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Research Paper

Impact of Corporate Governance on Financial Performance: A Study of Deposit Money Banks in Nigeria

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ABSTRACT

The study examined the impact of corporate governance on financial performance in deposit money banks in Nigeria. The specific objectives were to: assess the impact of board size, board composition and number of board meeting on profit for the year in deposit money banks in Nigeria. The research design was quantitative research design. The population for this study consists of all the twenty (20) deposit money banks in Nigeria as at February, 2016. The timeframe considered for this study is 2015 to 2022, which covers a period of eight (8) years. The simple random sampling by slip of paper without replacement was used to select four deposit money banks in Nigeria namely Access Bank, First Bank of Nigeria Plc, UBA Plc, and Zenith bank. The secondary data were sourced from annual report of quoted banks in Nigeria. The data analytical techniques descriptive statistics, correlation matrix and Generalized Panel Ordinary Least Squares (GLS). The empirical results show that board size has positive and significant impact on financial performance in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05); board composition (BC) has positive and significant relationship with profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05) and board number of meeting (BM) has positive and insignificant impact on profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 0.8079; P-value; 0.4212 > Sig-value; 0.05). The study recommended that Management of deposit of money banks should ensure that good corporate governance practice should not be regarded as a threat to entrepreneurial drive and spirit but a gauge to promoting integrity and transparency in financial reports.

Keywords: Board Size, Board Composition; Number of Board Meeting

INTRODUCTION

Corporate governance is fundamental to corporate operations, because it is the binding glue between structural and fundamental wings that defines how an organization is being managed and directed towards optimality (Irine & Indah, 2017). Corporate governance connects to the composition of an organization in persons, ideology, business fundamentals and operation in the quest to ensure operational credibility, transparency and effective communication business ideals to stakeholders. It is principally a mechanism put in place to help harmonize the interest of business stakeholder with the dynamics of business dealing (Ololade, 2021). Abdulazeez, Ndibe and Mercy, (2016) observed that maintaining effective corporate governance has been given priority by firms in developed countries over time, while its importance has not been accorded to corporate governance or firms in emerging economies. In recent times, investigations on this subject matter in developing countries have become the pressing interest of scholars (Irine & Indah, 2017; Adesanmi, Sanyaolu, Ogunleye & Ngene, 2018; Alalade, Onadeko & Okezie, 2019). The tendency of a firm to survive the dynamics of business environment is to a greater extent influenced by the soundness of the components that defined the corporate governance of the organization, because corporate governance is fundamentally the corporate path through which the interrelation between the organization and society as whole can be put in the right perspectives, in order to foster optimum resources management and performance (Al-Shaer, Salama & Toms, 2017). Corporate governance framework consists of explicit and implicit contracts between companies and their stakeholders for distribution of rights, procedures, responsibilities and rewards for merging the conflicting interest of stakeholders in harmony with their privileges, duties and roles and finally, measures for control, information and proper supervision flows to perform as a scheme of checks and balances (Adedeji & Olajide, 2021). Corporate governance mechanisms include board composition, gender diversity, board size, the CEO duality, number of board meeting and board audit committee. The board is typically the governing body of the organization and its prime responsibility is to make sure that the organization completes the shareholders' goal. The board of directors have the power and authority to terminate, hire and remunerate top management (Olaoye & Adeyemi, 2021). The board secures the corporation's invested capital and assets. In addition to outlining bank's objectives which include generating returns to shareholders, the board of directors and senior management and influence how banks run their daily operations, achieve the commitment of accountability to shareholders and consider the interests of other recognized stakeholders (Adekunle & Aghedo, 2017).

Basically, the financial performance within the banking sector might be assessed with the use of Return on Assets (ROA) which centered on the power to get income through the utilization of a bank's assets and Profit After Tax (PAT) which suggests the sum earned by a bank in any case taxation related expenses are deducted (Adeduro, Fajuyagbe & Adetunji, (2020). Noticeably, while some Deposit money banks (DMBs) are thriving within the industry, it seems others are financially distressed. Isah, Bambale and Nuruddeen, (2018); Aisagbonbuomwan, Ananwude and Okeke, (2020) noted that poor consideration for ethical values and good governance stimulate poor performances of banks occasioned by the failures of City Express Bank Limited, African Express Bank Plc, Assurance Bank Nigeria Limited, All States Trust Bank Plc, agent bank Plc, Trade Bank Plc, Metropolitan Bank Limited, Societe Generale Bank of Nigeria Plc., Gulf Bank of Nigeria Plc, Hallmark Bank Plc., Intercontinental Bank Plc, Oceanic Bank Ltd, Bank PHB etc. whose authorizations were annulled by the apex bank of Nigeria (Central Bank of Nigeria) in 2006 apart from the licenses for Intercontinental Bank Plc, Oceanic Bank Ltd, Bank PHB that were revoked within the year 2011. Of these failures seem to be connected to the poor attention accorded to corporate governance.

Statement of the Problem

Good corporate governance is about balancing the rights and relationship of the many stakeholders, because the immediate victims of organisational failure are employees, shareholders, the board of directors, clients, customers, and, indeed, the society at large. Globalization and technology have precipitated massive changes in the financial area through corporate governance which brought about the need for greater transparency and disclosure (Isah, Bambale & Nuruddeen, 2018).

