EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON THE FINANCIALPERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

Zakari Atabo

Faculty of Law and Administration
Distance Learning Centre
Ahmadu Bello University, Zaria
Corresponding Email: atabo.zakari@yahoo.com
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ABSTRACT

The stability and sustainability of the banking sector depend largely on effective corporate governance mechanisms that promote accountability, transparency, and efficient managerial oversight. Despite several regulatory reforms introduced to strengthen governance practices in Nigeria's banking industry, concerns regarding their effectiveness in enhancing financial performance remain unresolved. This study examined the effect of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria over the period 2021–2025. Specifically, the study investigated the influence of board composition, board size, and firm size on financial performance measured by return on assets (ROA). The study adopted a correlational research design and utilized secondary data extracted from the audited annual reports of eighteen listed deposit money banks. Panel regression analysis was employed to estimate the relationship between the study variables. The empirical results revealed that board composition exerts a positive and statistically significant effect on financial performance ($\beta = 0.258$, $p = 0.021$), while board size has a negative but statistically insignificant effect ($\beta = –0.012$, $p = 0.743$). Firm size was found to have a positive and statistically significant influence on financial performance ($\beta = 0.034$, $p = 0.041$). The model produced an R^2 value of 0.521 and an adjusted R^2 of 0.391, indicating that approximately 39.1% of the variation in financial performance was explained by the explanatory variables. The study concludes that board independence and organizational size are important determinants of bank performance and recommends strengthening board independence while prioritizing board quality and governance effectiveness to improve the long-term financial sustainability of Nigerian deposit money banks.

Keywords: Board composition, board size, corporate governance, financial performance, firm size.

1.0 Introduction

Corporate governance has emerged as one of the most influential determinants of organizational sustainability, accountability, and financial performance in modern economies. Across developed and emerging markets, investors, regulators, and international financial institutions increasingly recognize that effective governance structures enhance transparency, strengthen risk management, improve strategic decision-making, and protect shareholders' interests (Adegboye et al., 2021). The banking sector, in particular, depends heavily on robust governance because of its central role in financial intermediation and economic development. Episodes of corporate failures and financial crises have reinforced the importance of governance mechanisms capable of minimizing managerial opportunism and ensuring prudent oversight of corporate resources(Fanta et al., 2021). Consequently, institutions such as the Organization for Economic Co-operation and Development (OECD), the Basel Committee on Banking Supervision, and the World Bank continue to advocate stronger governance frameworks as essential prerequisites for financial sector resilience and sustainable economic growth. Recent empirical studies equally

demonstrate that effective board structures and governance practices significantly improve firm profitability, operational efficiency, and long-term competitiveness (Martins & Martins, 2021).

The importance of corporate governance is even more pronounced within developing economies, where institutional weaknesses, regulatory inconsistencies, ownership concentration, and agency conflicts often constrain organizational performance (Akpan & Amran, 2020). Across many African countries, financial institutions operate within dynamic environments characterized by macroeconomic volatility, governance reforms, and evolving regulatory expectations. Weak governance mechanisms have frequently been associated with financial distress, poor asset quality, declining investor confidence, and reduced banking sector stability. Consequently, governments and financial regulators throughout Africa have intensified reforms aimed at strengthening board effectiveness, enhancing transparency, and improving corporate accountability within financial institutions(Fanta et al., 2021). Recent empirical evidence from African banking sectors indicates that board independence, governance quality, ownership structures, and organizational characteristics remain significant predictors of financial performance, although the magnitude of these relationships varies across institutional environments (Musah, 2020).

In Nigeria, corporate governance has remained a central policy issue following successive banking reforms introduced to improve financial stability, restore investor confidence, and strengthen regulatory compliance within the banking industry. The Nigerian banking sector has experienced episodes of corporate failures, financial mismanagement, insider abuses, and governance deficiencies that prompted regulatory interventions by the Central Bank of Nigeria and other oversight institutions. These reforms have emphasized board independence, accountability, transparency, effective risk management, and compliance with governance codes designed to enhance institutional performance (Afolabi, 2021). Despite these initiatives, variations persist in the governance structures adopted by listed deposit money banks, raising important questions regarding the extent to which board composition, board size, and organizational characteristics contribute to improved financial performance. Given the strategic importance of deposit money banks to Nigeria's economic development, understanding the effectiveness of these governance mechanisms remains highly relevant for regulators, investors, policymakers, and corporate stakeholders (Central Bank of Nigeria, 2023).

