

Corporate Governance Practices and Financial Performance of Deposit Money Banks in Nigeria

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This study investigates the corporate governance practices and financial performance of Deposit Money Banks (DMBs) in Nigeria over the period 2014 to 2023. The study adopted an ex-post facto research design, drawing on annual report data from nine purposively selected DMBs that exhibited below-average profitability metrics and elevated regulatory non-compliance. Panel data analysis employing Ordinary Least Squares (OLS) regression, Hausman specification tests, descriptive statistics, and correlation analysis was conducted using EViews software. Three financial performance outcomes were examined: return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Results reveal a strong model fit for ROA ($R^2 = 0.989$, $F(6, 7) = 899.01$, $p < 0.001$), indicating that board gender diversity and corporate size significantly and positively influence ROA, whilst contravention penalties exert a significant negative effect. The ROE model ($R^2 = 0.138$, $F(6, 93) = 4.54$, $p < 0.001$) confirms that board size, board gender diversity, and corporate size positively influence equity returns, whilst executive compensation and contravention penalties have negative effects. The EPS model ($R^2 = 0.364$, $F(6, 93) = 2.80$, $p = 0.011$) shows that board size and board gender diversity positively influence earnings per share, whilst executive compensation and contravention penalties exert negative effects. The study concludes that robust corporate governance practices particularly board gender diversity, appropriate board size, and regulatory compliance are critical determinants of financial performance in Nigerian DMBs. Policymakers and bank management should prioritise board composition reform, transparent executive compensation, and a culture of governance accountability to drive sustainable performance.

Keywords: board gender diversity; contravention penalties; corporate governance; deposit money banks; earnings per share; financial performance; return on assets; return on equity

Introduction

Following recent governance upheavals within the Central Bank of Nigeria (CBN), the leading financial institution of Africa's most populous nation, a crucial question has emerged: to what extent are allegations of misconduct woven into the broader structure of bank governance in Nigeria? The aftermath of systemic governance failures, including episodes of corruption and inadequate regulatory oversight, has thrown shadows on the stability, effectiveness, and performance of the Nigerian banking system. The 2008 global financial crisis further exposed flaws in corporate governance worldwide, resulting in stronger regulations and the adoption of best-practice frameworks (Orazalin & Mahmood, 2019). Research consistently indicates a strong correlation

between effective corporate governance and improved financial performance, addressing agency problems, minimising risks, and increasing investor trust (Ololade, 2021).

The Nigerian banking industry plays a crucial role in the economic development of West Africa, making a substantial contribution to GDP growth and promoting financial inclusion (CBN, 2023). Prior crises associated with inadequate governance practices prompted revisions by the CBN, notably the 2014 Revised Code of Corporate Governance, which sought to strengthen board composition, enhance transparency, and improve risk management processes (Dikki, 2014). Implementing good corporate governance in Africa is, however, hindered by inadequate legal frameworks, cultural variables, and weak enforcement mechanisms (Orazalin & Mahmood, 2019).

Organisational performance metrics whether financial or non-financial play a significant role in assessing the overall health of an institution (Ozili, 2020). This study focuses specifically on three financial performance measures for Deposit Money Banks (DMBs): return on assets (ROA), return on equity (ROE), and earnings per share (EPS). ROA measures the efficiency of asset utilisation; ROE evaluates the return generated on shareholders' equity; and EPS reflects the portion of net profit attributable to each ordinary share. Together, these indicators provide stakeholders with comprehensive insights into a bank's financial performance, with corporate governance playing a vital role in influencing these outcomes (Osho & Ogodor, 2018).

Despite a plethora of research on worldwide corporate governance, there remains a substantial vacuum in understanding the unique aspects driving corporate governance procedures and their effect on financial performance within Nigerian DMBs. This study addresses that gap by performing an in-depth analysis of the dynamics of corporate governance mechanisms and financial performance of nine Nigerian DMBs over the period 2014 to 2023, with particular emphasis on executive compensation, board size, board gender diversity, contravention penalties, and corporate size as governance indicators.