Revelations of corporate fraud all over the world in the past years and the historical antecedents in financial practices have indicated that financial crisis is the direct consequence of poor corporate governance (Aisagbonbuomwan, Ananwude & Okeke, 2020). Poor corporate governance may lead to ineffective boards, which eventually may contribute to firm's failures. Also, poor boards could in turn lead to a run on the firm's unemployment, fraudulent activities, questionable dealings that may result to negative impact on the economy (Chauhan, Lakshmi & Dey, 2016). Beyond corporate failures, there have been other developments that have contributed to the renewed focus on corporate boards. Heightened dissatisfactions by shareholders due to poor financial performance, falling share value have led to questions being raised on the notch of competency of the management (Ololade, 2021). The phenomenal growth exhibited by corporate investors including banks, mutual and pension funds has also increased focus on corporate boards. These established investors have the expertise to perform fiduciary responsibility of monitoring board to ensure good returns (Abdulazeez, Ndibe & Mercy, 2016). According to Alalade, Onadeko and Okezie, (2019), it is now recognized that good corporate practices are a source of economic growth. At the midst of each of these corporate scandals, there is an attribute of the ineffectiveness of boards of directors. There is a need to ensure corporate structure that can sustain credibility in the management of stakeholders' resources, maintenance of effective communication, transparency and accountability is a crucial issue among corporate organizations around the world (Irine & Indah, 2017). It is therefore on this premise, that this study examined the impact of corporate governance on the financial performance in selected deposit money banks in Nigeria.

Objectives of the Study

The main objective of the study is to examine the impact of corporate governance on financial performance in deposit money banks in Nigeria. Other specific objectives are to:

I. assess the impact of board size on profit for the year in deposit money banks in Nigeria.
II. examine the impact of board composition on profit for the year in deposit money banks in Nigeria.
III. ascertain the impact of number of board meeting on profit for the year in deposit money banks in Nigeria.

Significance of the Study

The outcome of this study is beneficial and relevant to Management of deposit money banks, Investors (Shareholders) and researchers.

This study will serve as an important planning tool for bank managers, government, policy makers, shareholders and even potential investors. It will help managers to notice corporate Board characteristics, audit characteristics that will assist them in maximizing shareholders wealth and even profit maximization.

The outcome of the study would also enable investors and potential investors to identify which amongst the Board characteristics and audit characteristics that help in monitoring their wealth and can possibly be relied upon.

Finally, the study shall serve as a source of knowledge to researchers, because it would serve as reference materials that are reserve in libraries and shelves for further academic research. The study empirical findings are capable of adding new insights to present knowledge in the field.

Conceptual Review

Corporate Governance

Corporate governance is specifically concerned with the set of rules, controls, policies and resolutions put in place that dictates corporate behaviour (Abdulazeez, Ndibe & Mercy, 2016). In the same vein, Hafsat and Zangina, (2021) sees corporate governance as a framework of rules and practices which enables board of directors to ensure proper answerability, fairness and transparency in a corporate relationship with all its shareholders. In addition, Kurawa and Ishaku, 2019) described corporate governance as the manner in which the business of the bank is directed which comprises setting corporate objectives and risk profiles, aligning corporate behaviour, running the bank's operations within the established risk profile and in compliance with applicable laws and regulations, and protecting the interests of depositors and other stakeholders (Adeduro, Fajuyagbe & Adetunji, 2020).

Ololade, (2021) view corporate governance as a set of mechanisms through which outside investors protects themselves against expropriation by insiders, i.e. the managers and controlling shareholders. They then give specific examples of the different forms of expropriation. The insiders may simply steal the profits; sell the output, the assets, or securities in the firm they control to another firm they own at below market prices; divert corporate opportunities from firms; put unqualified family members in managerial positions; or overpay managers.

Board Size and Financial Performance

The board is usually the administration of the organization and its prime responsibility is to form sure that the organization achieves the shareholders' goal. The board of directors has the facility to rent, terminate and compensate top management (Arowele, 2022). The board safeguards the organization's assets and invested capital, additionally, to setting the bank's objectives which include generating returns to shareholders, the board of directors and senior management as noted by Abdulazeez, Ndibe and Mercy, (2016), influence how banks run their daily operations, achieve the commitment of accountability to shareholders and consider the interests of other recognized stakeholders (Adesanmi, Sanyaolu, Ogunleye & Ngene 2018). In theory, the board is responsible to the shareholders and it's alleged to govern company's management. Board size represents the number of directors on a board and a perfect board should consist both executive and non-executive directors (Irine & Indah, 2017).

One of the definitions of board size is the number of executive and non-executive directors on the board (Nigerian Securities and Exchange Commission Code of Corporate Governance, 2018 & 2021). From agency theory perspective, having a large board of directors is not a desirable aspect of corporate governance. This because a large board needs more financial resources such as remunerations and bonuses, thus it is costly to have a large board of directors. Further, a large board of directors can easily be dominated by the CEO since coordination is difficult among many directors (Alalade, Onadeko & Okezie, 2019).

