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Corporate Governance and Financial Performance of Listed Banks in Nigeria

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Abstract

This research examined the efficacy of corporate governance mechanisms in predicting financial performance of listed banks in Nigeria. The study employed dynamic panel models to examine the influence of four board attributes (size, independence, diligence, and diversity), and two control variables (firm size and firm age) on financial performance, measured by the cost of capital, liquidity, and return on assets. These variables were selected and included in models based on the postulates of the agency theory. The data series collected on each variable were sourced from the annual audited accounts and reports of 12 purposively selected listed banks over the years 2011 to 2023. The study employed the generalized method of moments (GMM) technique to estimate panel regression models after testing for normality, multicollinearity, heteroscedasticity and endogeneity problems.

The results sustained that the significant effect of board attributes such as board independence, and board diligence was more pronounced on the liquidity position of the banks than other measures of financial performance. Moreover, the presence of boards of governance alone is insufficient; the quality, composition, and effectiveness of the boards truly matter as far as financial performance is concerned. These findings provided support for agency theory as the problems between the shareholders and the managers could be reduced with quality and effective boards of directors. As liquidity risk is very germane for the survival and sustainable performance of financial institutions, the banks whose goal is to maximize its liquidity position in a bid to reduce its liquidity risk should increase its corporate governance practices in the area of size, independence, diligence, and gender diversity of their boards.

Key Words: Corporate Governance, Financial Performance of Banks, Liquidity

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1. Introduction

The activities and operations of companies in the financial sector in Nigeria are heavily regulated by the government using different regulatory institutions and frameworks. These include entities such as the Corporate Affairs Commission (CAC), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), and Nigerian Deposit Insurance Corporation (NDIC), on the one hand, and the Companies and Allied Matters Decree (CAMD), 1990 as amended, and Banks and Other Financial Institutions Decree (BOFIA), 1991, as amended, on the other.

Despite all these, the developments in the sector, especially in the last two decades, have called into question the effectiveness of these institutions and frameworks. Instability was evidenced in the sector, caused by many factors such as illiquidity, financial scandals, and economic meltdown that led to asset depletion and poor performance. There were widespread corporate scandals and failures witnessed in the late 1990s and the early 2000s, which had their roots in dishonest management decisions and, in some cases, outright cover-ups of illicit activities in many companies (Sanusi, 2003).

The general business problem is that the banking sector in Nigeria is generally bedeviled with declined confidence due to financial scandals and economic crises (Weber & Blair, 2016). This, together with agency problems, brought about the need for new possibilities and models to predict the financial performance of the banks, which Corporate Governance Codes were developed to address but which most existing studies have not amply explored. The few ones that explored the corporate governance-firm performance nexus in the banking sector (Aebi, Sabato, & Schmid, 2012; Iqbal, Nawaz, & Eshan, 2018; Kafidipe, Uwalomwa, Dahunsi, & Okeme, 2021; Kamukama, Kyomuhangi, Akisimire, & Orobia, 2017; and Al-Matari, 2020)provided conflicting empirical findings, resulting into three groups. These are the groups of studies that provided evidence of significant positive relationships, significant negative relationships, and those with no significant relationship. All these made empirical findings on the relationship between corporate governance and firm performance to be inconclusive. Thus, the objective of this study is to examine the efficacy of corporate governance mechanisms (board attributes) in predicting financial performancefinancial performance of banks in Nigeria. The rest of this Paper proceeds with Literature Review, Methodology, Results &Discussions, and Conclusion in sections two, three, four, five, and six respectively.

2. Literature Review

The agency theory initially provided the needed theoretical bedrock for most of the early studies on corporate governance and firm performance and it was on this that subsequent empirical works have ridden on. In fact, on this basis, many recent studies have examined the relationship between different corporate governance mechanisms and financial performance. Therefore, the extant literature provided a plethora of studies on the different factors influencing financial performance, some of which were internal to organizations and related to the different mechanisms of corporate governance as enunciated in different models and codes of corporate governance.

