

An Assessment Of The Influence Of Board Structure On Long-Term Financial Performance Of Life Insurance Companies In Zambia

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Abstract:

Background: *This study examined the influence of board structure on long-term financial performance of life insurance companies in Zambia, motivated by recent corporate failures highlighting governance deficiencies.*

Materials and methods: *Using a quantitative research approach with descriptive and correlational design grounded in Agency Theory, Stewardship Theory, and Resource Dependence Theory, data were collected from 97 respondents (92.38% response rate) representing governance personnel across life insurance companies in Zambia through structured questionnaires using five-point Likert scales.*

Results: *Multiple regression analysis revealed that board balance, board size, and majority shareholder presence collectively explained 98.5% of performance variance ($R^2 = .985$, $F = 2025.447$, $p < .001$). Board balance emerged as the strongest predictor ($\beta = .469$, $p < .001$), with balanced boards combining executive and non-executive directors demonstrating superior outcomes. Majority shareholder presence significantly enhanced performance ($\beta = .271$, $p < .001$) through effective monitoring and strategic guidance, while board size showed significant influence ($\beta = .255$, $p < .001$), with optimal effectiveness at 8-13 members.*

Conclusion: *The study concludes that corporate governance significantly influences long-term financial performance of life insurance companies in Zambia, with the three governance variables operating as integrated systems rather than isolated mechanisms. Recommendations include strengthening board composition guidelines, maintaining optimal board sizes with balanced representation, and implementing enhanced minority shareholder protection mechanisms.*

Key Word: *Corporate governance, board balance, board size, majority shareholder, life insurance, financial performance*

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I. Introduction

The intersection of corporate governance mechanisms and organizational performance represents a critical discourse in contemporary financial scholarship, particularly within insurance sectors where fiduciary responsibilities extend beyond traditional shareholder primacy to encompass policyholder protection and systemic stability. The global insurance industry has experienced profound transformation, with worldwide premium volumes reaching approximately \$6.3 trillion in 2023, accompanied by heightened regulatory scrutiny of governance practices following the 2008 financial crisis which exposed critical governance failures across financial institutions. Contemporary research reveals significant variation in governance effectiveness, with developed economies generally exhibiting more sophisticated frameworks compared to emerging markets, while statistical evidence suggests that insurers with robust governance mechanisms demonstrate superior risk-adjusted returns.

Within the African context, Zambia's insurance sector operates with 33 licensed companies as of 2022, comprising 23 non-life and 10 life insurance entities according to the Insurance Association of Zambia (2022). Statistics centration statistics reveal that the top five life insurers control approximately 76% of market share, suggesting that governance practices among market leaders significantly influence overall sector performance and stability. The regulatory landscape has undergone substantial transformation since 2016, with the Pensions and Insurance Authority (PIA) implementing comprehensive Corporate Governance Guidelines in 2024, establishing minimum standards for board composition, risk management, and stakeholder engagement that reflect recognition of governance's critical role in organizational sustainability.

Despite theoretical discourse positioning corporate governance as a critical performance determinant, empirical evidence regarding how governance mechanisms influence long-term financial performance in African insurance markets remains fragmented. This knowledge gap assumed urgency following 2018 liquidations of Focus Life Assurance and A Plus Assurance, affecting approximately 2,580 policyholders with liabilities totaling K8 million. These failures occurred despite regulatory supervision and formal governance compliance, raising

critical questions about whether existing governance structures adequately protect stakeholder interests and ensure organizational sustainability. The present study addresses this gap by examining how board balance, board size, and majority shareholder presence influence long-term financial performance in Zambian life insurance companies, providing empirical evidence to guide governance reforms and corporate practice.

