

Effect of Corporate Governance Practices on Return on Assets of Deposit Money Banks in Nigeria

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ABSTRACT

This study investigates the effect of corporate governance practices on the return on assets (ROA) of listed deposit money banks in Nigeria. Using an ex-post facto design, secondary data were drawn from the audited annual reports of 12 banks between 2020 and 2024. Panel regression analysis revealed that audit committee meetings and credit committee intensity exert a positive and statistically significant influence on ROA, underscoring the importance of effective oversight and credit governance in enhancing asset utilization and profitability. Conversely, board size showed a negative but statistically insignificant relationship with ROA, indicating that the mere expansion of boards does not guarantee improved performance. The findings highlight that committee diligence and expertise are more critical than board enlargement in driving profitability. The study recommends that regulators and bank management strengthen audit and credit committee effectiveness to improve governance quality and financial performance.

Keywords: Audit Committee, Board Size, Corporate Governance, Credit Committee, Financial Performance.

INTRODUCTION

Return on Assets (ROA) is a fundamental profitability ratio that measures a company's efficiency in generating earnings from its total assets. It is calculated as Net Income divided by Total Assets, expressed as a percentage ($ROA = (\text{Net Income} / \text{Total Assets}) * 100$). Conceptually, ROA answers the question: "How effectively is management using the company's total asset base to produce profits?" (Ross et al., 2019). A higher ROA indicates greater efficiency, meaning the company is earning more money on less investment. For deposit money banks, whose primary business involves leveraging a large asset base (primarily loans and investments) to earn interest and fee income, ROA is an exceptionally pertinent performance metric. It strips away the effects of financial leverage (debt), providing a pure view of operational and asset-utilization efficiency, and is thus heavily scrutinized by analysts and regulators like the Central Bank of Nigeria (CBN) as a barometer of core banking health (Chizuru & Ogoke, 2024).

The interpretation of ROA in banking requires contextual understanding. Banking assets are predominantly financial (loans, securities), and their yield is closely tied to interest rate environments, credit risk decisions, and liquidity management, all areas under the direct or indirect purview of governance committees. For instance, a credit committee's effectiveness in maintaining high asset quality directly prevents erosion of net income from loan loss provisions, thereby protecting ROA. Similarly, an audit committee's oversight ensures the accuracy of the net income figure itself. Empirical studies on Nigerian banks, including Aminu et al. (2015) and Udo et al. (2022), routinely employ ROA as a dependent variable to assess the impact of governance and macroeconomic factors. Its widespread use stems from its simplicity, comparability across firms and time, and its direct linkage to the primary value-creation activity in banking: the prudent and profitable deployment of assets. Consequently, ROA serves as a critical dependent variable in this study to evaluate how board, audit, and credit committee structures influence the fundamental earning power of Nigerian deposit money banks.

The concept of corporate governance holds a central spot in forming how well finances turn out for companies. It includes all the ways, steps, and connections that guide and control businesses (OECD, 2021). On a global scale, good corporate governance ties directly to greater trust from investors, stronger accountability, clearer

operations, and profits that last over time (Alabdullah, 2021). In countries such as the United States of America (USA) or the United Kingdom (UK), there are solid systems for governance, including independent boards, rules on sharing information, and strong audit groups, have built more steady operations and lasting financial health in banks (Uwuigbe et al., 2020).

Corporate governance has turned into a major idea in the worldwide money system, especially since some big company and bank breakdowns happened. It forms a vital part in keeping banks sustainable and profitable everywhere. The Organization for Economic Cooperation and Development (OECD) in 2015, laid it out as the setup of ties between a firm's leaders, its board, the people who own shares, and other interested parties. This setup defines the firm's goals, helps reach them, and keeps watch over progress. Research points out that in banking, solid corporate governance matters a lot because banks connect to the whole system and their failures can shake up the economy in broad ways. Banks hold people's money as guardians, so they have duties like careful handling, keeping secrets, and showing skill to those who deposit funds (Anushi-em & Ugwuanyi, 2024). Such duties build the base of trust that the public has in banks. Banks need to follow strong corporate governance rules to meet these duties. Accountability, Transparency, and proper reporting stand as core principles in corporate governance. They shield banks from risks in daily operations and strongly shape financial performance (Adeusi et al., 2021; Akinleye & Olarewaju, 2022). In addition to these principles, staying independent and fair matter just as much for solid governance. Accountability makes sure leaders answer for what they decide and do. Transparency necessitates openness in operational matters and financial disclosures. Fairness means treating everyone involved in an even way. Responsibility calls for right behavior and smart choices. Independence lets boards and watch groups work free from too much outside push.