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Examining the characteristics of a corporate governance board, the study of Andreou, Louca & Manayides (2014) revealed that corporate governance, captured by structures such as insider ownership, board size, presence of corporate governance committee, percentage of directors serving on the board of other firms and CEO duality, which were associated with financial management decision and firm's performance, can help in reducing agency problems and improve financial management decision and firm's performance. However, contrary findings had been earlier reported by Aebi, Sabato, & Schmid (2012) looked into this relationship during financial crisis and concluded that corporate governance variables were insignificantly related to financial performance and in some instances even negatively affected by these variables.

Akbar & Saeed (2015) conducted a study on the relationship between corporate governance and firm performance in the United Kingdom using the generalized method of moments estimation technique. The authors developed a corporate governance index and investigated the impact on the performance of financial listed companies in London. BoardEx database was used as the main data source for extracting the number of executive and independent non-executive directors and board sub-committees, the number of meetings held by the audit committees and whether or not they have, at least, one financial expert among their members was collected from annual reports of companies, which were obtained in electronic form from the Northcote Website2.

Financial and accounting data was extracted from Thomson Reuters Data stream database which is measured using Tobin's Q and return on assets. Control variables included sales growth, firm size, leverage, R&D. The results indicated no relationship between the lagged governance index and the contemporaneous performance measures and that corporate governance practices do not determine current or future performance of firms. The results also highlighted the possibility of a reverse causality between performance and corporate governance compliance, which posits that firms choose their optimal level of corporate governance practices as regards the internal firm characteristics, such as performance. Hence, the study concluded that performance levels might have an effect on changes in corporate governance compliance by UK firms, and recommended that companies should comply with corporate governance regulation to help reduce the agency costs and thus positively influence both the current and future performance of firms.

The relationship between corporate governance and financial performance was also investigated by Colli & Colpan (2015) and Iqbal, Nawaz & Eshan (2018). Their results showed that performance was positively affected by corporate governance structure put in place. They stated that corporate governance affected a variety of financial performance measures and in turn, financial performance measures affected corporate governance although, Iqbal, Nawaz & Eshan (2018) focused on micro-finance institutions alone.

Buachoom (2018) examined some board characteristics such as board independence, board size, board meeting frequency, and dual role leadership on a board to determine their influence on the performance of listed firm on the Thailand Stock Market, using statistical method known as the Quantile analysis, on which samples were carried on 446 firms for the period of 15 years ranging from 2000 to 2014, the objective of the study was to determine the effect of board's characteristics on different quantile levels of performance and to investigate the possible effect of board structures on a firm with different performance levels. Findings from the study showed that board independence,

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board size and board meeting resulted in improvement in the performance of the firms. However, dual role of leadership was found to hurt the performance of the firms.

Pasopa (2018) conducted aresearch on the relationship between corporate governance and performance of the companies listed on the Stock Exchange of Thailand using the companies' annual reports to derive information. The variables used in the study were independent variables; corporate governance which is shareholder's structure, proportion of independent directors, size of business, and financial risk; the dependent variables were return on assets, earnings per share and Tobin's Q; and control variables were firm size and leverage. Data was analyzed using descriptive statistics such as percentage, mean, minimum, maximum, standard deviation, and correlation analysis and inferential statistics to analyze the correlation between corporate governance and performance measures (multiple regression).

The results revealed that corporate governance and financial risk had negative impact on the rate of return on assets significantly, the proportion of independent directors had a positive relation to the earnings per share, the firm size had a negative relation to return on assets, and the business value, the financial risk had the negative relations on the return on assets and the earnings per share and corporate governance on the size of the business had negative influence on the value of business significantly.

Asare, *et al.* (2019) reviewed the relationship between corporate governance (CG) and organizational performance through systems. Past studies in the literature have used different individual attributes of CG with different methodologies but this particular research was based on the application of systems thinking perspectives. The study showed impact-degree relationship or directional-relationship or no relationship and was based on agency theory, stakeholder theory, stewardship theory, and resource dependency theory. This study claimed that there existed a relationship between CG and organizational performance. In conclusion, it was recommended that board attributes should be used as proxy for measuring CG since there are no standard elements for measuring CG. Researchers were advised to place more emphasis on duties of the board as a way to measure performance, and lastly the external environment should also be considered on governance performance.