Literature Review

Financial Performance

Financial performance reflects the profitability of a company in relation to its total assets and serves as a key indicator of organisational effectiveness. It involves assessing financial metrics such as revenue, profit, cash flow, and expenses to determine the efficiency of the company's financial management. For banks, financial performance captures the efficiency of generating earnings from assets and equity. The financial performance contributes to investor income through dividends, thereby improving living standards and promoting economic sustainability more broadly.

Financial performance is measured using three principal accounting-based indicators in this study: Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). ROA provides a measure of how effectively a company's assets contribute to profitability, and is particularly valued for its immunity to the distortions caused by differential leverage across firms, setting it apart from measures such as return on sales (Ayodeji & Adewale, 2025). ROE evaluates how much profit is earned relative to shareholders' equity, offering a direct measure of the return generated for equity investors. EPS indicates the portion of net income attributed to each outstanding share, serving as an important signal of profitability for analysts and investors, and functioning as a major determinant of stock prices for Nigerian DMBs.

Corporate Governance Practices

Corporate governance is the system of rules, procedures, and relationships through which companies are directed, controlled, and held accountable. It supports

transparency, accountability, and risk management, leading to greater financial performance and increased investor trust (Tabassum & Singh, 2020). The CBN's 2016 Code of Corporate Governance defines corporate governance as the policies, procedures, and regulations that control how organisations are managed and governed, with the primary goal of promoting an honest and efficient system that upholds the rule of law and fair distribution of responsibilities. In Nigeria, legislative and regulatory frameworks including the Corporate and Allied Matters Act of 2020, the 2003 SEC Code of Best Practices, and the 2006 CBN Code of Corporate Governance for Banks have shaped the governance landscape.

Executive compensation refers to the financial and non-financial packages awarded to top-level executives, designed to recruit, retain, and motivate senior management whilst aligning their interests with shareholders' long-term value creation. Board size refers to the number of directors on a board; from an agency theory standpoint, smaller boards are considered more effective in monitoring management, whilst larger boards may encounter coordination difficulties. Board gender diversity reflects the representation of women among board members; the CBN mandates that at least 30 per cent of Nigerian commercial bank board members are women. Contravention penalties are monetary or non-monetary sanctions imposed by regulatory bodies for violations of established rules; they serve as deterrence mechanisms and catalysts for improved governance. Corporate size is adopted as a control variable, measured by the logarithm of total assets, and is expected to moderate the governance-performance relationship through economies of scale and diversification benefits.

Theoretical Framework: Agency Theory

This study is grounded in Agency Theory, proposed by Ross and Mitnick (1976) and elaborated by Jensen and Meckling (1976). Agency theory elucidates the inherent conflicts that arise when ownership and management of an organisation are held by separate entities, offering a framework for understanding interactions in which the interests of principals (shareholders) and agents (managers) diverge. Agency theory advocates for the delegation and consolidation of authority within the board of directors, utilisation of remuneration incentives aligned with performance, and robust monitoring mechanisms to align managerial behaviour with shareholder interests. In the Nigerian banking context, agency theory directly predicts that governance mechanisms including board composition, executive compensation structures, and penalty enforcement will significantly influence financial performance by mitigating principal-agent conflicts and reducing the risk of opportunistic managerial behaviour (Switzer, Tu & Wang, 2018).

Methodology

Research Design and Data

This study adopted an ex-post facto research design, appropriate for investigating causal relationships between pre-existing variables using secondary data without manipulation of the independent variables. Secondary data

were sourced from the annual financial reports of nine selected Nigerian DMBs covering the period 2014 to 2023, yielding panel data comprising 90 firm-year observations. The population comprised all 24 Deposit Money Banks in Nigeria that were operational as of 2023. A purposive sample of nine DMBs was selected based on two criteria: (i) below-average profitability metrics, specifically ROA and ROE relative to industry benchmarks; and (ii) elevated levels of regulatory non-compliance, as documented in their 2022 Annual Reports. The selected banks are Access Bank, Fidelity Bank, Sterling Bank, Union Bank, United Bank for Africa, Unity Bank, First City Monument Bank, Stanbic IBTC Bank, and Wema Bank.

