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Corporate Governance and Financial Performance of Listed Deposit Money Banks in Nigeria: An Evidence-Based Study of Selected Nigerian Commercial Banks (2015–2024)

By

¹Ademola E.A & ²Ajimati O.B

^{1,2}Department of Accounting, Federal University of Technology, Ilaro

¹emmanual.ademola@federalpolyilaro.edu.ng

²oluwatosin.ajimati@federalpolyilaro.edu.ng

Abstract:

This study examines the influence of corporate governance on the financial performance of five listed deposit money banks in Nigeria, First Bank, Zenith Bank, Guaranty Trust Bank, Fidelity Bank, and Wema Bank over a ten-year period (2015–2024). It investigates the effects of board size, board independence, and audit committee size on Return on Assets (ROA). Adopting an ex-post facto design, secondary data from audited financial statements were analyzed using descriptive statistics, correlation analysis, and Ordinary Least Squares (OLS) panel regression via EViews. The Hausman test ($p = 0.6264$) confirmed the Random Effects Model (REM) as the most appropriate estimator. Findings reveal that board size had a positive but insignificant effect on ROA ($\beta = 0.0586$, $p = 0.3483$); audit committee size showed a negative and insignificant effect ($\beta = -0.3235$, $p = 0.1134$); and board independence demonstrated a negative and insignificant influence ($\beta = -0.0712$, $p = 0.5825$). All three null hypotheses were accepted. Strong cross-sectional dependence indicates that macroeconomic factors including inflation, exchange rate volatility, capital structure, and managerial efficiency are more decisive determinants of bank profitability than governance structures alone. The study concludes that corporate governance in Nigeria remains largely compliance driven rather than performance oriented and recommends moderate board sizes, stronger audit committee competence, genuine director independence, and governance reforms anchored in accountability and functionality.

Keywords: Auditor Independence, Board of Directors, Corporate Governance, Commercial Banks, Financial Performance

1.0 INTRODUCTION

Recent global developments marked by high-profile corporate collapses and recurring financial crises have intensified academic and regulatory debates about whether corporate governance structures genuinely improve organizational financial performance. The rapid liberalization of global capital markets, the surge of bank mergers and acquisitions, and the creation of unified regional economic blocs have collectively raised the stakes of sound governance. The World Bank (2011) affirms that strong governance practices mobilize capital markets, reduce transaction and capital costs, and lower developing economies' vulnerability to financial crises. Nigeria, as one of Africa's largest economies, relies heavily on its banking sector to drive economic growth, financial intermediation, and capital formation. However, recurring bank failures driven by insider abuse, reckless credit extension, and fraudulent practices have deeply eroded investor confidence. The global precedents of Enron, WorldCom, Parmalat, and domestically, the collapses of Oceanic Bank and Intercontinental Bank, all share a common thread: governance failure. Nigeria's own banking crises in 2003 and 2019 similarly traced to



weak board oversight, regulatory non-compliance, mismanagement, and poor internal controls. These failures prompted the Central Bank of Nigeria (CBN) to intervene through executive dismissals, stricter capital requirements, and enforceable codes of corporate governance. Corporate governance broadly refers to the systems, frameworks, and processes that direct and control organizations to maximize long-term shareholder value while safeguarding broader stakeholder interests (Tricker, 2019). When effectively implemented, governance builds trust, enforces accountability, and enables transparent disclosure. The CBN Code of Corporate Governance (2021) and the Basel Committee on Banking Supervision (2019) both underscore the critical importance of governance quality in protecting depositors and maintaining systemic financial stability. This study is therefore motivated by the need to empirically investigate the nexus between corporate governance practices and the financial performance of Nigerian listed deposit money banks.

1.2 Statement of the Problem

Despite the promulgation of governance codes and regulatory interventions, corporate bankruptcies, insider abuse, and financial misreporting continue to plague Nigeria's banking sector. Banks that declare healthy profits in audited statements have subsequently been placed under regulatory receivership, raising fundamental questions about the integrity of board oversight and audit processes. The persistence of window dressing, auditor collusion, and reckless credit exposure particularly in the absence of genuine director independence suggests that governance mechanisms may be applied in form rather than substance. Against this backdrop, this study examines whether Nigerian bank managers genuinely comply with governance standards and whether such compliance translates into measurable improvements in financial performance.