Koji, Adhikary & Tram (2020) explored the relationship between corporate governance and the financial performance of publicly listed family and non-family firms in the Japanese manufacturing industry. Variables used in the study included foreign ownership, board size, institutional ownership, government ownership, board independence, and board meetings; while ROA and Tobin's Q were used to measure performance. Univariate analysis, multivariate analysis, robustness test, and regression were the estimation techniques used. Univariate analysis indicated that both family and non-family firms differed significant in terms of board structure, and firm performance.

Multivariate analysis results showed that family ownership had a significant positive impact on Tobin's Q, family ownership negated firm performance when ROA is used, and institutional shareholding appeared to be a significant and positive factor for promoting the performance of both family and non-family firms as far as Tobin's Q is concerned, government ownership stimulated the performance of family firms up to a certain threshold level, while board independence significantly negated family firms.

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Pintea, *et al.* (2020) evaluated the impact of adopting the principles of CG on the financial performance of companies listed on the Bucharest Stock Exchange (BSE). Financial performance was measured through Tobin's Q, return on equity (ROE), economic value added (EVA) and total shareholder return (TSR). CG index was formed and divided into four consisting of governance structure (GS), investor relations (IR), management and board (MB) and financial transparency (FT) and control variables were indebtedness and company size.

Descriptive statistics, panel data analysis using regression estimation technique was conducted. A significant impact of corporate governance practices on performance measured by ROE, EVA and TSR was discovered and when the performance was measured through Tobin's Q factor, a significant and positive relationship was obtained. The study concluded that the fact that an investor cannot rely solely on corporate governance information about a company in adopting the investment decision and different governance environments generate different governance problems.

Al Farooque, Buachoom, & Sun (2020) investigated the effects of corporate board, and audit committee characteristics on market-based financial performance (return on stock and Tobin's Q) of listed firms in Thailand. Dividend per share, firm size, firm age, audit quality, executive tenure, leverage, beta of securities, industry, and time were all employed as control variables. Panel data analysis using the generalized method was employed. The results showed that CG had a particular influence on the performance of Thai-listed firms. The characteristics of the board of directors were significant in enhancing the performance of listed firms, the characteristics of audit committees had a particular effect on increasing the financial performance of listed firms in Thailand.

Chiu-Hui (2021) examined the influence of board independence on financial performance, CEO duality and the percentage of independent directors (as proxy for board independence). Firm size and sales growth as control variable were measured with logarithm of total assets and one-year growth of sales, respectively. The results showed that CEO duality and the percentage of independent directors exerted negative and positive influences on return on assets. Results also indicated that the avoidance of CEO duality and maintenance of a high proportion of independent directors can be golden rules for devising good governance mechanisms, as companies with no CEO duality and a high number of independent directors are good investment targets.

Erena, Kalko&Debele (2021) examined the impact of corporate governance mechanisms on financial and non-financial aspects of firm performance in medium and large-scale manufacturing firms in Ethiopia. There was a significant positive relationship between the independence of board of directors and firm performance, while the size of the board of directors had a significant negative effect. In addition, shareholder's role had a significant positive impact on both board characteristics and firm independence.

The effectiveness of corporate governance was seen in the protection and upholding of the interests of corporate depositors, investors in financial institutions and corporate stakeholders and checking the fraudulent activities of directors, which has been a major cause of failure of financial institutions not only in Nigeria but all over the world (Kafidipe, Uwalomwa, Dahunsi, & Okeme, 2021). The authors concluded that policy makers as well as financial institutions should improve their performance by setting up corporate governance disclosures.

