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Impact of Corporate Governance on the Financial Performance of Deposit Money Banks in Nigeria

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Abstract: *The study evaluated the impact of corporate governance on the financial performance of Deposit Money banks in Nigeria. The study was guided by four research questions and four research hypotheses. Also, the study covered corporate governance such as board size, financial reporting quality, board independence, and pay performance sensitivity as well as return on asset (ROA) as metrics for profitability of the commercial banks. In addition, an ex-post-facto research design was employed to carry out this investigation, with annual report of the banks used as secondary data for the study. The study's population included all commercial banks in Nigeria. The study's sample included thirteen (13) deposit money banks in Nigeria listed in the Nigerian Exchange Group and annual report were collected from 2014 to 2023. The unit root test and descriptive statistics were used to analyse the data collected, while the stated hypotheses were evaluated using linear regression statistical methods. Following the analysis, the following findings were obtained: Board size had significant influence on the Return of Assets of Deposit Money banks in Nigeria. Also, there was significant impact of financial reporting quality on the Return of Assets of Deposit Money banks in Nigeria. Furthermore, board independence had significant influence on the Return of Assets of Deposit Money banks in Nigeria. In addition, pay performance sensitivity had significant influence on the Return of Assets of Deposit Money banks in Nigeria. The study concluded that corporate governance structures play a critical role in determining the financial performance of Nigerian DMBs. The findings contribute to the growing body of literature emphasizing that effective governance not only enhances accountability and transparency but also serves as a catalyst for improved financial outcomes. As such, regulatory authorities, bank management, and policymakers must continuously strengthen governance frameworks to promote financial stability and investor confidence within the banking sector.*

Keywords: corporate governance, financial performance, board size, board independence, return on assets (ROA).

INTRODUCTION

Corporate governance has emerged as a critical factor influencing the financial performance of firms globally, particularly in the banking sector, where robust governance mechanisms are essential for ensuring financial stability and sustainable growth. In the last twenty years, numerous high-profile companies have experienced internal collapses, including Pacific Gas and Electric Ltd in 2001, Delta Airlines in 2005, Enron in 2001, and Worldcom Ltd in 2002. In Nigeria, the banking sector has undergone significant reforms aimed at enhancing corporate governance practices to improve financial performance and prevent financial crises. Anayo (2021) claims that between 1994 and 2010, fifty separate Nigerian commercial banks failed. These failures have led the apex regulator of Nigerian

Banks, the Central Bank of Nigeria (CBN) to rescue eight additional banks in 2011 that were close to collapse. The incidence of company and systemic failures has been the key driver for corporate governance (Herbert & Agwor, 2021).

After the financial crisis of the 1990s, the banking sector in Nigeria was the first to implement new standards of corporate governance (Okeke, 2022). A code of corporate governance tailored to financial institutions was first introduced in Nigeria in 2003 by the Nigerian Bankers Committee. The Securities and Exchange Commission (SEC) of Nigeria also issued its own corporate governance best practices code in the same year. Despite these new provisions, there has been an alarming increase in corporate failures and fraudulent practices in recent years, underscoring the need to improve corporate governance and introduce a new framework for measuring business success (Akhigbemidu, Nwuche & Akhigbe, 2022). Ajibade, Jaji and Kwarbai (2020) found a serious problem hindering the efficiency of corporations through their research. They discovered that the landscape of corporate governance and the risk faced by businesses is significantly altered by the increasing number of corporate governance standards imposed by industry regulators. There is now a well-established system of rules and regulations, which has effectively created a single national standard. Similarly, Tachie-Djan (2022) highlighted how globalisation in capital markets has increased demand for uniformly high levels of transparency and oversight. In light of recent crises and widespread noncompliance with current standards, the Financial Reporting Council has produced a National Code of corporate governance (Olayiwola, Olugasa, Kajola, & Akinmade, 2020). The code is built to be suitable for the climatic conditions in Nigeria and has been intended to ensure its full application. Significant empirical evidence shows that effective corporate governance can lead to improved financial performance and increased shareholder interest in developing nations like Nigeria, as noted by scholars such as Olayiwola et al. (2020) and Anayo (2021). Moreover, gaining access to more capital and decreasing funding expenses accomplish this goal. Okeke (2022) and Anayo (2021) find that Nigerian commercial banks' operational outcomes are significantly impacted when they follow the code of corporate governance. According to Kazeem (2023), it is widely held that Nigerian banks' capacity to comply with rules is hindered by flaws in its internal check mechanisms.

Consequently, Tachie-Djan (2022) opines that the size of the board of directors is a critical determinant of a bank’s governance effectiveness. In addition, Omware, Atheru and Jagongo (2020) observe that high-quality financial reporting is essential for maintaining transparency, investor confidence, and compliance with regulatory standards. Temba, Kasoga and Keregero (2023) assert that board independence is a cornerstone of effective corporate governance, as independent directors are expected to provide unbiased oversight and challenge management decisions. In Nigeria, regulatory guidelines mandate a certain proportion of independent directors on bank boards, as highlighted by the CBN’s Corporate Governance Code (2021). Fajriyanti et al. (2021) reveal that the quality of internal controls is fundamental to safeguarding assets, ensuring accurate financial reporting, and complying with regulations. Moreover, Tarchouna et al. (2022) opines that the alignment of executive compensation with financial performance, known as pay performance sensitivity, is a crucial aspect of corporate governance. This alignment incentivizes management to pursue strategies that enhance shareholder value. Thaker et al. (2022) highlight the importance of performance-linked pay in driving better financial outcomes. In Nigeria, the Securities and Exchange Commission (SEC) has issued guidelines on executive compensation to ensure that it aligns with corporate performance. Research Velliscig et al. (2022) indicate that executive compensation significantly influences financial performance in Nigerian banks.

