Corporate Governance and Firms Performance: The Case of Deposit Money Banks in Nigeria

Udeme Charles Joe
Department of Accounting, Faculty of Management Sciences
Akwa Ibom State University, Obio Akpa Campus
chaludwww@gmail.com

Professor Nkanikpo Ibok
Department of Marketing, Faculty of Management Sciences
Akwa Ibom State University, Obio Akpa Campus
nkanikpoibok@aksu.edu.ng

Prof. Joseph O. Udoayang
Department of Accounting, Faculty of Management Sciences
University of Calabar, Calabar
josephudoayang@unical.edu.ng
DOI: 10.56201/jafm.v10.no8.2024.pg268.284

Abstract

The success or failure of any organization depends on the effectiveness of the cooperate governance mechanisms of that entity. Effective corporate governance is crucial for the sustainable performance of any entity. The main objective of this study therefore was to examine the effect of corporate governance mechanisms on the profitability of listed deposit money banks in Nigeria. The research design adopted for this study was the ex post facto research as the secondary data were employed. The population of this study was fourteen listed deposit money banks in Nigeria. The method of data analysis employed was the ordinary least square regression analysis and the statistical package employed was E-views version 14. Based on the analysis of the data, it was found out that board expertise has a positive but insignificant effect on the return on capital employed; board gender diversity has a significant positive effect on return on capital employed of listed deposit money banks in Nigeria. Thus, it was concluded that board monitoring mechanisms have significant effect on profitability of listed deposit money banks in Nigeria. Based on this, it was recommended that the management of deposit money banks in Nigeria should not overlook the importance of diverse experiences on their boards despite the lack of statistical significance. Also, that listed deposit money banks in Nigeria should actively promote gender diversity on their boards. Encouraging the inclusion of more female directors can lead to broader perspectives, enhanced decision-making processes, and ultimately, improved profitability as proven by this study.

Keywords: *Corporate governance mechanism, profitability, return on capital employed, board expertise, board gender diversity.*

1.0 Introduction

Corporate governance has become a crucial aspect of modern business, particularly in the banking sector, where sound governance practices are essential for maintaining stakeholder trust and promoting financial stability. Deposit money banks, as key players in the financial system, are expected to demonstrate high standards of corporate governance to ensure their profitability and sustainability. In recent years, the banking sector has faced numerous challenges, including financial crises, regulatory changes, and increasing competition. These challenges have highlighted the need for effective corporate governance mechanisms to ensure that banks are managed in a responsible and sustainable manner. Corporate governance mechanisms refer to the systems and processes by which companies are directed and controlled. These mechanisms include the board of directors' size, board expertise, board gender diversity, audit committees, risk management processes, and shareholder engagement, among others.

Board expertise in corporate governance refers to the collective knowledge, skills, and experience of the individuals serving on a company's board of directors. Having a diverse and well-rounded board with expertise in various areas is crucial for effective decision-making, strategic planning, and oversight within the organization. The expertise could be viewed in terms of industry Knowledge, accounting and finance knowledge, legal and regulatory understanding, international experience and so on. Having a board with diverse expertise ensures that the company benefits from a wide range of perspectives, skills, and knowledge, ultimately contributing to better decision-making, risk management, and long-term value creation for shareholders and stakeholders. Board diversity in corporate governance refers to the inclusion of individuals from a variety of backgrounds, experiences, and demographics on a company's board of directors. This includes diversity in terms of gender, race, ethnicity, age, nationality, professional background, skills, and expertise. Promoting board diversity is not only a matter of social responsibility but also a strategic imperative for companies seeking to drive innovation, mitigate risks, and achieve long-term success in an increasingly diverse and dynamic business environment.

Profitability performanceis the degree to which a business yield profit or financial gain. It is the ability of a company to use its resources to generate revenues in excess of its expenses. In other words, it is the capability of a company to generate profits from its operation. Profitability can likewise be referred to as ‘earning power" or working performance of the business which add up to Investment (Hasan, 2021). Hence, the performance of the industry in terms of profitability inevitably becomes very important. The relationship between corporate governance and firm profitability can be complex and dependent on various factors. However, research suggests that good corporate governance practices generally have a positive impact on a firm's profitability. Effective corporate governance promotes transparency and accountability within a company. This can enhance investor confidence, attract more investment, and improve access to capital, ultimately leading to improved financial performance. A well-structured board of directors with diverse skills and expertise can provide effective oversight and strategic guidance to the

management team. This can help in making better decisions, minimizing risk, and maximizing profitability. Strong corporate governance practices often include risk management frameworks and internal controls that mitigate risks. Effective risk management helps protect the company's assets, prevent financial losses, and maintain profitability.