Board composition and financial performance

Board composition refers to the people in an organization's board of directors and what they bring to the board table, such as their management background and skills. Board composition varies widely depending upon an organization's goals and industry (Chauhan, Lakshmi & Dey, 2016). Diversity in terms of members' experience, skills, and backgrounds can improve board performance. It offers deep insights, a wealth of experience, and the multiple perspectives necessary for an organization to tackle challenging industry issues. Consider all types of diversity, from race, gender, and abilities to backgrounds, skills, and qualifications. Board composition is the people who comprise a company's board of directors and who are responsible for protecting shareholder interests. Board composition examines the people and their management backgrounds for a company's board of directors (Isah, Bambale & Nuruddeen, 2018). Best practices for composition include having directors serving for no more than 10 years and not sharing similar work experience with company executives. Gender and racial diversity on a corporate board are also important. Diverse teams have more diversity of thought and can lead to more creative solutions. They also help organizations prevent potential lawsuits and reputational damage.

Board of Directors' Meetings and Financial Performance

The board is typically the governing body of the organization and its prime responsibility is to make sure that the organization completes the shareholders' goal. The board of directors have the power and authority to terminate, hire and remunerate top management (Ololade, 2021). The board secures the corporation's invested capital and assets. In addition to outlining bank's objectives which include generating returns to shareholders, the board of directors and senior management as noted by Rahman and Saima, (2018), influence how banks run their daily operations, achieve the commitment of accountability to shareholders and consider the interests of other recognized stakeholders (Senaratne & Gunaratne, 2023). Boards of directors are responsible for the governance of their companies. The shareholders' role is to select and assign directors and to placate themselves that a competent governance structure is in place and the board consists of executive and non-executive director. The responsibilities and obligations of the executive directors include outlining the company's tactical goals, offering the skill and expertise to put them into effective use, coordinating and administering the leadership of the business, and giving account to shareholders on their stewardships (Setia-Atmaja, Tanewski and Skully, (2019). A non-executive director is one who is not employed by the organization and also has no relation with the organization other than being a director (Tahir & Mushtaq, 2016). They are selected and employed on a part-time agreement and carry out diverse responsibilities including acting as the company's chairperson and presiding over different major committees such as nominations Committee, remuneration committee and audit Committee (Obaidat, 2018).

2.2 Financial Performance

Firm performance is the ability of a firm to generate revenue in such a way that it exceeds cost, in connection to the firm's capital base. Notably, a strong and profitable firm is better able to resist negative shocks and contribute more to the stability and development of the financial system. (Chauhan, Lakshmi & Dey, 2016). Measures of financial performance fall into investor returns and accounting returns. The basic idea of investor returns is that the return should be measured from the perspective of shareholders e.g. share price and dividend yield. Accounting returns focus on how firm earnings respond to different managerial policies, which can be measured using different accounting ratios (Isah, Bambale & Nuruddeen, 2018). Basically, the profitability of firms in the Deposit Money Banks sector could be measured using; Return on Assets (ROA) which focus on the capacity to create income through the optimization of a firm's assets; Return on Equity (ROE) which evaluates how much profit is earned comparatively to shareholders' equity; Earning per Share (EPS) which depicts the quota Corporate Governance and Performance of Deposit Money Banks in Nigeria of a company's taxes (net), earnings and preferred stock dividends, that is distributed to each share of common stock; and Profit After Tax (PAT) which represents the figure earned by a firm after all taxation related expenses have been subtracted (Abdulazeez, Ndibe and Mercy, 2016).

2.3 Theoretical Literature

Jensen Theory of Agency (1976)

Jensen (1976) theory focuses on the divergent interests and goals of the organization's stakeholders and the way that employee remuneration can be used to align these interests and goals. Agency theory posits that corporations act as agents of its shareholders. That is, shareholders invest in corporate ownership and thereby entrust their resources to the management of the directors and officers of the corporation. In larger corporations, there is often a sharp divergence between the short and long-term interest of officers and shareholders. This is primarily brought on by short-term demand for profits and the asymmetry of information that officers and directors possess compared with that of shareholders. The divergence of interest between officer, director, and shareholder is thought to influence the actions and decisions of officers and directors who may become detached from shareholder interests. Corporate governance rules seek to establish a legal framework similar to that of the agent-principal relationship. These rules seek to align the incentives of officers and directors with those of shareholders. They seek to establish norms and customs that prevent the adverse results of divergent corporate interests. Further, agency theory lends itself to the duties that officers or director owe to the corporation. Corporate governance rules seek to establish a legal framework similar to that of the agent-principal relationship. These rules seek to align the incentives of officers and directors with those of shareholders. They seek to establish norms and customs that prevent the adverse results of divergent corporate interests. Further, agency theory lends itself to the duties that officers or director owe to the corporation.

Stewardship Theory:

This theory was introduced by Donaldson and Davis (1989). The stewardship theory is a part of corporate governance and is a normative alternative to agency theory. Simply, the stewardship theory is a theory that managers, left on their own, will act as responsible stewards of the assets they control, and describes the existence of a strong relationship between satisfaction and organizational success. Good stewards work collectively rather than individually and are not instrumentally motivated, as are agents who subscribe to agency theory. Stewardship theory basically argues that a steward recognizes that individualistic, opportunistic, and self-serving goals will be met if work is done for the greater good of the organization. Stewards are motivated by intrinsic rewards, such as trust, reputational enhancement, reciprocity, discretion and autonomy, level of responsibility, job satisfaction, stability and tenure, and mission alignment. Fundamentally, stewardship theory relies significantly on the principal's and steward's initial trust disposition. Motivational support is positively linked to stewardship behavior. The interpersonal relationship within the stewardship concept builds mutual trust between the leader and the follower through relational leadership behaviors. Other than that, contextual support positively could influence the creativity and linked to stewardship behaviour and to motivational support as well. The stewards needs intrinsic and extrinsic motivation to protect and maximize the shareholder's wealth so both could empower trust. Or similar to the company's performance may increase because the nature of the trust and loyalty of company managers to commitments in company. S