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3. Methodology

3.1 Population, Sample Size and Data Collection

The Nigerian banking sector has undergone a series of remarkable reforms and changes, ranging from the length and breadth of financial instruments used to the number of banks listed on the NGX, regulatory and supervisory frameworks as well as the overall macroeconomic environment within which they operate (Central Bank of Nigeria, 2017). Due to the series of reforms and policy changes including capitalization and mergers and acquisitions that have taken place, there are currently 18 deposit money banks operating as commercial banks in Nigeria, while only 12 of them are listed on the Nigerian Exchange Group (NGX) as at December, 2023. Thus, the data series collected on each variable were sourced from the annual audited accounts and reports of 12 purposively selected listed banks over the years 2011 to 2023.

The period was selected because the Nigerian economy witnessed sporadic improvements during the years, financial sector inclusive. In addition, many codes of corporate governance were issued by different agencies of government to regulate the activities of corporations in different sectors, including those issued by the Securities and Exchange Commission and the Corporate Affairs Commission whose compliance, and the characteristics of the human capital that ensured compliance with the codes, can be measured and studied. So, the period coincided with the years when most financial institutions in Nigeria took the implementation of the codes seriously.

The data collected and analyzed in this study covered variables such as board size (BSZ), board independence (BID), board diligence (BDL), and board diversity (BDV); and firm performance indicators such as cost of capital (COC), returns to shareholders (ROE) and liquidity (LIQ), and bank characteristics such as bank size (FSZ), and bank age (AGE).

Specifically, data on corporate governance mechanisms such as (a) board size, (b) board diversity, (c) board independence, and (d) board diligence were sourced from the audited reports and accounts of the selected listed banks. The banks often use their audited reports and accounts to disclose information on corporate governance and data on the extent of compliance of the codes of corporate governance can be generated using quantitative content analysis. The use of content analysis method to generate data in this study is based on its popularity and suitability in measuring a company's corporate governance in annual audited reports (Milner & Adler, 1999).

Each corporate governance mechanism was captured and compared to what the different codes of corporate governance provided, to measure the extent of compliance. In addition, data on management team characteristics were similarly sourced from the audited accounts using content analysis while data on firm performance were obtained using proxies like the cost of capital, liquidity, and returns to shareholders, whose accounting metrics can be obtained directly from the annual audited reports and accounts of listed financial institutions in Nigeria.

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Table 1: Variable Definition and Measurement

Variable	Definition/Measurement	Sources
Dependent Variables		
Cost of Capital (COC)	This is an average measure of the cost of all the sources of capital (equity and debts) employed by a firm during a year. It was measured using the weighted average cost of capital (WACC) = $pE(K_e) + pD(K_d)$	Pandey, 2018
Liquidity (LIQ)	This was measured by using the current ratio, which was computed by dividing current assets by current liabilities of a company during a year of reporting.	Gupta, 2017
Returns on Assets (ROA)	This was measured by dividing profit after taxes (PAT) by the book value of total assets.	Naciti, 2019; Mertzunis et al, 2018; Pintea et al., 2020
Independent Variables		
Board Size (BSZ)	This is the ratio of the number of members in a board to the maximum recommended by the codes and regulations of 20 members.	Pillai & Al-Malkawi, 2017; Song et al., 2021
Board Independence (BID)	This is the ratio of the number of independent directors to the total number of board members.	Naciti, 2019; Guo & Kumara, 2012
Board Diligence (BDL)	This is the ratio of number of meetings held by the board in a year compared to the minimum number of meetings prescribed by the code.	Al-Farooque et al., 2020; Koji et al., 2020
Board Diversity (BDV)	This is the ratio of female directors to the total number of directors in the board.	Naciti, 2019
Control Variables		
Bank Size (FSZ)	This is the natural logarithm of the total assets of a bank.	Gupta, 2017; Song et al., 2021
Bank Age (AGE)	This is the number of years a bank has been incorporated.	Buachoom, 2018

Source: Prepared by the researcher, 2025.