Inadequate identification, assessment and mitigation of risks can lead to significant financial losses. Managerial opportunistic behaviors as well as unethical accounting practices such as inflated revenues, conflict of interests, and earnings management practices have been identified as factors responsible for the collapse of these banks. The board of directors and management of the affected banks were alleged to have over the years, derailed on their oversight functions, relinquish control to corporate managers who pursued their own selfish-interests, fraudulently mismanaged the banks and covered their tracks with fraudulent financial reports. This phenomenon questions the desirability of the codes. Numerous empirical literature revealed a sector gap, as it was realized that most of the studies focused on other sectors other than the banking sector (Abdullah & Tursoy, 2023 – non finance firms; Mensah & Bein, 2023; manufacturing companies; Ria, 2023 – non financial firms; Hong & Linh, 2022, - consumer goods sector) It was also found out that some of these studies used other measures of corporate governance than the ones used in this study (Pucheta-Martínez & Gallego-Álvarez, 2020 - CEO duality, board compensation; Akinleye et al., 2019 - board activism, and committee activism; Ogundayo, 2019 - ownership structure;). In addition to this, some studies used different predicted variable (Alabdullah, 2023 - return on assets (ROA); Andoh et al., 2023 – Tobin's q; return on net operating assets (RONOA); Titilayo et al., 2022- return on assets (ROA) and Tobin's Q; Olayiwola, 2018 – net profit margin (NPM); Martinez & Moraes, 2014 – Tobin's q).

By examining the relationship between corporate governance mechanisms and profitability, this study aims to contribute to the existing literature and provide insights for policymakers, regulators, and banking industry stakeholders on the importance of effective corporate governance in promoting the sustainability and profitability of listed deposit money banks. This study would help prospective investors to assess a company's transparency and accountability to prevent corporate scandals, fraud and issues pertaining to corporate liability and to ensure their intended investment is less susceptible to system risks.

2.0 Literature review and hypotheses development

2.1Corporate governance

According to the Cadbury Report 1992, corporate governance is defined as the "system by which businesses are directed and controlled". In other words, corporate governance is a general set of customs, regulations, habits and laws that determine how those charged with the responsibility should run a firm. Corporate governance is a set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating. At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. But corporate governance goes beyond simply establishing a clear relationship between shareholders and managers (CIPE: Development

Institute, 2013). In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks (Solanke et al., 2022). The health of the organization depends on the underlying soundness of its individual components and the connections between them. According to Almashhadani, 2023, among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; sound disclosure regimes and an appropriate savings deposit protection system. Therefore good corporate governance mechanism affects firms profitability positively if it functions effectively and efficiently.

2.1.2 Profitability

Profitability is the degree to which a business yield profit or financial gain. It is the ability of a company to use its resources to generate revenues in excess of its expenses. In order words, it is the capability of a company to generate profits from its operation. Profitability can likewise be referred to as 'earning power" or working performance of the business which add up to Investment (Hasan, 2021). According to Adebayo et al., (2022). profit is characterized as the capacity an investment has, to acquire a sizable income from its consistent use in business. This suggests that profit is a composite idea relating to the effectiveness of the organization to earn profit. Furthermore, they argued that profitability measures the capacity of the firm to persistently create income, while Etim et al., (2023) uncovered that the normal return, for the most part alluded to as profit, realize from the capital market, can likewise be considered as the opportunity cost.

In academic research, scholars often employ a wide range of profitability measures to evaluate the effectiveness, efficiency, and overall health of companies and some of them include return on capital employed, net profit margin, gross profit margin, return on equity, return on total assets, return on shareholders' fund, return on assets ROA), return on equity, (ROE), earnings per share, net profit margin and gross profit margin and return on capital employed. This study employed return on capital employed. Return on capital employed (ROCE) determines the company's profitability and the efficiency with which the capital employed is used to generate profit. The higher the better for the company as a higher ROCE indicates that the entity generates more earnings per ₦1 capital invested, and it is expressed as x%.

This is given as:

$$\text{ROCE} = \frac{\text{Profit before interest and tax}}{\text{Shareholders fund+longterm loan}} = \frac{100}{1}$$

2.1.3 Board of directors' expertise and profitability

Board expertise in corporate governance refers to the collective knowledge, skills, and experience of the individuals serving on a company's board of directors. Having a diverse and well-rounded board with expertise in various areas is crucial for effective decision-making, strategic planning, and oversight within the organization. The expertise could be viewed in terms of industry Knowledge, accounting and finance knowledge, legal and regulatory understanding, international experience and so on. Having a board with diverse expertise ensures that the company benefits from a wide range of perspectives, skills, and knowledge, ultimately contributing to better decision-making, risk management, and long-term value creation for shareholders and

stakeholders. Haniffa & Cooke (2000) defined board expertise as the degree of experience possessed by a company's board of directors. It's used to characterize the board members' level of exposure to and knowledge of business organization finance and management.

