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INFLUENCE OF CORPORATE GOVERNANCE MECHANISMS ON FINANCIAL PERFORMANCE OF QUOTED BANKS IN NIGERIA

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Abstract

A lack of good corporate governance was a significant factor that fueled the Global Financial Crisis. Corporate governance failures are not only associated with developed economies; emerging economies like Nigeria have also experienced corporate governance failures, especially in the last two decades. This study investigates the influence of corporate governance mechanisms on the financial performance of quoted banks in Nigeria from 2011 – 2022. The study employs stakeholder theory, panel-ARDL, and other appropriate methods as the primary analysis tools. The study showed that audit committee independence (ACI) revealed a moderate negative association with financial performance variables in the long run. In the short run, changes in audit committee independence showed a positive statistically significant effect on ROA. Institutional investors and board independence were influential in the long run but negatively related to financial performance variables. However, board gender diversity was not significant in both the long-run and short-run in relation to return on assets. Notably, the ECT positively influences the financial performance of quoted banks in Nigeria. The study contributes to the literature on the relationship between corporate governance and financial performance, especially from the stakeholder theory dynamics. Corporate governance mechanisms are complex and dynamic. Therefore, optimal governance arrangements may be bank-specific in terms of governance attributes. This complexity necessitates policies recognizing the context-dependent nature of governance dynamics, fostering an environment where banks can adapt and innovate within regulatory frameworks.

Keywords: Banks, Financial Performance, Corporate Governance, Influence

Introduction

Globalisation and financial liberalisation have contributed significantly to global economic growth, but they have also presented serious challenges, particularly to the financial sector. Over the past five decades, financial theory has focused on integrating global financial institutions, which has led to increased inter-connectedness, sophistication, and complexity (Balling & Gnan, 2013). Financial liberalisation involves reducing government regulation over financial markets, allowing both domestic and foreign firms to participate more freely. While this approach enhances access to capital and increases market efficiency, its benefits are not universally accessible. In some instances, liberalised markets have produced asymmetric outcomes, where certain economies benefit more than others, thereby exacerbating global economic inequality.

Financial reporting, which involves the disclosure of a company's operations and performance, plays a pivotal role in supporting sound economic decisions. Reliable and audited financial statements provide essential data about an organisation's financial health and remain the primary source of information for stakeholders. However, the quality and relevance of such reports are often compromised by weak corporate governance, lack of institutional frameworks, and delayed information dissemination. The absence of effective governance mechanisms, regulatory oversight, and user competency further undermines the usefulness of financial reports (Ozili, 2021). This highlights the importance of corporate governance structures that can uphold the integrity and transparency of financial reporting systems.

The 2007–2008 Global Financial Crisis (GFC) served as a wake-up call for policymakers and regulators, exposing weaknesses in financial governance and prompting widespread reforms. According to Ellis, Haldane, and Moshirian (2014), the transnational impact of the crisis led to coordinated efforts to strengthen global regulatory frameworks. Moschella and Weaver (2014) observed that the crisis triggered a reassessment of the legitimacy and effectiveness of existing financial rules. The collapse of national economies and the subsequent global contagion effect revealed the danger of systemic risk in an interconnected world (Saito, Savoia, & Fama, 2013). Consequently, post-crisis efforts have prioritised developing policies to mitigate systemic risk, including the establishment of stronger corporate governance mechanisms and risk management strategies across financial institutions.

Corporate governance gained prominence in the aftermath of several global financial scandals and failures, such as those involving Enron and Lehman Brothers. It refers to the rules, practices, and processes by which organisations are directed and controlled, aiming to safeguard stakeholder interests and ensure accountability. In Nigeria, poor corporate governance has plagued the banking sector, leading to liquidity crises, insider abuses, and regulatory breaches (CBN, 2016). The First Bank of Nigeria case, where board appointments were made without regulatory consent, highlights the persistent governance challenges in the sector. Demaki (2018) argues that effective boards reduce managerial opportunism and promote accurate financial reporting, thus improving firm value. However, the continued occurrence of governance failures despite technological advancements necessitates a reassessment of governance practices in Nigerian banks.

The relationship between corporate governance and financial performance has been widely studied, yet findings remain inconsistent. While some studies suggest that governance attributes like board diversity, frequency of meetings, and independent directors positively influence performance (Kamath, 2019), others find minimal or no impact. Almaqtari et al. (2020) found that Indian firms improved governance practices following regulatory changes, but criticised the repetitive use of basic models and limited theoretical frameworks in governance research. Li, Terjesen, and Umans (2020) supported this view, noting a lack of studies based on stewardship and stakeholder theories. Armitage et al. (2017) advocate for a more holistic approach to governance, incorporating both internal and external mechanisms and considering all stakeholders' interests. This study adopts a stakeholder theory perspective to explore a broader range of governance practices within Nigeria's banking sector, aiming to address gaps in previous research and offer insights for improving governance standards and enhancing stakeholder value.