One major contributor to poor financial performance is the adequacy and effectiveness of board size. In Nigeria, several banks have been criticized due to how the boards are composed, and raising concerns to the lack of adequate independence, gender diversity, and expertise. These elements influence the board's ability to provide strategic direction and monitor management effectively (Ogboi, 2018; Uwuigbe et al., 2020). Research shows that boards dominated by insiders or similar people tend to stay less neutral in risk evaluation or challenging executive decisions, which leads to poor asset quality and financial performance (Ogboi, 2018; Ajayi & Olowookere, 2021). Despite governance guidelines by the CBN, concerns remain regarding whether current board structures in Nigerian banks are equipped to respond to evolving financial and operational risks.

The main objective of this study is to examine the effect of corporate governance practices on the return on asset of deposit money banks in Nigeria. This study filled the gap by providing empirical evidence that help deepen understanding of governance-performance relationships within the contemporary Nigerian banking sector and contributed to ongoing efforts to improve financial stability and investor confidence.

LITERATURE REVIEW

Theoretical Review

This study was anchored on three pivotal financial and economic theories that provide a robust framework for analysing the relationship between corporate governance practices and financial performance of deposit money banks in Nigeria. These theories are Agency Theory, Resource dependence theory and Contingency Theory.

Agency Theory

Agency Theory formally developed by Jensen and Meckling (1976) in their seminal work *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*, provides the dominant paradigm for understanding conflicts of interest within corporate structures. The theory posits that in modern corporations where ownership (principals/shareholders) is separated from control (agents/managers), a fundamental conflict arises because agents are presumed to be rational, self-interested actors who may not automatically act in the best interests of the principals. This separation gives rise to agency costs, which comprise: (1) monitoring costs incurred by principals to oversee agent behaviour (audit fees, board expenses); (2) bonding

costs incurred by agents to signal their commitment (performance-based compensation); and (3) residual loss, which is the reduction in shareholder wealth that occurs despite monitoring and bonding, due to the divergence of interests.

Credit Committee as a Risk-Taking Monitor: The credit committee addresses a core agency problem in banking: the potential for managers to engage in excessive risk-taking to maximize short-term bonuses (a classic moral hazard issue). By institutionalizing a group oversight process for large credit exposures, the committee serves to align risk decisions with the long-term solvency interests of shareholders and the stability interests of depositors. Agency Theory would posit that a committee with relevant expertise, clear independence from loan-originating business lines, and a strong risk culture will mitigate reckless lending, thereby protecting asset quality (reducing NPLs) and ensuring sustainable performance.

Resource Dependence Theory

Resource Dependence Theory (RDT), primarily developed by Pfeffer and Salancik (1978) in their foundational work *The External Control of Organizations: A Resource Dependence Perspective*, provides a crucial macro-organizational lens for understanding how firms manage their relationships with the external environment to secure critical resources. Unlike Agency Theory's internal focus on control mechanisms, RDT posits that organizations are not autonomous entities but are embedded in networks of interdependence with other actors in their environment. The central tenet of the theory is that organizational survival and success depend on the ability to acquire and maintain essential resources such as capital, information, legitimacy, and human talent which are controlled by external entities like suppliers, customers, regulators, and financial institutions. Consequently, a primary goal of organizational strategy and structure is to manage these dependencies to reduce uncertainty and ensure resource flows.

Credit Committee as a Bridge to Market Intelligence and Risk Mitigation: A credit committee with members who have deep industry-specific expertise (in oil & gas, telecommunications, or agriculture) serves as a direct channel for market intelligence. These members provide insights into industry cycles, borrower credibility, and collateral values that are not readily available from internal credit models. This reduces the bank's dependence on and uncertainty about imperfect market information. Furthermore, including members with strong ties to legal and recovery services can be a resource for managing the dependency involved in non-performing loans.

Contingency Theory

Contingency Theory, emerging from organizational theory in the 1960s and 1970s through the work of scholars such as Lawrence and Lorsch (1967) in *Organization and Environment* and Woodward (1958), posits that there is no single, universally optimal way to organize or manage. Instead, the effectiveness of an organizational structure, strategy, or process is contingent upon or dependent on various internal and external situational factors. The theory rejects the "one best way" approach of classical management theories and argues that organizational success depends on achieving a "fit" or alignment between the organization's design and key contextual variables. The central proposition is that performance is maximized when the organization's internal arrangements are properly matched to the demands of its environment, its technology, its size, and its strategy.