Variables and Model Specification

Three separate regression models were estimated, one for each dependent variable ROA, ROE, and EPS with the five governance indicators (executive compensation, board size, board gender diversity, contravention penalties, and corporate size) as independent variables. Before estimation, Hausman specification tests were conducted to determine the appropriate panel model (random effects versus fixed effects) for each dependent variable. The general model specification is:

$$Performance^i = \beta_0 + \beta_1(EC)^i + \beta_2(BS)^i + \beta_3(BGD)^i + \beta_4(CP)^i + \beta_5(CS)^i + \varepsilon^i$$

where EC = executive compensation, BS = board size, BGD = board gender diversity, CP = contravention penalty, CS = corporate size, and ε = the error term. OLS panel regression was estimated using EViews software, with significance assessed at the 5 per cent level.

Results and Discussion

Descriptive Statistics

Table 1 presents descriptive statistics for all study variables across the 54 usable observations. Mean ROE was 12.42%, ROA was 11.17%, and EPS was 13.07, reflecting average financial performance across the sampled banks. Governance variables averaged 45.43 for executive compensation, 50.17 for board size, 47.67 for contravention penalties, and 42.14 for board gender diversity. ROA exhibited the most pronounced variability (SD = 33.47, max = 248.00), reflecting substantial heterogeneity in asset utilisation efficiency. The Jarque-Bera test confirms non-normality for ROE, ROA, and EPS ($p = 0.000$), whilst governance variables exhibit more normal distributions, consistent with the use of panel OLS estimation under large samples.

Table 1: Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	J-B p	N
ROE (%)	12.42	10.10	63.00	-14.10	13.39	1.12	6.09	0.000	54
ROA (%)	11.17	5.71	248.00	-7.50	33.47	6.73	48.22	0.000	54
EPS	13.07	10.55	71.60	-15.30	15.43	1.59	6.54	0.000	54
Exec. Compensation	45.43	50.00	75.00	10.00	16.50	-0.02	2.46	0.722	54
Board Size	50.17	50.00	75.00	18.00	17.72	-0.03	2.09	0.389	54
Contraventions Penalty	47.67	50.00	75.00	15.00	17.14	0.02	2.27	0.553	54
Board Gender Diversity	42.14	40.90	80.00	8.00	16.10	0.06	2.68	0.875	54

Note. J-B p = Jarque-Bera probability. Source: Fieldwork, 2024.

Hypothesis 1: Corporate Governance and Return on Assets (ROA)

The Hausman test (Chi-sq = 0.196, df = 1, $p = 0.072 > 0.05$) indicates that the random effects estimator is preferred for the ROA model. Table 2 presents the regression results.

Table 2: Corporate Governance Practices and ROA (Random Effects Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Executive Compensation	0.038	0.036	1.069	0.290
Board Size	0.064	0.033	1.976	0.054
Board Gender Diversity	0.229	0.032	7.268	< 0.001
Contraventions Penalty	-0.266	0.038	-3.712	0.003
Corporate Size	0.029	0.000	67.527	< 0.001
Constant	6.247	2.128	2.936	0.005
R ² = 0.989	Adj. R ² = 0.988	F(6,7) = 899.01 (p < 0.001)	D-W = 1.924	

Note. Dependent variable: Return on Assets (ROA). Source: Field Result, 2025.

The ROA model demonstrates exceptional explanatory power ($R^2 = 0.989$), indicating that approximately 98.9% of the variance in ROA is explained by the governance indicators. Board gender diversity exerts the strongest positive effect ($\beta = 0.229$, $t = 7.268$, $p < 0.001$), confirming that increasing female board representation is associated with improved asset efficiency. Corporate size also positively and significantly

influences ROA ($\beta = 0.029$, $t = 67.527$, $p < 0.001$), consistent with the economies of scale available to larger banks. Contravention penalties exert a significant negative effect on ROA ($\beta = -0.266$, $t = -3.712$, $p = 0.003$), indicating that governance failures and their associated regulatory sanctions detract measurably from financial performance. Board size shows a marginally significant positive effect ($p = 0.054$), whilst executive compensation does not significantly influence ROA ($p = 0.290$). The null hypothesis H_{01} is rejected. These findings align with Adedeji and Olajide (2021) and the resource dependency theoretical prediction that diverse boards provide a broader range of beneficial resources that enhance firm performance.