3.2 Model Specification and Analysis

To answer research question of this study on how corporate governance mechanisms (board attributes) relate to financial performance, a functional regression model is specified as follows:

$$FIP = f(CGE, MGT, \lambda) \quad (1)$$

where, FIP = financial performance, CGE = a set of board attributes that influence the FIP of the listed banks, which were selected based on the outcomes of previous studies, and λ = a set of control variables such as firm size (SZE) and firm age (AGE). The relationship between CGE and FIP is however presented in econometric form in equation (2) as follows:

$$FIP_{it} = b_0 + b_1 CGE_{it} + \lambda_{it} + \mu_{it} \quad (2)$$

To indicate the board attributes of interest and control variables of this study, the static panel model is re-specified as follows:

$$FIP_{j,it} = b_0 + b_1 BSZ_{it} + b_2 BID_{it} + b_3 BDL_{it} + b_4 BDV_{it} + b_5 FSZ_{it} + b_6 AGE_{it} + \mu_{it} \quad (3)$$

where, $FIP_{j,it}$ = alternative measures of financial performance (cost of capital, liquidity and return on asset) for firm i at time t; j=1,2,3; BSZ = board size for firm i at time t; BID = board

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independence for firm *i* at time *t*; BDL = board diligence for firm *i* at time *t*; and BDV = board diversity for firm *i* at time *t*. Control variables to be included in the model are firm size (FSZ) and firm age (AGE). b_0 represents the intercept or constant; $b_1 - b_6$ indicates the coefficients of the explanatory variables, and μ is the error term. It is *a priori* expected that all the explanatory variables will contribute significantly to the financial performance of the financial institutions.

Due to the limitation of static model restricting to the use of ordinary least squares (OLS), the dynamic panel version of equation (3) is specified as follows:

$$FIP_{j,it} = b_0 + b_1FIP_{j,it-1} + b_2BSZ_{it} + b_3BID_{it} + b_4BDL_{it} + b_5BDV_{it} + b_6FSZ_{it} + b_7AGE_{it} + \mu_{it} \quad (4)$$

where, $FIP_{j,it-1}$ is the lagged dependent variables, which are the alternative measures of financial performance for firm *i* at time *t-1*.

The study employed the generalized method of moments (GMM) technique to estimate panel regression models after testing for normality, multicollinearity, heteroscedasticity and endogeneity problems.All the analyses were carried out using econometrics analysis package such as *Stata* version 17 and *E-views* version 12.

4. Presentation of Results and Discussion

4.1Preliminary Tests Results

The preliminary tests carried out in this research include multicollinearity test, normality test, endogeneity test and heteroskedasticity test. The tests were carried out to ascertain the appropriateness of the techniques used to estimate the models specified to obtain information on the relationships of corporate governance mechanisms and the financial performance of the banks.

4.1.1 Multicollinearity Test Results

The multicollinearity test conducted involves the use of the Pearson correlation technique. The analysis was used to compare the correlation coefficients of each of the group of variables such as financial performance indicators, corporate governance mechanisms, management team characteristics, and bank characteristics, given a threshold of 0.80, as suggested by Gujarati & Porter (2009). The results in Table 2 showed that the pairwise correlation coefficients for the variables were all less than 0.8, respectively, which indicated no perfect linearity among the explanatory variables. In other words, multicollinearity problem did not exist.

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Table 2: Multiple Correlation Results

Probability	AGE	BDL	BDV	BID	BSZ	COC	FSZ	LIQ	ROA
AGE	1.0000								

BDL	-0.3384	1.0000							
	.000	-----							
BDV	-0.1166	0.2760	1.0000						
	.213	.003	-----						
BID	0.4249	-0.0949	0.1520	1.0000					
	.000	*.311*	*.103*	-----					
BSZ	0.2234	0.1771	-0.1768	-0.1237	1.0000				
	.016	*.057*	*.058*	*.186*	-----				
COC	-0.1139	-0.0314	-0.2547	0.2382	-0.0790	1.0000			
	.223	*.738*	*.006*	*.010*	*.399*	-----			
FSZ	0.2071	0.2059	-0.2813	0.4285	-0.0805	0.4413	1.0000		
	.026	*.027*	*.002*	*.000*	*.390*	*.000*	-----		
LIQ	-0.5133	-0.2056	-0.1374	-0.6833	0.0573	-0.1678	-0.4451	1.0000	
	.000	*.027*	*.141*	*.000*	*.541*	*.072*	*.000*	-----	
ROA	-0.4422	-0.1674	0.0470	-0.3484	-0.2065	0.0484	-0.2673	0.4818	1.0000
	.000	*.072*	*.617*	*.000*	*.026*	*.606*	*.004*	*.000*	-----

Source: Author's computations using E-*views* 12 (2025). Figures in italics are levels of significance.