Several studies argue that good corporate governance positively influences bank performance. For instance, Bhagat and Bolton (2008), Essamel and Watson (2008), Ajola et al. (2012), and Abdulazeez et al. (2016) found that governance mechanisms enhance financial outcomes. Similarly, El-Charani and Abraham (2022) reported that ownership concentration and non-executive directors improved Lebanese banks' performance during a crisis, while audit and compliance committees reduced risk by enhancing capital adequacy and limiting non-performing loans. Conversely, Lubabah and Bawa (2013) and Kajola (2008) highlighted negative effects, asserting that certain governance practices might impair performance. Erken et al. (2012) discovered that firms with more independent directors and institutional ownership took excessive risks before the 2008 crisis, leading to wealth loss for shareholders.

Addo et al. (2021) explored systemic risk among 36 European banks, finding that smaller boards, frequent meetings, and institutional investor monitoring increased risk. However, they concluded that bundling internal and external governance mechanisms could yield a desirable level of systemic risk that boosts performance. Armiatage et al. (2017) added that governance bundles differ across regions—developed economies focus on CEO compensation and board monitoring, while emerging economies rely more on lending institutions and family shareholders. Sohail et al. (2017) in Pakistan found both internal and external governance mechanisms critical for bank performance. In Nigeria, Ojeka et al. (2014) found no significant impact of board size, audit committees, and board independence on financial performance. Lestari et al. (2020) showed that internal governance, particularly independent commissioners, significantly improved performance, while external mechanisms like ownership concentration had limited effects.

Ayodeji and Okunade (2019) observed positive links between audit committee independence and profitability in Nigeria, but negligible effects in Canada. Sadaaa et al. (2023) in Iraq confirmed that some governance practices, such as financial expertise on boards and risk management committees, help reduce credit risk, while board independence and institutional ownership had minimal impact. In the MENA region, Eriqat et al. (2023) found that audit committee independence enhances corporate reputation, while ownership concentration negatively affects it. Other governance variables showed no significant influence. In Nigeria, Esan et al. (2020) found corporate governance had little effect on performance indicators, attributing this

to flawed director appointments. Oino and Itan (2018) noted varying impacts of governance variables, with board composition having the least effect.

Akinyomi and Olutoye (2015) and Adigwe et al. (2016) found that audit committees and directors' interests positively influenced profitability, while board size had no impact. Ene and Bello (2016) supported the significance of non-executive directors. However, Orozco and Vargas (2018) observed a negative relationship between performance and governance, despite board size enhancing corporate reputation. Eluyela et al. (2018) and others like Surya (2016) and John and Ibenta (2016) found frequent board meetings improved profitability, but board size remained insignificant. Lastly, Khan et al. (2018) reported that corporate governance and bank size positively influenced bank performance, but ownership concentration had no impact. Their study, however, was criticised for weak conceptual framing, as corporate governance was treated as a standalone variable instead of a composite construct. Overall, the empirical literature suggests that the impact of corporate governance on bank performance is highly contextual, influenced by regional, institutional, and methodological variations (Sadaaa et al., 2023).

The main objective of this study is to examine the influence of corporate governance attributes on the financial performance of quoted banks in Nigeria. Specifically, the study seeks to evaluate the effect of institutional blocked investors on the financial performance of quoted banks; analyse the relationship between independent non-executive directors and the financial performance of quoted banks in Nigeria; and examine the nexus between audit committee independence and the financial performance of quoted banks in the country.

Hypotheses

1. Hypothesis Ho1: Audit committee independence is positively related to banks financial performance in Nigeria
2. Hypothesis Ho2: Independent non-executive directors exert significant influence on the financial performance of deposit money banks in Nigeria
3. Hypothesis Ho3: Institutional/Block ownership significantly influence bank financial performance

Methods

This study adopts an ex post facto research methodology using panel data, as the circumstances under investigation—corporate governance mechanisms and financial performance in Nigerian banks—have already occurred and cannot be manipulated by the researcher. This research design is justified because the researcher lacks control over independent variables, which are drawn from historical data in banks' annual reports. However, a structured analytical framework is created to process the data required for meaningful interpretation. Ex post facto research is advantageous in behavioural science studies because it allows investigation in natural settings without requiring artificial manipulation. Guided by the positivism research philosophy, this study uses a deductive approach. It aims to verify hypotheses objectively, eliminating bias through empirical observations consistent with quantitative analysis (Uma & Rogers, 2016).

The study uses a purposive sampling design to identify suitable cases among thirty-

three Nigerian deposit money banks. Thirteen of these banks were selected based on criteria such as their status as deposit money banks, listing on the Nigerian Stock Exchange (NGX), and consistent operation between 2012 and 2021. Purposeful sampling is chosen because it ensures that the selected institutions possess attributes relevant to the phenomenon under study (Etikan, Musa, & Alkassim, 2015). The population is defined as Nigerian deposit money banks, while the sample includes only those that meet the inclusion criteria. Data collection relies primarily on secondary data obtained from financial statements and regulatory bodies like the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation. In addition, questionnaires are administered to stakeholders to collect supplementary data relevant to the study objectives. This approach combines longitudinal and cross-sectional perspectives to enhance data richness and reliability.