1.3 Objectives of the Study

The general objective of this study is to determine the influence of corporate governance on the financial performance of listed deposit money banks in Nigeria. The specific objectives are:

- i. To examine the effect of board size on the Return on Assets (ROA) of listed deposit money banks in Nigeria.
- ii. To assess the influence of audit committee size on the ROA of listed deposit money banks in Nigeria.
- iii. To evaluate the impact of board independence on the ROA of listed deposit money banks in Nigeria.

1.4 Research Questions

- i. What is the effect of board size on the ROA of listed deposit money banks in Nigeria?
- ii. How does audit committee size influence the ROA of listed deposit money banks in Nigeria?
- iii. To what extent does board independence impact the ROA of listed deposit money banks in Nigeria?

1.5 Research Hypotheses

The following null hypotheses were formulated to guide the empirical analysis:

- H_{01} : Board size has no significant effect on the ROA of listed deposit money banks in Nigeria.
- H_{02} : Audit committee size has no significant influence on the ROA of listed deposit money banks in Nigeria.
- H_{03} : Board independence has no significant impact on the ROA of listed deposit money banks in Nigeria.



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1.6 Significance of the Study

This research contributes empirical evidence of value to multiple stakeholders. For academics, it enriches the governance-performance literature within the Nigerian banking context. For regulators and policymakers, including the CBN and the Securities and Exchange Commission (SEC), it informs evidence-based reform of governance codes. For shareholders and institutional investors, it illuminates how governance structures shape financial returns. For bank management and boards, it identifies governance strategies that promote accountability, transparency, and long-run value creation. Lastly, other financial institutions can draw lessons to strengthen internal governance and prevent failure.

1.7 Scope of the Study

The study covers five NGX-listed commercial banks: First Bank of Nigeria Plc, Zenith Bank Plc, Guaranty Trust Bank Plc, Fidelity Bank Plc, and Wema Bank Plc over the ten-year period 2015 to 2024. These institutions were selected due to their market prominence, regulatory significance, and the consistent availability of audited financial data on the Nigeria Exchange Group (NGX) database.

1.8 Limitations of the Study

The findings are constrained by the purposive selection of only five banks, limiting generalizability to the broader banking population. Reliance on published secondary data introduces the risk of reporting errors or incomplete disclosures. Furthermore, the cross-sectional panel design does not permit causal inferences, and external macroeconomic variables (interest rate policy, inflation dynamics, exchange rate regimes) were not fully controlled in the model specification.

1.9 Operational Definition of Terms

Corporate Governance: The framework of principles, rules, and practices directing and regulating organizations to ensure fairness, accountability, and transparency with all stakeholders.

Financial Performance: The degree to which a bank effectively deploys its resources to generate profitability, assessed here via Return on Assets (ROA).

Board of Directors: A body of elected individuals charged with safeguarding shareholders' interests, overseeing corporate strategy, and supervising executive management.

Auditor Independence: The capacity of external and internal auditors to perform their functions impartially, free from undue influence by management or the board.

Commercial Banks: CBN-licensed financial institutions authorized to accept deposits, extend credit, and provide basic financial services.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Corporate Governance

Corporate governance has been defined variously across disciplines. Larcker and Tayan (2021) describe it as a set of control mechanisms preventing managers from pursuing personal interests at stakeholders' expense, encompassing board oversight and external audit functions. Okafor (2022) views it as the processes enabling the governance function within enterprises, aimed at maximizing shareholder wealth. Tricker (2019) emphasizes frameworks that direct and control organizations, ensuring accountability, transparency, and sustainable shareholder value creation. Spanos (2025) adds that it balances power and decision-making, thereby enhancing organizational performance and investment returns.

In the banking sector, governance is especially vital given banks' systemic importance. The CBN Code of Corporate Governance (2021) stresses accountability, transparency, inclusivity,



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and fairness. The Basel Committee on Banking Supervision (2019) assigns governance responsibility to the board and senior management, with emphasis on safeguarding depositors' interests and maintaining systemic stability. Scholars including Jikeme (2019) and Adinehzadeh et al. (2018) emphasize that good governance promotes sustainable performance and transparent reporting, while Ogunmakin et al. (2020) underscore its centrality in Nigeria given banks' dominance in financial intermediation.