4.1.2 Normality Test Results

To ascertain if data series for each variable of interest is normally distributed, the Shapiro-Wilk W-test was employed. The null hypothesis is that the data series is normally distributed across time. With p-values greater than 5 percent in each case, all the board attributes (board size, board diligence, and board diversity) except board independence; cost of capital and bank size data series were normally distributed, respectively. The levels of significance for other variables were lesser than 5 percent hence, the null hypothesis of normality was rejected. This indicated that they failed the normality test and not normally distributed. The mixed results therefore indicated that the OLS estimation technique was not appropriate in estimating models.

Table 3: Normality Results

Variable	Shapiro-Wilk test				Remark
	W	V	*Z*	Prob.	
Coc	0.985	1.794	1.328	.092	Normal
Liq	0.844	18.838	6.669**	.000	Not normal
Roa	0.865	16.235	6.332**	.000	Not normal
Bdl	0.985	1.799	1.334	.091	Normal
Bdv	0.990	1.250	0.507	.306	Normal
Bid	0.953	5.642	3.931***	.000	Not normal
Bsz	0.995	0.608	-1.130	.871	Normal
Fsz	0.990	1.193	0.401	.344	Normal
Age	0.884	14.011	5.997***	.000	Not normal

** and * *are 1 and 5% significant levels.* **Source:** Author's computations using *Stata* 17 (2025).

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4.1.2 Endogeneity Test Results

This test was carried out to determine the extent of dependence of a variable over its past values that is the possibility of endogeneity problem in the data series of each variable, most importantly the dependent variable of each of the models specified in this study and the Cumby-Huizinga test for autocorrelation was used. This enabled the researcher to obtain information on whether or not the explanatory variables are strictly exogenous. Where the explanatory variables of a model are not strictly exogenous then, serial correlation problem exists in the variables and the OLS estimation technique cannot be employed. The result in Table 4 showed that data series for all the variables were autoregressive of higher order, indicating that the variables were not strictly exogenous. The results indicated that serial correlation is present in the variables up to and at the specified lags. Therefore, the results violated one of the assumptions of using the OLS estimation technique.

Table 4: Autocorrelation Results

Variable	AR statistics		Order	Remark
	Chi-square	P-value	(lags)	
Coc	14.647***	.000	AR(3)	Endogenous
Liq	5.041**	.025	AR(10)	Endogenous
Roa	5.276**	.022	AR(7)	Endogenous
Bdl	5.204**	.023	AR(9)	Endogenous
Bdv	6.387**	.012	AR(3)	Endogenous
Bid	4.800**	.029	AR(8)	Endogenous
Bsz	4.817**	.028	AR(5)	Endogenous
Fsz	7.724***	.005	AR(6)	Endogenous
Age	7.430***	.006	AR(10)	Endogenous

*** and ** *are 1 and 5% levels of significance.* **Source:** Author's computations using *Stata* 17 (2025).

4.2 Board Attributes and Financial Performance

To achieve the research objective, a panel regression analysis was conducted to ascertain the level and direction of the relationship between the selected board attributes and financial performance, proxied by cost of capital, liquidity, and profitability. The researcher employed the generalized method of moments (GMM) technique to estimate the dynamic panel regression models, considering the results of the normality, autocorrelation, multicollinearity, heteroscedasticity, and cross-sectional dependence tests earlier carried out.

The results (panel I - III) in Table 5 explained the relationship between the board attributes, including control variables and financial performance. The first panel showed the relationship between board attributes and cost of capital. The results indicated that board diversity had a statistically significant inverse relationship with cost of capital at 1 percent level of significance. The results indicated that increase in board diversity will reduce cost of capital hence, increased financial performance. The results further showed that firm size also had a statistically significant negative effect on cost of capital.