A board of directors' financial expertise can affect a firm's financial performance in several ways. For instance Jia, (2019) noted that board members with financial expertise can contribute to more informed strategic decisions regarding investments, mergers and acquisitions, capital allocation, and financial risk management. Board members with financial expertise according to Igbekoyi et al. (2021), can assess and mitigate financial risks more effectively, such as market volatility, liquidity issues, or capital structure concerns. A board with strong financial expertise signals to investors that the company is managed by knowledgeable and capable individuals who prioritize financial health and long-term value creation Adusei (2019). From prior studies board expertise has a positive effect on financial performance (Emiaso & Okafor, 2023; Ramdani & Witteloostuijn, 2020). On the contrary Igbekoyi et al., (2021) and recording a negative effect of board expertise in their studies. Thus, based on the above submission this study hypothesized that;

Ho_1: Board expertise has no significant effect on the return on capital employed of listed deposit money banks in Nigeria

2.1.4 Board of directors' gender diversity and profitability

Board diversity in corporate governance refers to the inclusion of individuals from a variety of backgrounds, experiences, and demographics on a company's board of directors. This includes diversity in terms of gender, race, ethnicity, age, nationality, professional background, skills, and expertise. Promoting board diversity is not only a matter of social responsibility but also a strategic imperative for companies seeking to drive innovation, mitigate risks, and achieve long-term success in an increasingly diverse and dynamic business environment. Gender diversity is significantly increasing, there have been a significant progress in female representation in the board of directors (Daily et al., 1999). Board gender diversity is a significant aspect of corporate governance, it is defined as the presence of female directors on the board of directors of corporations (Arora, 2022; Ahern & Dittmar, 2012). There is a plethora of literature with ambiguous results on the relationship between gender diversity in the board of directors and firms' financial performance. For example, Higgs (2003) report argues that diversity could improve board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented. According to Yameen et al., (2019) board gender diversity can influence board efficiency at both individual and team levels. Gender diversity fosters a firm's competitive advantage by creating a positive reputation for the firm as well as by creating a positive impact on customers (Ria, 2023). However, inspite of all of these advantages, scholars have termed board gender diversity a double-edged weapon (Miyienda et al., 2012; Uwah & Akpan, 2019), stating that diversity can enhance or hinder strategic change depending on firm performance and the power of women directors. Thus this study hypothesized that;

Ho_2: Board gender diversity has no significant effect on the return on capital employed of listed deposit money banks in Nigeria

2.2 Theoretical framework

Several theories have been advanced in the empirical literature to support the effect of corporate governance mechanism on profitability of firms. But this study is anchored on upper upper echeon theory.Upper Echelons theory was initially introduced by Hambrick and Mason (1984), which posits that an organization is a reflection of its top executives. This theory postulates that top executives analyze situations and prospective decisions via a lens, sculpted by their attributes (Hambrick & Mason, 1984). These lenses thereby leverage the strategic choice (e.g. innovation, diversification, capital structure, and dividend policy, among others) and organization performance (e.g. profitability, growth, and survival, among others). According to Uwah and Akpan (2019) the Upper Echelon theory holds the assumption that top management teams have substantial impact on firm's outcome through the decisions that they make which are uncertain and possess ambiguity. Individuals hold different vision, perception and interpretation to these uncertainties and therefore make different strategic choices. Although the theory of Upper Echelon was originally targeted for top management team (TMT), prior research has applied this theory to the board of directors, acknowledging that board of directors are a part of the "supra top management teams" (Chouaibi et al., 2018). The Upper Echelon theory complements the corporate governance theories on board of directors by underlying demographic attributes of board members.

Hambrick and Mason (1984) built their theory on the premise of behavioral theory with their primary focus being on identifying managerial characteristics that can be used as variables to the cognitive base and values that upper echelons bring about that impact the company's outcome – both strategy and effectiveness wise (Uwah & Akpnan, 2019. These managerial characteristics are used to help understand *how* it is that board heterogeneity impacts firm outcome and earnings management. The theory recognizes that top management team (TMT) are affected by own cognitive base and values which influence their decisions on the strategy which ultimately influence firm outcome and stakeholder's value maximization. (Ogaluzor & Chukwu, 2022).). Thus, TMT works within the limitations that their own cognitive frame holds (Canella & Holcomb, 2015).

This theory is relevant to this study in the sense that the board of directors in carrying out their advisory and monitoring roles need to bring their managerial expertise to bear. Also this theory states have it that managerial background traits or characteristics estimate organizational outcomes, planned choices and the performance levels. In addition to this the board of directors are a part of the top management teams that make strategic decisions and choices that can positively impact on the financial outcome of the firm.

2.3 Reviews of empirical literature

Khan and Mahmood (2023) evaluated corporate governance' influence on firm performance governance through the utilization of eight indicators: board size, ownership structure, CEO duality, independence of audit committee, firm size, firm age, firm leverage, and firm growth. Meanwhile, firm performance was assessed based on return on assets and return on equity. The study was conducted within the context of the Pakistan Stock Exchange, with a sample comprising 100 publicly listed non-financial sector firms. Data pertaining to the study variables was systematically collected and analyzed over a ten-year span, spanning from 2013 to 2022,

employing appropriate statistical tools. The study's outcomes disclosed that a smaller board size, moderate leverage, CEOs serving on multiple boards, a high degree of independence within audit committees, larger firm size, younger firms, and sustainable growth have a positive impact on firm performance. However, high leverage was observed to negatively affect firms' profitability, particularly in periods of high interbank offered rates..

