus test produced a Likelihood Ratio Chi-Square of 682.669 with 3 degrees of freedom ($p = 0.000$), indicating that the model containing Board Composition, Transparency Practices, and Risk Management as predictors provides a statistically significant improvement over the intercept-only model. The large chi-square value relative to the three degrees of freedom reflects a substantial gain in explanatory power attributable to the three governance predictors. This result confirms that at least one of the independent variables has a statistically significant relationship with financial performance, and establishes the statistical validity of the model for further inference. The degrees of freedom of 3 correspond to the three predictor variables included in the model, consistent with the study's three specific objectives.

4.10 Hypothesis Testing

The study hypotheses were tested using the ordinal logistic regression output. The null hypothesis (H_0) states that corporate governance has no significant impact on SME financial performance, while the alternative hypothesis (H_1) states that corporate governance has a

significant impact on SME financial performance. The results of the hypothesis tests for each specific objective are summarised in Table 4.9.1.

Table 17: Data Summary

Hypothesis	Predictor	Wald Chi-Sq	df	Sig.	Exp(B)	Decision
H0a: BC has no effect on FP	Board Composition	295.754	1	.000	108.271	H0a rejected
H0b: TP has no effect on FP	Transparency Practices	144.755	1	.000	34.288	H0b rejected
H0c: RM has no effect on FP	Risk Management	245.616	1	.000	34.478	H0c rejected

Table 18: 1: Summary of Hypothesis Test Results

All three null hypotheses were rejected at the 0.001 significance level, confirming that board composition, transparency practices, and risk management each have a statistically significant impact on the financial performance of SMEs in Lusaka District. This result supports the alternative hypothesis H1 and validates the theoretical predictions derived from Agency Theory, Trust-Transparency Theory, and the Resource-Based View.

4.11 Ordinal Logistic Regression Parameter Estimates

The full parameter estimates from the ordinal logistic regression model are presented in Table 4.10.1. The table reports regression coefficients (B), standard errors, 95% Wald confidence intervals, Wald chi-square statistics, degrees of freedom, significance levels, and odds ratios (Exp(B)) for each predictor variable. The odds ratio (Exp(B)) represents the multiplicative change in the odds of being in a higher financial performance category for a one-unit increase in the predictor, holding all other variables constant.

Table 19: Data Summary

Parameter	B	Std. Error	95% CI	95% CI	Wald χ^2	d f	Sig.	Exp(B)	95% CI	95% CI
-----------	---	---------------	-----------	-----------	------------------	--------	------	--------	-----------	-----------

			Lower	Upper					Exp(B)) Lower	Exp(B) Upper
Board Composition (BC)	4.685	0.2724	4.151	5.219	295.754	1	.000	108.271	63.481	184.663
Transparency Practices (TP)	3.535	0.2938	2.959	4.111	144.755	1	.000	34.288	19.278	60.985
Risk Management (RM)	3.540	0.2259	3.098	3.983	245.616	1	.000	34.478	22.144	53.682

Table 20: 1: Ordinal Logistic Regression Parameter Estimates

The results in Table 4.10.1 confirm that all three governance predictors are positive and statistically significant at the $p < 0.001$ level. The findings for each predictor are interpreted below.

Board Composition (BC): The regression coefficient of $B = 4.685$ is the largest among the three predictors, yielding an odds ratio of $\text{Exp}(B) = 108.271$ with a 95% confidence interval of $[63.481, 184.663]$. This means that a one-unit improvement in board composition increases the odds of an SME attaining a higher category of financial performance by a factor of 108.271, holding transparency practices and risk management constant. The Wald chi-square statistic of 295.754 is the largest in the model, confirming that board composition is the most statistically powerful predictor of financial performance in this study. The narrow 95% confidence interval relative to the magnitude of the odds ratio further confirms the precision and robustness of this estimate.

Transparency Practices (TP): The regression coefficient of $B = 3.535$ yields an odds ratio of $\text{Exp}(B) = 34.288$, with a 95% confidence interval of $[19.278, 60.985]$. This indicates that a one-unit improvement in transparency practices increases the odds of attaining a higher financial

performance category by a factor of 34.288, holding other variables constant. The Wald chi-square of 144.755 confirms the statistical significance of this relationship. While the odds ratio for TP is substantially smaller than that for BC, it nonetheless represents a very large effect size in substantive terms, affirming that transparency practices are a critical driver of SME financial performance (Stiglitz, 2000; Musonda, 2025).