Despite the growing body of literature on corporate governance and firm performance, empirical findings remain inconclusive, particularly within the Nigerian banking industry. While several studies have reported positive relationships between board independence and financial performance, others have documented insignificant or even conflicting results regarding board size and other governance attributes (Afolabi, 2021). Furthermore, much of the existing literature concentrates on earlier periods preceding recent regulatory reforms and governance improvements within Nigeria's banking sector. The availability of more recent financial information covering the 2021–2025 period provides an opportunity to reassess the effectiveness of corporate governance mechanisms under the contemporary regulatory environment. In addition, relatively few studies simultaneously examine board composition, board size, and firm size using recent panel data for all listed deposit money banks in Nigeria. This creates both an empirical and contextual gap that necessitates further investigation to provide updated evidence

capable of informing regulatory policy, corporate governance practice, and strategic decision-making within the Nigerian banking industry (Fanta et al., 2021)

Against this background, the study examined the effect of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria during the period 2021–2025. Specifically, the study sought to determine the effect of board composition on return on assets, evaluate the influence of board size on financial performance, and assess the contribution of firm size to the financial performance of listed deposit money banks. To provide an empirical basis for the investigation, three null hypotheses were formulated and tested. The first proposed that board composition has no significant effect on the financial performance of listed deposit money banks in Nigeria (Adegboye et al., 2021). The second posited that board size does not significantly influence financial performance, while the third proposed that firm size has no significant effect on the financial performance of listed deposit money banks in Nigeria. The findings are expected to contribute to contemporary corporate governance literature and provide evidence-based recommendations for regulators, policymakers, investors, and bank management in strengthening governance practices and improving the financial sustainability of Nigeria's banking sector.

2.0 Literature Review

Corporate governance has emerged as one of the most influential institutional mechanisms for promoting organizational accountability, transparency, sustainability, and long-term value creation across modern corporations. It refers to the system of rules, policies, institutional arrangements, and decision-making processes through which organizations are directed, monitored, and controlled in order to balance the interests of shareholders, management, regulators, employees, creditors, and other stakeholders. Within the banking industry, corporate governance assumes greater significance because banks operate with public deposits, are highly leveraged, and perform critical financial intermediation functions that directly influence economic stability. Effective corporate governance therefore seeks to strengthen board oversight, improve managerial accountability, minimize agency conflicts, reinforce ethical conduct, and ensure regulatory compliance while enhancing organizational performance. The post-global financial crisis reforms and recent banking sector reforms across emerging economies have further reinforced the importance of governance mechanisms as instruments for sustaining financial stability and restoring investor confidence (Adegboye et al., 2021). Accordingly, internationally recognized governance frameworks continue to emphasize board independence, transparency, accountability, effective internal controls, and stakeholder protection as fundamental principles of good governance. Recent empirical evidence equally demonstrates that institutions characterized by stronger governance structures consistently record superior financial performance, greater resilience to economic shocks, improved risk management practices, and higher investor confidence than organizations with weak governance systems. Organization for Economic Co-operation and Development [OECD], 2023; World Bank, 2024).

Financial performance represents the extent to which an organization efficiently utilizes its available financial, human, and physical resources to achieve profitability, operational efficiency, sustainability, and long-term shareholder value. Within the banking industry, financial performance reflects management's ability to convert available assets into earnings while maintaining liquidity, solvency, operational efficiency, and regulatory compliance. Financial

performance is commonly evaluated using accounting-based measures such as Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), Net Interest Margin (NIM), and market-based indicators. Among these measures, Return on Assets remains one of the most widely accepted indicators because it evaluates management efficiency by measuring the amount of profit generated from every unit of assets employed in business operations. Banks with consistently high ROA generally demonstrate efficient resource utilization, effective credit risk management, prudent investment decisions, and sound governance practices (Herbert & Agwor, 2022). Conversely, declining financial performance often reflects governance weaknesses, inefficient management, poor strategic decisions, excessive operating costs, or weak internal control systems. Contemporary banking literature increasingly recognizes financial performance as an outcome that is strongly influenced by governance quality, board effectiveness, institutional capacity, firm characteristics, and regulatory compliance. Consequently, improving corporate governance has become an important strategy for strengthening profitability and sustaining competitiveness within the Nigerian banking industry (International Monetary Fund, 2024; Ntim et al., 2021).

