

CORPORATE GOVERNANCE STRUCTURE AND FINANCIAL PERFORMANCE IN NIGERIAN DEPOSIT MONEY BANKS

Andrew Osaretin IZEKOR, PhD

Department of Finance,
Faculty of Management Sciences,
University of Benin, Benin City, Edo State.
Email: andrew.izekor@uniben.edu

Onome Louis EMONENA

PhD Student, Department of Finance
Faculty of Management Sciences
University of Benin, Benin City, Edo State.
Email: onome.emonena@mgtsci.uniben.edu
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Abstract

This study examined the effect of corporate governance structure on the financial performance of deposit money banks in Nigeria from 2015 to 2024. The study is anchored on agency theory, and employed the ex-post facto research design. A two-step dynamic panel Generalized Method of Moments (GMM) estimation technique was employed to analyze data obtained from the annual reports of 11 listed banks. Financial performance is measured using Return on Equity (RE), while corporate governance structure was proxied by board size, board composition, board diligence, and ownership concentration. The preliminary analyses such as descriptive statistics, panel unit root test, and correlation tests, were conducted before model estimation. The results showed that board size has a significant negative effect on bank performance, suggesting that larger boards reduce efficiency and decision-making effectiveness. Board diligence exerted a positive and significant effect, implying that frequent board meetings enhanced oversight and profitability. However, board composition and ownership concentration showed positive but statistically insignificant effects on bank performance. The study concluded that board structure, particularly board size and board diligence, played a crucial role in shaping financial performance. It recommended based on findings that regulatory authorities should promote lean, active, and competent boards to strengthen governance effectiveness to ensure sustainable profitability in Nigeria's banking sector.

Keywords: Corporate Governance, Bank Performance, Board Structure, Ownership Concentration
JEL Classification: G34, G21, G34, G32

1.0 Introduction

The financial sector is the backbone of any economy which is particularly effective in facilitating commercial activities through the provision of essential framework for payments, investments, and capital mobilization. Hence, banking institutions through their financial operations, stimulate economic activities and growth, acting as link between the surplus and deficit economic units (Ogbeide et al., 2022), such that the banking sector remains significant in ensuring financial intermediation and resource allocation in an economy.

Given the significant role of banks in economic stability and growth, their failures have often been traced to weaknesses in corporate governance structures (Lahart, 2009; Zandi, 2009; Faber, 2009).

Corporate governance involves internal and external corporate governance mechanisms in the banking sector. Internal corporate governance mechanisms include attributes such as board size, board composition, board diligence, gender diversity, and Chief Executive officer (CEO) duality. While external corporate governance mechanisms include oversight structures such as audit committees and regulatory frameworks (Zabri et al., 2016; Musa et al., 2022). Empirical evidence suggests that these mechanisms, particularly board structure and audit committee, are among the most influential variables in shaping bank financial performance (Belhaj & Mateus, 2016; Success et al., 2024; Mohammed & Fahmida, 2017).

The Nigerian banking sector witnessed remarkable growth over the years in terms of institutional capacity, consolidation reforms, and operational scope (Egwu et al., 2025). Despite these advancement, persistent corporate governance deficiencies, corruption, and limited transparency have been cited as major factors behind the collapse of several Deposit Money Banks (DMBs) (Egwu et al., 2025). In the early 1990s for instance, Nigeria witnessed a near collapse of the financial sector, which led to the promulgation of the *Failed Banks (Recovery of Debt) and Financial Malpractices in Banks Act 1993*, to prosecute those who contributed to the failure of banks and to recover the debt owed to the failed banks (Uwuigbe, 2011). Financial institutions such as Savannah Bank in 2002 and Societe Generale Bank of Nigeria in 2006, were casualties to this act, with investigations suggesting poor board oversight, management inefficiency, false financial reporting, insolvency, and weak regulatory compliance as the root causes of financial crisis in the defunct bank (Uwuigbe, 2011). Societe Generale Bank of Nigeria later relaunched under new ownership (led by International Energy Insurance) as Heritage Bank, a new bank entity that grew rapidly but eventually faced its own distress and collapsed in 2024 (Ikupolati et al., 2025). Similarly, Peak Merchant Bank operating license was revoked in 2003, due to poor corporate governance practices by the Central Bank of Nigeria (CBN) because of the excessive influence of its chairman, who simultaneously held the majority of the shares (Uwuigbe, 2011).