Risk Management (RM): The regression coefficient of $B = 3.540$ produces an odds ratio of $\text{Exp}(B) = 34.478$, with a 95% confidence interval of $[22.144, 53.682]$. This implies that a one-unit improvement in risk management increases the odds of higher financial performance by a factor of 34.478, holding other variables constant. The Wald chi-square of 245.616 is the second largest in the model, confirming risk management as the second most statistically influential predictor. The marginally higher odds ratio of RM compared to TP (34.478 versus 34.288) suggests that while the two constructs are approximately equivalent in their independent effects on financial performance, risk management carries a slightly larger marginal contribution. This is consistent with findings by Hoyt and Liebenberg (2011) and Nocco and Stulz (2006), who demonstrate that enterprise risk management practices generate measurable improvements in firm-level financial outcomes.

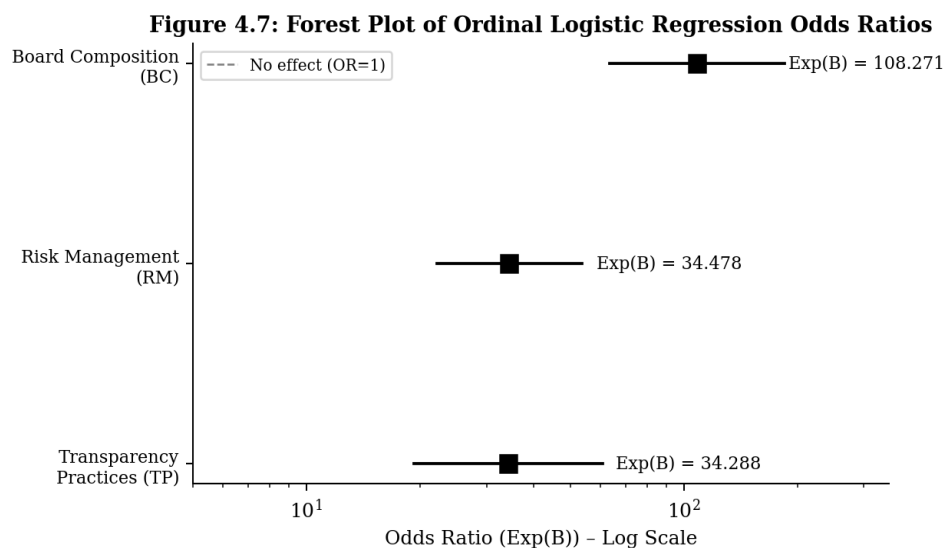


Figure 8: 7: Forest Plot of Ordinal Logistic Regression Odds Ratios with 95% Confidence Intervals

Figure 4.7 presents a forest plot of the odds ratios with 95% confidence intervals for each predictor variable, displayed on a logarithmic scale to accommodate the wide range of $\text{Exp}(B)$ values. The forest plot visually confirms the substantially larger odds ratio for Board Composition relative to Transparency Practices and Risk Management, and demonstrates that all confidence intervals lie entirely above the null effect line ($\text{OR} = 1$), confirming the statistical significance of all three predictors. The wider confidence interval for Board Composition reflects the larger standard error relative to the magnitude of its coefficient, which is expected given the exceptionally large odds ratio.