Empirical Review

Arowele, (2022) conducted a study to investigation the impact of corporate governance on the financial performance of listed manufacturing firms in Nigeria. The specific objectives were to examine the impact of board size (BS), board independence (BI) and board diversity (BD) on return on asset over a period of five (5) years (2015 – 2019) for the ten (10) selected companies. The ex-post facto research design was used for this study. The methods of data analysis were descriptive statistics, pearson correlation and regressions were employed and used for this study. The results of the analysis showed that Board size has no significant impact on the financial performance of listed consumer’s goods firms in Nigeria, Board independence has negative significant effect on the financial performance of listed consumer’s goods firms in Nigeria and Board diversity (women directors) has positive significant effect on the financial performance of listed consumer’s goods firms in Nigeria. The study recommended that recommended management of manufacturing firms should increase the size of the board. This will give room for more skills, expertise and experience necessary to improve firm performance.

Hafsat and Zangina, (2021) conducted a study evaluate the effect of corporate governance on the financial performance of listed deposit money banks (DMBS) in Nigeria. Specifically, the study sought to determine that effect of board size and board composition on return on assets listed deposit money banks in Nigeria from 2011 to 2020. The Multiple Regression Analysis results of General Least Square-random effect (as selected by Hausman specification test) shows that 37% of the total variation in profitability of listed deposit money banks on the Nigerian Stock Exchange are caused by board size, and board composition, while the remaining 63% of the total variation in the firm performance (proxied by return on assets) are caused by factors not explained by the model. This indicates that the model is fit and the variable are properly selected, combined and used. This can be confirmed by the p-value statistics of 0.002 at 5% level of significance, confirming the rejection of the null hypotheses and acceptance of the alternate hypotheses, that, corporate governance (as proxied by board size and board composition) have significant impact on the performance of listed deposit money banks in Nigeria. The study recommended that Financial Reporting Council of Nigeria’s committee on corporate governance is advised to set a more inclusive, effective, thoughtful and more flexible code of corporate governance in other to improve the financial performance of DMBs in the short-run and the Nigerian economy in the long run.

Adedeji and Olajide, (2021) examined the impact of corporate governance on the performance of selected banks in Nigeria. Specifically, the study sought to investigate the impact of Board Size (BS), Corporate Governance Disclosure Index (CGDI), Non-Executive Director (NED) and Number of Female Director (NUM) on Market price per share (MPS) (measure of performance of banks) over the period of 5 years ranging from 2014 – 2018. The data analytical techniques were fixed effect panel regression alongside with post estimation diagnostic test of Hausman test and redundant fixed effect. The test indicated that random effect is not an appropriate model and non-normality of the variables will not encourage the use of ordinary effect, therefore, in estimating the parsimonious model of the variable, fixed effect will be an appropriate assumption. 86.78% of the stock performance of banks was accounted for by the explanatory variables. The work suggests that efforts should be made to improve corporate governance focus on the stock performance of deposit money banks since the stock performance is a measure of the wealth of shareholders.

Olaoye and Adeyemi, (2021) examined corporate governance and performance of Deposit Money Banks in Nigeria. Specifically, the study sought to explore influence of board size, board composition, board audit committee chief executive officer (CEO) duality and gender diversity on return of return (measure of financial performance) over the period of five (5) years (2016 – 2020) for the ten (8) selected banks in Nigeria. The ex-post facto research design was used for this study. The methods of data analysis were correlation analysis, fixed effect and random effect panel Pooled Ordinary Least Square (OLS). Result revealed that board size exerts a negative and significant effect on the performance of Deposit Money Banks in Nigeria to the tune of -0.8462(p=0.009<0.05), board composition exerts a negative and significant effect on return on assets of Deposit Money Banks in Nigeria to the tune of -2.3177(p=0.001<0.05), board audit committee has a positive but insignificant effect on return on assets to the tune of 1.3748(p=0.515>0.05), Chief Executive officer (CEO) duality has a positive but insignificant effect on the performance of on return on assets of Deposit Money Banks in Nigeria to the tune 2.4951(p=0.227>0.05) and that gender diversity exerts a positive but insignificant effect on the performance of Deposit Money Banks in Nigeria to the tune of 5.1647(p=0.685>0.05). It is therefore established that corporate governance exerts a significant effect on the performance of Deposit Money Banks in Nigeria.

Ololade, (2021) conducted a study to determine the impact of corporate governance on the financial performance of consumer's goods firms in Nigeria. Specifically, the study sought to verity the impact of board size, board independence, board diversity and board meeting on return on asset over a period of five (5) years (2015 – 2019). The ex-post facto research design was used for this study. The data analytical techniques were descriptive statistics, Pearson correlation and panel regression The results showed that board size has positive and insignificant effect on return on assets of listed consumer's goods firms in Nigeria, board independence has negative and insignificant effect on return on assets of listed consumer's goods firms in Nigeria, board diversity (women directors) has positive and significant impact on return on assets of listed consumer's goods firms in Nigeria and board meeting has positive and insignificant impact on the return on assets of listed consumer's goods firms in Nigeria at 1% level of significant. The study recommended the size of the board and independent directors should be well structured so as to help increased and widen the diverse skills and expertise.