Despite the role of corporate governance in improving financial performance of deposit money banks in Nigeria, empirical findings remain inconsistent. Sanda et al. (2010) and Uwalomwa et al. (2015) reported positive effects of board size, composition, and independence, while Etale and Ujuju (2018), Omolehin et al. (2019), and Muraina (2018) found mixed or negative effects for similar governance mechanisms. Ogbeide et al. (2022) showed that board composition and regulatory quality positively influence bank performance, whereas factors such as bank age and non-performing loans had adverse effects, but did not examine board diligence or ownership concentration. Ownership structure and board diligence also show conflicting results across other studies (Ozili & Uadiale, 2017; Chukwuemeka et al., 2024; Musa et al., 2022), depicting the complexity of corporate governance structure relationships with Nigerian banks performance.

This inconsistency necessitates further, context-specific research to provide clearer evidence on how corporate governance structures influence the financial performance of deposit money banks in Nigeria. Against this background, this study is built on the work of Ogbeide et al. (2022), who examined board size, board composition, and bank age alongside macroeconomic and bank-specific factors using panel regression for 2010 to 2019. They did not include board diligence or ownership concentration. Accordingly, this study focuses specifically on board size, board composition, board diligence, and ownership concentration as corporate governance structure variables over a more recent ten-year period of 2015 to 2024, using Return on Equity (ROE) as the performance measure and employing the two-step Dynamic Panel GMM estimator. The study thus tests the broad null hypothesis that corporate governance structure does not significantly influence the financial performance of deposit money banks in Nigeria. On this basis, the specific objectives of this study are to:

- i. examine the effect of board size on the financial performance of deposit money banks in Nigeria.
- ii. evaluate the influence of board composition on the financial performance of deposit money banks in Nigeria.
- iii. determine the effect of board diligence on the financial performance of deposit money banks in Nigeria.
- iv. assess the influence of ownership concentration on the financial performance of deposit money banks in Nigeria.

2.0 Literature Review

The financial performance of banks is important because it reveals the overall health, operational efficiency, and long-term sustainability of banks. It shows how well banks deploy their assets and manage operations to generate profit and deliver value to shareholders (Etale & Ujuju, 2018; Mohammed et al., 2017). The assessment of banks financial performance is usually carried out through financial ratios, which capture different dimensions of performance. Financial ratios such as profitability ratios are among the most widely used, as they show a bank's capacity to earn income. The common measures of profitability are return on asset (ROA) and return on equity (ROE) (Ahmed, 2009). Return on Assets compares net profit with total assets, serving as an indicator of how effectively a bank converts its resources into profit (Ahmed, 2009; Muraina, 2018), and it is commonly interpreted as a proxy for management efficiency (Mohammed et al., 2017). On the other hand, Return on Equity relates net profit of a firm to shareholders' equity, thereby reflecting the return generated for investors (shareholders), and it indicates how effectively the bank uses owners' funds to generate profits (Muraina, 2018).

The financial performance of Nigerian deposit money banks (DMBs) is influenced by both internal and external factors (Okere et al., 2022; Olalere et al., 2017). The key bank-specific drivers of financial performance include capital strength, operational efficiency, asset quality, and risk management, with non-performing loans posing a major threat to the profitability and stability of banks (Cheruiyot, 2016). Bank size and the growing role of intangible assets such

as technology and brand are also significant determinants of performance outcomes (Ogbeide et al., 2022). Also, effective corporate governance remains crucial, as weak practices have historically worsened financial vulnerabilities (Musa et al., 2022). On the macroeconomic side, GDP growth enhances profitability, while financial deepening shows mixed effects depending on credit quality and market conditions (Okere et al., 2022). Although reforms by the Central Bank of Nigeria have improved stability, persistent challenges in credit risk, inclusion, and governance continue to constrain sectoral performance. Therefore, this study seeks to investigate the relationship between corporate governance structure and financial performance of deposit money banks in Nigeria, using Return on Equity as performance variable.

Corporate Governance Structure

Corporate governance structure is the system of rules, practices, and processes that guide how a bank is managed and controlled, ensuring a balance between the interests of shareholders, customers, management, and other stakeholders (Abdelsalam et al., 2007; Musa et al., 2022). It plays a significant role in building an effective leadership team capable of steering the organization toward sustainable long-term goals (Okike, 2007). Governance structures consist of internal mechanisms, designed within the organization, and external mechanisms, shaped by regulatory frameworks and market forces (Abdelsalam et al., 2007; Etale & Ujuju, 2018). The internal mechanisms of corporate governance structure include board size, board composition, ownership concentration, and internal audit/controls. This study incorporates board size, board composition, board diligence, and ownership concentration as governance structure to ascertain the relationship between corporate governance structure and financial performance of deposit money banks in Nigeria.