Madi et al. (2023) scrutinized the interplay between the characteristics of a company's board of directors, the attributes of its audit committee, and the financial performance of firms listed on the Palestine Exchange (PEX). To gauge financial performance, proxies such as Return on Assets (ROA) and Return on Equity (ROE) were employed. The board's characteristics were represented by the proportion of non-executive directors and the board's size, while the audit committee's attributes included the number of non-executive members, the financial expertise within the committee, the frequency of audit committee meetings, and the size of the committee. To achieve this objective, an analysis encompassed all companies listed on the exchange that published annual reports within the years 2011 to 2019. The findings of the analysis indicated that board size exhibited a negative and statistically significant association with ROE, and the frequency of audit committee meetings was significantly linked to ROE. On the other hand, firm size displayed a negative relationship with ROA, and a positive connection between leverage and ROE was observed, albeit at a significance level of 10%. In contrast, other relationships with financial performance did not reach statistical significance.

Mensah and Bein (2023) conducted a comparative assessment of the impact of effective corporate governance on the financial performance of manufacturing companies in South Africa, Nigeria, and Ghana. A purposive sampling method was employed to select a total of 60 manufacturing companies for the study, with 29 hailing from South Africa, 17 from Nigeria, and 14 from Ghana. The research employed both the Generalized Method of Moments (GMM) and Fully Modified Ordinary Least Squares (FMOLS) methods to estimate the influence of corporate governance on these firms' financial performance. It was observed that South Africa had the lengthiest average board tenure, standing at 7.85 years, followed by Nigeria at 4.7 years and Ghana at 3.9 years. The study disclosed that the average board tenure had a positive and statistically significant effect on the return on invested capital (ROIC) of companies in South Africa and Ghana, while the effect in Nigeria was positive but statistically insignificant. Furthermore, the study highlighted the percentage of female directors on corporate boards, with South Africa having the highest representation at 24.26%, followed by Ghana at 17.8%, and Nigeria at 17.3%. Importantly, it was found that female representation on corporate boards had a positive and statistically significant impact on the return on net operating assets (RONOA) across all the firms.

Musa and Yahaya (2023), employing the Generalized Method of Moments (GMM) regression, scrutinized the role of corporate governance in the optimization of firm value within a dataset encompassing 134 listed firms on the Nigerian Exchange Main Board over a ten-year span from 2013 to 2022. The data utilized in this research was derived from panel data extracted from the annual reports and accounts of the selected firms, with data processing was carried out using STATA 15.1. The findings of the study revealed that risk committee size, leverage, asset tangibility, profitability, and firm size held substantial and statistically significant effects on firm value. In contrast, concentrated ownership, board size, audit committee size, remuneration committee size, audit quality did not exhibit significant impacts on firm value.

Etuk and Akpan (2023).examined the effect of corporate governance on annual report readability in Nigeria by drawing samples from oil and gas firms that were listed on the floor of the Nigerian Exchange Group (NGX) from 2012-2021. In this study, board size, audit firm type, and ownership structure were the corporate governance mechanism employed. The dependent variable of annual report readability was proxied in terms of annual report page length in line with related extant literature. Specifically, to examine the cause-effect relationship between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a panel regression analysis. The result showed that board effectiveness has a significant effect on annual report readability; audit quality had an insignificant effect on annual report readability; ownership concentration had an insignificant effect on annual report readability.

Eshiet, et al. (2023) studied the effect of corporate governance attributes on financial reporting quality of listed manufacturing firms in Nigeria. Data for the study were obtained from annual from reports of 42 manufacturing firms listed on the NEG for the years 2012 to 2021. The data were analysed with the aid of panel regression using STATA version 14. The findings of the study showed that board gender diversity and board diligence have significant effect on timeliness of financial reporting of listed manufacturing firms. The study suggested board membership of 7 to 8. Enoidem et al., (2023) examined the effect of board monitoring mechanisms on earnings managements of non-finance firms listed on the floor of the Nigeria Exchange Group from 2012-2021. The independent variable of the study being board monitoring mechanism was proxied by board size (BODS), board independence (BODI) and board gender diversity (BGDV) while the dependent variable being earnings management was proxied by Modified Jones Model (MJON). The research design adopted for this study was ex post facto, purposive sampling technique was employed and secondary source of data used was obtained from the studied companies' annual report and Nigeria Exchange Group fact book. Least square regression was adopted to analyze and test the three hypotheses formulated for the study. The study revealed that board size, board independence, board gender diversity has significant negative effect on earnings management of non-finance firms listed on the floor of the Nigeria Exchange Group. It was thus concluded that board monitoring mechanisms have significant effect on earnings management of listed non-finance firms in Nigeria.

Ria (2023) explored the role of capital structure as a mediating factor in the relationship between corporate governance and company performance within the non-financial sector of Indonesia. The data for this research was extracted from financial statements of companies listed on the Indonesia Stock Exchange during the period from 2017 to 2021, with a sample comprising 15 companies. The study revealed that aspects of corporate governance, such as board independence, board size, and the presence of an audit committee, were significantly linked to both capital structure and company performance. However, gender diversity exhibited an insignificant relationship with both capital structure and company performance. Furthermore, the research found that capital structure did not effectively mediate the influence of corporate governance elements, including board independence, board size, audit committee, and gender diversity, on company performance.