II. Literature Review

Board balance represents the equilibrium between executive and non-executive directors, encompassing both numerical composition and functional dynamics that determine oversight effectiveness. Adams and Mehran (2023) examined 3,187 firm-year observations from publicly listed insurers over seventeen years, finding that board diversity correlates positively with reduced insolvency risk and improved risk-adjusted returns. The relationship operates through multiple mechanisms: independent directors provide objective monitoring constraining managerial opportunism, while executive directors contribute operational expertise and institutional knowledge essential for strategic decision-making. In insurance contexts, board balance assumes particular significance due to complex risk management requirements, long-term contractual obligations, and dual accountability to shareholders and policyholders that demand sophisticated governance capabilities. African insurance governance research reveals context-specific patterns diverging from developed market findings. Sibindi and Makina (2018) examined firm-specific determinants of technical efficiency in South African life insurance, finding that board characteristics significantly influence performance outcomes, with intermediate board sizes (7-12 directors) demonstrating superior technical efficiency compared to very small or very large boards. This finding suggests non-linear board size-performance relationships where coordination costs eventually offset diversity benefits. Abebe and Dhaliwal (2024) examined corporate governance impacts on insurance risk within Ethiopian companies, analysing 136 observations from 17 firms using multivariate regression approaches. Their study revealed that audit committees exert negative and significant influence on both operational and liquidity risk, suggesting specialized board sub-structures play crucial roles in risk management effectiveness within African insurance contexts.

Agency Theory, pioneered by Jensen and Meckling (1976), provides theoretical grounding for understanding board balance's performance implications. This framework conceptualizes the corporation as a nexus of contracts between principals (shareholders) and agents (management), positing that information asymmetry and divergent interests create agency costs requiring governance mechanisms to align manager-shareholder interests. Agency Theory suggests that board composition, particularly the balance between executive and non-executive directors, serves as a primary monitoring mechanism, with independent directors theoretically providing objective oversight that constrains managerial opportunism and enhances organizational performance. However, the theory's applicability to insurance firms requires modification to account for policyholder interests alongside shareholder primacy, creating more complex principal-agent relationships than traditional corporate governance frameworks acknowledge.

Board size encompasses the total number of directors serving on corporate boards, reflecting trade-offs between expertise diversity and coordination efficiency. Sibindi and Makina (2018) examined firm-specific determinants of technical efficiency in the South African life insurance industry, finding that board characteristics significantly influence performance outcomes, with intermediate board sizes of 7-12 directors demonstrating superior technical efficiency compared to very small or very large boards. This non-linear relationship suggests that boards require sufficient size to access diverse expertise and share workload across committees, but excessive size creates coordination costs, free-rider problems, and decision-making delays that offset diversity benefits. The optimal board size varies across organizational contexts depending on firm complexity, regulatory requirements, and industry-specific expertise needs.

III. Material And Methods

This study employed a correlational research design with a quantitative approach to examine relationships between board structure variables and long-term financial performance.

Research Design and Approach

This study employed a quantitative research approach utilizing descriptive and correlational research designs to examine relationships between board structure variables and long-term financial performance. The descriptive component characterized governance practices across Zambian life insurance companies, while the correlational design assessed statistical associations between board balance, board size, majority shareholder presence, and performance outcomes. This dual-design approach enabled comprehensive understanding of both the prevalence of governance practices and their performance implications, providing evidence base for assessing whether observed governance patterns associated with superior organizational outcomes.

Population, Sampling, and Data Collection

The target population comprised 143 governance-related personnel (board members, executives, and senior managers) across licensed life insurance companies in Zambia. Using Yamane's formula with 95% confidence level and 5% margin of error, a sample size of 105 respondents was calculated. The study employed stratified random sampling to ensure representative coverage across life insurance companies in Zambia. Data collection employed structured questionnaires utilizing five-point Likert scales (1=Strongly Disagree to 5=Strongly Agree) measuring perceptions of board balance, board size, majority shareholder presence, and long-term financial performance across multiple dimensions including profitability, efficiency, growth, and stability.

The study achieved 97 valid responses, representing a 92.38% response rate substantially exceeding recommended thresholds for survey research and indicating strong participant engagement. This high response rate enhances result generalizability to the broader population of governance personnel in Zambian life insurance companies, minimizing non-response bias concerns that often plague governance research where busy executives may decline participation.

Data Analysis

Data analysis employed SPSS Version 28.0, utilizing descriptive statistics (means, standard deviations, frequencies) to characterize sample demographics and variable distributions. Reliability analysis using Cronbach's alpha assessed internal consistency across constructs, with all measures exceeding 0.80 threshold indicating excellent reliability. Pearson correlation analysis examined bivariate relationships between variables, while multiple regression analysis assessed collective and individual predictive power of the three governance variables on financial performance. The regression model specification was $Performance = \beta_0 + \beta_1(\text{Board Balance}) + \beta_2(\text{Board Size}) + \beta_3(\text{Majority Shareholder}) + \epsilon$. Variance Inflation Factor (VIF) diagnostics confirmed absence of problematic multicollinearity, validating regression result interpretation.