2.1.2 Financial Performance

Financial performance reflects how effectively a firm deploys its resources to generate profitability. In banking, performance is captured through metrics such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Earnings per Share (EPS). Santos and Brito (2022) argue that superior performance combining profitability, growth, and market value is a primary driver of sound governance. George and Karibo (2024) stress that performance must be assessed within specific timeframes, acknowledging that past success does not guarantee future sustainability. This study adopts ROA calculated as net income divided by total assets as the primary performance proxy due to its effectiveness in capturing operational efficiency across banks of varying sizes (Omondi & Muturi, 2023).

2.2 Mechanisms of Corporate Governance

2.2.1 Board Size

The board of directors is the apex governance body responsible for monitoring senior management and steering firms towards their strategic objectives (Alzoubi et al., 2022). Theoretical positions on optimal board size diverge: agency and resource dependency theories favor larger boards for broader expertise and enhanced monitoring capacity, while stewardship theory supports smaller boards for administrative efficiency and decisive leadership (Heraniah, 2022). Empirical evidence is equally mixed. Solomon (2020) and Rouf (2022) show that smaller boards enhance firm value through quicker decision-making, while Oba, Tigrel, and Sener (2024) contend that larger boards provide superior monitoring due to members' diverse experience. The consensus in the literature is that optimal board size is context-dependent, varying by firm complexity, industry, and developmental stage (Staikouras, 2019).

2.2.2 Board Independence

Board independence refers to the representation of non-executive directors whose objectivity is uncompromised by executive relationships. Globally, regulations including the Sarbanes-Oxley Act (2002) in the USA and the SEC's Clause 49 in India have mandated minimum levels of board independence to curb managerial opportunism. Brown and Caylor (2021) demonstrate that firms with higher proportions of independent directors achieve higher ROE, profitability, and dividend payouts. Conversely, Hermalin and Weisbach (2021) find no significant performance impact, attributing this to the endogenous nature of board composition. In the Nigerian context, weak enforcement of independence norms often means that nominally independent directors lack either the expertise or the autonomy to meaningfully challenge executive decisions.

2.2.3 Audit Committee

The audit committee is the governance pillar most directly responsible for the quality and integrity of financial reporting (Kallamu & Saat, 2025). Its core functions encompass oversight of financial statements, liaison with external auditors, monitoring of internal controls, and review of risk management frameworks. Dwekat (2022) contends that an effective audit committee must be independent, sufficiently sized, and diligent, as these attributes are closely linked to high-quality monitoring and credible financial disclosure. Lois (2021) further emphasizes that an impartial, knowledgeable audit committee protects minority shareholders by serving as their representative in the financial oversight process.



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2.2.4 Board Gender Diversity

An emerging dimension of governance is gender diversity on boards. Research shows that women bring distinctive qualities to governance notably risk aversion, attention to detail, and reputational sensitivity that strengthen board oversight and discourage excessive risk-taking (Irge, 2024). Hillman, Cannella, and Paetzold (2020) argue that women also contribute unique external networks, domain expertise, and institutional legitimacy. Empirical evidence from Luckerath Rover (2021) and Smith et al. (2021) documents a positive correlation between female board representation and firm performance. Norway, Sweden, and several other jurisdictions have introduced statutory gender quotas in response to this evidence.

2.3 Theoretical Framework

2.3.1 Agency Theory

Originally advanced by Alchian and Demsetz and subsequently developed by Jensen and Meckling (1976), Agency Theory posits that the separation of corporate ownership and control creates inherent conflicts of interest. Managers (agents) may prioritize personal utility — through excessive compensation, risk aversion, or financial misreporting at the expense of shareholders (principals). To mitigate these agency costs, governance mechanisms such as independent boards, performance-based remuneration, and external audit are prescribed. The theory advocates for separation of the CEO and board chairperson roles to strengthen oversight and reduce executive entrenchment (Alalade et al., 2019).