Panel II provided results on the relationship between board attributes and liquidity of the banks. The results revealed that board independence, and board diligence had a

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statistically significant negative relationship with liquidity at 5 and 1 percent levels of significance, respectively. The results provided evidence that existence of independent directors, and increased diligence of the boards led to a significant reduction in liquidity position that is, increased liquidity risk of the banks. Also, the results provided evidence of a significant negative effect of firm age on liquidity at 10 percent level. So, older banks experienced reduced liquidity during the period 2011-2023.

In Panel III, the results provided information on the relationship between board attributes and returns on assets (ROA) as a measure. The results showed that only board independence had a statistically significant negative effect on ROA. This suggested that increasing the number of independent directors led to a decrease in ROA. Considering the control variables, the results showed that younger banks recorded higher returns to shareholders than older ones because the age of the institutions had a significant negative effect on the dependent variable.

Table 5: Relationship between Board Attributes and Financial Performance

	I	II	III
Explanatory Variable	*COC*	*LIQ*	*ROA*
Constant	0.055***	0.115	0.021
	(.015)	(.150)	(.015)
COC(-1)	0.659***		
	(.061)		
LIQ(-1)		0.812***	
		(.045)	
ROA(-1)			0.448***
			(.058)
BSZ	0.003	-0.006	-0.007
	(.006)	(.059)	(.006)
BID	-0.001	-0.111**	-0.008*
	(.005)	(.053)	(.005)
BDL	0.001	-0.042***	-0.001
	(.001)	(.016)	(.002)
BDV	-0.019***	-0.016	0.001
	(.007)	(.073)	(.007)
FSZ	-0.006***	0.032	0.002
	(.002)	(.024)	(.002)
AGE	-0.002	-0.074*	-0.009**
	(.004)	(.041)	(.004)
Observations	144	144	144
No. of cross-sections	12	12	12
Hansen J-stat.	1.187	7.112	3.130
Prob. (J-stat.)	.276	.068	.209
No. of instrument	9	11	10

Note: ** and *** represent 5% and 1% significant levels respectively. Standard error in bracket ().
Source: Author's computations using *Eviews* 12 (2025).

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The results on the 3 panels further reported similar expected trend in the lagged dependent variables in the three models that is lagged COC, lagged LIQ and lagged ROA. The lagged variables individually had a significant positive effect on each of the dependent variable at 1 percent level. In addition, the results of Hansen J-statistics of the models were not significant, considering their probabilities that were higher than 5 percent, indicating that the instruments used in the GMM estimations were valid and uncorrelated with error terms. The instrument count for each of the models, compared to the number of group/firms also supported this position, respectively. Based on the outcome of the panel regression results, it can be inferred that the significant effect of board attributes such as board independence, and board diligence was more pronounced on the liquidity position of the banks than other measures of financial performance, that is, cost of capital and return on assets.

5. Discussion

Strong and quality corporate governance practices were expected to lead to better liquidity position (low level of liquidity risk), reduced cost of capital, and increased return on assets. In this study, board attributes such as board independence, board diligence, board size and board diversity were found to have played a crucial role influencing financial performance in one way or the other. This may not be possible if the corporate governance practices of the banks were poor. This suggested that when the boards of the banks are not effective, board attributes will not drive financial performance.

The results showed that an increase in board diversity by 1 percent led to a decrease of about 2 percent in cost of capital at a 1 percent level of significance during the period. The results supported the findings of Dutta & Bose (2020) and Eklund, Palmberg&Wiberg (2019) who also reported a negative relationship between gender diversity and firm performance though, measured by return on assets. The results were however contradictory to the findings of Ergene& Karadeniz (2021) and Akinleye, Olarewaju, &Fajuyagbe (2019), who found a significant positive relationship between gender diversity and firms' performance and Swartz & Firer, (2022) and Francoeur, Labelle & Sinclair-Desgagne (2019) who established no significant relationship between gender diversity and firm performance.

