

Corporate Governance and Performance: An Empirical Analysis of Selected Banks

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Abstract

The purpose of the study was to determine how corporate governance affected the Nigerian banking system's performance. In particular, the study looked at how board size, board composition, and audit committee performance affected banks and how these factors affected their profit performance. The ordinary least square (OLS) method was used as an analytical tool in the investigation. According to the study, the profit performance of Access Bank and Guaranty Trust Bank is positively impacted by the size of their boards, whereas United Bank for Africa's profit performance is negatively impacted by the size of its board. Additionally, the study found that the profit performance of the banks utilised as a case study was positively impacted by the makeup of the boards of Access Bank, Guaranty Trust Bank, and United Bank for Africa. Finally, the study discovered that the audit committees for Access Bank and United Bank for Africa had a significant and positive impact on the banks' profit performance, whereas the audit committees had an adverse influence on the profit performance of Guaranty Bank. Based on the results, the study suggests that Trust Bank would benefit from reducing the size of its board, as this would likely lower agency costs, improve efficiency, and increase profitability. Nonetheless, banks must keep enforcing corporate governance regulations. Keeping a balanced board size and enough independent non-executive directors to ensure board independence are notable examples. The banks' overhead costs increase with the size of the board.

Keywords: Corporate governance, Board Size, Audit Committee, Board Composition, Profit performance, Commercial banks.

INTRODUCTION

The soundness of a financial system and corporate governance standards is crucial to any economy. The focus of corporate governance as a management tool is to ensure the seamless operation of any business or organization, providing its owners and stakeholders with good returns on their investment. This implies that such an organization needs to be made up of

owners who collaborate to meet the company's financial objectives and advance it. Nowadays, it is common knowledge that one of the primary methods used by business stakeholders to address their financial goals and objectives is corporate governance. Corporate governance weakness has been blamed for financial instability in certain Nigerian financial organizations. It is quite noticeable that in each of these instances, corporate governance shortcomings were directly connected to business issues (Aginam & Obi-Nwosu, 2024).

Corporate governance is defined as the set of guidelines, morals, procedures, and practices that regulate how an organization is run. The main focus is on striking a balance between the interests of banks and other financial institutions' key stakeholders, management, clients, and the commercial environment in which they operate. Therefore, corporate governance also offers the necessary structure for achieving the aims and objectives of the bank. From action plans and other internal controls to the highest performance, measurement, and corporate information opening in the form of disclosures, it practically includes layers and spheres of high-level management (Ukpong, 2024).

Corporate governance's goal is to allocate resources to maximize value for all involved stakeholders, including different employees, clients, and the community. Through the evaluation of high-level executives' decisions on accountability, transparency, equity, and responsibility, corporate governance seeks to allocate resources in a way that maximizes value for all participating stakeholders, including the community, customers, and various employees.

Poor corporate governance manifests itself in many ways. According to Ukpong (2024), the World Bank in 2011 identified as key governance indicators that are used to measure bad governance. Bad governance is centered around the idea of not only corruption within a system but also the financial statistics of the banks in terms of non-performing loans, the ratio of non-performing loans to loans and advances, the ratio of non-performing loans to total credit, the quality of assets measured by the ratio of non-performing loans to total assets, a lack of transparency and accountability, arbitrary policymaking, and the cheating of those who are governed. In measuring corporate governance, Agamah (2024) and Bekweri (2024) also used the ratio of non-performing loans to loans and advances and the assets quality of banks measured by the ratio of non-performing loans to total credit as variables representing poor corporate governance.

The primary factors responsible for the situation are laxity of control by the regulatory authorities, corruption, inactive boards, and greed on the part of the executives. To say the least, the regulatory functions of the CBN have been non-existent, which may be due to the dearth of qualified personnel experienced in the art of bank supervision and examination (Emejulu, Okaro, & Adigwe, 2024). Alternatively, the bank supervisors would have compromised to issue clean bill reports for banks over these years. The board of directors' inability to effectively supervise these banks' top management has contributed more to this ugly situation. Most members of the board of these banks were composed of surrogates of the chief executives and, at times, chairmen. It is either they were unilaterally nominated by the managing director or the chairman, who holds a controlling interest in the bank as the suppliers of capital (Brimah, Ahmed, & Olayiwola, 2024). To this end, board members have no financial

contributions to the bank as their names were supplied to CBN to comply with statutory requirements. It is, therefore, imperative for such members to rubber stamp all decisions of their benefactors. After all, they are friends or business associates.