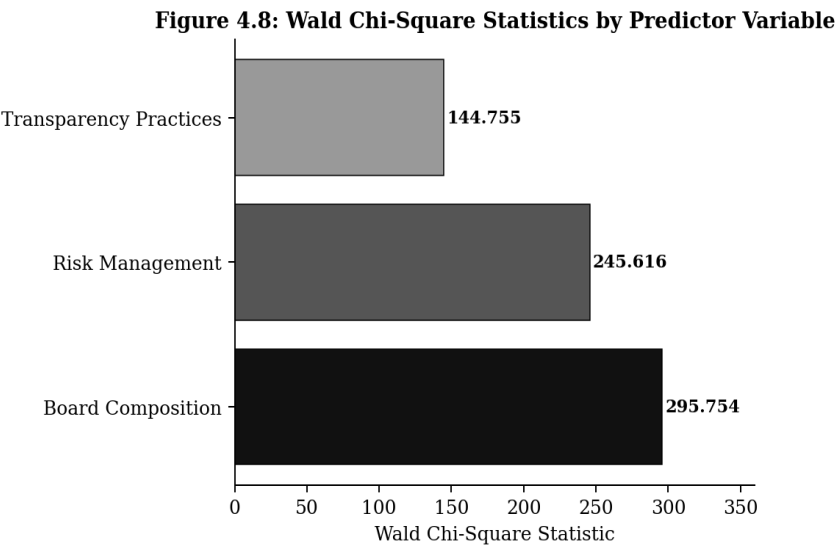


Figure 9: 8: Wald Chi-Square Statistics by Predictor Variable

Figure 4.8 presents the Wald chi-square statistics for each predictor variable, providing a direct visual comparison of the statistical strength of each governance dimension's relationship with financial performance. Board Composition records the highest Wald statistic at 295.754, followed by Risk Management at 245.616, and Transparency Practices at 144.755. The relatively lower Wald statistic for Transparency Practices, while still very highly significant, reflects the somewhat larger standard error of its regression coefficient ($\text{SE} = 0.2938$) compared to those of Board Composition ($\text{SE} = 0.2724$) and Risk Management ($\text{SE} = 0.2259$). This pattern may reflect greater heterogeneity in transparency practice implementation across the sampled SMEs, which is consistent with the item-level frequency analysis in Section 4.5 that identified greater response variability on transparency-related items.

4.12 Comparative Analysis of Predictor Contributions

To further contextualise the relative contributions of the three governance predictors, Table 4.11.1 presents a comparative summary of their key regression statistics alongside the bivariate Spearman correlations reported in Section 4.7.

Table 21: Data Summary

Predictor	Spearman r (with FP)	Rank (r)	B Coefficient	Exp(B)	Wald χ^2	Rank (Wald)	SE
Board Composition (BC)	0.712**	1st	4.685	108.271	295.754	1st	0.2724
Risk Management (RM)	0.668**	2nd	3.540	34.478	245.616	2nd	0.2259
Transparency Practices (TP)	0.651**	3rd	3.535	34.288	144.755	3rd	0.2938

Table 22: 1: Comparative Summary of Predictor Contributions to Financial Performance

Table 4.11.1 reveals a consistent ranking of predictor contributions across both bivariate and multivariate analyses. Board Composition ranks first in Spearman correlation with financial performance ($r_s = 0.712$), in regression coefficient magnitude ($B = 4.685$), in odds ratio ($\text{Exp}(B) = 108.271$), and in Wald chi-square statistic (295.754). This cross-method consistency strongly reinforces the conclusion that board composition is the dominant determinant of financial performance among SMEs in Lusaka District.

Risk Management consistently ranks second across all metrics, with a Spearman correlation of 0.668, a regression coefficient of 3.540, an odds ratio of 34.478, and a Wald statistic of 245.616. Transparency Practices ranks third, though its Spearman correlation (0.651) and odds ratio (34.288) are only marginally lower than those of Risk Management. The near-equivalence of TP and RM in their effects on financial performance is a substantively important finding, as it

implies that governance transparency and risk governance are approximately equal strategic levers for improving SME performance, and that both should be developed in tandem rather than prioritising one over the other.

The higher standard error for Transparency Practices ($SE = 0.2938$) compared to Risk Management ($SE = 0.2259$) reflects greater variability in the relationship between transparency and performance across the sample. This may reflect the differential capacity among SMEs to implement formalised transparency systems, given the diversity of business ages, educational backgrounds, and sectoral contexts captured in the sample. Board Composition, despite its largest odds ratio, records a moderate standard error ($SE = 0.2724$), suggesting that the relationship between board structure and financial performance is consistently strong across the full diversity of the sample.

4.13 Chapter Summary

This chapter presented a comprehensive and systematic analysis of the quantitative data collected from 314 SMEs in Lusaka District. The response rate of 78.89% exceeded the minimum acceptable threshold, establishing a sound empirical foundation for the analysis. The demographic profile of respondents was diverse across gender, age, education, sector, position, and business experience, supporting the representativeness and generalisability of the findings.

Reliability analysis confirmed strong internal consistency across all four measurement constructs, with Cronbach's alpha values ranging from 0.841 to 0.863, and an overall instrument alpha of 0.891. Descriptive statistics revealed that all constructs recorded mean scores above the neutral midpoint, with Board Composition recording the highest mean (3.92) and Financial Performance the lowest (3.77). Item-level frequency analysis provided nuanced insights into specific governance dimensions where SMEs demonstrate strength (board qualification, record-keeping, risk sustainability) and areas of implementation challenges (governance compliance gap, transparency evaluation systems, employee risk training).