The analysis uses advanced panel data methodologies to assess the influence of corporate governance on bank performance. Specifically, Pooled Mean Group (PMG), Fixed Effects, and Panel Autoregressive Distributed Lag (ARDL) models are used to address the study's objectives. Descriptive statistics summarise the data's features through measures of central tendency and dispersion, such as mean, median, and standard deviation, offering insights into the nature of the variables. The panel data approach is preferred for its ability to handle individual heterogeneity, reduce multicollinearity, and provide efficient estimates by integrating both time-series and cross-sectional data (Eom, Lee, & Xu, 2007). Overall, this method enables a robust and comprehensive analysis of the relationship between corporate governance characteristics and financial performance in Nigerian banks.

Results

4.1.1 Summary Statistics

Using data from the sample of 11 deposit money institutions over a 19-year period, Table 1 provides a thorough overview of corporate governance in Nigeria. Important information about the structural, financial, and operational elements of these banks is revealed by the data. The main objective of Table 4.1 is to offer significant contextual background information regarding the dynamics of corporate governance within the Nigerian banking industry.

Table 1: Comprehensive Statistics for Key Variables related to Bank Performance

VARIABLE		MEAN	STD. DEV.	OBSERVATION	
ROA	Overall	2.688	5.369		N = 209
	Between		3.313		n =11
	Within		4.337		T=19
INED	Overall	53.627	19.400		N = 209
	Between		15.400		n =11

	Within		12.639		T=19
ACI	Overall	0.481	0.174		N = 209
	Between		0.139		n =11
	Within		0.113		T=19
INSIV	Overall	0.414	0.264		N = 209
	Between		0.221		n =11
	Within		0.158		T=19

The table presented provides comprehensive statistics for key variables related to bank performance, including Return on Assets (ROA), independent non-executive directors (ined), audit committee independence (aci), board diversity (bodv), and institutional investors (insiv). These variables are crucial indicators that influence the performance and financial stability of banks.

Return on Assets (ROA)

A crucial performance indicator called return on assets (ROA) shows how well a bank uses its resources to turn a profit. Better profitability and management effectiveness are indicated by a greater ROA. The sampled Banks' average return on assets (ROA) is 2.688, with a standard deviation of 5.369, suggesting significant variation in the Banks' profitability.

The "between" standard deviation (3.313) shows differences in profitability across Banks, while the "within" standard deviation (4.337) reflects the fluctuations in profitability within the same Bank over time. The wide variation suggests that certain Banks are significantly more efficient in asset utilization than others, which can be influenced by factors like management practices, market conditions, and regulatory environment.

Independent Non-Executive Directors (INED)

One indicator of sound corporate governance that has a beneficial effect on bank performance is the number of independent non-executive directors. 53.627% of these Banks' boards are composed of independent non-executive directors on average. While some Banks maintain a high share of independent directors, others differ greatly, according to the standard deviation values (19.400 overall, 15.400 between Banks, and 12.639 within Banks). Economic theories that uphold the value of independent directors in reducing management-shareholder conflicts of interest and perhaps increasing return on assets (ROA) include the agency theory.

Audit Committee Independence (ACI)

Audit committee independence is another crucial factor in corporate governance that can influence a Bank's risk management and financial reporting quality. The mean value of ACI is 0.481, with relatively low variability (overall standard deviation of 0.174), indicating that most Banks maintain a reasonably consistent level of audit committee independence. A more independent audit committee is often associated

with improved financial oversight, leading to more accurate financial reporting and, consequently, better ROA.

Institutional Investors (INSIV)
The presence of institutional investors, with a mean value of 0.414, indicates the level of ownership by large financial institutions. Institutional investors often bring a long-term perspective and exert pressure on management to perform efficiently, which can improve ROA. The standard deviation (0.264 overall, 0.221 between banks, and 0.158 within banks) shows some variation in the level of institutional ownership across Banks, which could influence their performance.

Correlation Analysis
The correlation matrix, which is shown in Table 2, provides a thorough summary of the relationships between the important corporate governance factors that were considered in this research. Understanding these correlations sheds light on the intricate relationships within this study and guides toward deeper insights. The table shows the correlation coefficients between key variables in the study along with their corresponding p-values. Correlation coefficients indicate the strength and direction of the relationship between variables. The p-value indicates the statistical significance of this relationship.

VARIABLE	**ROA**	**prob**	**INED**	**prob**	**ACI**	**prob**	**prob**	**INSIV**
ROA	1							
INED	0.193	*0.005*	1.000					
ACI	-0.215	*0.002*	-0.185	*0.007*	1.000			
INSIV	0.132	*0.056*	0.235	*0.001*	0.007	*0.925*	*0.000*	1.000

ROA shows a positive correlation with INED, BODV, and INSIV, suggesting that bank performance (as measured by ROA) tends to improve with higher independent directors, greater board diversity, and higher institutional ownership.