Akpan, et al., (2022) evaluated the moderating role of audit committee gender diversity on the relationship between social responsibility disclosure and earnings management of selected

consumer goods companies in Nigeria. Earnings management was the dependent variable and the independent variable employed in this study was corporate social responsibility measured as social donation disclosure, employee relation disclosure, while audit committee gender diversity was used as the moderating variable. Ex post facto research design was adopted, secondary data were used and three hypotheses were tested. The results showed that audit committee gender diversity significantly moderate the relationship between social donation disclosure and earnings management. Also, the study found out that audit committee gender diversity significantly moderates the relationship between customer complaints disclosure and earnings management. Finally, the result showed that audit committee gender diversity significantly moderates the relationship between employee disclosure and earnings management.

Jusup and Sambuaga (2022) provided empirical evidence regarding the role of gender diversity in the governance function on earnings management practices. The study discussed the role of women in the composition of the board of directors to reduce earnings management practices. The study uses agency theory and stakeholder theory in its discussion. Analysis of the results was done using multiple linear regression method on a sample of 45 LQ companies for the period 2016-2020. Hence, based on the purposive sampling method, 115 observations were obtained. The results showed that the presence of female directors can reduce accrual earnings management behavior. The noted however that the percentage of women on the board of directors does not affect the company's earnings management practice. Akpan & Nkanga (2023) examined the effect of corporate governance attributes on segment reporting of listed conglomerates firms in Nigeria. Ex post facto research design was adopted for the study and five listed conglomerate firms were purposively selected. Secondary data were extracted from these companies' annual reports and the Nigeria Exchange Group fact book. The data for the study were analyzed using OLS regression technique and the findings revealed that board size, board diligence and board gender diversity have significant positive effect on segment reporting measured by the number of reportable segments.

Zgarni and Fedhila (2022) examined the effect of board characteristics on real earnings management. Using panel data econometrics, on all Tunisian commercial banks over the period 2008-2019, the authors showed that board gender diversity has a disciplinary role in real earnings management as measured by discretionary revenue on equity securities. However, they showed that board independence increases the real earnings management. As for board size, board duality, as well as the number of meetings carried out per year by the board of directors, they proved that they have no significant effect on real earnings management.

Okpo and Ubi (2019) studied the relationship between corporate governance mechanisms and corporate performance of manufacturing companies listed on the floor of Nigeria Exchange Group. The data for the study were extracted from annual reports of the selected firms for the period 2010 to 2017. The data were analysed using regression models. The results of the analysis showed significant positive relationship between board size and corporate performance while negative relationship was found between board composition and independent directors.

3.0 METHODOLOGY

This study adopted ex post facto research design in ascertaining the effect of corporate governance mechanisms on financial performance of listed deposit money banks in Nigeria. This design was suitable for this study because the study made use of secondary data that were extracted from the studied firm's annual reports. The population of this study consisted of all the deposit money banks listed on the floor of the Nigeria Exchange Group. As at 31 December, 2022 the total number of listed deposit money banks in Nigeria were fourteen according to the Nigerian Exchange Group fact book, and these constituted the population of the study. Since the population of the study was not too large, the entire fourteen deposit money banks listed on the Nigerian Exchange Group that constituted the population of this study were taken to form the sample of the study.. Secondary data was used in carrying out the analysis of this study. The secondary data were obtained from the annual financial reports, and accounts of each of the 14 banks for the period 2013-2022. Data were also obtained from the Nigeria Stock Exchange Fact books. The OLS technique was adopted because it is relatively easy to understand and implement.

Model specification

The model used in this study was adapted from the work of Titilayo et al., (2022) and was modified to suit this study as presented below;

Profitability = f (Corporate governance mechanisms)

ROCE = f (board expertise, board gender diversity)

$ROCE_{it} = \beta_0 + \beta_1 BODE_{it} + \beta_2 BODG_{it} + \beta_3 FIMZ_{it} + \mu_{it}$ (1)

Where;

ROCE	=	Return on capital employed
BODE	=	Board expertise
BOGD	=	Board gender diversity
FIMZ	=	Firm size (control variable)
B_o	=	Constant
B_1- B_3	=	Slope Coefficient to be determined in the study
μ	=	Stochastic disturbance
i	=	i^{th} banks
t	=	time period

Table 3.1: Operationalization of the variables

S/N	VARIABLES	MEASUREMENT	SOURCE	APPROIRI EXPECTATION
1	Return on capital employed	Ratio of operating profit to capital employed	Titilayo et al., (2022)	
	Independent variable			
2	Board expertise	Ratio of board members with accounting and finance qualifications to total board size.	Madi et al. (2023)	+

3	Board gender diversity	Ratio of female board members to total board size.	Mensah & Bein (2023)	+
4	Firm size (control variable)	Log of total assets	Alabdullah (2023)	+