Normality tests using the Kolmogorov-Smirnov and Shapiro-Wilk procedures confirmed statistically significant departures from normality for all variables, validating the selection of

Ordinal Logistic Regression as the inferential technique. Spearman correlation analysis established strong positive bivariate relationships between all three governance predictors and financial performance, with board composition recording the strongest correlation ($r_s = 0.712$).

The ordinal logistic regression model demonstrated excellent fit (Deviance/df = 0.212; Pearson Chi-Square/df = 0.340) and overall statistical significance (Omnibus LR Chi-Square = 682.669, $p < 0.001$). The parameter estimates confirmed that all three null hypotheses were rejected, with Board Composition ($\text{Exp}(B) = 108.271$, $p < 0.001$), Risk Management ($\text{Exp}(B) = 34.478$, $p < 0.001$), and Transparency Practices ($\text{Exp}(B) = 34.288$, $p < 0.001$) all exerting positive and statistically significant effects on financial performance. Board Composition emerged as the most dominant predictor, followed by Risk Management and Transparency Practices. The cross-method consistency of rankings across bivariate correlation, regression coefficients, odds ratios, and Wald statistics strengthens confidence in these conclusions. The discussion and theoretical interpretation of these findings are presented in Chapter Five.

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of the study findings in relation to the research objectives, integrating the empirical results from the ordinal logistic regression and Spearman correlation analyses with existing theoretical and empirical literature. The chapter also presents policy implications, recommendations, areas for further research, and the overall conclusions of the study.

5.2 Discussion

5.1.1 Objective 1: The Influence of Board Composition on Financial Performance of SMEs

The first objective sought to assess the influence of board composition on the financial performance of selected SMEs in Lusaka District. The ordinal logistic regression results indicate that board composition has a positive and statistically significant effect on financial performance ($B = 4.685$, $\text{Exp}(B) = 108.271$, $p < 0.001$, 95% CI [63.481, 184.663]), with the Wald chi-square of 295.754 identifying it as the most statistically powerful predictor in the model. The Spearman bivariate correlation corroborated this finding ($r_s = 0.712$, $p < 0.01$), confirming the strongest pairwise relationship between board composition and financial performance among all predictor-outcome pairs in the study.

These findings align with Jensen and Meckling (1976), who under Agency Theory argue that effective governance structures play a critical role in reducing agency conflicts between managers and owners. A well-composed board enhances monitoring mechanisms, strengthens accountability, and ensures that managerial decisions are aligned with shareholder interests, reducing opportunistic behaviour and improving organisational efficiency. Pfeffer and Salancik (1978), through Resource Dependence Theory, further emphasise that board members serve as valuable sources of critical resources, expertise, and external linkages. Dalton et al. (1998) found that firms with independent and diverse boards experienced improved financial performance because the board provided effective oversight. Kyere and Ausloos (2021) reported that board

independence and expertise positively influenced profitability in the United Kingdom. Mulenga and Haabazoka (2024) confirmed this in the Zambian context, while Milupi (2023) further reinforced the finding among listed Zambian corporations.

The item-level frequency analysis in Section 4.5 revealed that the governance compliance gap item (BC5, Mean = 3.75, SD = 1.09) generated the most varied responses, indicating that while respondents broadly perceive board composition as beneficial, a meaningful proportion acknowledged the practical distance between statutory requirements under Section 85 of the Companies Act No. 10 of 2017 and actual implementation. This nuance is important, as it implies that the exceptionally large odds ratio for board composition ($\text{Exp}(B) = 108.271$) may partly reflect a ceiling effect, whereby even modest improvements in governance structure generate disproportionately large gains in financial outcomes in an environment where baseline governance quality is still developing. These findings partially contrast with Yermack (1996) and Eisenberg et al. (1998), who argued that larger or poorly structured boards may reduce efficiency, particularly in smaller firms.

5.1.2 Objective 2: The Effect of Transparency Practices on Financial Performance of SMEs

The second objective sought to examine the effect of transparency practices on the financial performance of selected SMEs in Lusaka District. The ordinal logistic regression results indicate that transparency practices have a positive and statistically significant effect on financial performance ($B = 3.535$, $\text{Exp}(B) = 34.288$, $p < 0.001$, 95% CI [19.278, 60.985]), with a Wald chi-square of 144.755. The Spearman correlation of $r_s = 0.651$ ($p < 0.01$) confirmed a strong positive bivariate association between transparency and financial performance.