Despite the increased and improved regulations by regulators and the adoption of corporate governance frameworks, many banks continue to experience worse than ideal financial performance. The use of financial criteria to evaluate the efficacy of corporate governance frameworks in primarily listed companies in developed and emerging market economies has also been the subject of much research by a number of scholars (Mustapha, Rashid, Bala, & Musa, 2020; Herbert & Agwor, 2021; AL-Hashimi, AL-Toobi, & Ahmed, 2023). Many Nigerian banks have either folded or merged as a result of the procedure and push for robust capitalisation, leaving just those with the financial capacity to continue operating in the sector. Despite the aforementioned, problems with mergers and acquisitions continue to exist even after the 2005 banking consolidation, as demonstrated by the recent acquisitions of Diamond Bank by Access Bank in 2019 and Unity Bank by Providus Bank in 2024 (Oluwole, 2021; Arise News, 2024), as well as the Central Bank of Nigeria's liquidation of Heritage Bank in 2024 (Adegboyega, 2024). By addressing these important issues, this study seeks to offer a thorough grasp of the ways in which different facets of corporate governance affect the financial performance of Nigeria's Deposit Money banks. By doing this, it hopes to provide insightful information that will help stakeholders, bank management, and policymakers improve governance procedures and financial results. This study aims to determine, what is the influence of board size on the Return of Assets of Deposit Money banks in Nigeria. It will consider, what is the impact of financial reporting quality on the Return of Assets of Deposit Money banks in Nigeria. Moreover, it will examine what is the influence of board independence on the Return of Assets of Deposit Money banks in Nigeria. Finally, the study aims to ascertain what influence of pay performance sensitivity on the Return of Assets of Deposit Money banks in Nigeria.

The study on the impact of corporate governance on the financial performance of Deposit Money banks in Nigeria holds substantial significance for several stakeholders, including regulatory authorities, bank management, investors, and academics. The study will help in Understanding how the size of a bank's board influences its financial performance is crucial as it provides insights into how the size of the board can enhance financial performance by ensuring compliance with regulations and mitigating risks. Also, high-quality financial reporting is essential for maintaining investor confidence and ensuring transparency. Furthermore, how, board independence is a critical component of good corporate governance. Finally, an understanding of the relationship between executive compensation and financial performance is crucial for aligning management incentives with shareholder interests. This is significant as it informs best practices regarding the optimal balance amongst these various elements that will impact the financial performance of deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

According to Anayo (2021), financial performance is a critical measure of an organization's ability to generate revenues, manage expenses, and achieve profitability. It encompasses various financial metrics and ratios that provide insight into an organization's operational efficiency, solvency, liquidity, and overall financial health (Anayo, 2021). The financial performance of any organisation is crucial, as it reflects the effectiveness of the management and tells investors about the general well-being of the company (Eni-Egwu et al., 2022).

Key performance indicators (KPIs) for banks include profitability metrics such as return on assets (ROA), return on equity (ROE), and net interest margin (NIM) (Manduku, 2020). Return on Assets (ROA) is a key financial performance indicator used to assess an organization's profitability relative to its total assets (Anayo, 2021). The global financial crisis of the 21st century that affected numerous companies and organizations negatively have compelled stakeholders to re-evaluate and reinvent corporate governance structure and operations (Saleh, 2021). According to Robinett et al. (2021), corporate governance is a process by which business corporations are managed, organized and directed to achieve desired organizational goals. It brings to focus a real sense of engagement and operation of the business organization (Brown et al., 2021). Chancharat and Chancharat (2019) opined that the functionality of the corporate governance is apt to navigate and institute a sense of ownership and coordinated governance, which is geared towards enabling managers conduct themselves in an ethical manner and also, make excellent decisions that will increase the developmental agenda of the business corporation and benefit to stakeholders.

In the same vein, Babatunji, Tze, Md and Abu (2020) recognized the fundamentality of corporate governance. Based on their study, they observed that corporate governance is the connection that holds together policy making, formulation and implementation of the business policy which gives direction and purpose to the organization and optimization for stakeholders' benefit. It represents a fundamental apparatus that correlates the various dealings and operations of the business with the concern of stakeholders in an organization (Akinleye, Olarewayu & Fajuyagbe, 2019). Holistically, Akingunola, Adekunle, and Adedipe, (2021), conceptualized corporate governance as a structural framework of an organization involving its operations, processes and codes of conducts including ethics that give the organization a clear direction towards optimizing its resources and achieving organizational goals for the greater good and benefit of its stakeholders. In spite of a plethora of recent studies on corporate governance in developing countries, these studies still observed a lack of full attention to corporate governance structure most especially among financial institutions as compared to corporate governance in advanced countries. This obvious gap hence leads us to the review of corporate governance in the Nigerian banking system. In contemporary times, Nigeria has witnessed various evolutions in its code of corporate governance. For example, in 2003 there was the code of corporate governance codified by the Securities Exchange Commission (SEC); in 2006, the Central Bank of Nigeria (CBN) issued a post-consolidation corporate governance code for the banking sector (Adeoye, 2019). Also, in 2011, another code of corporate governance was issued by the SEC, and most recently the 2019 "new Code" of corporate governance was issued by the Financial Reporting Council of Nigeria for both private and public organizations, with monitoring and imposition of sanctions rights given to sectoral regulators (Ozili, 2020). According to Ozili (2020), "…the new Code is made up of 7 parts and contains 28 principles. It covers the 'Board of directors', 'audit', 'relationship with shareholders', 'business conduct with ethics', 'sustainability', 'transparency' and'definitions'…" (p. 4). The new code has an "apply or explain" design which is principlebased. This means, according to Ozili (2020) that if a company, especially the banks fail to apply any of the principles or codes, management of such banks must be ready to give a clear and tangible explanation to the external regulators like the CBN and SEC. In order to enforce good corporate governance mechanism in Nigeria the "apply or explain" approach was formulated.