2.3.2 Stakeholder Theory

Proposed by Freeman (1984), Stakeholder Theory broadens corporate responsibility beyond shareholders to encompass employees, customers, suppliers, communities, regulators, and other groups with a legitimate interest in firm conduct. The theory emphasizes ethical values, business responsibility, and the need to balance diverse stakeholder concerns with financial objectives. Its instrumental dimension suggests that firms which attend to stakeholder needs are likely to achieve superior long-run financial performance due to enhanced trust, loyalty, and reputational capital. In practice, the theory supports transparent financial reporting, regulatory compliance, and inclusive board decision-making as governance imperatives.

2.4 Empirical Review

A review of recent empirical studies reveals mixed and largely context-dependent findings on the governance–performance relationship:

Authors & Year	Methodology / Sample	Key Governance Proxies	Key Findings & Gaps
Oshim & Igwe (2024)	Ex-post facto; correlation analysis; Nigerian consumer goods firms (2013–2022)	Board size, independence, meetings vs. ROA	All governance variables weakly and insignificantly related to ROA. Recommends board diversity over size expansion.
Omole & Adewole (2024)	Panel regression; Nigerian DMBs	Board size, CEO duality, independence vs. EPS	Board size positive but insignificant on EPS; independence negative; absence of CEO duality positive.



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Authors & Year	Methodology / Sample	Key Governance Proxies	Key Findings & Gaps
Aminu, Nurudeen & Ghalib (2024)	Dynamic panel analysis; 5 Nigerian banks (2013–2022)	Board size, audit committee vs. financial performance	Board size and audit committee significantly influence performance. Calls for independent expert-led audit committees.
Orumwense & Orumwense (2023)	Panel regression; NGX-listed DMBs (2011–2020)	Board independence, size, gender vs. performance	Independence significant but negative; size negative & significant; gender positive but insignificant.
Oshatimi et al. (2022)	OLS regression; 7 cross-border banks (2020)	Board size, managerial ownership, independence, gender vs. ROA	Size, ownership & gender positive & significant; independence negative & significant on ROA.
Gwaison & Maimako (2021)	Panel least squares; 5 NSE-listed banks (2003–2017)	Board size, composition, gender, independence vs. ROA	Board composition variables significantly influenced ROA; audit committee had no effect.
Kafidipe et al. (2021)	Panel regression; Nigerian DMBs	Board size, independence, shareholdings vs. performance	Significant but negative overall effect on performance; risk management critical.
Lawrence et al. (2020)	Generalized Method of Moments; Nigerian banks	Board size, directors' equity vs. ROA & ROE	Board size, directors' equity, and firm size strongly influenced ROE and ROA.
Umar, Rashid & Bala (2020)	Panel regression; 15 listed banks (2013–2015)	Independence, meetings, gender, size vs. ROA	Independence no effect; meetings negative significant; gender & size negatively insignificant; firm size positive.
John & Ogechukwu (2018)	Descriptive & quantile regression; 20 banks (2005–2015)	Board size, CEO ownership concentration	Distressed banks had oversized boards & high CEO ownership concentration, eroding depositor confidence.

Table 2.1: Summary of Empirical Literature on Corporate Governance and Financial Performance

2.5 Summary of Literature Review and Research Gap

The foregoing review reveals that empirical evidence on the governance performance nexus is inconclusive and heavily shaped by institutional context, enforcement quality, and the specific



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governance proxies employed. Studies from developed economies frequently report positive governance effects, while Nigerian evidence is more equivocal, often showing insignificant or even negative relationships. This divergence points to structural weaknesses in governance enforcement, director expertise, and the integrity of financial disclosures in the Nigerian banking sector. The present study addresses these gaps by applying a ten-year panel dataset from five major Nigerian banks, employing robust panel regression techniques to isolate the specific effects of board size, audit committee size, and board independence on ROA.

2.6 Conceptual Model

The conceptual framework posits that corporate governance mechanisms—board size, board independence, and audit committee size—are the independent variables influencing financial performance, measured by Return on Assets (ROA), as the dependent variable. The model acknowledges that macroeconomic factors and firm-specific characteristics operate as contextual moderators of this relationship.

3.0 METHODOLOGY

3.1 Research Design

This study adopts an ex-post facto research design, which is appropriate for investigating relationships between variables based on pre-existing historical data without direct manipulation by the researcher. The design allows for systematic exploration of how governance structures relate to financial performance outcomes across time and across institutions, using retrospective data drawn from audited financial statements.