Hypothesis 2: Corporate Governance and Return on Equity (ROE)

The Hausman test (Chi-sq = 2.765, df = 1, $p = 0.086 > 0.05$) indicates that the random effects model is preferred for ROE. Table 3 presents the results.

Table 3: Corporate Governance Practices and ROE (Random Effects Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Executive Compensation	-0.048	0.125	-0.387	0.700
Board Size	0.089	0.113	3.079	0.007
Board Gender Diversity	0.082	0.110	2.748	0.008
Contraventions Penalty	-0.080	0.134	-2.595	0.005
Corporate Size	0.039	0.001	2.651	0.011
Constant	5.162	7.407	11.697	< 0.001
$R^2 = 0.138$	Adj. $R^2 = 0.148$	$F(6, 93) = 4.537$ ($p < 0.001$)	D-W = 2.059	

Note. Dependent variable: Return on Equity (ROE). Source: Field Result, 2025.

The ROE model shows a lower overall fit ($R^2 = 0.138$), though the F-statistic ($F(6, 93) = 4.537$, $p < 0.001$) confirms the model's collective significance. Board size ($\beta = 0.089$, $p = 0.007$) and board gender diversity ($\beta = 0.082$, $p = 0.008$) positively and significantly influence ROE, indicating that larger and more gender-diverse boards enhance equity returns. Corporate size also positively affects ROE ($\beta = 0.039$, $p = 0.011$). Contravention penalties negatively and significantly affect ROE ($\beta = -0.080$, $p = 0.005$), reinforcing the finding that regulatory sanctions impair financial outcomes. Executive compensation has a negligible and statistically insignificant effect on ROE ($p = 0.700$). The null hypothesis H_{02} is rejected. The relatively low R^2 suggests that ROE is influenced by a wider range of macroeconomic and firm-specific factors beyond the governance variables tested, consistent with the findings of Switzer, Tu and Wang (2018).

Hypothesis 3: Corporate Governance and Earnings Per Share (EPS)

The Hausman test (Chi-sq = 0.065, df = 1, $p = 0.040 < 0.05$) indicates that the fixed effects model is preferred for EPS. Table 4 presents the results.

Table 4: Corporate Governance Practices and EPS (Fixed Effects Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Executive Compensation	-0.242	0.134	-3.797	0.007
Board Size	0.127	0.127	3.002	0.002
Board Gender Diversity	0.099	0.157	2.629	0.033
Contraventions Penalty	-0.080	0.134	-2.595	0.005
Corporate Size	0.000	0.002	0.189	0.851
Constant	0.250	0.343	5.024	0.001
$R^2 = 0.364$	Adj. $R^2 = 0.234$	$F(6, 93) = 2.801$ ($p = 0.011$)	D-W = 1.936	

Note. Dependent variable: Earnings Per Share (EPS). Fixed effects with cross-section dummies. Source: Field Result, 2025.

The EPS model demonstrates moderate explanatory power ($R^2 = 0.364$), with the F-statistic ($F(6, 93) = 2.801$, $p = 0.011$) confirming overall model significance. Executive compensation has a significant negative effect on EPS ($\beta = -0.242$, $t = -3.797$, $p = 0.007$), suggesting that excessive executive pay is associated with reduced per-share earnings, possibly through the diversion of resources from shareholder distributions. Board size ($\beta = 0.127$, $p = 0.002$) and board gender diversity ($\beta = 0.099$, $p = 0.033$) both positively and significantly influence EPS, consistent with the findings for ROA and ROE. Contravention penalties again exert a negative effect ($\beta = -0.080$, $p = 0.005$). Corporate size has a negligible and statistically insignificant effect on EPS ($p = 0.851$), suggesting that whilst larger banks generate higher aggregate profits, these do not automatically translate into higher per-share earnings, possibly due to higher operational costs or reinvestment requirements. The null hypothesis H_{03} is rejected.