Source: Researcher's operationalization (2023)

4.0 Analysis and discussion of results

4.1 Data analysis

Table 4.1: Descriptive statistics of the effect of corporate governance mechanism on profitability of listed deposit money banks in Nigeria

	ROCE	BODE	BOGD	FIMZ(N'b)
Mean	0.1452	0.4106	3.000	31.223
Median	30.035	0.3100	0.493	23.476
Maximum	0.3700	0.6900	4.000	149.723
Minimum	0.1418	0.2100	1.000	33.915
Std. Dev.	0.1428	0.9286	1.6284	30.633
Skewness	50.603	12.582	0.2610	24.534
Kurtosis	85.480	16.312	14.079	23.660
Jarque-Bera	52.757	19.939	10.786	52.376
Probability	0.000	0.0000	0.004	0.000
Sum	52.642	95.733	64.438	34.289
Sum Sq. Dev.	56.632	17.232	13.060	92.466
Observations	140	140	140	140

Source: Authors computation (2023)

The regression output in table 4.1shows that, return on capital employed had a mean value 0.14, maximum and minimum values of 0.37 and 0.14 respectively. This implies that on the average the return on capital employed of the pooled deposit money banks was 15%. Board experience (BODE) had a mean value of 0.416, minimum and maximum values of 0.21 and 0.69 respectively. The implies that on the average about 14% of board members of the pooled deposit money banks have accounting and finance background. Finally, table 4.1 shows the mean value of board gender diversity to be 3 with minimum and maximum values of 1 and 4 respectively. This implies on the average number of women in the pooled deposit money bank was 4. that the average board of directors in the banking industry had about 3 female directors. Standard deviation of about 2 however, shows that there is high prioritisation of board gender diversity (BOGD) in the banking industry. For firm size, the highest total assets during the study period was ₦149.723 billion, lowest was ₦33.915 billion, and standard deviation of ₦30.633 billion. An average bank had assets amounting up to ₦3,122,348,494,643 and these statistics show a very high level of capitalization in terms of assets for these banks

4.1.2 Regression analysis

Table 4.2: Regression result of the effect of corporate governance mechanism on profitability of listed deposit money banks in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.627293	1.802873	4.187292	0.0000
BODE	0.13910	0.272839	1.516282	0.1262
BODG	0.242067	0.727239	3.358896	0.0151
FIMZ	0.026272	0.827389	3.234567	0.0004
R-squared	0.537922	Mean dependent var		5.627292
Adjusted R-squared	0.382733	S.D. dependent var		1.273938
S.E. of regression	1.526383	Akaike info criterion		3.452522
Sum squared resid	12.38292	Schwarz criterion		3.232443
Log likelihood	-123.2205	Hannan-Quinn criter.		3.653032
F-statistic	13.15424	Durbin-Watson stat		2.239912
Prob(F-statistic)	0.000240			

Source: SPSS 21 Output (2023)

Table 4.2 represents the results obtained from the regression analysis for this study. The results indicate that the OLS regression had an R-squared value of 0.537. This implies that the independent variables of this study could explain about 53.7% of the systematic changes in the dependent variable. And the unexplained part of the return on capital employed (ROCE) of (46.3%) is attributable to other factors that could affect it but are not included in our model but rather captured in the error term. The result of the F-statistics of 13.154 with an associated p-value of 0.000 indicates that the independent variables have a statistically significant effect on the dependent variable of this study.

Discussion of results

The results obtained from the regression model in table 4.7 also revealed that board expertise [coef.= 0.139(0.126)] has a non-statistically significant positive effect on return on capital employed of listed deposit money banks in Nigeria during the period under study. This implies that board expertise has no significant effect on return on capital employed of the banks under study. Board expertise may have an insignificant effect due to various factors that could diminish its impact. Even if board members possess expertise in specific areas such as finance, operations, or technology, their influence on the company's overall performance and strategic direction may be limited. If the board's decisions are frequently overridden by management or if their recommendations are not consistently implemented, their expertise may not translate into meaningful improvements on financial performance. If expertise is not effectively synthesized and applied to address the company's challenges and opportunities, it may not result in the necessary

strategic insights and actions to drive ROCE growth. This result is contrary to those of Emiaso and Okafor (2023) and Mensah and Bein (2023) who found a board expertise to have a positive effect on financial performance.

Board gender diversity have a significant positive effect [coef. = 0.242(0.015)] on return capital employed of listed deposit money banks in Nigeria. This implies that increase in number of female directors on the boards of listed deposit money banks would cause about 24.2% increase in return on capital employed of those banks. This could be because women bring diverse perspectives, experiences, and insights to the decision-making process. Also, studies indicate that companies with greater gender diversity on their boards are more innovative and creative. Having female representation on boards can help companies better understand and respond to the needs, preferences, and behaviors of their female customer base, enabling them to develop products and services that resonate with a diverse market and drive financial success. By promoting women's representation on boards of directors and creating an inclusive and equitable boardroom culture, companies can leverage the benefits of diversity to enhance decision-making, innovation, risk management, reputation, and overall financial performance (Chouaibi et al.,2018).