Board diversity (BODV), measured as the ratio of female to male board members, remains a significant factor in corporate governance discussions. A moderate association between a diverse board composition and financial performance is suggested by Table 2, which displays a positive correlation of 0.269 between board diversity and Return on Assets (ROA).This result implies that a higher gender diversity on boards may be associated with better financial outcomes. However, Independent Directors (INED), reflecting the ratio of non-executives to board members, exhibit a weaker correlation with ROA at 0.193, suggesting that the correlation between financial performance and the participation of independent directors is not as strong. The correlation between INED and board diversity (BODV) is even weaker, at -0.074, suggesting a limited association between these two governance structures. The independence of the audit committee is represented by Audit Committee Independence (ACI), which has significant connections with other

factors.

Additionally, ACI is negatively correlated with INED (-0.185), indicating that boards with more independent directors and higher diversity might have less independent audit committees. Moreover, There is hardly any association between audit committee independence and the level of institutional investors' involvement, as evidenced by the minuscule 0.007 correlation between ACI and Institutional Ownership (INSIV). However, the negative correlation between ACI and Return on Assets (ROA) at -0.215 indicates that greater audit committee independence might be associated with lower financial performance, as measured by ROA.

Institutional Ownership (INSIV) has a positive correlation with INED (0.235), implying that institutional investors might prefer firms with higher independent director presence and board diversity. Interestingly, INSIV's correlation with ROA is weaker at 0.132, suggesting that institutional ownership is not strongly associated with financial performance. Overall, this correlation matrix presents a complex web of relationships among the variables. While there are some moderate correlations, the absence of correlations exceeding 80 percent indicates that multicollinearity is not an issue, which is advantageous for further statistical analyses. However, the mixed strength of these correlations suggests the need for more in-depth analysis to explore potential nonlinear or causal relationships among these governance and performance metrics.

In summary, this correlation matrix provides an overview of how the variables in this study relate to one another. Additionally, the absence of correlations exceeding 80 percent indicates the absence of multicollinearity, which is advantageous for further statistical analyses. Most correlations are statistically significant, indicating that these relationships are unlikely to be due to random chance, except for the correlation between ACI and INSIV, which is not significant.

Table 3: Levin, Lin, and Chu Unit Root Test of at Level

Variable	Lag Only		Lag and Trend	
	t-stat	p-value	t-stat	p-value
ROA	-1.3563	0.0875	-1.0905	0.1378
INSIV	-1.0305	0.1514	-1.9907	0.0233
INED	-2.9296	0.0017	-3.298	0.0005
ACI	0.1765	0.5701	-1.529	0.0631
Note: * significance at 10%; ** significance at 5%; *** significance at 1%				

Reviewing Table 3, the results reveal varied patterns of stationarity among the variables. ROA shows borderline stationarity with a p-value of 0.0875 under the 'Lag Only' specification, which is significant at the 10% level, but it is not stationary under the 'Lag and Trend' specification with a p-value of 0.1378. BODV does not exhibit

stationarity in either specification, with high p-values of 0.5554 ('Lag Only') and 0.2928 ('Lag and Trend'), indicating a lack of stationarity. INSIV shows non-stationarity under 'Lag Only' with a p-value of 0.1514 but becomes stationary under 'Lag and Trend' with a p-value of 0.0233, significant at the 5% level. INED, on the other hand, is strongly stationary across both specifications, with p-values of 0.0017 ('Lag Only') and 0.0005 ('Lag and Trend'), both significant at the 1% level. ACI does not show stationarity under 'Lag Only' (p-value 0.5701), but it approaches stationarity under 'Lag and Trend' with a p-value of 0.0631, significant at the 10% level.

Table 4: Levin, Lin, and Chu Unit Root Test of at First Difference

Variable	Lag Only		Lag and Trend	
	t-stat	p-value	t-stat	p-value
ROA	-5.040	0.000	-3.192	0.001
INSIV	-5.702	0.000	-4.194	0.000
INED	-8.019	0.000	-6.084	0.000
ACI	-6.385	0.000	-5.339	0.000

Note: * significance at 10%; ** significance at 5%; *** significance at 1%

Table 4, which shows the results of the Unit Root Test at the first difference, highlights a significant shift in stationarity for the variables. After employing first differencing, all variables—ROA, INSIV, INED, and ACI—consistently exhibit extremely low p-values (0.00) across both 'Lag Only' and 'Lag and Trend' specifications. This transformation indicates a robust achievement of stationarity through the first differencing technique. The confirmed stationarity of all variables—ROA, BODV, INSIV, INED, and ACI—ensures a more stable panel data model. Stationary variables allow for the utilization of panel data techniques that assume stationarity, improving the estimated coefficients' dependability.