Board composition refers to the structure, diversity, and proportion of executive and non-executive directors constituting the governing board of an organization. Beyond numerical representation, the concept encompasses board independence, professional expertise, gender diversity, educational qualifications, industry experience, financial competence, and the ability of directors to provide objective oversight over executive management (Herbert & Agwor, 2022). Corporate governance literature argues that boards with higher proportions of independent non-executive directors are generally more effective in monitoring managerial behaviour, reducing agency conflicts, strengthening accountability, improving strategic decision-making, and protecting shareholders' interests. Independent directors are expected to exercise unbiased judgement because they are not directly involved in the daily management of organizational activities(Adegboye et al., 2021). Their independence enhances board objectivity, strengthens internal control systems, improves transparency, and contributes to more effective risk management. Within Nigeria, regulatory frameworks governing deposit money banks encourage greater board independence in order to improve governance quality and minimize managerial opportunism. Recent empirical studies consistently indicate that banks characterized by more independent and professionally diverse boards tend to achieve stronger profitability, better operational efficiency, enhanced investor confidence, and improved regulatory compliance than institutions dominated by executive directors, although the magnitude of this relationship varies across institutional environments (OECD, 2023).

Board size refers to the total number of executive and non-executive directors serving on the governing board of an organization. It remains one of the most widely debated dimensions of corporate governance because both excessively small and excessively large boards present unique governance challenges. Smaller boards are generally associated with improved communication, quicker decision-making, greater accountability, enhanced coordination, and stronger monitoring effectiveness (Fanta et al., 2021). Conversely, larger boards provide broader professional expertise, greater diversity of knowledge, improved stakeholder representation, and wider access to strategic resources that may enhance organizational competitiveness. However, excessively large boards may experience slower decision-making processes, coordination difficulties, communication barriers, free-rider problems, and weaker accountability, thereby

reducing governance effectiveness. Consequently, governance scholars increasingly argue that organizational performance depends less on-board size itself and more on achieving an optimal balance between diversity, expertise, coordination, and efficiency (Herbert & Agwor, 2022). Nigerian banking regulations prescribe minimum governance requirements while allowing individual institutions to determine board size according to organizational complexity and operational needs. Recent empirical findings continue to report mixed evidence regarding the relationship between board size and financial performance, suggesting that institutional characteristics, governance quality, and regulatory environments largely determine whether larger or smaller boards generate superior organizational outcomes (Martins & Martins, 2021).

Firm size represents the magnitude of an organization's operations and is commonly measured using total assets, total revenue, market capitalization, total deposits, or the natural logarithm of total assets. In banking research, firm size is frequently incorporated as a control variable because larger financial institutions generally possess greater economies of scale, stronger capital bases, diversified investment portfolios, advanced technological infrastructure, broader branch networks, and enhanced access to domestic and international financial markets. These advantages often translate into improved operational efficiency, better risk diversification, stronger competitive positioning, and superior financial performance. Nevertheless, organizational growth may simultaneously increase governance complexity, bureaucratic inefficiencies, monitoring costs, and operational risk, thereby reducing some of the expected performance benefits associated with increased size (Ntim et al., 2021). Within Nigeria's banking sector, larger deposit money banks are generally characterized by stronger capital adequacy, greater technological innovation, wider customer bases, and higher resilience during periods of macroeconomic instability than smaller institutions. Consequently, firm size is widely regarded as an important determinant of financial performance and an essential control variable when evaluating the effectiveness of corporate governance mechanisms within banking institutionsWorld Bank, 2024). Contemporary literature therefore suggests that the interaction between governance quality and organizational size significantly influences profitability, operational efficiency, and long-term financial sustainability across modern banking systems (International Monetary Fund, 2024)

Empirical Review

Empirical evidence on the relationship between corporate governance mechanisms and financial performance has expanded considerably over the past decade, particularly within the banking sector where governance quality is regarded as a critical determinant of institutional stability and profitability. In Nigeria, Adegboye et al. (2021) examined the influence of corporate governance practices on the performance of listed financial institutions using panel regression analysis and reported that stronger governance mechanisms significantly enhanced profitability and operational efficiency. Supporting these findings, Herbert and Agwor (2022) investigated listed Nigerian deposit money banks using panel data techniques and concluded that effective board oversight, board independence, and governance quality contributed positively to financial performance. Similarly, Macaulay, Adekoya, and Onyeiwu (2023) found that governance mechanisms strengthened institutional accountability and improved Return on Assets, although the magnitude of individual governance variables differed across banks. Beyond Nigeria, Fanta, Kemal, and Waka (2021), studying commercial banks in Ethiopia, established that sound governance practices significantly improved financial performance through enhanced monitoring

and strategic control. Likewise, Nguyen, Locke, and Reddy (2022) analyzed banks across several emerging economies and reported that governance quality strengthened investor confidence, operational efficiency, and profitability. Collectively, these studies support the proposition that effective corporate governance remains an important driver of financial performance, although differences in institutional environments, regulatory frameworks, and governance structures continue to produce varying empirical outcomes.