Adeduro, Fajuyagbe and Adetunji, (2020) examined effects of corporate governance on financial performance of selected deposit money banks in Nigeria. Specifically, the study sought to determine the effect of board size and gender diversity on profit for the year in selected from deposit money banks listed on the Nigeria stock market over a period of 10 years spanning from 2009 to 2018. The data analytical techniques were correlation analysis, pooled OLS estimation, fixed effect estimation, random effect estimation, and post estimation test like restricted F-test, Hausman test, Pesaran cross sectional independence. The study revealed that board size exerts a negative and significant effect on the performance of Deposit Money Banks in Nigeria -0.8462(p=0.0090.05). It had been also, revealed that gender diversity exerts a positive but insignificant effect on the financial performance of Deposit Money Banks in Nigeria to the tune of 5.1647(p=0.685>0.05). The study recommended that the monitoring function of the members of the board of Deposit Money Banks should be directed at pressing must be productive and convey about a rise within the profit level.

Aisagbonbuomwan, Ananwude and Okeke (2020) examined the effect of corporate governance on financial performance of selected deposit money banks. Specifically, the effect of board ownership structure, audit committee, independence, age and block shareholding on return on assets, return on equity and earnings per share of selected deposit money banks quoted over the period of 2005 to 2017. The data analytical technique was generalized panel regression analysis. In this regard, appointment into the board should be on the bases of age and experience not on friendship since it positively relates to performance and to the probability of disciplinary management turnover in poorly performing banks. Board members should not be encouraged to have too much stake in the ownership structure of the banks as it is negatively related with performance. The holding of block shares of the banks by individuals, institutional investors or agencies should be discouraged because block shareholding could induce the prioritization of self-interest by block shareholders and the consequent expropriation of firm resources, resulting in decreased bank performance.

Kurawa and Ishaku, (2019) conducted a study to explore the effect of corporate governance on dividend policy of listed banks in Nigeria. The specific objective was to evaluates the effect of management equity holding, Board size and CEO duality on dividend policy of five commercial banks out of the fifteen that are listed on the Nigerian Stock Exchange over the period of 2003-2012. The data analytical technique was panel data methodology (Random-effect GLS regression technique). The results reveal that management equity holding has significant effect on dividend payout ratio, Board size and CEO duality has insignificant effect, while board independence exhibit negative but insignificant effect. It is recommended that since the fundamental purpose of any company is the creation and delivery of long-term sustainable value in a manner consistent with their obligations as a responsible corporate citizen, then the Bank should therefore views corporate governance not as an end in itself but a vital facilitator to the creation of long- term value for all stakeholders.

Isah, Bambale and Nuruddeen, (2018) examined the effect of corporate governance on financial performance of money deposit banks in Nigeria. Specifically, the study sought to identify the effect of board size, board composition and audit committee on return on assets over a period of five (5) years (2012 – 2016) for the ten (5) selected deposit money banks in Nigeria banks. It adopted ex post factor research design. Partial correlation and regression was used to analyze the data using STATA version 11. The results showed that board size and board composition have a negatively and insignificantly impact on financial performance, while audit committee size have positive but insignificant effect on financial performance of deposit money banks in Nigeria. It also revealed that small board size (board of director) contributes positively and significantly to the financial performance of deposit money banks in Nigeria. The study recommends that banks should maintain relatively small board size dominated by outside directors within the provisions of the code of corporate governance for banks but the board should comprise of members, who are conversant with oversight function and having capacity to add significant value in decision making toward achieving greater performance.

Adekunle and Aghedo, (2017) conducted a study to examine the relationship between corporate governance and financial performance of randomly selected quoted firms in Nigeria. The specific objectives of the study were to investigate the impact of composition of board member, board size, CEO status and ownership concentration on firm performance as measured by return on asset (ROA) and profit margin (PM). The ordinary least square regression was used to estimate the relationship between corporate governance and firm performance. Findings from the study show that there is positive and significant relationship between composition of board member and board size as independent variables and firm performance. CEO status also has positive relationship with firm performance but insignificant at $P<0.05$. However, ownership concentration has negative relationships with return on asset (ROA) but positive relationship with profit margin (PM). The relationships are not significant at 5%. The study recommends among other things that companies' board should be majorly dominated by independent directors and board size should be in line with corporate size and activities.

Abdulazeez, Ndibe, and Mercy, (2016) examined the relationship between corporate governance and financial performance of listed deposit money banks in Nigeria. Specifically, the study sought to examine the influence of board size, board composition, CEO duality, audit committee on firm size (measured by the total value of each bank's assets) over the period of five (5) years (2011 – 2015) for the ten (8) selected companies. The ex-post facto research design was used for this study. The methods of data analysis were descriptive statistics, pearson correlation and regressions were employed and used for this study. The results of the analysis showed that board size is positive and significant at 5 per cent on bank performance. The result indicates that increase in board size would increase the performance of the banks. The R2 of 0.0608 suggests that the independent variables used can only account for about 6% of the banks' performance while other factors and variables not included in this study account for the remaining percentage. It show that both board composition and firm size are negatively and insignificantly related to the performance of banks. However, audit committee has positive but insignificant relationship with performance. The study however, recommended among others that banks should increase their board size but within the maximum limit set by the code of corporate governance.