Board Size

Board size is determined by the number of directors on a company's board (Omolehin et al., 2019). It is a fundamental aspect of corporate governance with significant implications for firm performance (Abdelsalam et al., 2007). The size of the board influences its ability to provide oversight, make strategic decisions, and monitor management effectively. The theoretical perspective of Agency theory of board size argues that smaller boards are more efficient, as they reduce coordination problems, decision-making delays, and the tendency for directors to shirk responsibilities (Jensen and Meckling, 1976).

Board Composition

Board composition is a fundamental aspect of corporate governance that influences firm strategy, oversight, and overall performance. Board composition describes the structure of a company's board of directors, considering factors such as expertise, independence, diversity, and professional background (Eziokwu & Nwinee, 2019). Agency theory views board composition as a monitoring tool to align managers' interests with those of shareholders (Jensen & Meckling, 1976). Independent non-executive directors are particularly valued for providing objectivity and reducing managerial opportunism (Potharla & Amirishetty, 2021). They play a crucial role in scrutinizing executive decisions and ensuring accountability. Another agency-based principle is the separation of CEO and Chairman roles, which prevents excessive concentration of authority (Ryan et al., 2016).

Board Diligence

Board diligence is the careful, responsible, and informed way a board of directors carries out its oversight and governance duties within the bank. Conflicts of interests exists between shareholders and management (Omolehin et al., 2019), a diligent board is essential for mitigating this conflict by effectively monitoring management and aligning management interest with those of shareholders. The frequency of board meetings is a key indicator of Board diligence. In the absence of regular board meetings, directors are seen as rubber stamp (Omolehin et al., 2019). On this basis, board diligence is the total number of board meetings held by a bank within a financial year (Wang & Shailer, 2015).

Ownership Concentration

Ownership concentration refers to how much of a company's shares are held by a few large investors such as block holders or controlling families (Shehu, 2012; Yasser & Mamun, 2025). It is the percentage of a company's share capital held by a particular number of shareholders (Ogbeide et al, 2022). It is a key feature of corporate governance with major effects on firm strategy and financial outcomes (Hu, 2008). Agency Theory developed by Jensen & Meckling (1976), argues that dispersed ownership (low concentration) weakens monitoring, giving managers (agents) room for self-interest, whereas, high concentration, on the other hand, allows large shareholders to effectively monitor management and reduce agency costs (Barroso et al., 2018). However, this introduces another challenge known as the Principal–Principal Conflict (also known as agency problem II). This occurs when controlling shareholders exploit minority shareholders for personal gain (La Porta et al., 2002). Such practices may involve related-party deals, dividend manipulation, or resource diversion, also called “tunneling.” As a result, ownership concentration can have both positive and negative effects. Therefore, moderate levels may improve oversight and performance, but excessive concentration often leads to expropriation and reduced firm value (Wang & Shailer, 2015).

Theoretical Review

This study adopted the agency theory. The agency theory was developed by Michael C. Jensen and William H. Meckling in 1976. The theory addresses the relationship between a principal (shareholders or owners) and agent (managers), when the principal delegates decision making authority to the agent. It highlights the conflict that arises from the separation of ownership and management, where managers (agents) may act in their own interest rather than in the best interest of shareholders (principals) (Jensen & Meckling, 1976). Such challenges have been evident in the Nigerian banking sector, especially during past crises linked to weak governance practices (Ogbeide et al., 2022). The problem is further intensified by information asymmetry, as managers often possess superior knowledge of bank operations compared to shareholders (Shleifer & Vishny, 1997). To minimize these conflicts and the resulting agency costs, shareholders depend on corporate governance mechanisms (Jensen & Meckling, 1976; Akinsulire, 2002).

Empirical Review

Empirical studies on corporate governance structure and bank financial performance in countries outside Nigeria indicate that governance mechanisms influence financial outcomes,

although the effects vary by context. Basuony et al. (2014) analyzed conventional and Islamic banks across seven Arabian Peninsula countries from 2005 to 2009, and reported that board size, activism, outside directors, ownership concentration, and audit committees affected performance measures like Tobin's Q, ROA, and profit margin, though effects varied across banks. Belhaj and Mateus (2016) examined 73 banks in 11 European countries from 2002 to 2011 and found that larger boards and gender diversity positively affected ROA, ROE, and Tobin's Q, while CEO duality and board composition were largely insignificant; smaller boards performed better during the 2008 financial crisis. Al-Bakri (2023) utilized data from 2011 to 2019, studied 3,573 bank-year observations from G7 countries, and found that board structure and ESG disclosure influenced bank financial sustainability, with effects differing across governance clusters. Overall, these studies suggest that corporate governance significantly affects bank performance, but its impact is context-dependent, highlighting the need for adaptive, flexible, and institutionally tailored governance practices.