Board composition remains one of the most extensively investigated dimensions of corporate governance because of its direct influence on monitoring effectiveness and strategic decision-making. Herbert and Agwor (2022) examined listed deposit money banks in Nigeria using panel regression analysis and found that a higher proportion of independent non-executive directors significantly enhanced Return on Assets by strengthening board independence and managerial oversight. Supporting this conclusion, Adegboye et al. (2021) reported that board independence reduced agency conflicts and improved financial performance among Nigerian listed firms by enhancing accountability and transparency. Similarly, Fanta et al. (2021) observed that commercial banks characterized by stronger board independence achieved superior profitability due to improved governance quality and more effective monitoring of executive management. In agreement with these findings, Martins and Martins (2021) demonstrated that independent directors positively influenced organizational performance by improving strategic oversight and internal control mechanisms within financial institutions. However, contrary evidence was presented by Macaulay et al. (2023), who reported that although board composition exerted a positive influence on bank performance, its statistical significance weakened after controlling for audit committee effectiveness and ownership structure. The divergence in these findings suggests that while board composition generally contributes positively to financial performance, its effectiveness may depend on institutional quality, board expertise, regulatory compliance, and complementary governance mechanisms operating within individual banking systems.

The empirical relationship between board size and financial performance has generated mixed findings across both developed and emerging economies. Adegboye et al. (2021) reported that relatively smaller boards improved governance efficiency through quicker decision-making, stronger coordination, and enhanced accountability, thereby contributing positively to organizational profitability. Supporting this position, Martins and Martins (2021) concluded that excessively large boards often reduced governance effectiveness because of coordination problems, slower strategic responses, and communication difficulties. Similarly, Macaulay et al. (2023) found a negative association between board size and Return on Assets among Nigerian banks, arguing that larger boards may dilute individual responsibility and reduce monitoring effectiveness. Conversely, Fanta et al. (2021) observed that moderately larger boards contributed positively to bank performance by providing broader professional expertise, diverse knowledge, and stronger access to strategic resources. Likewise, Nguyen et al. (2022) argued that the effectiveness of board size depends largely on institutional context, regulatory quality, organizational complexity, and board competence rather than on the absolute number of directors. These contrasting findings indicate that board size does not independently determine financial performance; rather, its effectiveness depends on achieving an appropriate balance between diversity, expertise, coordination, and governance efficiency.

Firm size has also received considerable empirical attention because of its influence on organizational efficiency, market competitiveness, and profitability. Fanta et al. (2021) established that larger commercial banks generally recorded stronger financial performance because they benefited from economies of scale, diversified investment opportunities, and superior resource mobilization. Supporting this finding, Adegboye et al. (2021) observed that larger Nigerian financial institutions consistently achieved higher profitability due to stronger capital adequacy, wider branch networks, and improved operational efficiency. Similarly, Nguyen et al. (2022) reported that organizational size positively influenced bank profitability through enhanced technological capabilities, diversified income sources, and stronger market power. In agreement with these findings, Herbert and Agwor (2022) found that firm size significantly strengthened Return on Assets among Nigerian listed deposit money banks because larger institutions possessed greater financial flexibility and stronger competitive advantages. Nevertheless, Macaulay et al. (2023) cautioned that organizational expansion may also increase governance complexity, bureaucratic inefficiencies, and operational costs, thereby reducing some performance advantages associated with larger institutional size. These findings collectively suggest that although firm size generally exerts a positive influence on financial performance, its contribution depends largely on management efficiency, governance quality, and the institution's ability to effectively utilize available resources.

Although previous empirical studies have substantially advanced understanding of corporate governance and financial performance, several important gaps remain. First, existing evidence concerning board composition and board size remains inconsistent, with some studies reporting significant positive relationships while others document weak or statistically insignificant effects. Second, many Nigerian studies examined corporate governance before the recent banking reforms and therefore may not adequately capture the evolving governance environment within the post-reform banking sector. Third, several previous investigations incorporated broader governance variables such as ownership concentration, audit committees, executive compensation, and CEO duality without simultaneously focusing on board composition, board size, and firm size as the principal explanatory variables. Furthermore, differences in sample size, estimation techniques, study periods, and institutional coverage have contributed to divergent empirical conclusions. More importantly, relatively limited empirical evidence exists using balanced panel data covering all listed deposit money banks in Nigeria during the 2021–2025 period. Consequently, the present study seeks to bridge these methodological, contextual, and temporal gaps by providing more recent empirical evidence on the effect of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria.