According to Roberts and Onyejiuwa (2021), board size is said to be considered as the number of members of board that monitor the affairs of an organisation. Afolabi (2021) views board size as group of individuals with good personal character and ability to perform the board's duties, integrity, having sense of accountability, record of success, and leadership qualities. Board size refers to the membership of the board of directors, in terms of the number of directors serving on the board (Herbert & Agwor, 2021). Financial reporting quality (FRQ) is essential for ensuring transparency, accountability, and informed decision-making among stakeholders (Amahalu & Obi, 2020). Good quality financial reporting provides shareholders and other stakeholders in understanding and absorbing the information through financial statements and hence lowering the information asymmetry (Bushman & Smith, 2019). Some scholars found that increase in financial reporting quality can have an important economic implication such as increase investment efficiency (Lambert et al., 2021). Board independence means majority of the board of directors are non-executive. The inclusion of outside executives on the board is termed 'board independence'. This plays a vital mechanism to test the efficacy of a board. Adesanya et al. (2019) see independent executives as directors who besides receipt of director's compensation do not bear any other significant relationship with the entity in which the decision of the board may affect their independent judgment. Whereas, inside director is an individual on the board who is a member of staff of the entity (Kafidipe et al., 2021).Pay performance sensitivity is the financial payment and non-monetary benefit provided to high level management in exchange for their work on behalf of the organization (Ahmed et al, 2020). Pay performance sensitivity is interchangeably used with executive pay or executive compensation comprises of salary and incentive pay (Okpo et al, 2023). They argued that Incentive pay may include cash and non-cash rewards; it is an important part of finance and accounting which is yet to attract much attention in developing countries like Nigeria.

Conceptual Framework

Contextually, this study focused on impact of corporate governance on the financial performance of deposit money banks in Nigeria. In this study, corporate governance was evaluated in four categories; board size, financial reporting quality, board independence, pay performance sensitivity, while performance is evaluated using Return on asset. The conceptual framework for the study is indicated in Figure 1.0.

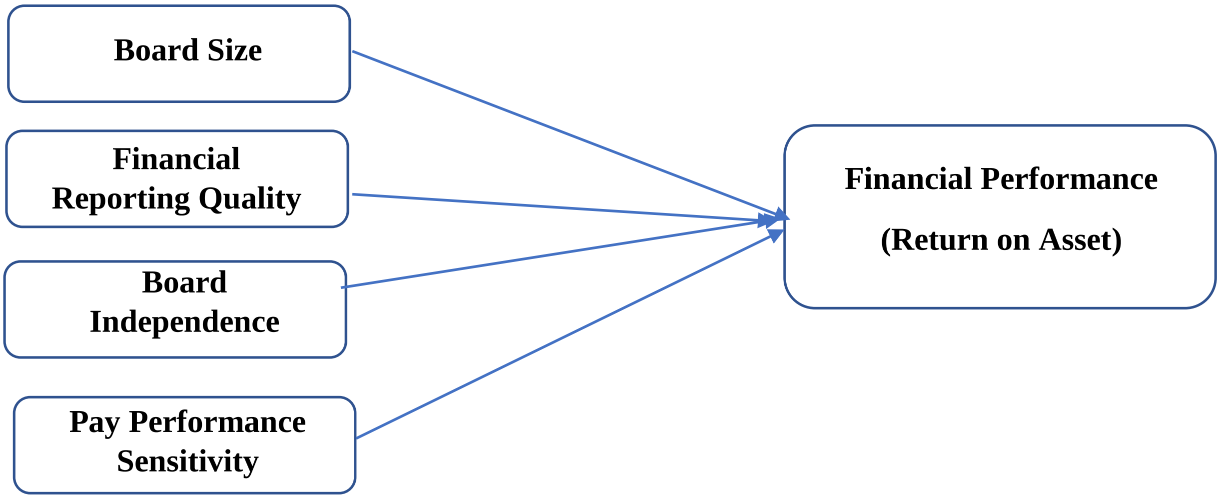

Figure 1: Conceptual Framework by the Researcher

The conceptual framework illustrates the interplay between board size, financial reporting quality, board independence, and pay performance sensitivity in influencing financial outcomes, such as Return on Assets (ROA) and Return on Equity (ROE). Moreover, the conceptual framework posits that board size reflects the diversity of expertise and oversight capacity. While larger boards may offer broader perspectives, they can also face coordination challenges, affecting their ability to improve ROA. Optimal board size balances efficiency with adequate representation. In addition, high-quality financial reporting ensures transparency, reduces information asymmetry, and enhances decision-making. This leads to improved investor confidence, better allocation of resources, and higher ROA. Also, independent boards mitigate agency conflicts, enhance oversight, and improve accountability. These factors contribute to more effective decision-making, improved governance, and higher ROE. Additionally, linking executive compensation to performance aligns management interests with organizational goals, motivating managers to enhance profitability and ROA.

Theoretical Review

The study is anchored on the following theories out of all the theories reviewed above. The dominant theory is the agency theory, stewardship theory and the resource dependence theory. The agency theory, formulated by Jensen and Meckling (1976), is based on the notion that in a modern corporation there is separation of ownership and control, resulting in agency costs associated with resolving the conflict between the owners and agents. A principal agent relationship arises when a principal (shareholders) contracts an agent (management) to perform some tasks on behalf of the principal and involves delegating some decision-making authority to the agent. In executing the tasks, the agent chooses an action, which in turn has certain consequences, that is, an outcome that affects the welfare of both the principal and the agent (Trond, 1993 cited in Anayo, 2021). Jensen and Meckling (1976) cited in Anayo (2021) explain that if both parties to the relationship intend to maximize their utility, then it’s more likely that the agent will not endeavor to uphold the interest of the principal. Managers are likely to engage in sub-optimal management behavior such as excessive consumption of perquisites, reluctant to undertake new profitable projects, investing of free cash flow in sub-optimal projects and organizational inefficiencies. Nevertheless, the principal can decide to control divergences from his interest by incurring agency costs which are the sum of monitoring, bonding costs and residual loss (Anayo, 2021).