In Nigeria, empirical studies on corporate governance structure and financial performance of deposit money banks have produced mix but insightful findings. Sanda et al. (2010) investigated how certain corporate governance mechanisms affect firm financial performance among companies listed on the Nigerian Stock Exchange, using data on 93 firms over the years 1996-1999 and found that optimal board size, concentrated ownership, and separation of CEO and Chair roles positively affected firm performance, while excessive board size or poorly structured leadership reduced effectiveness. Similarly, Uwalomwa et al. (2015) highlighted that strong board independence and clear separation of ownership and control positively influenced dividend payout policies among 50 listed firms, demonstrating the broader financial implications of governance.

Etale and Ujuju (2018) investigated the impact of corporate governance on the financial performance of banks in Nigeria, utilizing data from 2006 to 2015 and showed that board size and board composition significantly improved bank performance, while CEO duality negatively affected outcomes. Muraina (2018) corroborated these findings, emphasizing that larger, diverse, and independent boards enhance performance, though audit committee independence was insignificant. Ogebeide et al. (2022) extended the analysis by incorporating macroeconomic and institutional factors, demonstrating that board composition, regulatory quality, and per capita GDP positively influence performance, whereas bank age, non-performing loans, and political instability have adverse effects.

Omolehin et al. (2019) examined the impact of board composition on the financial performance of listed deposit money banks in Nigeria. Their research utilized data from five randomly selected banks over a six-year period, from 2012 to 2017. They found that board diligence negatively and significantly influenced bank performance. They also found that larger boards hindered performance, whereas higher representation of non-executive directors improved outcomes. Akpokerere and Obonofiemro (2022) analyzed seven deposit money banks from 2008 to 2023, using panel regression and confirmed that board composition positively affects bank performance. Akinwumi and Onmonya, (2025) studied board characteristics and financial performance of deposit money banks in Nigeria from 2014 to 2023, using multiple regression

analysis, and showed that board size, independence, and audit quality positively influence financial performance, while gender diversity had no significant effect, emphasizing the relative importance of governance quality over mere demographic representation. Okonkwo et al. (2019) examined the effectiveness of corporate governance on Nigerian banks using secondary data from 2006 to 2018. They employed panel regression analysis and showed that board audit committees positively influenced net profit margin, while block shareholding and board composition negatively affected revenue and net income growth. Egwu et al. (2025) in their study, the effect of corporate governance on performance of deposit money banks in Nigeria from 2013 to 2024, using Generalised Least Square, Random Effect and Fixed Effects regressions were conducted and husman test, further demonstrated that gender diversity, board size, CEO duality, and audit committee effectiveness positively affected performance, underscoring the multifaceted nature of effective governance.

Ozili and Uadiale (2017) examined the impact of ownership concentration on bank profitability in Nigeria, focusing on whether different levels of ownership concentration, such as high, moderate, and dispersed concentration, affect financial performance. Their study used a sample of Nigerian banks over a period from 2006 to 2015. They found that highly concentrated ownership improves operational performance, while dispersed ownership enhances returns on equity. Chukwuemeka, et al. (2024) investigated ownership structure and financial performance of 13 listed commercial banks in Nigeria, using panel random effect regression technique to analyze data from 2018 to 2022, and reported that concentrated ownership negatively affected ROA, whereas dispersed ownership improved profitability, suggesting the need to balance control and shareholder interests. Nwude et al. (2023) also concluded using panel multiple regression in their work, ownership structure and bank performance in emerging economies, evidence from Nigeria Listed deposit money bank from 2009 to 2020, that both disaggregated and concentrated ownership positively influence bank performance when owner-manager interests are aligned.

Finally, Musa et al. (2022) investigated the link between corporate governance and risk management in Nigeria for six years (2011 to 2016), using ordinary least square technique. The result showed that strong governance reduces credit and liquidity risk but may increase capital risk. This indicates that governance structures must balance multiple dimensions of bank stability to optimize financial outcomes.