It is often said that corporate governance in the financial sector requires a prudent and judicious management of resources in terms of current and fixed assets owned by such financial institutions, and this ensures that ethical and professional standards are maintained in pursuance of corporate governance goals and objectives (Egwu & Ikpe, 2024). Corporate governance also seeks to ensure that customers are satisfied by all measures, increase employee morale, and the maintenance of financial landscape discipline which stabilizes and rejuvenates the sector paving the way for healthy financial performance.

A study by Olateju, Tijani, Olateju, Agbo, and Ato (2024) asserts that banks were the source of the 2007/2009 global financial crisis, with poor corporate governance in the banking sector being a major contributing factor. In Nigeria, the banking industry's subpar performance nearly led to a loss of customer confidence, with the country's most well-known bank distress events attributed to poor corporate governance.

Nigerian banks are affected by deficiencies in corporate governance functions, including insufficient internal control mechanisms, excessive risk-taking, insider fraud and abuse, a lack of government-imposed credit constraints, and willful disregard for sensible lending guidelines. The poor governance standards in the Nigerian banking system prompted the Central Bank of Nigeria (CBN) to develop a code of corporate governance in 2006. Despite this code, several governance issues have continued to threaten the stability of the banking system.

The board's failure to exercise vigilant oversight, its delegation of power to corporate managers who act in their self-interest, and its disregard for its duty of care to stakeholders were all factors in the 2009 discovery of multiple widely publicized instances of accounting irregularities in the Nigerian banking sector, including those at Oceanic Bank, Intercontinental Bank, Union Bank, AfriBank, and Spring Bank. The banking sector crisis, which nearly brought the economy to its knees, was primarily caused by widespread corruption in financial institutions and poor corporate governance (Olateju et al., 2024).

A significant number of non-performing loans result from banks' loan disbursements being impacted by weak corporate governance (Adegbayibi & Adelowotan, 2024; Samuel, 2023). Given the aforementioned issues, the purpose of this research is to investigate the role of corporate governance in the Nigerian banking system using the profitability of the first-tier banks to capture banking system performance. Against this background, this study set out to empirically investigate the role of corporate governance in the Nigerian banking system using the first-tier banks in Nigeria. The specific objectives are: to examine the role of board size and board composition on the performance of the Nigerian banking system and to evaluate the impact of the audit committee on the performance of the Nigerian banking system.

The significance of this study lies in its contribution to the existing literature on the effect of board characteristics on the profit performance of commercial banks. The findings challenge conventional wisdom and shed new light on the relationship between board size, audit

committee, board composition and financial performance. Firstly, the finding that board size does not significantly affect commercial banks' profit performance is noteworthy. Traditionally, it has been assumed that larger boards lead to improved financial performance due to increased expertise and diverse perspectives. However, this study's results suggest that board size may not be a critical factor influencing financial outcomes. This challenges previous studies and provides alternative perspectives for understanding the role of board size in commercial banks.

Secondly, the study's finding that the audit committee does not have a significant effect on profit performance is important. Many scholars and practitioners believe that an effective audit committee can enhance firms' financial performance by ensuring proper internal controls and risk management. However, this study's findings imply that the presence or effectiveness of the audit committee may not directly impact the profitability of commercial banks. This finding prompts a closer examination of the mechanisms through which audit committees contribute to organisational outcomes. Overall, this study's significance lies in its ability to challenge prevailing assumptions and contribute to a more nuanced understanding of the relationship between board characteristics and profit performance in the Nigerian banking system with a focus on deposit money banks. The findings provide valuable insights for practitioners, regulators, and scholars, prompting a re-evaluation of the factors driving financial success in the banking sector.