Though the agency theory is still a dominant theory in explaining issues of corporate governance it suffers from various limitations. Beyond the classical conflict between the shareholders and managers, the agency theory today is challenged by many conflicts; majority shareholders versus minority shareholders, managing shareholders versus minority shareholders, shareholders versus the creditors (Panda & Leepsa, 2021). It has also been criticized by the sociologists who argue that the theory assumes that the actors in the corporate world are self-interested and invisible and that markets are in no ways influenced by social relations. It further assumes that behavior is motivated by solely by personal financial interests. However, the scholars argue that some of the actions of the managers could be rooted in the social structures and is not entirely determined by economic incentives and information asymmetry (Zogning, 2019). The agency theory is revolutionary, powerful foundation but predominantly it does not address any clear problem, is restrictive and hence, lacks the practicality (Anayo, 2021). Nevertheless, in spite of the shortcomings, the agency theory is a very pragmatic and applied theory with many roots in many different academic fields and its usefulness is very extensive and prominent (Panda & Leepsa, 2021).

Unlike the agency theory, the stakeholder theory describes a convergent relationship between the shareholders and corporate managers, (Molokwu & Duru, 2020). The theory developed by Freeman (1984) hypothesizes that there is no conflict of interest between shareholders and corporate managers.

It argues that managers are not opportunistic agents, but good stewards, who will act in the good faith and in best interest of the owners. The theory is based on a model of man where a steward perceives greater utility in cooperative, pro-organizational behavior than is self-serving behaviour. Contrary to the agency theory which focuses on control and conflict, the stewardship theory focuses on cooperation and collaboration (Molokwu & Duru, 2020). Contrary to the agency theory that advocates for majority of outside directors, the stewardship opines that the interest of the owners is best safeguarded by board dominated by inside directors. Anayo (2021) argue that corporations may prefer insider-controlled boards because of the information that is available to insiders relative to outsiders.

The resource dependency theory, formulated and advanced by Pfeffer (1972), explains how the external resources affect the behaviour of the firm and takes the strategic view of corporate governance. According to the theory, the acquisition of external resources is vital for strategic management of the firm. The theory postulates that organizations have a varying degree of dependence on the environment, especially for the resources they need to operate (Musa, 2019). Uncertainty and dependence propel an organization to proactively manage its environment.

The theory strongly emphasizes the role of the board of directors in providing the much-needed resources relevant for the survival of the firm (Tricker, 2012 cited in Bassey, 2018). These resources emanate from the environment that consists of other firms and actually the resources are in the hands of other firms. Therefore, firms depend on each other and exchange resources. This is why resources are the power of firms because they are valuable, costly to imitate, rare and cannot be substituted. Annayo (2021) pointed out that resources and power are thus interlinked and firms with more resources are considered more powerful. The scarcity of resources leads to uncertainty for firms and therefore organizations seek to exploit resources for the safeguard of its own long-term survival (Pfeffer & Salancik, 1978 cited in Musah, & Adutwumwaa, 2021). Within the perspective of this theory, corporations are viewed as coalitions aligning their structure and pattern of behavior to acquire and maintain requisite external resources (Pfeffer, 1972 cited in Musah, & Adutwumwaa, 2021). The implication of this theory is that corporate boards will reflect the environment of the firm and that corporate directors will be chosen to maximize the provision of critical resources needed by the firm. Each director is expected to bring in different linkages and resources to the entity (Hillman, Canella & Partzold, 2000 cited in Molokwu & Duru, 2020).

From the foregoing analysis, it’s clear that the three theories propose varying recommendations on board independence. Although both the agency and resource dependence theories support compliance to corporate governance and high levels of board independence; the reasons for this support are different. The agency theory views board independence as tool for monitoring management, whereas the resource dependency theory views board independence as conduit for accessing external resources. On the other hand, the stewardship theory supports board independence on the premise of inside knowledge. The applicability of each theory thus depends on the context, as none is applicable in all situations.

Empirical Review

Several scholars (Mohammed, Gugong and Ayuba, 2022 ; Babatunde and Folorunsho, 2020 ; Temitope, 2020; Musah and Adutwumwaa, 2021; Ojianwuna, 2024 ; Onmonya and Zik-Rullahi, 2024 ; and Adesanmi et al. 2019) have looked into the impact of corporate governance on the financial performance of deposit money banks. Although the studies have used a different mix of corporate governance and financial performance proxies. The results of their findings have revealed positive relationships, negative relationships or no impact or significance between the two variables.

Studies with positive relationship between corporate governance and financial performance of deposit money banks in Nigeria.

Mohammed, Gugong and Ayuba (2022) examined capital structure, board size and financial performance of listed deposit money banks in Nigeria. This study employed board size as moderating variable in the relationship between capital structure and the financial performance of listed Deposit Money Banks (DMBs) in Nigeria. The study adopted correlation and ex-post facto as research design. The population of the study consists of 43 DMBs in Nigeria and the sample of the study consists of 13 listed DMBs on the Nigeria Exchange Group in Nigeria. Purposive sampling techniques are employed. Multiple regression model based on pooled Ordinary Lease Square (OLS) robust test is adopted to analyse the panel data obtained from audited financial statements of the sampled listed DMBs between 2011- 2020. The study further reveals that board size moderated the relationship between equity financing ratio and financial performance of listed DMBs in Nigeria. The study revealed that equity financing ratio as moderated by board size influences financial performance. Therefore, it is recommended that board members should come up with effective policy towards encouraging debt financing in their organisations with by constant monitoring and evaluation in order to improve their financial performances, which will along way safeguard the interest of the shareholders and management staff.

In another study by Temitope (2020) on the effect of corporate governance on financial performance of listed companies in Nigeria. The study employed explanatory research design where ten (10) listed firms were chosen. Panel data regression was used to analyse the data. Findings revealed that board size has a significantly negative correlation with financial performance of listed companies in Nigeria, board composition has a significant positive correlation with financial performance of listed companies in Nigeria, and audit committee has an insignificant correlation with financial performance of listed companies in Nigeria.