3.0 Methodology

This study adopted an *ex-post facto* research design, because the variables of interest are historical in nature and cannot be manipulated by the researcher. The theoretical framework of the study is grounded in agency theory developed by Jensen and Meckling (1976), which explains how governance structures influence managerial behavior and firm outcomes. The study utilized secondary data covering a 10-year period from 2015 to 2024, obtained from the published annual reports of selected deposit money banks listed on the Nigerian Exchange Limited. The choice of 2015 as the base year is justified by CBN issuance of a circular on the Revised "Fit and Proper Persons" Regime, to tighten the requirements for individuals

appointed to the boards and senior management of banks to enhance governance and accountability (CBN, 2015).

The population comprised all 13 deposit money banks listed on the Nigeria Exchange Limited as of December 24, 2024 (Nigeria Exchange Group, 2024). A purposive sampling technique was employed, excluding banks listed after 2015, banks delisted between 2015 and 2024, and institutions with incomplete annual reports within the study period. Consequently, 11 banks with continuous listing status and complete financial documentation from 2015 to 2024 were selected: Access Bank Plc, Ecobank Nigeria Plc, First Bank of Nigeria Ltd, First City Monument Bank Plc, Fidelity Bank Plc, Guaranty Trust Bank Plc, Stanbic IBTC Bank Plc, Sterling Bank Plc, United Bank for Africa (UBA) Plc, Wema Bank Plc, and Zenith Bank Plc.

Model Specification

Model specification illustrates the arithmetic and economic correlation that exist between the dependent and independent variables. The model to test the null hypothesis of the study was adapted from the work of Ogbeide et al. (2022). Ogbeide et al, (2022) expressed their model functionally as $ROA = f(BDCOMP, BDSIZE, BANKAGE, NPL, MISINDEX, RGDPpc)$. Where, bank performance is measured by return on assets (ROA); corporate governance is captured by Board size (BDSIZE), Board composition (BDCOMP) and Bank Age (BANKAGE); Bank specific factor is represented by non-performing loans ratio (NPL); and Macroeconomic indicators are captured by Misery index (MISINDEX), Real GDP per capita (RGDPpc).

This study modified Ogbeide's et al. (2022) model and presented the econometric form relationship between corporate governance structure and financial performance of deposit money banks in Nigeria, using Panel Dynamic Generalized Methods of Moment.

$$RE_{it} = \alpha_0 + \alpha_1 RE_{i,t-1} + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 BD_{it} + \beta_4 OC_{it} + \mu_i + \varepsilon_{it}$$

Where:

RE	= Return on Equity
$RE_{i,t-1}$	= Lagged Return on Equity (captures performance persistence)
BS	= Board Size
BC	= Board Composition
BD	= Board Diligence
OC	= Ownership Concentration
α_0	= Constant
α_1	= Slope Coefficient on the Lagged Dependent Variable
$\beta_1 - \beta_4$	= Slope Coefficient for the Independent Variables
μ_i	= Time-invariant bank fixed effect
ε_{it}	= Stochastic disturbance
i	= i^{th} bank
t	= time period

Estimation Technique

This study empirical tests include descriptive statistics, to summarize the distributional properties of the variables, including their mean, standard deviation, minimum, maximum, and overall variability, as a test for data normality. A panel unit root test was performed to determine the stationarity of the series and to prevent spurious regression results. This was followed by a correlation matrix to assess the strength of association among the variables and to check for possible multicollinearity issues.

This study employed a two-step Dynamic Generalized Method of Moments (GMM) estimator to examine the effect of corporate governance structure on the financial performance of deposit money banks in Nigeria from 2015 to 2024. The dynamic panel approach was adopted to capture performance persistence through the inclusion of a lagged dependent variable (return on equity). The Arellano and Bond (1991) framework was applied using orthogonal deviations (Arellano and Bover, 1995) instead of first differencing to minimize data loss and preserve sample size. The two-step GMM was chosen for its efficiency and ability to correct for heteroskedasticity and autocorrelation. To validate the model, the Arellano–Bond test for serial correlation was conducted to confirm the absence of second-order autocorrelation, while the Hansen test (J-statistics) of overidentifying restrictions verified the appropriateness of the instruments. These diagnostic checks ensured the reliability and internal consistency of the dynamic panel estimates. The study used Eview 10 software for analysis.

Measurement of Variables

This study, corporate governance structure and financial performance of deposit money banks in Nigeria measured its variables as follows. Financial performance was captured using Return on Equity (ROE), measured as profit after tax divided by shareholders’ equity and expressed as a percentage. Corporate governance structure was represented by four key indicators, which are board size, board composition, board diligence, and ownership concentration. Board Size was measured as the total number of board members in each bank. Board Composition was assessed as the ratio of executive directors to independent non-executive directors. Board Diligence was measured by the total number of board meetings held within each financial year. Lastly, Ownership Concentration was captured as the proportion of outstanding shares held by a relatively small group of shareholders in the highest shareholding bracket. All data were obtained from the banks’ published annual reports for the study period.