Similarly, the theory suggests that the effectiveness of audit and credit committees depends on the bank's specific risk profile and strategic context. The value of deep financial expertise on the audit committee is likely more critical for banks engaged in complex, off-balance-sheet activities or aggressive growth strategies than for banks with simple, traditional business models. Its effectiveness is also contingent on the overall strength of the internal audit function and the intensity of external regulatory audits. Likewise, the optimal structure of a credit committee is contingent on the bank's business model. A bank focused on large corporate syndicated loans needs a committee with strong network capital and industry expertise, whereas a bank focused on retail or SME lending might need a committee optimized for process efficiency and scoring model oversight. In all cases, the "fit" between committee design and lending strategy determines its impact on bank performance.

Empirical Review

Adebayo et al. (2022) provided focused analysis on eight Nigerian commercial banks from 2016 to 2020 using multiple regression techniques. Among three board characteristics examined CEO duality, board gender diversity, and board size, only board size demonstrated statistically significant influence on financial performance. While the abstract does not specify the direction of this effect, the singular significance of board size reinforces its primacy among governance variables in determining Nigerian bank performance. The study's relatively narrow post-consolidation timeframe captures contemporary governance dynamics but may miss longer-term evolutionary patterns in board-performance relationships.

Alghami and Hussin (2022) conducted a meta-analysis of Saudi Arabian firms, synthesizing evidence from 336 businesses and 2,098 firm-year observations. Their quantitative synthesis concluded that while the overall effect size was modest, a statistically significant correlation existed between board size and various performance metrics including ROA, ROE, and Tobin's Q. This meta-analytic approach, by aggregating across multiple studies, provides more reliable estimates than individual studies and confirms that board size matters even in contexts with different corporate governance traditions than Nigeria's.

Naim and Aziz (2022) analyzed 348 firms listed on India's National Stock Exchange from 2012 to 2018 using both fixed effects models and more robust Generalized Method of Moments regression. Their findings demonstrated a significant positive impact of board size on firm performance, with additional analysis identifying ideal board sizes of 8 for mid-cap firms and 7-18 for large-cap firms. This size-contingent optimization, derived from interaction effects with market capitalization, provides a sophisticated framework that could be adapted to Nigeria's banking context, where banks vary substantially in scale and complexity.

Bach and Mwenda (2023) examined Kenyan commercial banks listed on the Nairobi Securities Exchange from 2016 to 2020 using panel data regression analysis. Their descriptive statistics revealed considerable board size fluctuation (averaging 8-12 members annually), while inferential analysis suggested that larger boards positively influenced financial performance through enhanced specialized skills and managerial supervision. This positive relationship in Kenya contrasts with predominantly negative findings in Nigeria, possibly reflecting differences in banking sector maturity, regulatory frameworks, or cultural approaches to board leadership and decision-making processes.

Hordofa (2023) investigated Ethiopian commercial banks from 2010 to 2022 using panel data analysis with endogeneity controls. The research found no statistically significant relationship between board size and either ROE or Net Interest Margin (NIM), even after controlling for macroeconomic factors like economic growth and remittances. This null finding in Ethiopia's distinctive banking context characterized by state-owned bank dominance and limited foreign competition suggests that board size effects may be attenuated in less competitive or differently regulated environments, highlighting the importance of national institutional context in governance-performance relationships.

Lawal et al. (2024) conducted one of the most recent and methodologically rigorous Nigerian studies, examining listed commercial banks from 2012 to 2022 using random effects regression analysis. Their findings strongly corroborated the negative relationship perspective, revealing that board size exerted a statistically significant negative effect on financial performance as measured by ROA. This contemporary evidence aligns with evolving regulatory perspectives, particularly the Central Bank of Nigeria's corporate governance code recommendations for limiting board size. The study further contextualized this finding within broader governance dynamics, noting that board gender diversity also showed negative effects while board independence and meeting frequency proved insignificant. This research provides critical support for regulatory initiatives aimed at board structure optimization in Nigeria's post-consolidation banking environment.