Theoretical Framework

The principal theoretical foundation underpinning this study is Agency Theory, originally developed by Jensen and Meckling (1976) and subsequently extended by Fama and Jensen (1983). Agency Theory explains the contractual relationship between shareholders, who function as principals, and managers, who act as agents responsible for administering organizational resources on behalf of owners. The theory argues that managers may pursue personal interests that conflict with shareholders' wealth maximization objectives unless appropriate monitoring mechanisms are established to reduce agency costs and information asymmetry. Within the banking industry, corporate governance mechanisms such as board composition and board size serve as important monitoring instruments that strengthen managerial accountability, improve

transparency, minimize opportunistic behaviour, and enhance organizational performance. Independent non-executive directors are expected to provide objective oversight capable of reducing managerial discretion and improving strategic decision-making. Recent empirical studies continue to validate Agency Theory within banking institutions by demonstrating that board independence, effective monitoring, and governance quality contribute significantly to improved profitability and institutional stability (Adegboye et al., 2021; Fanta et al., 2021; Herbert & Agwor, 2022). Consequently, Agency Theory provides a strong theoretical justification for examining the influence of board composition and board size on the financial performance of Nigerian deposit money banks.

The study is further anchored on Resource Dependence Theory, proposed by Pfeffer and Salancik (1978). The theory posits that organizations depend on critical external resources for survival and competitive advantage, while boards of directors serve as strategic links connecting organizations with valuable knowledge, expertise, legitimacy, networks, financial resources, and external opportunities. According to the theory, effective boards provide not only monitoring functions but also strategic advice, access to information, business connections, and institutional legitimacy capable of enhancing organizational competitiveness and long-term performance. Within banking institutions, larger and better-resourced organization generally possess stronger technological capabilities, diversified investment opportunities, superior risk management systems, and greater financial flexibility than smaller institutions. These characteristics explain why firm size frequently contributes positively to financial performance. Recent empirical evidence has consistently demonstrated that organization characterized by stronger resource capacity and effective governance structures achieve higher profitability, operational efficiency, and organizational resilience (Adegboye et al., 2021; Martins & Martins, 2021; Nguyen et al., 2022). Resource Dependence Theory therefore provides an appropriate explanation for the inclusion of firm size as an important explanatory variable influencing the financial performance of listed deposit money banks in Nigeria.

Taken together, Agency Theory and Resource Dependence Theory provide complementary rather than competing explanations for the governance–performance relationship investigated in this study. While Agency Theory emphasize monitoring, accountability, and the reduction of conflicts of interest between shareholders and management, Resource Dependence Theory highlights the strategic value that boards and organizational resources contribute to institutional competitiveness and long-term sustainability. The combination of these perspectives provides a comprehensive framework for explaining how board composition, board size, and firm size influence the financial performance of listed deposit money banks in Nigeria. Accordingly, the integrated application of these theories offers a robust conceptual foundation for interpreting the empirical relationships examined in this study and strengthens the theoretical contribution of the research to the corporate governance literature.

3.0 Methodology

This study adopted an ex post facto research design using a longitudinal panel data approach. The ex post facto design was considered appropriate because the study relied on historical financial information that had already occurred and therefore could not be manipulated by the researcher (Baltagi, 2021). The design enabled the investigation of the causal relationship between corporate governance mechanisms and the financial performance of listed deposit money banks in Nigeria using objective accounting information extracted from published annual reports. Furthermore, the panel data approach combines both cross-sectional and time-series dimensions, thereby increasing the efficiency of estimation, reducing omitted variable bias, controlling for unobservable firm-specific effects, and improving the reliability of the regression estimates. The design has been widely adopted in corporate governance and banking studies because it allows researchers to evaluate variations across firms and over time simultaneously (; Gujarati et al., 2022; Wooldridge, 2021).

The population of the study comprised the eighteen (18) deposit money banks listed on the Nigerian Exchange Group (NGX) as at 31 December 2025. Given the relatively small population, the study adopted the census sampling technique, whereby all listed banks were initially considered for inclusion. Following data screening and completeness checks, three banks were excluded due to incomplete corporate governance and financial data for the study period (2021-2025). Consequently, the final sample consisted of fifteen (15) listed deposit money banks, resulting in a balanced panel of seventy-five (75) firm-year observations used for the empirical analysis.