4.0 Results and Discussion

Table 1: Shows the Descriptive Statistics for the Variables used in the Analysis

	RE	BS	BC	BD	OC
Mean	15.51127	13.11818	1.552000	6.490909	46.48164
Median	11.80500	13.00000	1.500000	6.000000	47.33500
Maximum	72.27000	22.00000	8.000000	16.00000	100.0000
Minimum	0.480000	6.000000	0.140000	1.000000	4.230000
Std. Dev.	13.40977	3.196132	1.086189	2.360786	28.10499
Skewness	1.721668	0.210595	2.397779	0.948653	0.508064
Kurtosis	6.706912	3.166112	13.53701	4.311776	2.240307

Jarque-Bera	117.3231	0.939553	614.2855	24.38575	7.377568
Probability	0.000000	0.625142	0.000000	0.000005	0.025002
Sum	1706.240	1443.000	170.7200	714.0000	5112.980
Sum Sq. Dev.	19600.60	1113.464	128.5990	607.4909	86098.07
Observations	110	110	110	110	110

Source: Author’s Computation, 2025. Eview 2010

In Table 1, Return on Equity (RE) has a mean of 15.51% with a standard deviation of 13.41, indicating wide disparities in profitability across banks, with extreme values ranging from 0.48% to 72.27%. Board Size (BS) averages 13 members, within recommended governance standards, and varies moderately between 6 and 22 members. Board Composition (BC) shows a mean of 1.55, suggesting that executive directors slightly outnumber independent non-executive directors; the wide range (0.14–8.00) reflects significant variation in governance balance. Board Diligence (BD) averages 6.49 meetings per year, ranging from 1 to 16, highlighting differences in board engagement. Ownership Concentration (OC) has an average of 46.48%, with a wide range of 4.23% to 100%, indicating variation in shareholder dominance across banks.

All variables exhibit positive skewness, implying right-skewed distributions. The kurtosis values for RE (6.71) and BC (13.54) indicate leptokurtic distributions, suggesting the presence of heavy tails and potential outliers. The Jarque–Bera statistics and their corresponding probabilities emphasize the normality characteristics of the data. Specifically, RE, BC, and BD have significant Jarque–Bera probabilities ($p < 0.05$), leading to the rejection of the null hypothesis of normal distribution, indicating that these variables deviate significantly from normality. In contrast, BS has a non-significant probability ($p = 0.6251$), suggesting that it does not violate normality assumptions, while OC shows a marginally significant probability ($p = 0.0250$), implying slight non-normality. These results justify the use of estimation techniques, such as Generalized Method of Moments (GMM), that do not rely on the assumption of normally distributed variables.

Table 2: Unit Root Test

Variable	Levels		First Difference		Order of Integration	Remarks
	Individual Intercept and Trend		Individual Intercept and Trend			
	ADF - Choi Z-stat	P. Value	ADF - Choi Z-stat	P. Value		
RE	-0.15332	0.4391	-3.90530	0.0000***	I(1)	Stationary
BS	-3.95820	0.0000***	-	-	I(0)	Stationary
BC	-2.96638	0.0015***	-	-	I(0)	Stationary
BD	-2.69176	0.0036***	-	-	I(0)	Stationary

OC	-0.16271	0.4354	-3.81777	0.0001***	I(1)	Stationary
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*** denotes level of significance at 1%

Source: Author’s Computation, 2025. Eview 2010

The panel unit root test results in Table 2, indicate that all variables are stationary at different levels. RE and OC are stationary at first differences (I(1)), while BS, BC and BD are stationary in levels (I(0)). All p-values are below 0.05 and 0.01 for the ADF Choi Z-statistics, confirming rejection of the null hypothesis of a unit root. These results indicate that the variables are suitable for a panel dynamic GMM estimation.