IV. Result

Demographics

Demographic analysis revealed balanced gender representation with males comprising 57.7% and females 42.3% of respondents. Age distribution showed concentration among middle-aged professionals, with 39.2% aged 40-49 and 28.9% aged 30-39, reflecting governance roles' typical experience requirements. Educational attainment was high, with 46.4% holding master's degrees and 35.1% bachelor's degrees, indicating sophisticated human capital among insurance governance personnel. Position distribution showed 38.1% (44) board members, 32.0% senior managers (20), and 29.9% executives, ensuring diverse governance perspectives. Tenure analysis revealed 40.2% serving 5-10 years and 28.9% serving 3-5 years, suggesting substantial governance experience across respondents.

Descriptive Statistics

Board balance items achieved consistently high mean scores, as shown in Table 1, with balanced board composition rated highest (M=4.38, SD=0.67), followed by independent director effectiveness (M=4.31, SD=0.71) and executive-non-executive director complementarity (M=4.27, SD=0.69). Board size perceptions showed optimal intermediate sizing (M=4.19, SD=0.74) and effective coordination at current sizes (M=4.15, SD=0.76). Majority shareholder presence items demonstrated strong agreement on strategic guidance provision (M=4.24, SD=0.72) and decision-making efficiency (M=4.18, SD=0.75), though concerns about minority shareholder protection emerged (M=3.87, SD=0.89). Long-term performance indicators showed high ratings across profitability (M=4.29, SD=0.68), operational efficiency (M=4.22, SD=0.71), revenue growth (M=4.18, SD=0.73), and financial stability (M=4.31, SD=0.69).

Table 1: Mean Scores and Standard Deviations for Corporate Governance Dimensions

Governance Dimension	Item Description	Mean	Std. Dev.	Interpretation
Board Balance	Balanced board composition	4.38	0.67	Very High
	Independent director effectiveness	4.31	0.71	Very High
	Executive-non-executive complementarity	4.27	0.69	Very High
Board Size	Overall Board Balance	4.32	0.69	Very High
	Optimal intermediate sizing	4.19	0.74	High
	Effective coordination at current size	4.15	0.76	High
	Adequate expertise diversity	4.12	0.78	High
Majority Shareholder Presence	Overall Board Size	4.15	0.76	High
	Strategic guidance provision	4.24	0.72	Very High
	Decision-making efficiency	4.18	0.75	High
	Long-term commitment	4.09	0.81	High

	Minority shareholder protection	3.87	0.89	High
	Overall Majority Shareholder	4.10	0.79	High
Financial Performance				
	Financial stability	4.31	0.69	Very High
	Profitability indicators	4.29	0.68	Very High
	Operational efficiency	4.22	0.71	Very High
	Revenue growth	4.18	0.73	High
	Overall Financial Performance	4.25	0.70	Very High

Regression Analysis Results

Multiple regression analysis, Table 2, revealed exceptional model explanatory power, with $R^2 = .985$ indicating that the three governance variables collectively explain 98.5% of variance in long-term financial performance—an extraordinarily high proportion suggesting that governance quality accounts for virtually all systematic performance variation across life insurance companies in Zambia. The adjusted R^2 of .984 confirmed model robustness after accounting for predictor number. The F-statistic (2025.447, $p < .001$) established overwhelming statistical significance, indicating that the observed governance-performance relationships far exceed chance expectations.

Individual predictor analysis revealed board balance as the strongest determinant ($\beta = .469$, $t = 25.838$, $p < .001$), indicating that each standard deviation improvement in board balance corresponds to .469 standard deviation increase in financial performance. Majority shareholder presence emerged as the second strongest predictor ($\beta = .271$, $t = 14.756$, $p < .001$), suggesting concentrated ownership enhances performance through effective monitoring and strategic guidance. Board size showed significant positive influence ($\beta = .255$, $t = 14.223$, $p < .001$), confirming optimal board sizing importance. All three predictors achieved statistical significance at $p < .001$ level. VIF values ranging from 1.12 to 1.89 confirmed absence of problematic multicollinearity, validating coefficient interpretation reliability.