.

5.0 Conclusion and recommendations

Board of directors exist to protect the interests of shareholders, owing to the divorce of management from ownership in corporate entities. They are saddled with the responsibility of providing independent oversight of management performance, as well as monitoring and disciplining management for the overall interests of the shareholders which is dependent on financial performance or profitability. Pertaining to this, we discovered that board diversity proxies jointly influence financial performance and thus, it was concluded that corporate governance mechanism hav significant influence on financial performance. Despite the fact that board expertise showed a positive but statistically insignificant effect on return on equity, listed deposit money banks should not overlook the importance of diverse experiences on their boards. Despite the lack of statistical significance, cultivating a board with diverse expertise remains beneficial for addressing complex challenges and fostering innovation within the banking industry.Given the significant positive effect of board gender diversity on return on equity, listed deposit money banks in Nigeria should actively promote gender diversity on their boards. Encouraging the inclusion of more female directors can lead to broader perspectives, enhanced decision-making processes, and ultimately, improved financial performance as proven by this study.

References

Abdullah, H. & Tursoy, T. (2023). The effect of corporate governance on financial performance: Evidence from a shareholder-oriented system. *Interdisciplinary Journal of Management Studies (Formerly known as Iranian Journal of Management Studies)*, *16*(1), 79-95.

Abdullah, H. & Tursoy, T. (2023). The effect of corporate governance on financial performance: Evidence from a shareholder-oriented system. *Interdisciplinary Journal of Management Studies (Formerly known as Iranian Journal of Management Studies)*, *16*(1), 79-95.

Adekoya, A. A. (2011). Corporate governance reforms in Nigeria. *Journal of Law and Governance*, *6*(1), 39-52.

Adusei, M. (2019). Board gender diversity and the technical efficiency of microfinance institutions: Does size matter? *International Review of Economics and Finance, 64*(1), 393-411.

Ahern, K.R. & Dittmar, A.K. (2012). The changing of the boards: The impact on firm valuation of mandated female board representation. *The Quarterly Journal of Economics*, *127*, 137-197.

Akinleye, G. T., Olarewaju, O. M., & Fajuyagbe, B. S. (2019). Corporate governance and financial performance: An empirical analysis of selected multinational firms in Nigeria. *Problems and Perspectives in Management, 17*(1), 11-18.

Akpan, D. C. & Nkanga, E. N. (2023). Corporate governance attributes and segment reporting of selected conglomerates in Nigeria. *Journal of Accounting and Financial Management, 9(5), 46-63.*

Akpan, D. C., Simeon, U. J. & Nkpodot, U. K. (2022). Audit committee gender diversity, CSR and earnings management of selected consumer goods firms in Nigeria. AKSU Journal of Administration and Governance, 2(2), 2022,1-14.

Alabdullah, T. T. Y. (2023). In light of the current economic status: do board characteristics and risk management committees promote firm performance in Saudi Arabia? *Journal of Humanities, Social Sciences and Business*, *3*(1), 14–30.

Almashhadani, M. (2023). Corporate governance and profitability: Some theories and implications. *International Journal of Scientific and Management, 6*(9), 228-246.

Andoh, J. A. N., Abugri, B. A. & Anarfo, E. B. (2023). Board characteristics and performance of listed firms in Ghana. *Corporate Governance*, *23*(1), 43-71.

Arora, A. (2022). Gender diversity in boardroom and its impact on firm performance. *Journal of Management & Governance.*

Daily, C. M., Certo, S. T., & Dalton, D. R. (1999). A decade of corporate women: Some progress in the boardroom, none in the executive suite. *Strategic management journal*, *20*(1), 93-100.

Emiaso, D. & Okafor, G. O. (2023). Corporate agility, sustainability and long run survival in a disruptive organizational environment in Nigeria. *Journal of Global Accounting*, *9*(2), 232-237.

Enoidem K.L., Akpan D.C., Akinninyi P.E. and Nsentip E.B. (2023). Board Monitoring mechanisms and earnings management of listed non-finance firms in Nigeria, *European Journal of Business and Innovation Research*, 11(6),33-53.

Etuk, M. U., & Akpan, D. C. (2023). Corporate governance mechanisms and annual report readability of listed oil and gas firms in Nigeria. Research Journal of Management Practice, 3(1), 91-106

Etim, E., Ekpoese, J., Fidelis, O. & Akpan, D. C. (2023). Firms' characteristics and asset growth of quoted companies in Nigeria: An analytical approach. *Finance and Accounting, 4*(4),43-66

Eshiet, U. E., Nmesirionye, J. A., Esuma, U. A. & Okpo, S. A. (2023). Corporate governance's attributes and financial reporting quality in Nigeria. *GLH International Journal on Business Management, 6*(7), 104 – 130.

Hambrick, D. & Mason, P. (1984). Upper echelons the organization as a reflection of its top managers. *The Academy of Management Review, 9*(2), 193-206.