Musah and Adutwumwaa (2021) examined the effect of corporate governance on financial performance of rural banks in Ghana, using 30 rural banks for a 10-year period spanning 2010 to 2019 as the population for the study. The result showed that there was a positive association between board size and ROA and ROE even though that of ROA was statistically insignificant. In addition to the above, the study reported a negative association between gender diversity on the boards of the rural bank and ROA and ROE and both associations were statistically significant. According to Musah and Adutwumwaa (2021), to achieve adequate compliance with the Code of Corporate Governance and to enhance performance, calls for more significant effort.

Moreover, a study by Musa (2019) on the impact of corporate governance on financial performance of complements in Nigeria was conducted to examine the effects of corporate governance attributing board size, board composition on financial performance (proxied by Return on Assets (ROA), Return on Equity (ROE)). The study used the ex-post factor research design with a population and sample size of 6 quoted conglomerate companies listed on the in Nigerian Stock Exchange covering the period between 2008 and 2017. Data for this study was generated from the published annual accounts and reports of the sampled firms. For the purpose of data analysis, Random Effect regression was utilized for the two models (ROA and ROE). The study found that board size has a significant positive effect on financial performance, while board composition and board ownership have a significant negative effect on financial performance.

Ojianwuna (2024) explored the influence of Financial Reporting Quality on stakeholders' decisions to invest in the listed Deposit Money banks in Nigeria. The study population consisted of the 14 listed Money DMBs in Nigeria and a sample of ten (10) banks were selected for a period of ten years (2011-2020). Ex-Post Facto method was used; and data were extracted from the published financial reports. The study assessed the influence of Earnings Management, Accounting conservatism, Financial Statement Timeliness and Earnings Per share on the value (Tobin's Q). Firms Age and size as control variables. Excel Analytical Tool pack was used for the analyze the regression model. Results from the analyses revealed that financial reporting has a positive effect on Tobin's Q (AdjR2 = 0.068; F (2, 99), p = 0.048). The individual effects of the explanatory variables revealed that Accounting Conservatism (AC) and financial reporting Timeliness (TML) have positive and significant impact on Tobin's Q (0.04 and 0.014). However, Earnings Management (EM) and Earnings Per Share (EPS) have no significant effect on the Tobin's Q (0.75 and 0.41). The control variable of Age has a significant influence with p value of 0.01 while the Firms size does not have significant impact on Tobin's Q with a p value of 0.85 respectively. This study recommended that in order to build stakeholders' confidence in investing in a company, organizations are encouraged to publish high quality financial statement.

Adesanmi et al. (2019) examined the effect of board diversity on the financial performance of deposit money banks in Nigeria. The study also examined the relationship between board independence and financial performance of deposit money banks in Nigeria. For the purpose of this study, the proxy for financial performance is profit margin while the proxies for board diversity and board independence are the ratio of female directors to total board size and ratio of non-executive directors to total board size, respectively. The data for the study were sourced from the annual reports of 10 listed deposit money banks in Nigeria from 2008 to 2017. The data were analyzed using pooled Ordinary Least Square regression. The results show that the coefficient of board diversity was positively signed and statistically significant at 5% (β=0.34, ρ=0.02); the coefficient of board independence was positively signed and statistically significant at 5% (β= 0.11, ρ=0.02). The study concludes that both gender diversity and board independence positively affect the financial performance of deposit money banks in Nigeria. Therefore, the study recommends that deposit money banks should encourage appointment of qualified female directors on the board. In addition, deposit money banks should ensure the independence of the board by appointing independent non-executive director who are well experienced in bank management.

Studies with negative relationship between corporate governance and financial performance of deposit money banks in Nigeria.

Babatunde and Folorunsho (2020) examined the impact of board size and independence on the performance of listed firms in Nigeria. The study, which spanned the years 2009 to 2018, used secondary data from published annual reports and accounts of 35 specifically chosen listed companies on the NSE. In order to analyse the data, the regression techniques of Pooled OLS and Generalized Least Squares were used. The study's findings revealed that earnings per share and board independence do not significantly correlate, but that earnings per share and board size do significantly correlate negatively with a coefficient of -0.33 and a p-value of 0.0095 (>0.01), and between earnings per share and board diligence, with coefficients of -0.43 and -0.48 and p-values of 0.02 (>0.05) and 0.0095

(>0.01), respectively. The study came to the conclusion that while board independence and gender diversity have no bearing on the success of quoted companies in Nigeria, board size and diligence do.

Onmonya and Zik-Rullahi (2024) investigated CEO Pay and Financial Performance: Evidence from Deposit Money Banks in Nigeria. The study is on the relationship between CEO pay and financial performance of banks in Nigeria from 2008 to 2022. In establishing the relationship, correlational research design was implored. The study aimed to investigate the impact of CEO Pay on Financial Performance of DMBs in Nigeria. The research encompasses listed banks in Nigerian. Utilizing secondary data from annual reports and accounts, a panel regression using feasible generalised least square FGLS was used to test the hypotheses due to presence of heteroskedasticity since Hausman and Lagrange Multiplier test choose random effect. The study was anchored on pay performance theory on the two models of financial performance which include NIM and Tobin's Q. The findings reveal that CEO compensation have a negative and significant relationship with financial performance of banks in Nigeria. However, the study could not establish any relationship between chairman compensation and financial performance. The study's findings yield recommendations for enhancing financial performance of Nigerian banks. The study recommends s need for control on CEO Pay of banks as these are vital to the financial performance of banks in Nigeria.

Literature Gap

Methodology gap: Despite the depth of prior studies on impact of corporate governance on financial performance of deposit money banks, certain gaps and underexplored areas present opportunities for further research. Many studies have conflicting results concerning the relationship between board size, independence, and financial performance. For instance, Ali and Shadrach (2023) found board size to have a negative and significant impact on ROA, while Roberts and Onyejiuwa (2021) reported a positive impact. Such inconsistencies necessitate further investigation into moderating factors such as bank size, market conditions, and cultural influences. This study uses a unique mix of 4 independent variable proxies to compare the dependent variable. This paper addresses these gaps by investigating the moderating effects of board size on governance-performance relationships. Furthermore, it will include pay-performance sensitivity as a unique variable to assess its nuanced impact on financial metrics. Additionally, it will employ disaggregated performance metrics to provide granular insights into corporate governance outcomes. This study will explore emerging governance practices and their role in modernizing Nigerian banking systems.