These findings align with Stiglitz (2000), who emphasises that transparency reduces information asymmetry between stakeholders and management, improving decision-making and organisational efficiency. Spence (1973) through Signalling Theory argues that transparent reporting increases confidence and trust among external stakeholders. Fama (1980) argues that transparency enhances monitoring mechanisms by making managerial actions more observable, thereby reducing opportunistic behaviour. Bushman et al. (2004) found transparency in financial reporting positively associated with firm performance, while Botosan (1997) demonstrated that higher disclosure levels reduce the cost of capital and enhance firm value.

In the Zambian context, Musonda (2025) found that SMEs adopting IFRS had better reporting and clearer disclosure practices, enhancing stakeholder trust. Mwansa and Chileshe (2019) reported that SMEs in Lusaka that adopted transparent reporting mechanisms recorded profitability growth of 15 to 22 percent annually. The higher standard error for the transparency coefficient ($SE = 0.2938$) relative to board composition and risk management reflects greater variability in transparency implementation across the sample, consistent with the item-level finding that TP3 (lack of systems to evaluate governance) generated the most dispersed responses (Mean = 3.69, SD = 1.11), suggesting that transparency evaluation infrastructure remains unevenly developed across SME sectors in Lusaka.

.

5.1.3 Objective 3: The Impact of Risk Management on Financial Performance of SMEs

The third objective sought to evaluate the impact of risk management on the financial performance of selected SMEs in Lusaka District. The ordinal logistic regression results indicate that risk management has a positive and statistically significant effect on financial performance ($B = 3.540$, $\text{Exp}(B) = 34.478$, $p < 0.001$, 95% CI [22.144, 53.682]), with a Wald chi-square of 245.616, the second largest in the model. The Spearman correlation of $r_s = 0.668$ ($p < 0.01$) confirmed the second strongest bivariate association among the three predictors.

From a theoretical perspective, Enterprise Risk Management, as advanced by Lam (2003), emphasises a holistic and integrated approach to managing risks across the organisation. Hoyt and Liebenberg (2011) found that firms implementing enterprise risk management frameworks achieve higher firm value and improved financial performance. Jorion (2007) demonstrates that effective risk management contributes to better financial outcomes by reducing uncertainty and enhancing strategic planning. Nocco and Stulz (2006) found that effective risk management systems improved decision-making, reduced earnings volatility, and strengthened long-term performance.

In the Zambian context, Muneku and Mwanauno (2025) found that structured risk management frameworks helped Lusaka SMEs manage operational and project risks, improving oversight and planning. Vaghera and Mashekwa (2025) reported that poor risk documentation reduced SMEs'

access to finance, indirectly affecting financial performance. The narrower standard error for the risk management coefficient ($SE = 0.2259$) compared to both board composition and transparency practices reflects the most consistent relationship between risk management and financial performance across the sampled SMEs, suggesting that risk management practices generate relatively uniform performance benefits regardless of sector, business age, or educational background of the respondent.

5.3 Policy Implications

Based on the findings of this study, the following recommendations are made. First, SMEs in Lusaka District should strengthen their board composition by involving individuals with relevant knowledge, skills, and experience in business management and financial oversight. The study revealed that board composition has the strongest influence on financial performance ($\text{Exp}(B) = 108.271$, $p < 0.001$), suggesting that even incremental improvements in governance structure generate large gains in financial outcomes (Kyere and Ausloos, 2021; Mulenga and Haabazoka, 2024).

Second, SMEs should improve transparency practices by maintaining accurate financial records, preparing regular financial statements, and ensuring proper disclosure of business information. The Spearman correlation of $r_s = 0.651$ and odds ratio of $\text{Exp}(B) = 34.288$ confirm that transparency is a critical driver of financial performance. The item-level finding that TP4 (record-keeping) generated the highest agreement among transparency items (Mean = 4.12) suggests that building on existing record-keeping practices is a feasible starting point for strengthening transparency (Musonda, 2025).

Third, SMEs should adopt more formal and consistent risk management practices. The second-highest Wald chi-square (245.616) and the narrowest standard error (0.2259) among the three predictors confirm that risk management generates the most consistent and reliable improvements in financial performance across diverse SME types. SME owners and managers should identify potential financial and operational risks early and implement measures such as

budgeting, internal controls, and contingency planning (Lam, 2003; Muneku and Mwanauno, 2025).

Fourth, the government and regulatory authorities should introduce flexible governance requirements for infant SMEs still in their early stages of growth. Introducing gradual or simplified compliance measures would help promote business growth while encouraging accountability. Fifth, capacity-building initiatives should be developed to equip SME owners, managers, and employees with practical skills in corporate governance, financial management, and risk management, particularly addressing the identified gap in employee-level risk training reflected by the relatively lower mean for RM2 (Mean = 3.96).