3.2 Population of the Study

The target population comprises all thirteen (13) deposit money banks currently listed on the Nigerian Exchange Group (NGX). These institutions are subject to uniform regulatory oversight and are required to publish audited annual reports, making them suitable subjects for secondary data analysis.

3.3 Sample and Sampling Technique

Five banks were purposively selected based on three criteria: (i) continuous listing on the NGX throughout the study period; (ii) consistent availability of complete and audited governance and financial data; and (iii) systemic significance within the Nigerian banking sector. The selected banks are:

- First Bank of Nigeria Plc
- Zenith Bank Plc
- Guaranty Trust Bank Plc (GTCO)
- Fidelity Bank Plc
- Wema Bank Plc

This purposive selection yielded a balanced panel of 50 firm-year observations (5 banks $\times$ 10 years: 2015–2024), sufficient for the planned panel regression analysis.

3.4 Sources and Method of Data Collection

The study relies entirely on secondary data. Governance data (board size, audit committee size, and proportion of independent directors) and financial performance data (ROA, computed as net income divided by total assets) were extracted from: (i) audited annual reports and financial statements; (ii) official corporate governance disclosures; (iii) the NGX database; and (iv) company investor relations portals. The use of multiple verified sources enhances data reliability and minimizes the risk of measurement error.



3.5 Operationalization of Variables

Variable	Type	Proxy / Measurement	Expected Sign
Return on Assets (ROA)	Dependent	Net Income / Total Assets ($\times 100$)	—
Board Size (BOS)	Independent	Total number of directors on the board	Positive (+)
Audit Committee Size (ACS)	Independent	Total number of audit committee members	Positive (+)
Board Independence (BID)	Independent	Number of independent non-executive directors	Positive (+)

Table 3.1: Variable Operationalization

3.6 Model Specification

The functional relationship is expressed as:

$$ROA = f(\text{Board Size, Audit Committee Size, Board Independence})$$

The econometric model is specified as:

$$ROA_{it} = \beta_0 + \beta_1 BOS_{it} + \beta_2 ACS_{it} + \beta_3 BID_{it} + \varepsilon_{it}$$

Where: ROA = Return on Assets; BOS = Board Size; ACS = Audit Committee Size; BID = Board Independence; β_0 = intercept; β_1 – β_3 = slope coefficients; ε = stochastic error term; i = firm; t = time period.

3.7 Method of Data Analysis

Data were analyzed using EViews 12 statistical software. The analytical sequence comprised: (i) descriptive statistics to summarize variable characteristics; (ii) Augmented Dickey-Fuller (ADF) unit root tests to determine the stationarity properties of all variables; (iii) Pearson correlation analysis to assess bivariate relationships and detect multicollinearity; (iv) Fixed Effects Model (FEM) and Random Effects Model (REM) panel regressions; (v) the Hausman specification test to select the more appropriate estimator; and (vi) Breusch-Pagan LM, Pesaran Scaled LM, and Pesaran CD cross-section dependence tests to assess whether systemic shocks jointly affect the sampled banks.

4.0 RESULTS

4.1 Descriptive Statistics

Statistic	ROA (%)	Board Size (BOS)	Audit Comm. (ACS)	Board Indep. (BID)
Mean	2.2019	12.0600	5.6200	3.0400
Median	1.6461	12.0000	6.0000	3.0000
Maximum	6.8790	16.0000	7.0000	7.0000
Minimum	0.2585	6.0000	4.0000	1.0000
Std. Dev.	1.6056	2.3335	0.6966	1.3087
Skewness	0.9710	-1.1630	-0.0700	1.5260



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Statistic	ROA (%)	Board Size (BOS)	Audit Comm. (ACS)	Board Indep. (BID)
Kurtosis	3.2510	4.4000	2.7950	5.0880
Jarque-Bera	7.9820	15.3620	0.1280	28.4920
Probability	0.0185	0.0005	0.9380	0.0000
Observations	50	50	50	50

Table 4.1: Descriptive Statistics of Study Variables — Source: Author's Computation (2025)