Scope gap: Most research work till date has been on deposit money banks in Nigeria prior to recapitalization drive of the CBN. This study will be using recent data collected from listed deposit money banks on the Nigeria Exchange from 2014 – 2023.

METHODOLOGY

This study used an ex post-facto research design to assess the impact of non-performing loans management on the profitability of financial institutions. The research design was utilised as it relies on historical data derived from financial statements (Saunders et al., 2019). For this study, annual report of banks from 2014 to 2023 were analysed to assess the impact of corporate governance on their financial performance.The population of this study comprised the forty-three (43) deposit money banks registered with Central bank of Nigeria as at 31st December, 2024 (CBN, 2024). Also, the study time frame was from 2014 to 2023. This time frame was long enough to show both the short-term and long-term effects of corporate governance on the performance of the banks. As it gives the banks a lot of time after the consolidation of codes to review, apply, and adopt the different corporate governance policies and recommendations made by the CBN (Anayo, 2021).

For the purpose of this study, the sample size for this investigation comprised thirteen (13) deposit money banks listed on the Nigeria Exchange Group as at April, 2025 out of the thirty-three (43) deposit money banks registered with the CBN. The banks selected were Access Holdings Plc, Fidelity Bank Plc, First City Monument Bank Plc, First Bank of Nigeria Limited, Guaranty Trust Holding Company Plc, United Bank for Africa Plc, Zenith Bank Plc, Union Bank of Nigeria Plc, Sterling Bank Plc, Stanbic IBTC Holdings Plc, Wema Bank Plc, Unity Bank Plc and Ecobank Nigeria Plc. The selection of these banks was based on the banks with the highest asset base as listed on the Nigeria Exchange Group as at April, 2025 (CBN, 2025). Also, the selection of these banks for this study was intentional, based on the availability of data, and their financial statements remain consistent throughout the period without any interruptions or gaps. Moreover, this study adopted purposive sampling technique.

This study utilised secondary data. The secondary data employed included annual financial statements from financial institutions listed on the Nigeria Exchange Group, as well as records from the Central Bank of Nigeria, daily publications, academic journals, and other relevant sources.The study used panel data from financial institutions in Nigeria, collected from the annual report from 2014 - 2023. The data included: Return on Assets (ROA) or Return on Equity (ROE), Earning Per Shares (EPS), Board Size (BS), Financial Reporting Quality (FRQ), Board Independence (BI), and Pay Performance Sensitivity (PPS). After collecting the data, the researcher analysed them using statistical tools to explore correlations between variables and make conclusions about the population being studied. Typical statistical analyses in cross-sectional research involve descriptive statistics (such as frequencies and means), bivariate analyses (such correlations and chi-square tests), and multivariate analyses (such as regression analysis and analysis of variance) (Saunders et al., 2019). The gathered data were analysed using EViews. Descriptive statistics, encompassing tables and percentage analyses, were employed for the efficient display of data.

Model Specification

The study employed a multiple linear regression model. The dependent variable is the financial performance of deposit money banks in Nigeria, commonly measured by Return on Assets (ROA), Return on Equity (ROE), and Earning Per Shares (EPS). The independent variables include Board Size (BS), Financial Reporting Quality (FRQ), Board Independence (BI), and Pay Performance Sensitivity (PPS). The model was specified as follows:

$FP = \beta_0 + \beta_1 BS_{it} + \beta_2 FRQ_{it} + \beta_3 BI_{it} + \beta_4 PPS_{it} + \epsilon_{it}$ .... (i)

Where:

- FP = measures financial performance using ROA and ROE
- ROA_{it} = Return on Assets of commercial bank *i* at time *t*, representing financial performance.
- BS_{it} = Board Size ratio for commercial bank *i* at time *t*.
- FRQ_{it} = Financial Reporting Quality ratio for commercial bank *i* at time *t*.
- BI_{it} = Board Independence ratio for commercial bank *i* at time *t*.
- PPS_{it} = Pay Performance Sensitivity ratio for commercial bank *i* at time *t*.
- β_0 = Intercept term.
- β_1, β_2, β_3, β_4 = Coefficients for the respective independent variables.

- ϵit = Error term.

RESULTS AND DISCUSSION

Data of 13 listed DMB listed on the Nigeria Exchange where reviewed between 2014 – 2023. The findings of this study are presented below. The section is divided into three segments descriptive analysis, test of hypotheses and discussion of findings respectively. The results are presented in table and interpretation follows thereafter.

Table 2: Descriptive Statistic Result

Statistic	ROA	PPSR	FRQ	BS	BIR
Mean	2.517865	0.6	0.718462	13.32609	0.544866
Median	2.53	1	0.7325	13	0.545
Maximum	3.91	1	0.93	21	0.818
Minimum	-0.3	0	0.3	6	0.1
Std. Dev.	0.716702	0.49029	0.154991	3.409876	0.179531
Skewness	-1.717056	-0.412311	-0.165481	0.749388	-0.491733
Kurtosis	2.817201	1.168589	2.186254	2.514126	3.139084
Jarque-Bera	11.17381	2.565578	1.110215	4.183941	5.406984
Probability	0.00361	0.278366	0.573351	0.123151	0.067007
Sum	327.26	78	93.4	1738	70.78

Source: Survey by researcher (2025). NB: Return on Asset (ROA); Financial Reporting Quality ratio (FRQ); Board Independence Ratio (BIR); Pay performance Sensitivity Ratio (PPSR); Board Size (BS).