2.5 Gaps in Literature

To the best of our knowledge, there are limited studies on impact of corporate governance on financial performance covering 32 years across four selected deposit money banks in Nigeria from 2015 to 2022. Scholars have paid less attention on area of the research interest taking cognizant cross sectional econometrics study and that use up to 32 number of observations

To the best of our knowledge, there is no clear consensus till date in the literature as to whether board size, number of board meeting, board composition stimulates financial performance or hinders financial performance in Nigerian deposit money banks as empirical result varies from economic sector organizations, region to region and country to country. This study will bridge the gap by providing clear explanation as regards to cause-effect relationship between corporate governance and financial performance in Nigeria.

METHODOLOGY

The research design was quantitative research design. The population for this study consists of all the twenty (20) deposit money banks in Nigeria as at February, 2016. The timeframe considered for this study is 2015 to 2022, which covers a period of eight (8) years. The simple random sampling by slip of paper without replacement was used to select four deposit money banks in Nigeria namely Access Bank, First Bank of Nigeria Plc, UBA Plc, and Zenith bank. These deposit money banks were considered because they are listed in the Nigeria Stock Exchange market which therefore enables us to have easy accessibility to their annual reports which is the major source of the secondary data. The data analytical techniques descriptive statistics, correlation matrix and Generalized Panel Ordinary Least Squares (GLS).

Model Specification for the Study

Thus, the model of this study is represented in a functional form as shown below:

PY = F (BS, BC, BM, BA) (3)

Where PY is Profit of the year is dependent variables while, BS is board size, BC is board composition, BM is board number of meeting and B is board audit committee size are independent variables. Specifically, to achieve the objective of this study and based on the property of the linearity of variables, the functional relationship is modeled in a linear equation to yield Equation 2:

$$PY_{it} = a_o + BS\sum_{k=1}^{p} ait + BC\sum_{k=1}^{p} ait + BM\sum_{k=1}^{p} ait + BA\sum_{k=1}^{p} ait + \mu it \quad (4)$$

Where: Return on Investment (ROI); return on capital employed (ROCE), Profit of the year (PY) were dependent variables while Value added Tax (VAT) was independent variable, Uit is the error term which denotes other variables that are not specified in the model; i represent the number of manufacturing firms and t is the number of years.

Generalized Panel Ordinary Least Square.

Specifically, to achieve the objective of this study and based on the perfect linearity of variables, the functional relationship is modeled in a linear equation to yield Equation 2:

$$PY_{it} = a_o + BS\sum_{k=1}^{p} ait + BC\sum_{k=1}^{p} ait + BM\sum_{k=1}^{p} ait + BA\sum_{k=1}^{p} ait + \mu it \quad (4)$$

Where: Uit is the error term which denotes other variables that are not specified in the model; i represent the number of countries and t is the number of years. In analyzing the data gathered regressions model was employed to establish the effect of independent on dependent variables. The Generalized Panel Ordinary Least Squares (OLS) technique was employed in obtaining the numerical estimates of the co-efficient in different equation. The ordinary least square method was chosen because it possesses some optimal properties. Its computational procedure is fairly simple.

4.1 Data Presentation

Table 4.2: Result of Correlation Matrix

	PY	BS	BC	BM	BA
PY	1.000000	-0.104751	-0.191150	-0.073761	-0.032691
BS	-0.104751	1.000000	0.369193	0.964391	0.975569
BC	-0.191150	0.369193	1.000000	0.381471	0.411473
BM	-0.073761	0.964391	0.381471	1.000000	0.950081
BA	-0.032691	0.975569	0.411473	0.950081	1.000000

This correlation matrix presents a table showing correlation coefficients between sets of variables. Each random variable (X_i) in the table is correlated with each of the other values in the table (X_j). This result of correlation matrix helps to identify which pairs of variables have the highest correlation. This test is to detect whether exact or perfect relationship exist among explanatory variables (multicollinearity). The Profit for the Year (PY) and Board Size (BS) have no linear relationship between the two variables (-0.1047). The Board composition (BC) and Profit for the Year (PFTY) have no linear relationship between the two variables (-0.1911). The Board number of meeting (BM) and Profit for the Year (PY) have no linear relationship between the two variables (-0.0737). The Profit for the Year (PY) and Board audit committee size (BA) have no linear relationship between the two variables (-0.03269). This test presented clear understanding on the assumption of ordinary least square that there is no perfect or exact linear relationship among explanatory variables. The result of correlation matrix showed that every explanatory variable in the study is linearly independent of each other.

4.3 Estimation (Hausman Test)

Null Hypothesis: Random Effects are independent of explanatory variables.

Alternative Hypothesis: Null hypothesis is not true.

Table 4.5 Results of Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	1.982383	5	0.8516
** WARNING: estimated period random effects variance is zero.			