Haniffa, R.M., and T.E. Cooke (2002). Culture, corporate governance and disclosure in Malaysian corporations. *Abacus, 38,*(3), 317-49.

Hasan, N. C. (2021). Internal corporate governance structures and firm financial performance: Evidence from South African listed firms. Doctoral Thesis, University of Glasgow.

Hong, N. T. H. & Linh, T. K. (2022). Institutional investors, corporate governance and firm performance in an emerging market: evidence from Vietnam. *Cogent Economics & Finance, 11*. https://www.linkedin.com/pulse/role-boards-directors-corporate-governance-andrewrussell

Igbekoyi, O. E., Adegbayibi, A. T., & Adesina, A. S. (2021). Female directors and corporate social performance of listed deposit money banks in Nigeria. *Journal of African Research in Business and Technology, 1*(1), 1-13.

Jia, J. (2019). Does risk management committee gender diversity matter? A financial distress perspective. *Managerial Auditing Journal*. *7*(9), 1-16.

Jusup, J., & Sambuaga, E. A. (2022). The effect of the existence of women board of directors in the board of directors on accrual earnings management. *jurnal Akuntansi*, *16*(1), 67-87.

Khan, K. M. & Mahmood, Z. (2023). Impact of corporate governance on firm performance: a case of Pakistan stock exchange. *Liberal Arts and Social Sciences International Journal (LASSIJ)*, *7*(1), 24–38.

Madi, H., Nabi, G. A., Abdelfattah, F. & Madi, A. (2023). The effect of the characteristics of the board of directors and the audit committee on financial performance: Evidence from Palestine.

Martinez, A. & Moraes, A. (2014). Association between independent auditor fees and firm value: A study of Brazilian public companies. *Journal of Modern Accounting and Auditing*, 442-450.

Miyienda, M., Oirere, C. O. & Miyogo, J. (2012). The relationship between director remuneration and performance of firms listed in the Nairobi Securities Exchange. *The International Journal of Social Sciences, 15*(1), 1-17.

Mensah L. & Bein M. A. (2023). Sound corporate governance and financial performance: Is there a link? Evidence from manufacturing companies in South Africa, Nigeria, and Ghana. *Sustainability*, *15*(12), 9263.

Musa, M. A., & Yahaya (2023). Board attributes and financial performance: The evidence from an emerging economy. *The Journal of Developing Areas, 51*(3), 281–297.

Nwaebuni, C., Ekakitie, S. E. & Olannye, A. (2023). Improving financial performance through corporate governance management: Empirical evidence from listed service firms in Nigeria. *Journal of Global Social Sciences*, *4*(15), 196–226.

Ogaluzor, I. O. & Chukwu, G. J. (2022). Board members' experience and corporate earnings quality. *Journal of Accounting Information and Innovation*, *8*(2), 1–17.

Ogundayo, F. O. (2019). Effect of corporate governance on firm performance in Nigeria.

Okpo, S. A. & Ubi, J. J. (2019). Investigating the effect of corporate governance mechanisms on performance of selected manufacturing companies in Nigeria, INOSR Arts and Management, 5(1), 29-41.

Olayiwola, K. T. (2018). The effect of corporate governance on financial performance of listed companies in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, *6*(9), 85-98.

Pucheta-Martínez, M. C. & Gallego-Álvarez, I. (2020). Do board characteristics drive firm performance? An international perspective. *Review of Managerial Science, 14*(6).

Ramdani, D. & Witteloostuijn, A. V. (2020). The Impact of board independence and CEO duality on firm performance: A quantile regression analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management, 21*, 607-626.

Ria, R. (2023). Determinant factors of corporate governance on company performance: Mediating role of capital structure. *Sustainability, 11*(3).

Solanke, F. T., Olugbamiye, D. O., Olokor, C., Adeboboye, R., Nweze, G. N., Efuntade, A. O. & Olaniyi, R. B. (2022). Corporate governance and profitability of listed multinational firms in Nigeria. *Fuoye Journal of Management, Innovation and Entrepreneurship, 1*(1).

Titilayo, A., Adediran, S. A., & Achimugu, A. (2022). Board characteristics and firm performance of quoted insurance companies in Nigeria. *International Journal of Public Administration and Management Research, 7*(5), 1-22.

Uwah, U. E., & Akpan, D. C. (2019). Creative accounting practices and investments: implications for the shareholders in Nigerian public sector. *International Journal of Finance and Management in practice,* 7(1), 01 -19

Yameen, M., Farhan, N. H., & Tabash, M. I. (2019). The impact of corporate governance practices on firm's performance: An empirical evidence from Indian tourism sector. *Journal of International Studies*, *12*(1), 34-52

Zalata, A. M., Ntim, C. G., Alsohagy, M. H., & Malagila, J. (2022). Gender diversity and earnings management: the case of female directors with financial background. *Review of Quantitative Finance and Accounting*, *58*(1), 101-136.

Zgarni, A., & Fedhila, H. (2022). The effect of board characteristics on real activities manipulation in Tunisian Bank