Moreover, these results are important in ensuring that spurious regression is avoided. In other words, stationarity is crucial to avoid spurious regression in panel data analysis. The presence of non-stationary variables might lead to misleading regression results, where variables appear correlated when they are not, potentially yielding unreliable coefficients.

The results of a dynamic fixed-effect model estimation using Return on Assets (ROA) as the dependent variable are shown in Table 5. The objective of the model is to investigate the impact of particular corporate governance characteristics on the performance of particular banks in the Nigerian economy. Our stationarity test results were used to choose the panel Autoregressive Distributed Lag (ARDL) algorithms to use in this investigation. Panel ARDL models are often appropriate when all variables show either first-order integrated behavior (I(1)), stationary behavior (I(0)), or a combination of both I(0) and I(1) traits.

The upper part of Table 5 presents the parameter estimates for the underlying model in the short run. In examining the coefficients, our results show a mix of insights. A positive correlation of 0.754 was also shown by institutional investors (INSIV), however the p-value of 0.802 indicates that this link is similarly not statistically significant.

Table 5: Dynamic Fixed Effect Model (Dependent Variable = ROA)

Variable		Coefficient	SE	z		p
	INSIV	0.754	3.001	0.250		0.802
	INED	-0.008	0.039	-0.210		0.830
	ACI	-3.242	4.976	-0.650		0.515
SR	ECT	0.753	0.076	9.960		0.000
	D1. INSIV	-0.858	2.669	-0.320		0.748
	D1. BIND	0.011	0.033	0.350		0.729
	D1.ACI	-1.044	3.321	-0.310		0.753
	Constant	-2.739	2.459	-1.110		0.265

A small negative coefficient of -0.008 was found for board independence (INED), however this result is also not statistically significant (p-value of 0.830). However, with a p-value of 0.515, this association does not approach statistical significance. In contrast, the Audit Committee Independence (ACI) demonstrated a more substantial negative correlation of -3.242. A considerable rate of adjustment toward long-run equilibrium is indicated by the error correction term's (ECT) short-term coefficient of 0.753 and very significant p-value of 0.000.

However, examining the first differences of the variables (D1.BODV, D1.INSIV, D1.BIND, AND D1.ACI) showed that none of these changes were statistically significant, as indicated by their high p-values (all above 0.10).In summary, while there were some interesting coefficients observed, the analysis shows that in this specific dynamic fixed-effect model, the relationships between board diversity, institutional ownership, board independence, audit committee independence, and Short-term or long-term ROA are not statistically significant, with the exception of the error correction term that denotes equilibrium adjustment.

The outcomes presented in Table 6 outline the results from a Pooled Mean Group Model that explores the dynamics between governance variables and Return on Assets (ROA) within the banking sector.

In exploring the long-run coefficients, the analysis showcases intriguing insights. Board diversity (BODV), represented by the logarithmic ratio of female to male board

members, presents a coefficient of -0.48. This hints at a potential negative association with ROA, though the associated p-value of 0.84 lacks the necessary statistical weight.

Table 6: Pooled Mean Group Model (Dependent Variable = ROA)

Variable		Coefficient	SE		z	p
Long run	BODV	0.013	0.013		0.970	0.334
Coefficients	INSIV	0.776	0.407		1.910	0.057
	INED	-0.012	0.004		-2.900	0.004
	ACI	6.674	1.066		6.260	0.000
Short run	ECT	0.838	0.126		6.650	0.000
	D1.INSIV	-0.406	6.846		-0.060	0.953
	D1.INED	-0.002	0.010		-0.180	0.855
	D1.ACI	6.422	3.934		1.630	0.103
	Constant	1.277	0.818		1.560	0.118

The results of an estimation using a Pooled Mean Group (PMG) model with Return on Assets (ROA) as the dependent variable are shown in Table 6. The investigation looks into how different aspects of corporate governance affect how well banks operate in the Nigerian economy. A coefficient of 0.776 indicates that institutional investors' (INSIV) presence has a positive connection with ROA over the long term. With a p-value of 0.057, this result is not statistically significant, but it indicates that there may be a slight correlation between more institutional ownership and higher ROA.

Board independence (INED) has a considerable negative influence on ROA (coefficient of -0.012), as measured by the ratio of non-executive to executive board members. Greater board independence may be correlated with lower ROA, according to this statistically significant conclusion at the 1% level (p-value: 0.004). A large coefficient of 6.674 indicates that Audit Committee Independence (ACI) has a strong positive impact on ROA. Higher independence within the audit committee may be linked to better ROA, according to this highly statistically significant conclusion (p-value: 0.000).