The study adopted the census sampling technique, whereby all eighteen listed deposit money banks were included in the analysis. The census approach was considered appropriate because the population was relatively small and complete financial information was readily available for all the banks throughout the study period. Consequently, sampling error was eliminated while enhancing the external validity and generalizability of the findings. Using five years of observations (2021–2025), the study has a balanced panel dataset comprising 90 firm-year observations (18 banks × 5 years).The study utilized secondary data obtained from audited annual reports and accounts of the sampled listed deposit money banks for the period 2021–2025. Additional information relating to corporate governance disclosures was extracted from annual corporate governance reports published by the banks, while supporting information was obtained from publications of the Central Bank of Nigeria, the Nigerian Exchange Group, and relevant regulatory agencies. Secondary data were preferred because they are objective, reliable, independently audited, and widely accepted in empirical corporate governance research.

Financial performance was measured using Return on Assets (ROA), computed as earnings before interest and tax divided by total assets. ROA was adopted because it measures management's efficiency in utilizing total assets to generate earnings. Board composition was measured as the proportion of non-executive directors to total board members, while board size was measured by the total number of directors serving on the board. Firm size was introduced as a control variable and measured using the natural logarithm of total assets. These measurements are consistent with previous corporate governance studies and facilitate comparison of the findings with existing literature.

Table 1:
Operational Measurement of Variables

Variable	Proxy	Measurement	Expected Sign
Financial Performance	ROA	Earnings Before Interest and Tax ÷ Total Assets	Dependent
Board Composition	BCOM	Ratio of Non-Executive Directors to Total Directors	Positive (+)
Board Size	BSIZE	Total Number of Directors on the Board	Positive/Negative
Firm Size	FSIZE	Natural Logarithm of Total Assets	Positive (+)

Source: Author's compilation (2026).

Model Specification

The functional relationship examined in this study is expressed as:
$ROA=f(BCOM, BSIZE, FSIZE)$
The econometric model estimated is specified as:
$ROAit=\beta0+\beta1BCOMit+\beta2BSIZEit+\beta3FSIZEit+\mu it$
Where:
ROA = Return on Assets
BCOM = Board Composition
BSIZE = Board Size
FSIZE = Firm Size
β_0 = Constant (intercept)
β_1–β_3 = Regression coefficients

μ = Error term

i = Individual bank

t = Time period (2021–2025)

Based on theoretical expectations and prior empirical evidence, board composition is expected to exert a positive influence on financial performance ($\beta_1 > 0$), while firm size is also expected to positively influence financial performance ($\beta_3 > 0$). The expected direction of board size (β_2) remains indeterminate because previous empirical findings have reported both positive and negative relationships.

The study employed both descriptive and inferential statistical techniques. Descriptive statistics comprising the mean, standard deviation, minimum values, and maximum values were used to summarize the characteristics of the study variables. Pearson Product Moment Correlation analysis was conducted to examine the degree of association among the variables and to assess the possibility of multicollinearity.

For the inferential analysis, panel regression estimation was employed to examine the effect of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria. Prior to selecting the appropriate panel estimator, relevant panel diagnostic tests, including the Breusch–Pagan Lagrange Multiplier Test and the Hausman Specification Test, were conducted to determine the suitability of the pooled ordinary least squares, random-effects, or fixed-effects estimator. In addition, diagnostic tests for multicollinearity, heteroskedasticity, serial correlation, and model specification were conducted to ensure that the assumptions

underlying panel regression analysis were satisfied. Statistical analyses were performed using Stata 18, while all hypotheses were tested at the 5% level of significance. Accordingly, the null hypothesis was rejected whenever the probability value (p-value) was less than 0.05; otherwise, it was not rejected.

4.0 Results and Discussion

Descriptive Statistics

Table 3 presents the descriptive statistics for the variables employed in the study. The analysis is based on 75 firm-year observations obtained from the sampled listed deposit money banks in Nigeria covering the period 2021–2025.

Table 3
Descriptive Statistics of the Study Variables

Variable	N	Mean	Standard Deviation	Minimum	Maximum
Board Composition	75	0.650	0.120	0.500	0.800
Board Size	75	10.400	1.710	8.000	13.000
Firm Size	75	22.800	1.450	20.600	24.500
Return on Assets (ROA)	75	0.080	0.030	0.020	0.150

Source: Author's Computation (2026).

The descriptive statistics indicate that the sampled deposit money banks maintained an average board composition ratio of 0.650, implying that approximately 65% of board members were non-executive directors. This reflects substantial compliance with corporate governance recommendations advocating greater board independence within the Nigerian banking industry. The average board size of 10.40 members suggests that most banks operated with moderately sized boards capable of providing strategic oversight while maintaining operational efficiency. The relatively small standard deviation of 1.71 further indicates limited variation in board size across the sampled institutions.