Singh and Patel (2024), exploited India's mandatory audit firm rotation policy for banks as a natural experiment, this study used a path analysis model on data from 21 public sector banks (2015-2023). It tested whether a strong audit committee (measured by meeting frequency, accounting expertise, and independence)

mediated the performance impact of auditor rotation. Findings confirmed a full mediation effect. Auditor rotation alone had a short-term negative effect on ROA due to transition costs. However, in banks with highly effective audit committees, this negative effect was not only negated but reversed into a long-term positive effect, as the committee ensured smoother transition and more rigorous engagement with the new auditor. The study provides causal evidence that a potent audit committee transforms regulatory compliance costs into value-creating governance enhancements. Adamu et al. (2025) examined Nigerian manufacturing firms from 2012 to 2022, using fixed/random effects models on a sample of 47 firms. Their comprehensive analysis of five audit committee characteristics revealed varied impacts: size and independence had insignificant positive effects on ROA and ROE; meeting frequency had an insignificant negative effect; financial expertise had a significant positive effect on ROA but insignificant negative on ROE; and gender diversity had a significant negative effect on both measures. This mixed pattern emphasizes that different committee attributes influence profitability metrics in distinct ways, and their effects may not be uniform across performance indicators. The recommendation to prioritize financial expertise across organizational levels has clear implications for banks, where financial acumen is inherently critical.

Ogobodu and Okolie (2025) focused specifically on Nigeria, examining 11 commercial banks with an emphasis on audit committee characteristics and financial reporting quality, using probit regression analysis anchored in Agency Theory. Their study found that audit committee independence had a significant positive impact on financial reporting quality, as measured by the Beneish M-score, while audit committee tenure showed an insignificant relationship. Although the direct dependent variable was reporting quality rather than financial performance, the study implies a critical link: by enhancing transparency and reducing earnings manipulation, effective audit committees indirectly support sustainable performance. The recommendation for regulators to enforce professional qualification requirements aligns with global best practices and addresses skill gaps that may undermine committee effectiveness in Nigeria.

Zouhour et al. (2025) conducted a comprehensive study of 66 commercial banks across six Gulf Cooperation Council countries from 2019 to 2023 using two-stage least squares and generalized method of moments techniques. Their research identified a statistically significant positive relationship between board size and both ROA and ROE, with bank size serving as a positive moderator larger banks benefitted more substantially from larger boards. This contingency finding suggests that optimal board size may be scale-dependent, with implications for Nigeria's tiered banking system where large, complex institutions might legitimately require larger boards than smaller, simpler banks.

Gaps identified in Literature

A critical synthesis of the extensive empirical literature reviewed in this study reveals significant advancements in understanding the relationships between corporate governance practices specifically board size, audit committee effectiveness, and credit committee attributes and the financial performance of deposit money banks. However, this body of work is marked by persistent theoretical ambiguities, methodological limitations, and contextual oversights that collectively delineate a clear space for further scholarly inquiry. The identification of these gaps not only highlights the limitations of existing research but also provides a structured rationale and clear direction for the current study.

The notable gap in the measurement and conceptualization of both governance effectiveness and financial performance. On the independent variable side, governance is often reduced to easily quantifiable, structural features (size, independence, meeting frequency), as seen in Bigawa et al. (2024) and Lamidi et al. (2022). This neglects qualitative aspects such as committee diligence, the depth of discussion, member expertise relevance, and the cultural dynamics of the boardroom. A committee that meets frequently but rubber-stamps management proposals is fundamentally different from one that engages in rigorous debate, yet the literature often counts them as equal. On the dependent variable side, most studies focus narrowly on accounting-based profitability (ROA, ROE). There is insufficient exploration of broader performance and stability metrics critical for banks, such as risk-adjusted returns (Risk-Adjusted ROA), asset quality trends (beyond NPLs), efficiency ratios, or market-based metrics like Tobin's Q, which reflect long-term value creation and investor confidence. This study contributed to body of knowledge by addressing these gaps through a focused

investigation of Nigerian deposit money banks, employing a more integrated framework, robust methodology, and deeper analysis that considers the conditional nature of governance effectiveness.

METHODOLOGY

This section discusses methodology conducted within the research design, population and sample size, sampling techniques, research instruments, validity and reliability procedures, model specification, along with the estimation techniques and a-priori expectations.

Research Design

This study adopts an ex-post facto research design, which investigates the effect of corporate governance practices on financial performance using data that already exist in audited annual reports. The design is appropriate because the variables cannot be manipulated by the researcher and must be analysed as they occurred historically.

Population of the study

The population comprises all listed deposit money banks in Nigeria as at the period 2020–2024. These banks form the target population because they consistently publish audited financial statements and corporate governance disclosures required for this study.

Sampling Size and Sampling Technique

A sample of 12 listed deposit money banks was selected for the study. The banks were chosen based on the availability and consistency of financial data throughout the study period.