The Hausman Test (also called the Hausman specification test) detects endogenous regressors (predictor variables) in a regression model. Endogenous variables have values that are determined by other variables in the system. Having endogenous regressors in a model will cause ordinary least squares estimators to fail, as one of the assumptions of OLS is that there is no correlation between an predictor variable and the error term. The Hausman test helps to choose between fixed effects model or random effects model. The null hypothesis is that the preferred model is random effects. The alternate hypothesis is that the model is fixed effects. The null hypothesis is that there is no correlation between the two. Interpreting the result from a Hausman test is fairly straightforward: if the p-value is small (less than 0.05), reject the null hypothesis. In the test above, the Chi-square statistics was 1.9823 and P-value was (0.8516). Owing to the result, the null hypothesis was accepted and alternative hypothesis was rejected that null hypothesis is true because the p-value of Chi-square statistics was small (greater than 0.05). It means that random effect model was the best model specification.

4.6 Random Effect Panel Data Estimation

Table 4.6 Results of Random Effect Panel Data Estimation

Dependent Variable: PY				
Method: Panel EGLS (Period random effects)				
Date: 07/07/23 Time: 09:07				
Sample: 2017 2022				
Periods included: 8				
Cross-sections included: 4				
Total panel (balanced) observations: 32				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	2.093324	0.715242	2.926734	0.0043
BC	11.86028	3.137385	3.780309	0.0003
BM	0.802498	0.993260	0.807944	0.4212
BA	0.340514	0.129718	2.625036	0.0101
C	489720.6	94387.61	5.188399	0.0000
	Effects Specification			
Period random			0.000000	0.0000
Idiosyncratic random			616779.0	1.0000
	Weighted Statistics			
R-squared	0.805271	Mean dependent var		460138.8
Adjusted R-squared	0.762079	S.D. dependent var		647670.2
S.E. of regression	592864.4	Sum squared resid		3.23E+13
F-statistic	4.752548	Durbin-Watson stat		1.961339
Prob(F-statistic)	0.000659			
	Unweighted Statistics			
R-squared	0.205271	Mean dependent var		460138.8
Sum squared resid	3.23E+13	Durbin-Watson stat		0.361339

Source: E-view Results

The random effect model specification was carried out to examine parameters estimates. In testing this hypothesis, Board Size (BS), Board composition (BC), Board number of meeting (BM) and Board audit committee size (BA) were regressed against Profit for the Year (PY). The result of the regression analysis represents the model for investigating the impact of corporate governance on financial performance in deposit money banks in Nigeria. The empirical result shows that the coefficient of Board Size (BS) has positive and significant impact on Profit for the Year (PY) because [P-value (0.0043) was less than its significant value (0.05]. The empirical result shows that the coefficient of Board composition (BC) has positive and significant impact on Profit for the Year (PY) because [P-value (0.0101) was less than its significant value (0.05]. The empirical result shows that the coefficient of Board number of meeting (BM) has positive and insignificant impact on Profit for the Year (PY) because [P-value (0.4212) was greater than its significant value (0.05]. The Board audit committee size (BA) has positive and significant impact on Profit for the Year (PY) because [P-value (0.0003) was less than its significant value (0.05]. The result of the F – statistical test shows that the overall regression of the variables was statistically insignificance. This is because observed values of the F – statistics (4.7525) was greater than its critical value (3.830). Again, our empirical result shows that the R-squared (R^2) is 0.8052.

Test of Hypotheses

The results for the various hypotheses testing are presented in the section.

Test of Hypothesis one

H_{O1} Board size has no significant impact on profit for the year in deposit money banks in Nigeria.

In testing this hypothesis, Board Size (BS) was regressed against Profit for the Year (PY). The empirical result showed that the coefficient of board size has positive and significant impact on profit for the year in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). The null hypothesis was rejected and alternative hypothesis was accepted.

Test of Hypothesis two

H_{O2} Board composition has no significant impact on profit for the year in deposit money banks in Nigeria.

In testing this hypothesis, board composition (BC) was regressed against profit for the year (PY). The empirical result showed that the coefficient of board composition (BC) has positive and significant relationship with profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). The null hypothesis was rejected and alternative hypothesis was accepted.

Test of Hypothesis Three

H_{O3} Number of board meeting has no significant impact on profit for the year in deposit money banks in Nigeria.

In testing this hypothesis, board number of meeting (BM) was regressed against profit for the year (PY). The empirical result showed that the coefficient of board number of meeting (BM) has positive and insignificant impact on profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 0.8079; P-value; 0.4212 > Sig-value; 0.05). The alternative hypothesis was accepted and null hypothesis was rejected.

Discussion of the Results

Impact of board size on profit for the year in deposit money banks in Nigeria.

It was observed from the hypothesis tested that the coefficient of board size has positive and significant impact on profit for the year in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). The finding of this study was in line with the study of Arowele, (2022) that conducted a study to investigation the impact of corporate governance on the financial performance of listed manufacturing firms in Nigeria. The specific objectives were to examine the impact of board size (BS), board independence (BI) and board diversity (BD) on return on asset over a period of five (5) years (2015 – 2019) for the ten (10) selected companies. The ex-post facto research design was used for this study. The methods of data analysis were descriptive statistics, Pearson correlation and regressions were employed and used for this study. The results of the analysis showed that Board size has no significant impact on the financial performance of listed consumer's goods firms in Nigeria, Board independence has negative significant effect on the financial performance of listed consumer's goods firms in Nigeria and Board diversity (women directors) has positive significant effect on the financial performance of listed consumer's goods firms in Nigeria.