The average Return on Assets (ROA) of 2.20% with a standard deviation of 1.61% reflects substantial variation in profitability across the sampled banks and over time, confirming heterogeneous performance outcomes within a common regulatory environment. Board Size (BOS) averages 12 members (range: 6–16), with negative skewness (-1.16) and leptokurtic distribution (kurtosis = 4.40), indicating a prevalence of relatively larger boards among the institutions. Audit Committee Size (ACS) is highly uniform, averaging six members (SD = 0.70), consistent with Nigeria's statutory minimum of six committee members (three shareholder representatives and three independent directors). Its near-normal distribution (Jarque-Bera $p = 0.94$) suggests that all sampled banks comply closely with regulatory prescriptions. Board Independence (BID) averages three independent directors (range: 1–7), but exhibits significant non-normality positive skewness (1.53) and high kurtosis (5.09) reflecting considerable variability in independence practices across firms. The non-normality of ROA, BOS, and BID distributions collectively validates the adoption of panel regression models for robust estimation.

4.2 Unit Root Test Results

Variable	At Level (Prob.)	Status at Level	At 1st Diff (Prob.)	Final Status
ROA	0.9764 (Const) / 0.9890 (Trend)	Non-stationary	0.7610 / 0.8515	Non-stationary — I(?)
BOS	0.0451 (Const) / 0.0005 (Trend)	Stationary (1% & 5%)	0.0004 / 0.0037	Integrated — I(0)
ACS	0.4188 (Const) / 0.0354 (Trend)	Weakly stationary at 5% (trend)	0.0246 / 0.0722	Integrated — I(1)
BID	0.6678 (Const) / 0.4218 (Trend)	Non-stationary	0.0303 / 0.1081	Integrated — I(1)

Table 4.2: ADF Unit Root Test Results — Source: Author's Computation (2025)

The ADF test results reveal a mixed integration order across variables. BOS is stationary at the level form I(0), while ACS and BID achieve stationarity only after first differencing I(1). ROA remains non-stationary at both levels and first differences, reflecting the common persistence of profitability trends across firms. This mixed integration order rules out ordinary OLS time-series estimation and justifies the use of panel regression with Fixed and Random Effects, which accommodate both I(0) and I(1) variables while avoiding spurious regression.



4.3 Correlation Matrix

Variable	ROA	BOS	ACS	BID
ROA	1.0000	-0.0800 (0.5806)	0.0658 (0.6500)	-0.0277 (0.8485)
BOS	-0.0800 (0.5806)	1.0000	0.2026 (0.1582)	0.0794 (0.5837)
ACS	0.0658 (0.6500)	0.2026 (0.1582)	1.0000	-0.2068 (0.1495)
BID	-0.0277 (0.8485)	0.0794 (0.5837)	-0.2068 (0.1495)	1.0000

Table 4.3: Pearson Correlation Matrix (*p*-values in parentheses) Source: Author's Computation (2025)

The correlation results reveal that ROA maintains weak and statistically insignificant associations with all three governance variables: a marginal negative correlation with BOS ($r = -0.0800$, $p = 0.5806$) and BID ($r = -0.0277$, $p = 0.8485$), and a marginal positive correlation with ACS ($r = 0.0658$, $p = 0.6500$). None approach statistical significance at the 5% level. Among the independent variables, all inter-variable correlations are below 0.25, confirming the absence of multicollinearity and supporting the joint inclusion of BOS, ACS, and BID in the regression model.

4.4 Panel Regression Results

4.4.1 Fixed Effects Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	3.5762	1.1967	2.9883	0.0047**
BOS (Board Size)	0.0624	0.0622	1.0031	0.3215
ACS (Audit Committee Size)	-0.3372	0.2015	-1.6738	0.1016
BID (Board Independence)	-0.0763	0.1299	-0.5873	0.5602

Table 4.4: Fixed Effects Model Results | $R^2 = 0.7896$ | Adj. $R^2 = 0.7545$ | $F\text{-stat} = 22.516$ ($p < 0.01$) | $DW = 0.998$

4.4.2 Random Effects Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	3.5300	1.4782	2.3880	0.0211*
BOS (Board Size)	0.0586	0.0618	0.9475	0.3483
ACS (Audit Committee Size)	-0.3235	0.2004	-1.6141	0.1134
BID (Board Independence)	-0.0712	0.1286	-0.5537	0.5825