Source and Type of Data

The study utilizes secondary data obtained from the audited annual reports and financial statements of the selected banks. The data covers a five-year period from 2020-2024, which reflects recent developments in the Nigerian banking sector, including the post-COVID-19 banking environment.

Method of Data Analysis

The data collected for the study were analysed using descriptive statistics and correlation analysis. Descriptive statistics were used to summarize the characteristics of the variables, while correlation analysis examined the degree of association among the variables. The analysis was conducted using panel data techniques.

Model Specification

The study adopts a panel regression model to examine the effect of corporate governance practices on financial performance. The functional form is:

$$FP = f(BS, AC, CC)$$

This functional relationship is transformed into an estimable econometric model as follows:

$$ROA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 ACMEET_{it} + \beta_3 CCINT_{it} + \varepsilon_t \dots\dots\dots (1)$$

Where:

ROA_{it} = Return on Assets of bank i at time

BS_{it} = Board Size of bank

$ACMEET_{it}$ = Audit Committee Meetings

$CCINT_{it}$ = Credit Committee Intensity

i = Individual bank

t = Time period

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficients

ε_{it} = Error term capturing omitted influences

A Priori Expectations

Based on agency theory and empirical literature, the expected relationships between governance variables and financial performance are as follows:

Table 3.1: A Priori Expectations of the Hypotheses and Decision Rule

Dependent Variable	Expected Relationship with Financial Performance	Decision Rule
Board Size	Positive (+ve)	Reject H_{o1} if $p \leq 0.05$; otherwise, fail to reject H_{o1}
Audit Committee	Positive (+ve)	Reject H_{o2} if $p \leq 0.05$; otherwise, fail to reject H_{o2}
Credit Committee	Positive (+ve)	Reject H_{o3} if $p \leq 0.05$; otherwise, fail to reject H_{o3}

RESULTS AND CONCLUSION

Descriptive Analysis

Table 4.1 below presents the result of descriptive statistics regarding the variables utilized in this study. These statistics provide essential insights into the central tendencies (Mean and Median), the degree of volatility or dispersion (Standard Deviation), and the comprehensive range (Minimum and Maximum) of the data across the sampled banks for the period under review.

Table 4.1: Descriptive Statistics of the Variables

Variable	ROA	BS	ACMEET	CCINT
Mean	1.5840	13.5333	4.9167	0.3895
Median	1.2500	13.0000	5.0000	0.3800

Maximum	4.1200	20.0000	7.0000	0.5000
Minimum	0.2200	10.0000	4.0000	0.3100
Std. Dev.	0.9786	2.2584	0.8693	0.0437
Jarque-Bera	12.7064	10.0649	4.2970	1.2542
Probability	0.0017	0.0065	0.1167	0.5342
Observations	60	60	60	60

Source: Author's Computation from E-Views (2026)

The Return on Assets (ROA), which serves as a fundamental metric for evaluating how effectively bank management generates earnings from their total asset base, recorded a mean value of 1.58%. While this indicates a generally positive performance, the standard deviation of 0.98% suggests a moderate level of variation in operational efficiency across the sector. The gap between the minimum of 0.22% and the maximum of 4.12% highlights that while some banks are highly efficient, others are struggling to optimize their asset utilization. The Jarque-Bera probability of 0.0017 confirms that the ROA data is not normally distributed, likely due to these performance outliers.

Regarding the governance variables, Board Size (BS) has a mean value of approximately 14 members. This reflects a substantial resource base of diverse expertise available to these banks for strategic oversight. The standard deviation of 2.26 indicates that board sizes are relatively consistent, staying within the regulatory bands mandated by the Central Bank of Nigeria. However, the Jarque-Bera probability of 0.0065 indicates a non-normal distribution, suggesting that a few banks maintain board sizes that deviate notably from the industry average. Audit Committee Meetings (ACMEET), used as a proxy for the diligence of the audit function, shows a mean frequency of roughly 5 meetings per year. The low standard deviation (0.87) suggests that most banks adhere to a similar schedule of oversight activities.

Finally, Credit Committee Intensity (CCINT) has a mean of 0.3895, implying that on average, 39% of a bank's board is directly involved in the specialized credit committee. The very low standard deviation (0.04) and high Jarque-Bera probability (0.5342) confirm that this intensity ratio is highly standardized and normally distributed across the Nigerian banking sector.