Also, board diligence can shape financial performance by ensuring close monitoring of compliance to policies (Al Farooque, et al., 2020). The significant negative result contradicted the *a priori* expectation on the relationship between board diligence and financial performance. It was surprising that board diligence had statistically significant negative impact on liquidity. Higher number of board meetings was expected to afford members the opportunity to interact among themselves and make strategic decisions that can contribute to improved performance.

The more the meetings, the better the monitoring quality and the higher the performance (Simamora, 2020). This is because the directors will be well informed and kept abreast of the activities within the organization (Mangena &Tauringana, 2019). Could it mean that the monitoring quality of the boards of the banks was very low or ineffective, or that board members were not well and adequately informed of the activities of the listed banks? There might also be other factors inhibiting financial performance on which the board failed to develop appropriate policies.

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Effective board independence reduces potential conflicts of interest, enhances accountability and transparency, and ensures that decisions are made in the best interests of an organization and its stakeholders, leading to ease of finance, profitability, and overall financial performance. The results obtained in this study showed that board independence had a significant negative influence on the liquidity position and return on assets of the banks during the period. An increase of 1 additional independent director led to a reduction of 11 percent in liquidity ratio and a reduction of about 1 percent in return on assets. The significant result contradicted the position of Chiu-Hui (2021), which established a significant positive effect of board independence on return on assets. The study concluded that a high proportion of independent directors can be the golden rule for devising good governance mechanisms, as companies with a high number of independent directors are good investment targets.

The presence of outside non-executive independent directors was expected to increase a board's overall effectiveness and performance. In fact, from the agency perspective, independent directors should reduce agency conflicts because they can act as an effective monitoring mechanism for the board and, when compared to internal executive directors, are more likely to protect the interests of the shareholders (Kaura, et al., 2019; Gerged&Agwili, 2019). The outcome of this research could mean that the inclusion of independent directors on the boards of the banks did not increase the efficiency of the boards, which called for scrutiny of the independent board members. Or, that they failed to carry out their expected responsibility of challenging and criticizing the actions and policies of the management for better financial performance.

With regard to board size, Akinleye, et al. (2019) found evidence consistent with the position of the agency theory that smaller boards were related with better firm performance. This is because larger boards are slower and less efficient in making decisions and according to Jite, et al. (2022), are more likely to face high costs of monitoring a firm and they are less likely to have effective function when the size of the board are more than seven to eight people. This indicated a significant negative influence of board size on financial performance.

The results obtained from this study however did not provide support to this position as board size had no significant effect on the three financial performance metrics used to measure financial performance. It also negated the findings of Simamora (2020) that large boards had a significant positive effect on firm performance and Dagunduro et al. (2023) who found that larger boards negatively affected firm performance, due to coordination challenges and slower decision-making processes. The insignificant results might be due to a lack of diversity in education, ideas sharing, and industry experience of the board members, which could have led to high-quality decisions and better financial performance of the banks.

6. Conclusion and Recommendation

This study found that the presence of boards of governance alone is insufficient; the quality, composition, and effectiveness of the boards truly matter as far as financial performance is concerned. These findings provided support for agency theory as the problems between the shareholders and the managers could be reduced with quality and

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effective boards of directors. In a similar vein, the study provided empirical information that size and diversity in a board helped to enhance and promote the relationship between a firm and its stakeholders, especially suppliers, credit lenders, and shareholders.

For any financial institution, liquidity risk is very germane to its survival and sustainable performance. Thus, the banks whose goal is to maximize its liquidity position to reduce its liquidity risk should increaseits corporate governance practices in the area of size, independence, diligence, and gender diversity of their boards. It is also important for banks, which desire high return on assets to have quality management team that is capable of making quality decisions for the progress of the banks, effectively implementation of board decisions, and being efficient in resource utilization. To increase liquidity, the banks should ensure retired independent directors are replaced with those that can attract liquid funds into the banks. To improve the effect of board independence on return on equity, especially by low performing banks, the independent directors should effectively carry out monitoring and oversight functions on the activities of management executives to reduce operating costs, and hence increase profitability and returns to shareholders. Again, banks with low number of independent directors could appoint additional independent directors.

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