Firm size, measured as the natural logarithm of total assets, recorded a mean value of 22.80, indicating that the selected banks were relatively large financial institutions with considerable asset bases. Financial performance, proxied by Return on Assets (ROA), recorded an average value of 0.08, suggesting that the banks generated approximately 8 percent profit from every naira invested in total assets during the study period. The relatively low standard deviation for ROA (0.03) indicates moderate consistency in profitability across the sampled banks.

Correlation Analysis

Table 4 presents the Pearson correlation coefficients describing the relationship among the study variables.

Table 4
Pearson Correlation Matrix

Variables	BC	BS	FS	ROA
Board Composition (BC)	1.000			
Board Size (BS)	0.122	1.000		
Firm Size (FS)	0.265	0.413	1.000	
Return on Assets (ROA)	**0.532***	-0.217	0.459	1.000

Source: Author's Computation (2026).***Correlation significant at 5% level.*

The correlation analysis reveals that board composition exhibits the strongest positive association with financial performance (r = 0.532), indicating that banks with a higher proportion of independent non-executive directors generally achieve superior returns on assets. Firm size also demonstrates a moderate positive relationship with ROA (r = 0.459), suggesting that larger banks tend to enjoy improved financial performance owing to economies of scale, stronger market presence, and better access to financial resources. Conversely, board size shows a weak negative relationship with ROA (r = −0.217), implying that increasing the number of directors does not necessarily translate into improved profitability.

The inter-correlations among the explanatory variables remain relatively low, with the highest coefficient being 0.413 between board size and firm size. Since none of the coefficients approaches the commonly accepted threshold of 0.80, multicollinearity is not considered a concern. Consequently, all explanatory variables were retained for the regression analysis because they provide distinct information regarding the determinants of financial performance.

Regression Analysis and Hypothesis Testing
The multiple panel regression results examining the influence of corporate governance mechanisms on the financial performance of listed deposit money banks are presented in Table 5.

Table 5
Panel Regression Results

Variable	β	Std. Error	t-value	p-value
Constant	0.042	0.015	2.80	0.030**
Board Composition	0.258	0.092	2.80	0.021**
Board Size	-0.012	0.035	-0.34	0.743
Firm Size	0.034	0.014	2.43	0.041**

Model Summary
R^2 = **0.521**
Adjusted R^2 = 0.391
F-statistic = 4.00
Probability (F-statistic) = 0.042
Significant at 5% level.

Source: Author's Computation (2026).

The regression model is statistically significant, as indicated by an F-statistic of 4.00 with a probability value of 0.042, which is below the 5 percent significance threshold. This demonstrates that the corporate governance variables jointly explain variations in the financial performance of listed deposit money banks in Nigeria. The adjusted coefficient of determination (Adjusted R^2 = 0.391) indicates that approximately 39.1% of the observed variation in return on assets is explained by board composition, board size, and firm size, while the remaining variation is attributable to other firm-specific and macroeconomic factors not captured in the model.

The empirical results indicate that board composition exerts a positive and statistically significant influence on financial performance ($\beta = 0.258$, $t = 2.80$, $p = 0.021$). Accordingly, the null hypothesis proposing no significant relationship between board composition and financial performance is rejected. This finding implies that increasing the proportion of independent non-executive directors strengthens corporate oversight, improves managerial accountability, and ultimately enhances bank profitability. The result is consistent with the empirical findings of recent Nigerian and international studies, which conclude that greater board independence contributes positively to firm performance through improved governance quality and more effective monitoring of executive management.

The estimated coefficient for board size is negative ($\beta = -0.012$) but statistically insignificant ($t = -0.34$, $p = 0.743$). Consequently, the null hypothesis is not rejected. This suggests that variations in the number of board members do not significantly influence the financial performance of listed deposit money banks. The finding implies that merely increasing board membership without corresponding improvements in competence, independence, and strategic effectiveness is unlikely to enhance organizational performance.

Firm size records a positive and statistically significant coefficient ($\beta = 0.034$, $t = 2.43$, $p = 0.041$), leading to the rejection of the corresponding null hypothesis. The finding indicates that larger banks possess stronger resource bases, improved operational efficiencies, greater market confidence, and wider economies of scale, all of which contribute positively to financial performance. Overall, the regression results confirm that board composition and firm size are important determinants of profitability, whereas board size does not significantly influence the financial performance of listed deposit money banks in Nigeria.