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Table 4.5: Random Effects Model Results | $R^2 = 0.0584$ | $F\text{-stat} = 0.9503$ ($p = 0.4242$) | $DW = 0.9344$

The FEM produces a high overall R^2 of 78.96%, though this is largely attributable to firm-specific dummy variables rather than the governance regressors themselves. The REM yields a much lower R^2 of 5.84%, with an insignificant F-statistic ($p = 0.4242$), confirming that governance variables collectively explain very little of the variation in ROA. Across both models, BOS shows a consistently small positive coefficient, ACS and BID show consistently negative coefficients, and none are statistically significant at the 5% level.

4.5 Hausman Specification Test

Test Summary	Chi-Sq. Statistic	Degrees of Freedom	Probability
Cross-section random	1.7474	3	0.6264

Table 4.6: Hausman Test Results — Source: Author's Computation (2025)

The Hausman test yields a Chi-square statistic of 1.7474 ($p = 0.6264$), which exceeds the 5% significance threshold. The null hypothesis that the REM is appropriate cannot be rejected. Accordingly, the Random Effects Model is adopted as the primary estimator for hypothesis testing. The coefficient differences between FEM and REM are minimal for all variables (BOS: 0.0624 vs 0.0586; ACS: -0.3372 vs -0.3235; BID: -0.0763 vs -0.0712), further validating the robustness of the REM estimates.

4.6 Cross-Section Dependence Test

Test	Statistic	Degrees of Freedom	Probability
Breusch-Pagan LM	42.1887	10	0.0000***
Pesaran Scaled LM	6.0796	—	0.0000***
Pesaran CD	5.7040	—	0.0000***

Table 4.7: Cross-Section Dependence Test Results — Source: Author's Computation (2025)

All three cross-section dependence tests are significant at the 1% level ($p < 0.01$), unanimously rejecting the null hypothesis of cross-sectional independence. This finding confirms that the profitability of the sampled banks is interlinked, reflecting common exposure to shared macroeconomic shocks, synchronized regulatory policy changes, and correlated credit market conditions. These systemic dependencies reinforce the interpretation that factors external to individual governance structures — such as inflation dynamics, exchange rate regimes, and monetary policy — are significant co-determinants of bank financial performance.

4.7 Hypothesis Testing and Discussion

Hypothesis	Proxy	REM β	P-value	Decision	Interpretation
H_{01} : Board size has no significant effect on ROA	BOS	+0.0586	0.3483	Accept H_{01}	Larger boards provide no significant profitability uplift; coordination costs may offset monitoring benefits.



Hypothesis	Proxy	REM β	P-value	Decision	Interpretation
H ₀₂ : Audit committee size has no significant effect on ROA	ACS	-0.3235	0.1134	Accept H ₀₂	Larger committees weakly reduce ROA, possibly due to inefficiency in oversized deliberative bodies.
H ₀₃ : Board independence has no significant effect on ROA	BID	-0.0712	0.5825	Accept H ₀₃	Independent directors do not translate into higher profitability, possibly due to enforcement weaknesses.

Table 4.8: Hypothesis Testing Summary Source: Author's Computation (2025)

All three null hypotheses are accepted at the 5% significance level. These results collectively indicate that the formal governance structures examined board size, audit committee size, and board independence do not significantly drive financial performance in Nigerian deposit money banks. While governance mechanisms remain normatively important for accountability and risk management, their direct economic impact on profitability is constrained by enforcement quality, institutional context, and the overwhelming influence of macroeconomic factors.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study empirically examined the influence of three corporate governance mechanisms board size, audit committee size, and board independence on the return on assets of five Nigerian listed deposit money banks over the period 2015–2024. Panel regression analysis, informed by the Hausman specification test, confirmed the Random Effects Model as the appropriate estimator. The key findings are summarized as follows:

- Board Size (BOS) exerted a positive but statistically insignificant effect on ROA ($\beta = 0.0586$, $p = 0.3483$), suggesting that larger boards do not translate into superior bank profitability, likely due to coordination inefficiencies that erode the benefits of broader expertise.
- Audit Committee Size (ACS) showed a negative and statistically insignificant relationship with ROA ($\beta = -0.3235$, $p = 0.1134$), indicating that regulatory compliance in committee sizing does not guarantee more effective oversight or better financial outcomes.
- Board Independence (BID) demonstrated a negative and insignificant effect on ROA ($\beta = -0.0712$, $p = 0.5825$), consistent with the view that nominally independent directors in Nigeria often lack the operational autonomy or sector expertise to meaningfully influence strategic financial decisions.
- Strong cross-sectional dependence confirmed that macroeconomic shocks, interest rate changes, and regulatory policy shifts jointly affect bank profitability in ways that overshadow individual governance structures.
- The overall model under REM explained only 5.84% of ROA variation, reinforcing the conclusion that profitability is predominantly determined by firm-specific operational factors and the broader macroeconomic environment rather than governance structures per se.



5.2 Conclusion

The study concludes that corporate governance mechanisms, as currently constituted and enforced in Nigerian listed deposit money banks, exert minimal and statistically insignificant influence on financial performance. The evidence is consistent with the interpretation that Nigerian corporate governance is predominantly compliance-driven: banks adopt governance structures to satisfy regulatory requirements, but these structures do not function with sufficient effectiveness or independence to generate measurable improvements in profitability. The dominance of firm-specific attributes including capital structure, managerial efficiency, and asset utilization alongside external macroeconomic variables such as inflation and exchange rate volatility, in determining bank profitability suggests that governance reforms must be embedded within a broader ecosystem of institutional strengthening, macroeconomic stability, and enforcement accountability.

The study's findings resonate with Freeman's Stakeholder Theory (1984), which emphasizes that governance effectiveness is contingent on institutional context, enforcement quality, and the genuine integration of stakeholder interests into board decision-making — factors that remain underdeveloped in Nigeria's banking governance landscape.

5.3 Recommendations

Based on the empirical evidence and theoretical grounding of this study, the following policy and managerial recommendations are advanced:

#	Recommendation	Rationale
1	Adopt Optimal Board Sizes (8–12 Members)	Boards of moderate size balance advisory diversity with decision-making efficiency. Very small boards lack expertise; very large boards incur coordination costs that dilute oversight quality.
2	Strengthen Audit Committee Competence	Beyond compliance with minimum size requirements, audit committees should prioritize technical competence — particularly in financial analysis, risk management, and banking regulations — over mere numerical adequacy.
3	Enforce Genuine Board Independence	The SEC and CBN must implement more rigorous vetting of independent directors, enforce cooling-off periods, and hold boards accountable for the substantive independence (not merely nominal appointment) of non-executive directors.
4	Embed Governance in Strategic Performance Management	Governance reforms should move beyond symbolic compliance with codes. Boards must integrate governance practices into enterprise risk management and strategic planning, with measurable performance outcomes linked to board accountability.
5	Address Macroeconomic Drivers of Profitability	Policymakers should pursue macroeconomic stability — especially inflation control and exchange rate management — as preconditions for governance reforms to yield tangible financial performance benefits.



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#	Recommendation	Rationale
6	Promote Gender and Professional Diversity on Boards	Evidence globally supports the performance benefits of diverse boards. Nigerian regulators should introduce progressive targets for gender representation and sector-specific expertise on bank boards.

Table 5.1: Policy and Managerial Recommendations

5.4 Contributions to Knowledge

This study makes three principal contributions. First, it adds to the growing empirical literature on corporate governance in emerging market banks by providing a decade-long panel analysis of governance–performance dynamics in Nigerian deposit money banks. Second, it demonstrates the primacy of macroeconomic and systemic factors over firm-level governance structures in determining bank profitability in a developing economy context. Third, it highlights the limitations of compliance-driven governance frameworks and advances the case for functionality-oriented reforms grounded in agency and stakeholder theories.

5.5 Suggestions for Future Research

Future studies should consider: (i) expanding the sample to all NGX-listed banks to improve generalizability; (ii) incorporating additional governance variables such as CEO duality, director remuneration, and ownership concentration; (iii) employing second-generation panel estimators — such as Driscoll-Kraay or Common Correlated Effects — to explicitly address cross-sectional dependence; and (iv) examining governance–performance dynamics across different regulatory sub-periods to capture the effects of specific policy interventions.

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