Table 3: Correlation Matrix

Variables	RE	BS	BC	BD	OC
RE	1.000000	-0.046469	-0.144732	-0.166932	-0.158802
BS	-0.046469	1.000000	0.424239	0.258519	-0.182879
BC	-0.144732	0.424239	1.000000	0.188162	-0.126111
BD	-0.166932	0.258519	0.188162	1.000000	0.106971
OC	-0.158802	-0.182879	-0.126111	0.106971	1.000000

Source: Author’s Computation, 2025. Eview 2010

The correlation matrix in Table 3, shows the pairwise relationships among the study variables. Return on Equity (RE) is negatively correlated with all the corporate governance variables: Board Size (BS, -0.046), Board Composition (BC, -0.145), Board Diligence (BD, -0.167), and Ownership Concentration (OC, -0.159), suggesting that higher values of these governance variables are associated with slightly lower RE, though the correlations are generally weak. Among the independent variables, BS is positively correlated with BC (0.424) and BD (0.259), indicating that banks with larger boards tend to have a higher proportion of executive directors and hold more board meetings. BC and BD also show a weak positive correlation (0.188), while OC shows weak negative correlations with BS (-0.183) and BC (-0.125), but a weak positive correlation with BD (0.107).

Table 4: Arellano-Bond Serial Correlation Test

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	NA	-1198.299227	NA	NA
AR(2)	-1.675170	-1674.073479	999.345700	0.0939

Source: Author’s Computation, 2025. Eview 2010

The Arellano Bond test checks for autocorrelation in the residuals of a dynamic panel GMM model, ensuring that the instruments used are valid and the model is correctly specified. The Arellano Bond test results in Table 4 show that the first-order autocorrelation (AR(1)) is not reported, while the second-order autocorrelation (AR(2)) has a test statistic of -1.675 with a p-value of 0.0939. Since the p-value is greater than 0.05, the null hypothesis of no second-order autocorrelation cannot be rejected, indicating that the moment conditions in the dynamic GMM model are valid. This suggests that the model is well-specified and suitable for estimation.

Table 5: Two-Step Panel Dynamic GMM (Orthogonal Deviation Transformations) Results

Instrument specification: @DYN(RE,-2) BS(-1) BC(-1) BD(-1) OC(-1)				
Constant added to instrument list				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RE(-1)	0.381014	0.063948	5.958208	***0.0000
BS	-3.256874	0.823858	-3.953200	***0.0002
BC	1.842963	1.599563	1.152166	0.2526
BD	2.790166	0.957986	2.912533	***0.0046
OC	0.093229	0.099693	0.935156	0.3524
Effects Specification				
Cross-section fixed (orthogonal deviations)				
Mean dependent var	-5.739871	S.D. dependent var	8.192734	
S.E. of regression	9.379877	Sum squared resid	7302.513	
J-statistic	6.529948	Instrument rank	11	
Prob(J-statistic)	0.366509			

*** denotes level of significance at 1%

Source: Author’s Computation, 2025. Eview 2010

Table 5, shows the two-step dynamic GMM estimation results, which indicate that the lagged dependent variable, RE(-1) (Return on Equity), is positive and statistically significant (coefficient = 0.381, p = 0.0000), confirming persistence in bank performance, meaning that banks with higher past RE tend to maintain higher RE in the current period. Among the corporate governance variables, Board Size (BS) has a negative and significant effect on RE (coefficient = -3.257, p = 0.0002), implying that, ceteris paribus, an additional board member is associated with a decline in RE of about 3.26 percentage points, suggesting that larger boards may reduce profitability. Board Diligence (BD) positively and significantly influences RE (coefficient = 2.790, p = 0.0046), implying that more frequent board meetings enhance bank performance. Board Composition (BC) (coefficient = 1.843, p = 0.2526) and Ownership Concentration (OC) (coefficient = 0.093, p = 0.3524) have positive but statistically insignificant effects on RE with a p-value of (p > 0.05). The model controls for cross-sectional effects using orthogonal deviations, and the J-statistic (6.530, p = 0.367) confirms that the instruments are valid. Overall, the results show that board size and board diligence play a key role in shaping banks’ Return on Equity.

Discussion of Findings

Board Size and Financial Performance

The result shows that board size negatively and significantly affects bank performance. The finding that board size negatively and significantly affects bank performance is consistent with several empirical studies. Thus, the study rejects the null hypothesis which state that there is no significant effect of board size on bank financial performance in Nigeria. Belhaj and Mateus (2016) reported that smaller boards performed better during the European financial crisis. Similarly, Omolehin et al. (2019) and Akinwumi and Onmonya, (2025), observed that

excessive board size hinders effectiveness in Nigerian banks, reinforcing the argument that overly large boards create inefficiencies. This study therefore supports the view that leaner boards promote better monitoring, faster decision-making, and improved profitability. This means that overly large boards impair decision-making and coordination, reduce monitoring efficiency, and increase agency and free-riding problems, all of which can depress bank performance. However, this finding is inconsistent with that of Ogbeide et al. (2022), who found a negative but insignificant effect of board size on bank performance. This divergence can be reasonably attributed to differences in sample composition, time frame (Ogbeide: 2010 to 2019; this study: 2015 to 2024), and the choice of estimator (Ogbeide: Hausman test fixed effect; this study: panel dynamic GMM). The significant negative coefficient of this study estimate suggests that during 2015 to 2024 period, the costs of larger boards (coordination, slower decisions, possible dilution of accountability) may have been more noticeable for Nigerian deposit money banks than in Ogbeide et al. (2022) earlier period.