The Error Correction Term (ECT) exhibits a positive coefficient of 0.838 in the short run, indicating significance at the 1% level (p-value: 0.000). This suggests a strong compensation mechanism whereby perturbations from the long-term equilibrium are corrected at a fairly rapid rate. However, short-run coefficients, including changes in board diversity (D1.BODV), institutional investors (D1.INSIV), board independence (D1.INED), and audit committee independence (D1.ACI), do not exhibit statistically

significant effects on ROA. Specifically, while D1.BODV shows a marginal significance with a p-value of 0.072, other variables display p-values far above conventional significance levels, indicating no significant short-term impact.

In summary, the analysis reveals significant long-term relationships between board independence, audit committee independence, and ROA, with institutional investors nearing significance. However, these governance components' short-term effects on ROA are not statistically significant, emphasizing the significance of taking into account both temporal dimensions when analyzing the effects of corporate governance on business performance.

In light of our model selection process, the results derived from the Pooled Mean Group (PMG) Model are favoured for inclusion in our analysis. The Hausman specification test (Table 7) conducted during model selection compares the Dynamic Fixed Effect (DFE) model and the PMG model across several governance variables. The test results show that the differences between the DFE and PMG estimates for board diversity (BODV), institutional investors (INSIV), board independence (INED), and audit committee independence (ACI) are relatively small, with no statistically significant discrepancy. In particular, the null hypothesis, which states that the PMG model is the preferred model, cannot be rejected based on the chi-squared statistic of 5.89 and p-value of 0.2078.

Given this, the findings presented in Table 4.6 from the PMG Model are selected due to their consistency with the established criteria derived from the Hausman specification test. These findings serve as the selected illustration of our study's findings about the connections between corporate governance elements and return on assets (ROA) in the banking industry.

Table 7: *Hausman Specification Test Results*

Parameter estimate	DFE	PMG	Difference	Std.
INSIV	0.754	0.776	-0.022	2.973
INED	-0.008	-0.012	0.004	0.039
ACI	-3.242	6.674	-9.916	4.861
chi2(4) = 5.89				
Prob > chi2 = 0.2078				

Table 8 presents the regression findings that illustrate how different factors affect banks' Return on Assets (ROA). IBTC is the only factor that significantly improves ROA when compared to the other variables taken into account. This result is statistically significant at the 1% level, as shown by the coefficient for IBTC, which is 10.071, t-value of 6.000, and p-value of 0.000.

Table 8: Regression Results for the Effect of Banks of Return on Assets (ROA)

roa				
	Coefficient	Std. err.	t	P>|t|
insiv	0.179	1.957	0.090	0.927
ined	0.007	0.025	0.270	0.784
aci	-5.055	2.829	-1.790	0.076
firm				
FBN	-0.783	1.620	-0.480	0.630
FCMB	-1.042	1.671	-0.620	0.534
Fidelity	-0.467	1.772	-0.260	0.792
GTB	1.194	1.538	0.780	0.439
IBTC	10.071	1.679	6.000	0.000
Sterling	-0.212	1.932	-0.110	0.913
UBA	0.276	1.498	0.180	0.854
Union	-0.230	1.747	-0.130	0.896
Wema	1.160	1.591	0.730	0.467
Zenith	1.009	1.619	0.620	0.534
_cons	3.675	1.972	1.860	0.064

The significant and positive coefficient of 10.071 for IBTC suggests that among the banks analysed, IBTC (Stanbic IBTC Bank) has a substantially higher ROA compared to others. This could imply that IBTC's operational efficiency, financial management, or market positioning is stronger relative to its peers, contributing to its superior performance in generating returns on its assets. The high and significant ROA for IBTC may reflect its strategic advantages, such as effective asset management, higher profitability, or a strong market presence. This performance could be attributed to factors such as robust customer relationships, diversified financial services, adherence to corporate governance ethics, and a stronger risk management framework.

While IBTC shows a significant positive impact, other banks do not display statistically significant effects on ROA. This divergence indicates that IBTC may be operating with different strategies or efficiencies that are not replicated across the other banks in the sample.

This result is crucial for stakeholders, including investors and policymakers, as it highlights IBTC as a potentially more attractive investment due to its ability to generate higher returns on its assets compared to its competitors. Further analysis might explore the specific factors driving IBTC's success, offering lessons for other banks aiming to enhance their financial performance. The percentage of Independent Non-Executive Directors and ROA have a positive correlation, as indicated by the statistical significance of the variable INED at the 5% level (p-value < 0.05). This implies a correlation between an increase in ROA and the number of independent non-executive directors in the boardroom. The coefficient of 0.052 implies that for each additional percentage point increase in independent non-executive directors, ROA increases by 0.052 percentage points. This might reflect that independent director contribute positively to the bank's performance, possibly through enhanced governance and oversight.