The descriptive statistical analysis of the selected variables—Return on Assets (ROA), Pay-Performance Sensitivity Ratio (PPSR), Financial Reporting Quality (FRQ), Board Size (BS), and Board Independence Ratio (BIR)—provides key insights into the performance, governance, and structural characteristics of the sampled firms. ROA, which measures financial performance, has a mean of 2.52% and a median of 2.53%, indicating moderate profitability across firms. However, its negative skewness (-1.71) and significant Jarque-Bera p-value (0.0036) suggest a non-normal distribution, implying that while most firms earn consistent returns, a few underperform significantly, pulling the average down. This asymmetry is further confirmed by a standard deviation of 0.72, indicating moderate dispersion in performance. The kurtosis of 2.81, slightly below the normal threshold, implies a distribution that is somewhat flat, with a wider spread of ROA values than would be seen in a typical normal distribution. The Pay-Performance Sensitivity Ratio (PPSR), which captures how well executive compensation aligns with firm performance, has a mean of 0.60 and a median of 1. This shows that, on average, compensation is moderately linked to performance, while at least half of the firms exhibit full sensitivity (PPSR = 1). The variable is slightly negatively skewed (-0.41), indicating that more firms adopt high pay-performance sensitivity. The flat distribution (kurtosis = 1.17) suggests extreme clustering at values of 0 and 1, possibly due to binary compensation structures. Importantly, the Jarque-Bera p-value (0.278) suggests that PPSR is approximately normally distributed, indicating consistency in governance compensation policies across firms.

Financial Reporting Quality (FRQ) also exhibits a relatively high mean of 0.72, with a tight standard deviation of 0.15, suggesting that most firms maintain consistently strong reporting standards. Its near-symmetric distribution (skewness = -0.165) and normal kurtosis (2.19), combined with a non-significant Jarque-Bera p-value (0.573), confirm that the distribution is statistically normal. This supports the argument that firms adhere to uniform financial reporting norms, perhaps driven by regulatory or investor pressure. Board Size (BS) has a mean of approximately 13.3 members, with a wide range from 6 to 21, and a standard deviation of 3.41, indicating considerable variation across firms. The positive skewness (0.75) suggests that while most boards are moderately sized, a few are significantly larger. Its kurtosis (2.51) is close to the normal level, and the Jarque-Bera test yields a borderline p-value (0.123), implying mild deviation from normality.

Lastly, the Board Independence Ratio (BIR), with a mean of 0.545 and median of 0.545, indicates that over half of board members in most firms are independent. The distribution is slightly negatively skewed (-0.49), with a kurtosis of 3.14, indicating mild peakedness. The Jarque-Bera p-value (0.067) is marginally above the 5% significance level, suggesting approximate normality. Overall, the descriptive statistics reflect generally good governance practices among the firms studied, with moderate variations in performance and structural attributes, and only ROA showing strong non-normality requiring potential transformation before further parametric analysis.

Table 3: Correlation Matrix

	ROA	**PPSR**	**FRQ**	**BS**	**BIR**
ROA	1				
PAY_PERFO	-0.195917	1			
FINANCIAL	-0.193638	0.009128	1		
BOARD_SIZE	-0.122335	0.153157	-0.006867	1	
BOARD_IND	-0.281268	0.060808	-0.109938	0.265965	1

Source: Survey by researcher (2025).

The correlation analysis provides insights into the relationships between firm performance, measured by Return on Assets (ROA), and various corporate governance indicators. The results reveal that **ROA is negatively correlated with all the governance variables**, though most relationships are weak. Specifically, **Pay-Performance Sensitivity (PPSR)** shows a weak negative correlation with ROA (r = -0.1959), suggesting that increased alignment between executive compensation and performance is slightly associated with lower firm profitability. This may indicate that performance-based pay structures are not effectively designed or implemented in the firms studied. Similarly, **Financial Reporting Quality (FRQ)** is negatively related to ROA (r = -0.1936), implying that higher reporting quality may not necessarily translate into improved short-term profitability. This could be due to more conservative accounting practices in high-reporting-quality firms, which may reveal weaker performance or lower discretionary earnings. **Board Size (BS)** is also weakly negatively correlated with ROA (r = -0.1223), supporting the notion that larger boards may experience coordination inefficiencies that impact decision-making effectiveness.

The strongest relationship is between **Board Independence (BIR)** and ROA (r = -0.2813), indicating a moderate negative association. This suggests that a higher proportion of independent directors may not enhance, and could even hinder, firm performance—possibly due to lack of industry expertise or limited involvement in strategic decision- making. Additionally, inter-variable relationships among governance indicators show generally weak correlations, except for a moderate positive correlation between **Board Size and Board Independence** (r = 0.2660), suggesting that larger boards tend to include more independent members. Overall, the findings highlight that while corporate governance mechanisms are important, their direct linear relationship with performance appears limited, suggesting the need for more robust multivariate analysis to uncover indirect or interaction effects.

Table 4: Regression Result Showing the Combine Relation of The Independent Variables to The Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PPSR	-1.785536	0.805112	-2.217079	0.0297
FRQ	-2.081214	1.013366	-2.054782	0.0419
BS	0.099867	0.037112	2.690404	0.0081
BIR	1.015457	1.160668	0.874709	0.3836
Statistic				
R-squared	0.161369	Mean dependent var		2.517865
Adjusted R-squared	0.13326	S.D. dependent var		0.716702
S.E. of regression	0.668284	Akaike info criterion		1.157134
Sum squared residual	55.18156	Schwarz criterion		1.284222
Log likelihood	-67.01346	Hannan-Quinn criterion		1.207848
F-statistic	5.730816	Durbin-Watson stat		0.851162
Prob(F-statistic)	0.000816			

Source: Survey by researcher (2025).