Board Composition (BC) and Financial Performance

The finding results show that Board Composition (BC) has a positive but statistically insignificant effect on Return on Equity (RE). It indicates that the proportion of executive to non-executive directors did not substantially influence bank performance in the sample period. Therefore, the null hypothesis that board composition does not significantly influence bank financial performance is accepted. This finding is consistent with studies such as Belhaj and Mateus (2016) and Muraina (2018), which report that the effect of board composition on performance is often context-dependent and may vary across banks and countries. This finding also aligns with the finding of Ogbeide et al. (2022), which showed a positive relationship between board composition and bank performance in Nigeria. However, this contrast with Etale and Ujuju (2018), who found that board composition significantly improved bank performance.

Board Diligence (BD) and Financial Performance

The results reveal that Board Diligence (BD) has a positive and statistically significant effect on Return on Equity (RE), indicating that frequent board meetings enhance bank financial performance. This means that the null hypothesis of no significant effect of board diligence on bank financial performance is rejected. This finding suggests that active and consistent board engagement improves oversight and decision-making efficiency. In contrast to this finding, Omolehin et al. (2019) found a negative and significant effect of board diligence on bank performance.

Ownership Concentration (OC) and Financial Performance

For ownership concentration (OC), the positive but insignificant effect on bank financial performance. This insignificant effect, leads to the acceptance of the null hypothesis that ownership concentration does not have significant effect on bank financial performance. The lack of statistical significance of the finding is consistent with Nwude et al. (2023), who noted that the impact of ownership structure on performance depends largely on how well the interests of owners and managers are aligned. This finding also partially aligns with Ozili and Uadiale (2017), who found that highly concentrated ownership improves operational

performance, but contrasts with Chukwuemeka et al. (2024) who reported that concentrated ownership negatively affects bank financial performance. The divergence may reflect contextual differences, such as regulatory oversight, shareholder activism, or managerial alignment with owner interests.

5.0 Conclusion and Recommendations

This study examined the effect of corporate governance structures on the financial performance of deposit money banks in Nigeria from 2015 to 2024. The findings reveal that board size has a significant negative effect on profitability, implying that excessively large boards hinder decision-making, weaken monitoring, and reduce efficiency. Board composition showed a positive but insignificant relationship with performance, indicating that changes in the mix of executive and non-executive independent directors alone may not improve profitability. Board diligence had a positive and significant effect, highlighting that frequent board meetings enhance monitoring and strategic decision-making. Ownership concentration exhibited a weak positive but insignificant impact, suggesting that concentrated ownership does not guarantee improved outcomes without proper alignment of owner manager interests. The study concludes that corporate governance structures matter for bank performance in Nigeria, and that board size and board diligence are the most influential governance mechanisms affecting bank financial performance in Nigeria, emphasizing the importance of lean, active, and accountable boards for sustainable profitability.

The study recommends based on findings, that firstly, given the significant negative effect of larger boards on bank performance, policymakers and regulators should promote leaner, more efficient boards by setting optimal size thresholds in governance codes. This would encourage faster decision-making, reduce coordination problems, and improve accountability in Nigerian banks. Secondly, since board composition showed positive but insignificant effect, regulators should strengthen the quality rather than the numerical balance of independent and executive directors. Thus, emphasis should be placed on competence, industry expertise, and independence to ensure board members contribute meaningfully to strategic oversight. Thirdly, the significant positive effect of board diligence shows the need for regulatory emphasis on board activeness and meeting regularity. The Central Bank of Nigeria (CBN) should ensure that banks hold sufficient board meetings annually to strengthen monitoring and strategic responsiveness. Lastly, the positive but insignificant role of ownership concentration suggests that performance gains depend on alignment between owners and managers. Therefore, policies promoting greater transparency, shareholder engagement, and disclosure standards should be implemented to ensure that ownership control translates into improved governance and performance outcomes.

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