.

5.4 Policy Recommendations

The findings carry important implications for policymakers and regulatory bodies including the Zambia Development Agency, and the Patents and Companies Registration Agency. The dominant effect of board composition ($\text{Exp(B)} = 108.271$) underscores the need for context-sensitive governance frameworks that make board-level governance accessible to SMEs operating under resource constraints. The requirement under Section 85 of the Companies Act No. 10 of 2017 for at least two directors may present practical difficulties for smaller SMEs, suggesting a need for regulatory flexibility and tiered compliance standards for micro and small enterprises in their early stages of operation.

The near-equivalent effects of transparency ($\text{Exp(B)} = 34.288$) and risk management ($\text{Exp(B)} = 34.478$) on financial performance imply that policy interventions should develop both dimensions simultaneously rather than treating them as sequentially less important than board governance. Government-supported programmes such as the MSME Policy (2023) and ZDA capacity-building initiatives should incorporate structured financial literacy, simplified reporting frameworks, and risk assessment training as core components of SME development support.

.

5.5 Further Areas of Research

The study highlights the need for further research that deepens the understanding of the interaction between governance frameworks and SME operational realities. Future research should adopt longitudinal designs to assess how governance and management practices evolve over time and across different SME life cycle stages. Studies should also extend the analysis to other provinces in Zambia to determine whether the findings are generalisable to the broader Zambian SME context. Additionally, mediation analysis exploring whether financial literacy, institutional quality, or access to credit mediate the governance-performance relationship would contribute important nuance to the empirical literature. Future studies should also investigate whether the disproportionately large odds ratio for board composition ($\text{Exp(B)} = 108.271$) is replicated in other developing country SME contexts or whether it is specific to Lusaka's institutional environment.

.

6.0 Summary

This study set out to examine the impact of corporate governance practices on the financial performance of Small and Medium Enterprises (SMEs) in Lusaka District, focusing on board composition, transparency practices, and risk management. Based on data from 314 SME respondents and a robust quantitative analytical framework encompassing reliability analysis, descriptive statistics, item-level frequency distributions, Spearman correlation analysis, normality testing, and ordinal logistic regression, the following conclusions are drawn.

First, board composition is the most dominant determinant of SME financial performance in Lusaka District, recording both the highest Spearman correlation with financial performance ($r_s = 0.712$) and the largest regression odds ratio ($\text{Exp(B)} = 108.271$, $p < 0.001$). This finding confirms the central proposition of Agency Theory that well-structured governance bodies significantly improve organisational accountability and financial outcomes.

Second, risk management is the second most influential predictor, recording the second highest Spearman correlation ($r_s = 0.668$), an odds ratio of $\text{Exp(B)} = 34.478$ ($p < 0.001$), and the narrowest standard error among the three predictors ($\text{SE} = 0.2259$), indicating the most

consistent governance-performance relationship across the sample. This is consistent with the Resource-Based View's proposition that internal risk management capabilities generate sustained competitive advantages.

Third, transparency practices, while ranking third, nonetheless exert a large and statistically significant effect on financial performance ($\text{Exp}(B) = 34.288$, $p < 0.001$, $r_s = 0.651$), confirming the predictions of Signalling Theory and Trust-Transparency Theory that information disclosure builds stakeholder confidence and enables better resource allocation.

Collectively, the findings demonstrate that financial performance among SMEs is not primarily driven by isolated factors but by the combined effect of governance quality, transparency, and risk management practices. The study therefore concludes that improving SME performance in Zambia requires practical and flexible approaches that simultaneously strengthen governance structures, enhance transparency, and promote structured risk management systems, while addressing the.

7.0 Recommendations

Based on the findings of this study and engagements with the responses, SMEs in Lusaka District should strengthen their board composition by involving individuals with relevant knowledge, skills, and experience in business management and financial oversight. The study revealed that board composition has a strongest influence on financial performance, suggesting that SMEs with structured leadership and clear governance systems are more likely to achieve improved profitability and operational efficiency. Implies that SME owners should ensure that decision-making responsibilities are shared among competent individuals who can provide strategic direction and accountability within the business.

The study also recommends that SMEs should improve transparency practices by maintaining accurate financial records and ensuring proper disclosure of business information and adopt proper bookkeeping systems, prepare regular financial statements, and promote openness in financial management in order to strengthen trust with lenders, investors, and other stakeholders. In addition, SMEs should adopt more formal and consistent risk management practices to improve business sustainability and financial stability. SME owners and managers should

identify potential financial and operational risks early and implement measures such as budgeting, internal controls, and contingency planning to minimize losses and improve business continuity.