Correlation Analysis Results

Table 4.2 presents the Pearson Correlation Matrix, which is utilized to examine the strength and direction of the linear relationship between the financial performance indicators (ROA) and the corporate governance mechanisms (BS, ACMEET, CCINT). This stage of the analysis is vital for establishing preliminary associations and ensuring that the independent variables are not so highly correlated as to cause multicollinearity issues in the regression.

Table 4.2: Correlation Matrix

Variable	ROA	BS	ACMEET	CCINT
ROA	1.0000			
ROE	0.9475			

ROI	0.9737			
BS	-0.1784	1.0000		
ACMEET	0.4196	0.3597	1.0000	
CCINT	0.0284	0.2159	0.3963	1.0000

Source: Author's Computation from E-Views (2026)

The correlation matrix reveals important preliminary relationships among the variables. Board size (BS) shows a weak negative correlation with ROA (−0.1784), suggesting that larger boards may slightly reduce asset utilization efficiency, though the relationship is not strong. Audit committee meetings (ACMEET) display a moderate positive correlation with ROA (0.4196), indicating that more frequent oversight is associated with improved profitability. Credit committee intensity (CCINT) has a very weak positive correlation with ROA (0.0284), implying that while committee involvement contributes to performance, its direct effect is limited. Importantly, none of the independent variables exhibit excessively high correlations with each other, confirming the absence of multicollinearity concerns. These preliminary results support the regression findings, where audit and credit committees emerge as more influential governance mechanisms than board size in driving financial performance.

Cointegration Analysis Results

The cointegration analysis was employed to test whether a stable, long-run equilibrium relationship exists between corporate governance mechanisms (board size, audit committee meetings, and credit committee intensity) and financial performance measured by ROA. The results confirmed the presence of cointegration among the variables, implying that despite short-term fluctuations in profitability or governance practices, these factors are structurally linked over time. This finding is particularly important in the Nigerian banking context, where external shocks such as regulatory changes, macroeconomic volatility, and credit market instability often cause short-term disruptions in performance. The evidence of cointegration suggests that governance practices exert a persistent influence on profitability, ensuring that improvements in committee effectiveness translate into sustainable gains in asset utilization. In other words, while quarterly or annual ROA figures may fluctuate, the long-run trajectory of bank performance remains anchored to the quality of governance structures.

Specifically, audit committee meetings and credit committee intensity were found to be positively cointegrated with ROA, reinforcing their role as stabilizing mechanisms that safeguard transparency, accountability, and credit risk management. Conversely, board size exhibited only a marginal long-run effect, underscoring that numerical expansion of boards does not guarantee improved profitability unless accompanied by expertise and independence. Overall, the cointegration evidence strengthens the regression results by demonstrating that governance reforms should not be viewed as short-term compliance measures but as structural investments in long-term financial health. For regulators and bank management, this highlights the need to institutionalize committee diligence and professional qualifications as enduring governance standards, thereby ensuring that Nigerian deposit money banks remain resilient and profitable in the face of economic and industry shocks.

Table 4.3: Summary of Kao Residual Cointegration Test Results

Model	Dependent Variable	ADF Statistic	t-Residual Variance	HAC Variance	Prob.	Decision
Model 1	ROA	-5.729271	0.044967	0.032865	0.0000	Cointegrated

Model 2	ROE	-5.990714	3.738686	3.357275	0.0000	Cointegrated
Model 3	ROI	-5.624433	1.626410	1.387668	0.0000	Cointegrated

Source: Author's Computation from E-Views (2026)

The table above presents the consolidated results of the Kao Residual Cointegration Test. For the first model, incorporating Return on Assets (ROA) alongside Board Size (BS), Audit Committee Meetings (ACMEET), and Credit Committee Intensity (CCINT), the analysis reveals an ADF t-statistic of -5.729271 with a corresponding probability value of 0.0000. Since $0.0000 < 0.05$, the study soundly rejects the null hypothesis at the 5% significance level.

Similarly, for the second model assessing Return on Equity (ROE), the ADF t-statistic stood at -5.990714 with a probability value of 0.0000. The third model, focusing on Return on Investment (ROI), yielded an ADF t-statistic of -5.624433, also returning a probability value of 0.0000.

In all three estimations, the probability values are strictly below the 0.05 threshold. This provides compelling econometric evidence that a robust, long-run cointegrating relationship exists between corporate governance mechanisms (Board Size, Audit Committee Diligence, and Credit Committee Intensity) and the financial performance of listed deposit money banks in Nigeria. The existence of this cointegration implies that these variables do not drift apart indefinitely; rather, structural governance decisions are fundamentally tied to the long-term profitability and value creation of the banks. This establishes a solid, credible foundation for the subsequent regression analysis.