Table 9: Regression Results for the Effect of Years of Return on Assets (ROA

roa	Coefficient	Std. err.	t	P>|t|
insiv	1.607	1.442	1.110	0.267
ined	0.052	0.021	2.440	0.016
aci	-4.051	2.389	-1.700	0.092
year				
2006	2.146	2.233	0.960	0.338
2007	1.856	2.233	0.830	0.407
2008	4.970	2.233	2.230	0.027
2009	0.120	2.234	0.050	0.957
2010	2.862	2.236	1.280	0.202
2011	-0.358	2.234	-0.160	0.873
2012	1.866	2.236	0.830	0.405
2013	2.024	2.236	0.910	0.367
2014	2.648	2.242	1.180	0.239
2015	2.338	2.235	1.050	0.297
2016	0.759	2.238	0.340	0.735
2017	3.357	2.234	1.500	0.135

2018	2.587	2.245	1.150	0.251
2019	3.745	2.253	1.660	0.098
2020	2.640	2.252	1.170	0.243
2021	2.996	2.308	1.300	0.196
2022	3.256	2.319	1.400	0.162
2023	4.736	2.330	2.030	0.044
_cons	-1.158	2.523	-0.460	0.647

At the 5% level, 2008 is statistically significant (p-value < 0.05).

The positive coefficient of 4.970 indicates that ROA was significantly higher in 2008 compared to the base year (the omitted year in the regression). This suggests that the performance of banks, measured by ROA, was notably higher in 2008. It may be due to specific economic or regulatory changes during that year that positively impacted bank performance. Additionally, at the 5% level, 2023 is statistically significant (p-value < 0.05). The ROA in 2023 was higher than in the base year, as indicated by the positive coefficient of 4.736. This suggests that recent performance has improved significantly, potentially due to favourable economic conditions, improved bank management practices, or other external factors influencing performance positively. The correlation between INED and ROA is positive, indicating that a significant number of independent non-executive directors is crucial for improving bank performance. It implies that independent directors, who are generally associated with excellent governance procedures, can have a favorable impact on banks' financial performance.
The significant results for the years 2008 and 2023 indicate notable periods of strong performance. For 2008, this might reflect a temporary boost in performance due to unique conditions or events. For 2023, it could signify ongoing positive trends or recovery after previous downturns. Analyzing these years in more detail could provide insights into the factors driving these improvements.

Discussion of Findings

The comprehensive statistics demonstrate that institutional blocked investors (INSIV) have a noteworthy impact on the financial performance of banks, with a mean value of 0.414 and a standard deviation of 0.264. The p-value of 0.056 and the correlation coefficient of 0.132 between INSIV and ROA indicate a favorable, but not statistically significant, association. This implies that as the level of institutional blocked investors increases, there might be a modest improvement in the banks' return on assets. Economic theories, such as the stewardship theory, support the notion that institutional investors can enhance corporate governance practices, leading to improved performance. However, the regression results in Table 4.8 indicate that the effect of INSIV on ROA is not statistically significant, suggesting that while

institutional ownership might contribute to performance, its impact is not as strong as other governance mechanisms.

The Levin, Lin, and Chu Unit Root Test results at both level and first difference indicate that INSIV is stationary at the first difference, reinforcing the need to consider dynamic relationships in analysing its impact on financial performance. The ARDL model, as presented in Table 4.6, shows a long-run coefficient of 0.776 for INSIV, which is marginally significant ($p = 0.057$). This implies that, despite the lack of large short-term effects, institutional investors may have a long-term positive influence on ROA. The findings align with the idea that institutional investors can drive long-term value creation, but the immediate impact on performance may be limited due to factors like market volatility and regulatory constraints.

In summary, the evaluation of institutional blocked investors reveals a potential for long-term positive influence on bank performance, although the short-term effects are less pronounced. Since the ARDL model allows for the analysis of both short- and long-term dynamics, its application is acceptable in this situation. The results highlight the significance of taking into account both short-term and long-term impacts when evaluating institutional investors' contribution to improving bank performance. A crucial governance tool, independent non-executive directors (INED) are meant to improve financial performance by offering objective supervision and minimizing conflicts of interest.

The mean value of INED at 53.627, with a relatively high standard deviation of 19.400, reflects substantial variation among banks in the adoption of this governance practice. The notion that independent monitoring is essential for good governance is supported by the positive and statistically significant correlation (0.193, with a p-value of 0.005) between INED and ROA, which indicates that banks with higher percentages of independent directors typically perform better.

The ARDL model results further elaborate on this relationship, indicating a long-run negative coefficient of -0.012 for INED ($p = 0.004$). This finding is intriguing as it suggests that while independent directors are generally beneficial in the short run, their long-term impact on performance might be less straightforward. One possible explanation is that while independent directors can improve governance and reduce risks, their lack of deep industry knowledge or alignment with the bank’s strategic goals might lead to less optimal decision-making over time.

This nuanced finding underscores the importance of carefully balancing independence with expertise on bank boards. While independent non-executive directors are essential for ensuring good governance and protecting shareholder interests, additionally, banks need to make sure that these directors possess the strategic acumen and industry understanding needed to effectively contribute to the bank's long-term success. To maximize the beneficial effect of independent directors on financial performance, this equilibrium is essential.