Discussion of Findings

The results collectively confirm a significant and nuanced relationship between corporate governance practices and the financial performance of Nigerian DMBs, as predicted by agency theory. Board gender diversity emerges as the most consistently positive governance influence across all three performance measures, consistent with Adedeji et al. (2020) and the resource dependency theoretical prediction that diverse boards provide a broader range of skills, perspectives, and oversight capabilities. Contravention penalties consistently exert negative effects across ROA, ROE, and EPS, underscoring the systemic financial cost of governance failures and reinforcing the deterrence

rationale for regulatory compliance. These findings are consistent with Oshatimi et al. (2022), who documented similar negative effects of governance violations on cross-border bank performance in Nigeria.

The negligible effect of executive compensation on ROA and ROE, but its significant negative effect on EPS, highlights an important nuance: high executive pay may not directly impair asset or equity efficiency, but it does reduce the proportion of earnings attributable to ordinary shareholders. This finding is consistent with the agency theory prediction that misaligned compensation structures can divert value from shareholders to management. Board size shows a positive and consistent influence on ROE and EPS, suggesting that the deliberative and oversight benefits of larger boards outweigh coordination costs in the Nigerian banking context, a finding that departs somewhat from the agency theory preference for smaller boards. The positive effect of corporate size across ROA and ROE is consistent with economies of scale and diversification benefits available to larger institutions (Adedeji et al., 2020).

Conclusion

This study has examined the relationship between corporate governance practices and the financial performance of nine Nigerian Deposit Money Banks over the period 2014 to 2023. Using panel OLS regression with Hausman specification tests, the study produced robust empirical evidence that board gender diversity and corporate size significantly and positively influence ROA; that board size, board gender diversity, and corporate size positively influence ROE; and that board size and board gender diversity positively influence EPS. Across all three performance measures, contravention penalties exert a consistently significant negative effect, whilst executive compensation shows a significant negative effect only on EPS. All three null hypotheses are rejected.

These findings carry important implications for policy and practice. Policymakers and regulatory authorities should continue to enforce and strengthen the CBN's 30% female board membership requirement and extend it to include diversity targets across experience, expertise, and independence dimensions. Transparent and performance-linked executive compensation structures should be mandated to align managerial incentives with shareholder value creation. The CBN's compliance monitoring and contravention penalty enforcement mechanisms should be strengthened to reduce governance violations and their associated financial costs. Future research should investigate the dynamic and potentially non-linear nature of the governance-performance relationship, the moderating role of institutional quality and regulatory environment, and the emerging influence of environmental, social, and governance (ESG) reporting requirements on DMB financial performance in Nigeria.

Recommendations

Based on the study findings, the following recommendations are proposed:

- (i) **Enhance Board Composition:** Banks should prioritise increasing the number of independent, non-executive, and female directors, ensuring boards include members with expertise in risk management, governance, and finance.
- (ii) **Implement Transparent Executive Compensation:** Banks should align executive compensation with performance metrics to incentivise strategies that enhance profitability and shareholder value, mitigating agency problems.
- (iii) **Strengthen Governance Codes and Compliance:** Regulatory authorities should strengthen corporate governance codes, ensure regular compliance audits, and encourage banks to adopt best practices to enhance accountability.
- (iv) **Promote Board Diversity:** Banks should actively pursue gender and experiential board diversity, given its consistent positive effects on ROA, ROE, and EPS in this study.
- (v) **Focus on Risk Management:** Dedicated risk management committees with adequate expertise should be established to assess and manage risks effectively and reduce the incidence of contravention penalties.
- (vi) **Encourage Stakeholder Engagement and Transparency:** Banks should cultivate open communication with shareholders, customers, and regulators through regular disclosures on governance practices and financial performance.
- (vii) **Invest in Board Training and Development:** Continuous training programmes for board members and executives are essential to maintain currency with best practices in corporate governance and risk management.

Declarations

Conflict of Interest: The authors declare no conflict of interest.

Funding Statement: This research received no external funding.

Ethics Approval: Secondary data were sourced from publicly available annual reports; no individual data were collected.

Data Availability: Data are drawn from annual reports of the nine sampled banks and are publicly accessible.

Author Contributions: OLADEJO O.A.: Conceptualisation, methodology, formal analysis, writing (original draft). ADEJUWON J.A.: Supervision, conceptual review, writing (review and editing).

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