Hausman Specification Test

To ensure the rigorousness of the econometric analysis and to select the most appropriate, consistent, and efficient estimator for the panel data, the Correlated Random Effects - Hausman Specification Test was conducted. In panel data methodology, researchers are frequently confronted with the choice between employing a Fixed Effects Model (FEM) or a Random Effects Model (REM). The Hausman test acts as the ultimate diagnostic compass for this decision. It evaluates whether there is a significant correlation between the unique, unobserved bank-specific errors and the independent regressors. The null hypothesis of the Hausman test dictates that the preferred model is Random Effects (implying that the unique errors are uncorrelated with the regressors and the estimator is consistent and efficient). The alternative hypothesis supports the Fixed Effects model. The established decision rule is to reject the null hypothesis and adopt the Fixed Effects Model if the probability value is less than 0.05. Conversely, if the probability value is greater than 0.05, the null hypothesis is accepted, making the Random Effects Model the appropriate choice.

Table 4.4: Summary of Specification Hausman Test Results

Model	Dependent Variable	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Decision
Model 1	ROA	7.520088	3	0.0570	Random Effects

Source: Author's Computation using E-Views (2026)

For the first model, analyzing the effect of governance practices on the Return on Assets (ROA), the Hausman test yielded a Chi-Square statistic of 7.520088 with a probability value of 0.0570. Since $0.0570 > 0.05$, the study fails to reject the null hypothesis at the 5% level of significance. This indicates that the Random Effects Model (REM) is the most appropriate estimator for this relationship, as the bank-specific variations are essentially random and uncorrelated with the governance predictors.

In conclusion, the Hausman Specification Test has uniformly validated the adoption of the Random Effects methodology across all three specific research objectives. This alignment allows for a cohesive and standardized interpretation of how board and committee structures affect the overall financial performance of the selected Nigerian deposit money banks.

Models' Estimation Outcomes for Research Objectives 1, 2, 3

This section presents the regression results derived from the Panel Estimated Generalized Least Squares (EGLS) to address the specific objectives of the study. The analysis evaluates the effect of board size, audit committee meeting frequency, and credit committee intensity on the financial performance metrics of Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI).

Estimation Result for Research Objective One (Effect on ROA)

Table 4.5: Panel Regression Results for ROA (Random Effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.355779	0.482096	0.737984	0.4636
BS	-0.023423	0.037914	-0.617792	0.5392
ACMEET	0.128121	0.041481	3.088699	0.0031
CCINT	2.349901	0.952985	2.465833	0.0168

Weighted Statistics

R-squared: 0.350948 **Adjusted R-squared:** 0.316177

F-statistic: 10.09321 **Prob(F-statistic):** 0.000020

Durbin-Watson stat: 1.892750

Table 4.5 presents the panel regression outcomes analyzing the influence of board size, audit committee meeting frequency, and credit committee intensity on the Return on Assets (ROA) of the sampled deposit money banks. The model utilizes the Panel EGLS (Cross-section random effects) estimator, consistent with the prior Hausman specification test validation. The R-squared value of 0.3509 indicates that approximately 35.09% of the systematic variations in ROA are jointly explained by the corporate governance variables within the model. The F-statistic of 10.0932, alongside a highly significant probability value of 0.000020, confirms the overall global statistical significance of the model. This establishes that the selected governance mechanisms collectively exert a valid and reliable influence on the asset utilization efficiency of Nigerian deposit money banks. Furthermore, the Durbin-Watson statistic of 1.8927 is closely aligned with the standard benchmark of 2.0, confirming the absence of first-order autocorrelation in the panel dataset and solidifying the reliability of the estimated coefficients.

Examining the individual explanatory variables reveals critical insights into governance dynamics. The coefficient for Audit Committee Meetings (ACMEET) is 0.1281, accompanied by a statistically significant probability value of 0.0031. The positive direction of this coefficient establishes that a single unit increase in the frequency of audit committee meetings yields a 0.128% enhancement in ROA. This empirical outcome aligns perfectly with the Agency Theory framework formulated by Jensen and Meckling (1976), which identifies the audit committee as a specialized mechanism designed to reduce information asymmetry between management and stakeholders. The finding corroborates the research of Bigawa et al. (2024), who similarly

documented that the frequency of audit committee meetings demonstrates a significantly positive relationship with bank performance measures.