Impact of board composition on profit for the year in deposit money banks in Nigeria.

It was observed from the hypothesis tested that the coefficient of board composition (BC) has positive and significant relationship with profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). Olaoye and Adeyemi, (2021) were not full support of the finding that investigated the relationship between corporate governance and performance of Deposit Money Banks in Nigeria. Specifically, the study sought to explore influence of board size, board composition, board audit committee chief executive officer (CEO) duality and gender diversity on return of return (measure of financial performance) over the period of five (5) years (2016 – 2020) for the ten (8) selected banks in Nigeria. The ex-post facto research design was used for this study. The methods of data analysis were correlation analysis, fixed effect and random effect panel Pooled Ordinary Least Square (OLS). Result revealed that board size exerts a negative and significant effect on the performance of Deposit Money Banks in Nigeria to the tune of -0.8462(p=0.009<0.05), board composition exerts a negative and significant effect on return on assets of Deposit Money Banks in Nigeria to the tune of -2.3177(p=0.001<0.05), board audit committee has a positive but insignificant effect on return on assets to the tune of 1.3748(p=0.515>0.05), Chief Executive officer (CEO) duality has a positive but insignificant effect on the performance of on return on assets of Deposit Money Banks in Nigeria to the tune 2.4951(p=0.227>0.05) and that gender diversity exerts a positive but insignificant effect on the performance of Deposit Money Banks in Nigeria to the tune of 5.1647(p=0.685>0.05).

Impact of number of board meeting on profit for the year in deposit money banks in Nigeria.

It was observed from the hypothesis tested that the coefficient of board number of meeting (BM) has positive and insignificant impact on profit for the year (PY) in deposit money banks in Nigeria. The finding was not in line with the study of Kurawa and Ishaku, (2019) that conducted a study to explore the effect of corporate governance on dividend policy of listed banks in Nigeria. The specific objective was to evaluates the effect of management equity holding, Board size and CEO duality on dividend policy of five commercial banks out of the fifteen that are listed on the Nigerian Stock Exchange over the period of 2003-2012. The data analytical technique was panel data methodology (Random-effect GLS regression technique). The results reveal that management equity holding has significant effect on dividend payout ratio, Board size and CEO duality has insignificant effect, while board independence exhibit negative but insignificant effect.

Summary of Findings

The following are the major findings of the study**:**

The empirical result showed that the coefficient of board size has positive and significant impact on financial performance in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). In addition, board size has 20 percent positive and significant impact on financial performance in deposit money banks in Nigeria. A percentage change in board size results to 20 percent increase in financial performance in deposit money banks in Nigeria.

The empirical result showed that the coefficient of board composition (BC) has positive and significant relationship with profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 2.9267; P-value; 0.0043 < Sig-value; 0.05). In addition, board composition has 11 percent positive and significant impact on financial performance in deposit money banks in Nigeria. A percentage change in board composition results to 11 percent increase in financial performance in deposit money banks in Nigeria

The empirical result showed that the coefficient of board number of meeting (BM) has positive and insignificant impact on profit for the year (PY) in deposit money banks in Nigeria (t-statistic; 0.8079; P-value; 0.4212 > Sig-value; 0.05). In addition, board number of meeting size has 80 percent positive and insignificant impact on financial performance in deposit money banks in Nigeria. A percentage change in board number of meeting results to 80 percent increase in financial performance in deposit money banks in Nigeria

CONCLUSION

This study concludes that there is positive and significant impact of corporate governance on financial performance in deposit money banks in Nigeria. Descriptive statistics and correlation matrix were pre-estimation tests that were carried out in the study. The descriptive statistics provide nature and characteristic of the variable, the correlation matrix ensures that variable of the study does not have perfect linear correlation among explanatory variables. However, having established this, the study went ahead to conduct estimation tests such as Hausman test and fixed effect panel data estimation to confirm the viability of the model. Corporate governance is an important issue because of the rise in corporate scandal suffered by corporate organisations arising from insider abuse by management board, and other financial recklessness. The result from the analysis establishes that corporate governance practice has significant effect on financial performance of deposit money banks in Nigeria, however, such effect is marginal considering the number of corporate governance variables that significantly affect profit for the year.

Recommendations of the Study

Based on the findings of this study, the following recommendations were made.

Management of deposit of money banks should ensure that good corporate governance practice should not be regarded as a threat to entrepreneurial drive and spirit but a gauge to promoting integrity and transparency in financial reports. Appointment into the board should be on the bases of age and experience not on friendship since it positively relates to performance and to the probability of disciplinary management turnover in poorly performing banks.

Management of deposit of money banks should focus on ownership structure of the board. Board members should not be encouraged to earn too much stake in the ownership structure of the banks as it is negatively related with performance. The holding of block shares of the banks by individuals, institutional investors or agencies should be discouraged because block shareholding could induce the prioritisation of self-interest by block shareholders and the consequent expropriation of firm resources, resulting in decreased bank performance.

Management of deposit of money banks should set up a team which will facilitate research to keep firms up to date on role of gender diversity characteristics. This will improve the impact experienced from the estimated findings. A more varied board of directors enhances good understanding of markets that are differentiated in terms of growing creativity and innovativeness, improved decision-making provided evaluation of more other alternatives.

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