Table 2: Regression Coefficients for Governance Predictors of Financial Performance

Model Summary				
R	R ²	Adjusted R ²	Std. Error	F-statistic (Sig.)
.992	.985	.984	.267	2025.447 (p < .001)

V. Discussion

The finding that board balance constitutes the strongest performance predictor ($\beta = .469$, $p < .001$) provides compelling empirical validation for Agency Theory's emphasis on independent oversight while extending understanding to insurance contexts. This result aligns with Adams and Mehran's (2023) findings demonstrating board diversity's positive correlation with reduced insolvency risk across global insurers, while adding precision through quantification of board balance's relative importance compared to other governance mechanisms. The particularly strong effect magnitude suggests that balanced boards combining executive and non-executive directors create synergies exceeding individual director contributions, consistent with Resource Dependence Theory's proposition that diverse boards provide complementary expertise and perspectives enhancing strategic decision-making quality.

Board size's significant positive influence ($\beta = .255$, $p < .001$) extends Sibindi and Makina's (2018) South African findings regarding optimal intermediate board sizes while providing Zambian-specific evidence. The result suggests that companies maintaining 8-13 member boards achieve optimal balance between expertise diversity and coordination efficiency, consistent with Resource Dependence Theory's emphasis on directors as resource providers while acknowledging coordination costs identified in organizational economics literature. The positive linear relationship contrasts with some Western research documenting inverted U-shaped relationships, suggesting that Zambian insurance companies have generally avoided board size extremes that create either expertise deficits or coordination difficulties.

Majority shareholder presence's significant performance enhancement ($\beta = .271$, $p < .001$) supports Stewardship Theory's propositions regarding concentrated ownership benefits while extending La Porta et al.'s (1999) framework to insurance contexts. The finding suggests that in Zambian institutional environments characterized by relatively weak external governance mechanisms, concentrated ownership provides effective monitoring and strategic guidance compensating for institutional deficiencies. However, the qualitative concern about minority shareholder protection ($M=3.87$) indicates potential agency costs accompanying ownership concentration, suggesting need for enhanced legal protections and disclosure requirements to balance majority shareholder benefits against minority stakeholder rights.

VI. Conclusion

This study provides strong empirical evidence that board structure significantly influences long-term financial performance of life insurance companies in Zambia, with board balance, board size, and majority shareholder presence collectively explaining 98.5% of performance variance. The exceptional explanatory power indicates that governance quality represents the primary systematic determinant of organizational performance in Zambian insurance contexts, overshadowing other factors traditionally emphasized in performance literature such as market positioning, operational efficiency, or technological capabilities. These findings underscore governance's fundamental importance for insurance sector stability and stakeholder protection.

The research makes several important theoretical contributions. First, it demonstrates that Agency Theory, Stewardship Theory, and Resource Dependence Theory operate simultaneously rather than as competing explanations, with each framework illuminating different governance dimensions. Board balance reflects Agency Theory's monitoring emphasis, majority shareholder presence aligns with Stewardship Theory's trust-based governance, and board size considerations connect to Resource Dependence Theory's resource provision focus. This theoretical integration suggests that effective governance requires balancing potentially conflicting imperatives rather than optimizing single mechanisms in isolation. Second, the study extends corporate governance literature by providing insurance-specific evidence from an African emerging market, addressing the field's traditional focus on manufacturing and financial services in developed economies.

Based on these findings, the study recommends that the Pensions and Insurance Authority should establish explicit board composition guidelines requiring Zambian life insurance companies to maintain minimum proportions of non-executive directors (at least 50% of total board membership), while ensuring boards include sufficient executive directors to provide essential operational knowledge. Companies should maintain optimal board sizes of 8-13 members with balanced executive-non-executive representation, while regulatory frameworks should implement enhanced minority shareholder protection mechanisms addressing concerns about concentrated ownership's potential agency costs. Future research should employ longitudinal designs establishing causality, mixed methods approach illuminating governance mechanisms, and comparative African studies testing whether findings generalize across different regulatory frameworks and market development stages. Additionally, investigation of board committee effectiveness, director expertise diversity, and governance-risk management linkages would provide comprehensive understanding of insurance governance dynamics.

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