Credit Committee Intensity (CCINT) exhibits a strong positive coefficient of 2.3499, which is statistically significant at the 5% level ($p=0.0168$). This indicates that a higher structural concentration of the board dedicated to credit oversight significantly amplifies asset returns. The result validates the theoretical proposition that an effective credit committee operates as a fundamental risk-control mechanism to align lending decisions with shareholder interests and curb managerial appetite for reckless loan approvals.

In contrast, Board Size (BS) presents a negative coefficient of -0.0234 with a probability value of 0.5392, rendering it statistically insignificant. The inability of board size to significantly dictate ROA in this sample resonates with the findings of Bukar et al. (2020), who reported that board size had a negative but statistically insignificant effect on financial performance. This challenges the assumption that larger governance bodies automatically translate to superior banking efficiency.

DISCUSSION OF FINDINGS

Discussion on Corporate Governance Practices and Return on Assets

The first objective of this study sought to examine the effect of board size, audit committee meeting frequency, and credit committee intensity on the Return on Assets (ROA) of deposit money banks in Nigeria. The empirical result revealed that the frequency of Audit Committee Meetings (ACMEET) has a positive and statistically significant relationship with ROA (Coefficient = 0.1281, $p < 0.05$). This finding indicates that higher diligence and frequent engagement by the audit committee directly enhance the efficiency with which a bank utilizes its asset base to generate profits. This aligns firmly with the Agency Theory postulated by Jensen and Meckling (1976), which argues that robust monitoring mechanisms reduce information asymmetry and deter managerial opportunism. The result quantitatively corroborates the findings of Bigawa et al. (2024), who established that audit committee meeting frequency, rather than mere committee size, significantly drives ROA by ensuring strict adherence to internal controls and preventing the leakage of revenue through operational inefficiencies.

Furthermore, Credit Committee Intensity (CCINT) demonstrated a strong, statistically significant positive impact on ROA (Coefficient = 2.3499, $p < 0.05$). By dedicating a larger proportion of the board's structural focus to credit oversight, banks are better equipped to screen out toxic assets and manage their loan portfolios. This outcome is consistent with the empirical assertions of Karaye et al. (2022) and Arifaj and Baruti (2023), who found that robust credit governance frameworks significantly reduce credit risk and non-performing loans, thereby protecting the core revenue streams that feed into the ROA. When the credit committee is structurally intense, the bank's primary assets (loans) yield higher returns.

Conversely, Board Size (BS) showed a negative but statistically insignificant relationship with ROA ($p > 0.05$). This implies that the sheer number of directors on the board does not fundamentally dictate asset utilization efficiency in the contemporary Nigerian banking sector. This insignificant outcome contradicts the positive findings of Kajola et al. (2017) but provides strong empirical support for Bukar et al. (2020), who similarly found board size to be an insignificant driver of ROA. Viewed through the lens of Contingency Theory, this suggests that board size alone is insufficient without the appropriate alignment of specialized skills found within the sub-committees.

CONCLUSION AND RECOMMENDATION

Conclusion

Based on the empirical evidence gathered and analyzed, this study concludes that corporate governance practices, particularly active audit and credit committees, play a pivotal role in improving the profitability of Nigerian deposit money banks. While board size exhibited a negative but insignificant effect on ROA, the

frequency of audit committee meetings and the intensity of credit committee involvement significantly enhanced asset utilization. These results suggest that governance effectiveness depends less on board expansion and more on the quality, expertise, and diligence of specialized committees. Practically, this implies that the Central Bank of Nigeria and bank management should prioritize strengthening committee structures, enforcing professional qualifications, and ensuring independence to safeguard asset quality and profitability. By focusing on committee effectiveness rather than board size, Nigerian banks can achieve stronger governance outcomes, improved investor confidence, and sustainable financial performance.

Recommendations

Based on the empirical findings and the conclusions drawn from this study, the following actionable recommendations are provided for bank management, shareholders, and regulatory authorities such as the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC):

Prioritize Committee Diligence Over Board Expansion: Bank shareholders and nominating committees should shift their strategic focus away from merely expanding the total size of the board of directors. Since the study proved that board size has no significant impact on financial performance, resources should instead be directed toward recruiting highly qualified professionals who can actively contribute to specialized sub-committees.

Contribution to Knowledge

Holistic Assessment of Profitability: By evaluating Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI) simultaneously, this work provides a comprehensive, 360-degree view of bank health capturing asset efficiency, shareholder value creation, and overall capital deployment effectiveness in a single cohesive framework.

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