Government and regulatory authorities to consider introducing flexible governance requirements for infant SMEs that are still in their early stages of growth. Many small and start-up businesses face financial and administrative challenges that make it difficult to comply fully with legal requirements such as maintaining multiple directors. Introducing gradual or simplified compliance measures for infant SMEs would help promote business growth while encouraging accountability and good governance practices.

Further, SME owners and managers should participate in training programs related to corporate governance, financial management, and risk management. Many SMEs continue to operate informally due to limited knowledge and managerial skills, which weakens their governance structures and financial performance. Capacity-building initiatives would therefore help SMEs improve decision-making, strengthen accountability, and enhance overall organizational performance.

Finally, institutions that support SMEs should continue promoting awareness on the importance of corporate governance in improving financial performance. This is because many SMEs still perceive governance practices as suitable only for large corporations, despite evidence showing that governance mechanisms such as transparency, structured leadership, and risk management can significantly improve the sustainability and competitiveness of SMEs.

REFERENCES

1. Adams, R.B., Hermalin, B.E. and Weisbach, M.S. (2010). The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. *Journal of Economic Literature*, 48(1), pp.58–107. Available at: <https://doi.org/10.1257/jel.48.1.58>
10. Kapapa, T. (2023). SMEs and export trading in Zambia. University of Zambia DSpace.
11. Kunda, G. (2021). An investigation of critical success factors for MSMEs in Lusaka. University of Zambia DSpace.
12. Kyere, M. and Ausloos, M. (2021). Corporate Governance and Firms Financial Performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), pp.1871–1885.
13. Lungu, G. (2020). A study of the factors preventing SMEs participation in the Access to Securities Market (ASM). University of Zambia DSpace.
14. Mensah, L. and Bein, M.A. (2023). Corporate Governance and Financial Performance of Manufacturing Firms in Africa. *Sustainability*, 15(12).
15. Milupi, D.E.M. (2023). The impact of board composition on financial performance of listed corporations in Zambia. University of Zambia DSpace.
16. Mulenga, F. and Haabazoka, L. (2024). Effect of Corporate Governance on the Performance of Small and Medium Enterprise’s (SME’s) in Lusaka’s Hardware Industry.
17. Mulenga, M. (2023). A case study of Lusaka CBD: Access to business information and SME performance. University of Zambia DSpace.
18. Mwachikoka, C.F. (2023). Effects of corporate governance on organisational performance: a Zambian perspective. University of Zambia DSpace.
19. Nocco, B.W. and Stulz, R.M. (2006). Enterprise Risk Management: Theory and Practice. *Journal of Applied Corporate Finance*, 18(4), pp.8–20.
2. Barney, J.B. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), pp.99–120.
20. Pagach, P. and Warr, R. (2011). The Characteristics of Firms that Hire Chief Risk Officers. *Journal of Risk and Insurance*, 78(1), pp.185–211.
21. Pfeffer, J. and Salancik, G.R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper and Row.

22. Spence, M. (1973). Job Market Signaling. *Quarterly Journal of Economics*, 87(3), pp.355–374.
23. Zulu, F. (2019). Factors affecting access to finance for small and medium scale enterprises (SMEs) in Zambia: A case study of Chilanga District’s Central Business District (CBD). Master’s thesis, University of Zambia.
3. Chiwele, C.F. (2024). The effects of corporate governance on financial performance of Lusaka-listed firms. University of Zambia D. Space.
4. Chikuta, S. (2020). Effect of corporate governance on the financial performance of state-owned enterprises (SOEs) in Zambia. University of Zambia DSpace.
5. Godon, L.A, Loeb, M.P. and tseng, C.Y. (2009). Enterprise Risk Mangement and Firm Performance: A contingency perspective *Journal of Accounting and Public Policy*.
6. Hermalin, B.E. and Weisbach, M.S. (2003). Board of Directors as endogenously Boards Determined Intitute: A Survey of the Economic Literature. *Economic Policy Review*, 9(1), pp.7–26.
7. Hermalin, B.E. and Weisbach, M.S. (2006). A Framework for Assessing Corporate Governance Reform. NBER Working Paper No. 12050.
8. Hermalin, B.E. and Weisbach, M.S. (2014). Understanding Corporate Governance Through Learning Models of Managerial Competence. NBER Working Paper No. 20028.
9. James Lam (2003). *Enterprise Risk Management: From Incentives to Controls*. Hoboken, NJ: John Wiley & Sons.