In order to guarantee the accuracy of financial reporting and risk management procedures, audit committee independence, or ACI, is a crucial part of corporate governance. The industry-wide range in audit committee independence persists despite the majority of banks maintaining a reasonable level of independence, as

indicated by the industry-averaged ACI of 0.481 with a standard deviation of 0.174.

There appears to be a potential association between weaker financial performance and higher audit committee independence, as seen by the negative correlation (-0.215, p-value = 0.002) between ACI and ROA, which could be interpreted as a sign that stringent oversight might lead to more conservative financial practices that could limit profitability.

A substantial long-run positive coefficient of 6.674 for ACI (p = 0.000) can be seen in Table 6's ARDL model findings suggesting that while the short-term effects of audit committee independence might be negative, the long-term benefits are substantial. This finding aligns with the view that independent audit committees, by ensuring rigorous financial oversight and reducing the likelihood of financial misstatements, contribute to sustainable long-term performance. However, the short-run results indicate that the immediate impact of increasing audit committee independence might involve costs related to stricter compliance and reduced financial flexibility.

In summary, there is a complicated relationship between the independence of the audit committee and financial performance, with short-term costs potentially giving way to long-term benefits. The significant positive long-run relationship highlighted by the ARDL model suggests that banks with independent audit committees are better positioned for sustained financial health, even if the short-term impact on profitability might be challenging. These findings reinforce the importance of maintaining a strong and independent audit committee as part of a comprehensive corporate governance strategy.

Conclusion

The study provides a nuanced understanding of how various corporate governance mechanisms influence the financial performance of Nigerian banks, particularly in terms of return on assets (ROA). Institutional blocked investors (INSIV) demonstrate a modest but not statistically significant short-term effect on ROA, although the ARDL model reveals a marginally significant long-run positive influence. This supports the view that institutional investors may serve as long-term stewards of value creation rather than immediate performance enhancers. On the other hand, the role of independent non-executive directors (INED) appears more complex; while there is a significant positive short-term correlation with ROA, the long-run impact is unexpectedly negative. This suggests that although independence enhances governance in the short term, it may not always translate into optimal long-term financial outcomes without corresponding expertise and strategic alignment.

Similarly, audit committee independence (ACI) presents a dual effect. The initial negative correlation with ROA implies that increased independence may introduce stricter oversight and conservative financial practices that temporarily constrain profitability. However, the long-run positive effect highlighted in the ARDL model affirms that audit committee independence significantly contributes to sustainable financial health by enhancing transparency, accountability, and risk management. This reinforces the importance of distinguishing between short-term trade-offs and long-

term gains when assessing governance effectiveness.

Overall, the findings underscore the importance of evaluating both immediate and long-term impacts of governance structures. Institutional ownership, board independence, and audit committee autonomy each have distinct implications for bank performance, with varying strengths and directions of influence over time. Effective governance in the banking sector requires a balanced approach that incorporates not only the structural presence of these mechanisms but also their quality, relevance, and adaptability to the strategic goals and operational realities of the institutions. As such, policymakers and bank leadership should aim for a dynamic governance framework that evolves with market demands while safeguarding long-term financial sustainability.

Recommendations

Research in Nigeria in the future ought to examine the intricacies of corporate governance in the banking industry by harmonizing empirical studies with known economic theories and findings from related studies. Stewardship theory, for example, contends that institutional investors have the power to strengthen financial performance and corporate governance. The results of the current study, however, suggest that alternative governance mechanisms may have a greater effect on institutional ownership's influence on performance as determined by Return on Assets (ROA). Therefore, more investigation into the contextual elements that could modulate or mitigate this link should be done in future studies.

The study's use of the ARDL model has demonstrated that institutional investors may have a positive long-term influence, even when short-term benefits are less prominent. As a result, researchers should think about adopting more dynamic models to capture the long-term and short-term effects. In light of agency theory, which holds that these directors are essential in lowering agency costs and increasing business value, more research on the function of independent non-executive directors (INED) is also necessary. The study's results show a positive correlation between INED and ROA, but they also point to a complex, perhaps non-linear connection in which too much independence may have had unfavorable or even negative returns.

This counterintuitive outcome highlights the need for future research to explore the optimal balance of independence and industry-specific expertise on boards. Comparative studies with other emerging markets could provide valuable insights into how different governance structures and cultural contexts influence the effectiveness of independent directors.

Lastly, the mixed results concerning audit committee independence and board size suggest that these governance factors may have complex, context-dependent effects on bank performance. The positive long-term impact of audit committee independence, as indicated by the ARDL model, points to the importance of maintaining rigorous oversight mechanisms. However, the negative short-term effects observed suggest that researchers should further investigate the trade-offs between stringent oversight and financial flexibility. Similarly, although typically beneficial, the link between board size and performance might change depending on the particular strategic goals of the bank. Future research should therefore consider a

more nuanced approach to studying governance factors, possibly incorporating case studies or qualitative analyses to better understand the underlying dynamics in different banking environments

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