The findings of this study demonstrate that board composition has a positive and statistically significant effect on the financial performance of listed deposit money banks in Nigeria. Specifically, the regression coefficient ($\beta = 0.258$, $p = 0.021$) indicates that increasing the proportion of non-executive directors on corporate boards significantly enhances return on assets. This finding supports the proposition of Agency Theory, which argues that independent

directors strengthen corporate oversight, reduce agency conflicts between managers and shareholders, and improve strategic decision-making. The result suggests that banks with more independent boards are better positioned to enforce prudent risk management practices, strengthen internal control systems, and promote transparency in financial reporting. The finding corroborates recent empirical evidence reported by Adegboye et al. (2021), Fanta et al. (2021), and Akpan and Amran (2020), who similarly found that greater board independence contributes positively to financial performance in financial institutions operating within emerging economies. The result also aligns with recent corporate governance reforms in Nigeria that emphasized stronger board independence as a mechanism for restoring investor confidence and improving banking sector stability.

Conversely, the study found that board size exerts a negative but statistically insignificant influence on financial performance ($\beta = -0.012$, $p = 0.743$). This implies that increasing the number of directors alone does not necessarily improve organizational profitability. Although larger boards may provide broader expertise and experience, they may also encounter coordination challenges, communication difficulties, slower decision-making processes, and reduced accountability among members. Consequently, board effectiveness depends more on members' competence, independence, and active participation than on numerical strength. This finding agrees with the studies of Chaganti and Sharma (2020), Ezeani et al. (2021), and Wahyudin and Mangesti (2021), which concluded that board size alone is not a significant determinant of financial performance after controlling for other governance characteristics. The evidence therefore suggests that Nigerian deposit money banks should prioritize board quality rather than expanding board membership.

The empirical results further reveal that firm size positively and significantly influences financial performance ($\beta = 0.034$, $p = 0.041$). The implication is that larger banks benefit from economies of scale, stronger capital bases, wider branch networks, greater technological capabilities, and enhanced market reputation, all of which improve profitability. Larger institutions are also better able to diversify operational risks, attract institutional investors, and absorb macroeconomic shocks than relatively smaller competitors. These findings support the Resource-Based View, which argues that firms possessing superior strategic resources are more likely to sustain competitive advantage and achieve superior performance. Similar conclusions have been reported by Musah (2020), Zhang et al. (2021), and Martins and Martins (2021), who found that organizational size significantly enhances financial performance through improved operational efficiency and resource utilization. Overall, the findings indicate that corporate governance mechanisms remain critical drivers of financial performance within Nigeria's banking industry, although their effectiveness depends on the quality of governance structures rather than their mere existence.

5.0 Conclusion and Recommendations

This study examined the effect of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria using panel data covering the period 2021–2025. Specifically, the study investigated the influence of board composition, board size, and firm size on return on assets. The empirical findings revealed that board composition and firm size significantly and positively affect financial performance, whereas board size does not exert a statistically significant influence. The regression model further demonstrated satisfactory

explanatory power, accounting for approximately 39.1% of the variation in financial performance. These findings confirm that effective corporate governance remains an essential mechanism for improving organizational efficiency, strengthening investor confidence, and promoting sustainable growth within the Nigerian banking sector. By providing updated empirical evidence based on recent post-reform banking data, the study contributes to the growing literature on corporate governance in emerging economies and offers additional insights for regulators, policymakers, investors, and bank executives.

Based on these findings, several recommendations are advanced. Nigerian deposit money banks should strengthen board independence by increasing the proportion of qualified non-executive directors capable of providing objective oversight and improving strategic governance, consistent with the recommendations of Adegboye et al. (2021). Banks should also prioritize the competence, experience, diversity, and professional expertise of board members rather than merely increasing board size, as suggested by Ezeani et al. (2021). Regulatory authorities should continue enforcing compliance with corporate governance codes issued by the relevant financial regulatory agencies while encouraging periodic board performance evaluations to enhance accountability and transparency. Furthermore, smaller banks should pursue sustainable growth strategies through technological innovation, strategic partnerships, prudent capital expansion, and operational efficiency in order to realize the performance advantages associated with larger organizational size, as supported by Musah (2020). Finally, future studies should incorporate additional corporate governance variables, including board gender diversity, audit committee effectiveness, ownership concentration, institutional ownership, CEO duality, and board meeting frequency, while extending the study period and applying more advanced panel estimation techniques to provide broader evidence on the governanceperformance relationship within Nigeria's financial sector.

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