APPENDICES

Appendix 1: Ethical Clearance

This section contains the ethical clearance documentation obtained from the ZCAS University Research Ethics Committee prior to commencement of data collection, confirming that the study was conducted in accordance with established ethical guidelines.

	ZCAS University	Office of the Director Research and Innovation P.O. Box 35243, Lusaka. Email: ethics@zcasu.edu.zm Website: www.zcasu.edu.zm Phone: +260 979 024363
Serial no: 2026/3/0516		
ETHICAL APPROVAL		
Researcher's name: Kabwe Musonda ID: 202401212		
Title of research: IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF SELECTED SMES IN LUSAKA DISTRICT		
Dear Sir/Madam,		
Thank you for applying for research ethics clearance by ZCAS University Ethics Review Committee for the above-mentioned research title.		
Your application has been approved. You should ensure that the research project adheres to the ZCAS University Ethics Policy and applicable national legislation (NRHA), the professional code of conduct relevant to your specific field of study and adhere to the professional ethics of the institution. Uphold ethics in data collection, processing and ensure that the participants are protected.		
This ethics approval is granted for the period of One Year from 16 th April 2026 and on condition that the researcher will conduct the study according to the methods and procedures set out in the approved proposal. No field work activities may continue after the expiry date, unless this approval is renewed.		
Regards,		

Appendix 2: Research Budget

Item	Estimated Cost (ZMW)
Questionnaire printing and distribution	2,500.00
Transport and fieldwork	3,000.00
Data entry and SPSS analysis	1,500.00
Binding and submission	800.00
Miscellaneous expenses	700.00
Total	8,500.00

Appendix 3: Gantt Chart

Activity	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Proposal writing and approval	X	X				
Literature review		X	X			
Instrument development			X			
Data collection				X		
Data analysis					X	
Report writing and submission					X	X

Appendix 4: Structured Quantitative Questionnaire

HELLO! MY NAME IS KABWE MUSONDA. I AM A STUDENT AT ZCAS UNIVERSITY PURSUING A MASTER OF SCIENCE DEGREE IN ACCOUNTING AND FINANCE (MSAF). AS PART OF MY PROGRAMME REQUIREMENTS, I AM CONDUCTING A RESEARCH STUDY ON THE IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF SELECTED SMES IN LUSAKA DISTRICT. THE STUDY IS PURELY ACADEMIC, AND ALL INFORMATION YOU PROVIDE WILL BE TREATED CONFIDENTIALLY.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male ☐ Female ☐
2. Age Group: 18 to 25 ☐ 26 to 35 ☐ 36 to 45 ☐ 46 and above ☐
3. Level of Education: Secondary ☐ Diploma ☐ Degree ☐ Postgraduate ☐
4. Position in the SME: Owner ☐ Manager ☐ Supervisor ☐ Employee ☐
5. Years Operating: Less than 1 year ☐ 1 to 3 years ☐ 4 to 6 years ☐ More than 6 years ☐
6. Sector: Trading ☐ Manufacturing ☐ Services ☐ Construction ☐ Financial ☐

SECTION B: GOVERNANCE AND PERFORMANCE ITEMS

SCALE: 1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

Code	Statement	SD	D	U	A	SA
BC1	Our SME has qualified board members who help improve financial performance.					
BC2	Our SME has independent board members who positively contribute to					

Code	Statement	SD	D	U	A	SA
	business performance.					
BC3	The board actively monitors managerial decisions to improve financial outcomes.					
BC4	The structure of the board supports long-term business sustainability.					
BC5	There is a gap between legal governance requirements and actual practices in this SME.					
TP1	Our SME provides accurate and timely financial information.					
TP2	Our SME openly communicates its financial position to relevant stakeholders.					
TP3	The SME lacks clear systems to evaluate how governance practices affect performance.					
TP4	Our SME has proper record-keeping that improves business					

Code	Statement	SD	D	U	A	SA
	efficiency and profitability.					
TP5	Our SME has a regular financial reporting system.					
RM1	Our SME has clear strategies for identifying business risks.					
RM2	Employees are trained to identify and respond to risks effectively.					
RM3	Our SME regularly assesses potential risks affecting operations.					
RM4	Our SME has systems in place to respond to unexpected challenges.					
RM5	Risk management practices in our SME support long-term sustainability.					