The multiple regression analysis reveals a statistically significant model (F = 5.73, p = 0.0008), indicating that the independent variables jointly explain variations in firm performance (ROA). The R-squared of 16.1% suggests a modest explanatory power, meaning other factors beyond the governance indicators may also influence ROA. Individually, **pay-performance sensitivity (PPSR)** and **financial reporting quality (FRQ)** have statistically significant negative effects on ROA at the 5% level. This implies that higher alignment of executive pay with performance and stronger financial reporting standards are paradoxically associated with lower firm profitability in the sample—possibly due to implementation inefficiencies or regulatory burdens. In contrast, **board size (BS)** has a positive and highly significant impact on ROA (p = 0.0081), suggesting that larger boards contribute positively to firm performance, perhaps by providing diverse expertise and improved oversight. Meanwhile, **board independence (BIR)**, despite a positive coefficient, is not statistically significant (p = 0.3836), indicating no clear effect on firm profitability. The low Durbin-Watson statistic (0.851) raises concerns about positive autocorrelation in the residuals, which should be addressed in subsequent robustness checks or model refinements.

DISCUSSION OF FINDINGS

Board Size had a positive and statistically significant effect on ROA, suggesting that larger boards may contribute positively through diverse expertise and oversight. Financial Reporting Quality negatively influenced ROA in the multivariate model, potentially reflecting conservative accounting practices that reduce reported profits in the short run, despite contributing to long-term sustainability. Pay-Performance Sensitivity also had a statistically significant negative impact in the combined regression model, implying that performance-based pay structures might trigger short-term strategies that harm long-term asset returns. Board Independence, while positively related to ROA, was not statistically significant in the overall model.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the findings highlight the relevance of corporate governance structures in shaping the financial performance of DMBs in Nigeria. However, the presence of autocorrelation in residuals, as indicated by low Durbin-Watson statistics across models, suggests the need for further refinement in model specification and the inclusion of more robust techniques in future research. The chapter provides a strong foundation for policy recommendations and future studies in financial governance and bank performance. Based on the findings of this study, the following recommendations are proposed:

1. Given the significant influence of board size on ROA, Deposit Money Banks should maintain an optimal board size that balances diversity of expertise with effective communication and decision-making. Regulators such as the Central Bank of Nigeria (CBN) may also consider providing updated guidelines on ideal board composition tailored to bank size and operational complexity.
2. Since financial reporting quality significantly affects ROA, DMBs should continuously improve their reporting standards by adopting global best practices such as International Financial Reporting Standards (IFRS). Banks should also invest in staff training and modern financial software systems to enhance accuracy, transparency, and timeliness in financial disclosures.
3. In light of the positive impact of board independence on performance, banks should ensure that their boards include a sufficient proportion of experienced and truly independent non-executive directors. These directors should not only be independent in designation but also actively contribute to oversight and risk management functions.
4. The significant influence of pay-performance sensitivity on ROA suggests the need for carefully structured compensation packages. Banks should design performance-based remuneration systems that encourage sustainable profitability rather than short-term risk-taking. This includes using balanced scorecards and deferred bonus systems that align executive incentives with the bank’s long-term health.
5. Regulatory bodies, particularly the CBN and the Financial Reporting Council of Nigeria (FRCN), should intensify oversight functions to ensure that governance standards relating to board practices, disclosure quality, and compensation structures are fully implemented and adhered to across the banking sector.
6. Policymakers and stakeholders in the Nigerian financial industry should consider continuous reforms aimed at strengthening corporate governance frameworks. This

includes regular audits of board performance, transparency in the nomination process, and sanctions for non-compliance with governance codes.

Suggestions for Further Studies

While this study contributes to the growing body of literature on the impact of corporate governance on the financial performance of Deposit Money Banks (DMBs) in Nigeria, several avenues remain open for further scholarly enquiry. First, further studies should broaden the measurement of financial performance beyond Return on Assets (ROA). Given the peculiar distortions that characterized the Nigerian banking environment between 2014 and 2023, including the adoption of IFRS 9 expected-credit-loss modelling, AMCON levies, regulatory forbearance, and foreign-exchange revaluation gains following the 2023 unification of the naira using the ROA alone provides a limited signal of underlying governance quality. Subsequent research is therefore encouraged to incorporate a richer set of performance indicators, including Return on Equity (ROE), Net Interest Margin (NIM), and stability metrics such as the Z-score, non-performing loans (NPL) ratio, and capital adequacy ratio. Non-financial outcomes including incidence of fraud reported by the Nigeria Deposit Insurance Corporation (NDIC), regulatory sanctions imposed by the Central Bank of Nigeria (CBN), and Environmental, Social and Governance (ESG) disclosure scores also warrant systematic empirical attention.

Secondly, the scope of subsequent studies could be expanded beyond the thirteen listed DMBs examined in this work. Comparative studies contrasting listed and unlisted banks, Tier-1 and Tier-2 institutions, or Nigerian DMBs with peer banks in the West African Monetary Zone (WAMZ) and other sub-Saharan African economies such as Ghana, Kenya, and South Africa would help to isolate governance effects from country-specific macroeconomic shocks. Moreover, the 2014–2023 study window closes immediately before a series of transformative regulatory events, including the CBN's March 2024 bank recapitalisation directive, the Revised Corporate Governance Guidelines for Commercial, Merchant, Non-Interest and Payment Service Banks (2023), and the Companies and Allied Matters Act (CAMA) 2020. Future studies are encouraged to exploit these reforms together with within-sample governance shocks such as the Access–Diamond merger and the resolutions of Polaris, Heritage, and Union Bank as natural experiments amenable to difference-in-differences and event-study methodologies.

Finally, further studies should complement the structural, form-based governance proxies employed in this work with behavioural and process-oriented variables that better capture the substance of governance. Such variables include director attendance and meeting frequency, board committee activity intensity, tenure and expertise diversity, ownership structure (institutional, foreign, family, and government shareholding), and the maturity of internal audit and risk-management functions. In addition, emerging governance dimensions — particularly climate-risk governance and cybersecurity oversight, both of which now feature prominently in the CBN's supervisory framework — remain largely under-explored within the Nigerian banking context and represent a promising frontier for subsequent enquiry. Extending the corporate governance construct in this manner would not only respond to the evolving regulatory landscape but would also enrich theoretical understanding of how governance shapes the

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