LITERATURE REVIEW

This section contains a general review of conceptual, theoretical, and empirical literature closely related to the study. This is necessary to bring to the fore the relevant theories that underlie this study. The first part of this section deals with the definition of key concepts. The second part of this section presents the theoretical framework of this study, and the third part of this section reports the series of empirical literature reviewed in this study. Furthermore, the summary of the empirical literature reviewed and gaps in the literature are also presented here.

Corporate Governance

According to Aginam and Obi-Nwosu, (2024), corporate governance is a collection of procedures, norms, regulations, rules, and intuitions that influence how a company is run, managed, and controlled. It depicts a group of interactions between the company's management, board, shareholders, and other interested parties. It also symbolises how organisations are run and a framework that balances the interests of various parties with vested interests. An efficient corporate governance structure can reduce the cost of capital and motivate businesses to use resources more effectively, which will spur growth, according to the Principles of Corporate Governance. The pillars upon which investors' confidence is based are also honesty, ethical behaviour, disclosure and transparency, fair treatment of shareholders, effective board responsibilities, and solid corporate governance.

Interaction between the various interested parties and the rationale for the corporation's management are both aspects of corporate governance (Juster, & Iraya, 2023). One important factor that determines an organisation's strength and its capacity to withstand financial upheavals is organisational governance. Developing dependability and ensuring transparency

and accountability are the main goals of organisational governance. Support and confidence in the banking sector are also fostered by good governance. Business success and corporate accountability are significantly influenced by corporate governance. Several industry regulators created corporate governance standards for businesses operating in particular sectors in response to issues in those areas (Aginam & Obi-Nwosu, 2024).

According to Samuel, (2023), the framework used to guide and regulate business entities is known as corporate governance. The corporate governance structure outlines the rules and processes for making decisions on company matters as well as the allocation of rights and obligations among various stakeholders and other participants in the organisation. In this way, it also offers the frameworks for setting the company's goals, as well as the tools for achieving them and tracking results. For the banking industry and the economy as a whole to operate properly, public trust and confidence in the banking system must be established and maintained, and this requires effective corporate governance standards. Due to the potential impact on any applicable deposit insurance system and the potential for wider macroeconomic ramifications, including contagion risk and payment system impact, poor corporate governance can lead to bank failures, which can have serious public costs and repercussions (Samuel, 2023).

According to Egwu, and Ikpe, (2024), there are several definitions for the term corporate governance. Corporate governance refers to the methods used to manage a company to improve accountability and prevent significant harm before it happens. The banking system may sustain harm from non-performing loans, loan losses, low asset quality brought on by a low percentage of non-performing loans compared to total credit, etc. According to the World Bank, corporate governance is the management of societal issues and affairs through political power and institutional resources. Corporate governance, on the other hand, refers to a collection of procedures, rules, regulations, customs, and organisations that influence how a company (or bank or other financial institution) is run, controlled, or directed. These days, how some businesses operate significantly impacts both the external stakeholders and the business itself. Members of the highest levels of leadership, such as the board of directors, CEOs, and other senior staff, are frequently internal stakeholders who are inclusive members of financial institutions (Egwu & Ikpe, 2024).

The Pillars of Corporate Governance

Effective corporate governance is built on six essential pillars: stakeholder management, leadership, responsibility, assurance, transparency, and fairness. These pillars are crucial for an organization to operate successfully and maintain strong professional relationships with its stakeholders, including the Board of Directors, management, employees, customers, regulators, and shareholders (Ukpong, 2024).

Those in charge of governance must identify key stakeholders and understand their connections to the firm to ensure the best outcomes (Egwu & Ikpe, 2024). By accepting responsibility for governing an organization, individuals commit to carrying out their duties diligently for the benefit of all parties involved. A clear understanding of good governance principles and

procedures can lead to better performance for both individuals and the business (Egejuru, 2024; Egwu & Ikpe, 2024; Ukpog, 2024).

Determination of Good and Bad Corporate Governance

In addition to defining corporate governance, scholars also struggle to determine what constitutes good or bad corporate governance. Various academics have proposed distinct factors that best describe good corporate governance. Business performance has been interpreted in multiple ways, with some viewing it as the movement of share prices, while others consider a company to be performing well when it has increased its present value or generated significant profits (Agamah, 2024; Egwu & Ikpe, 2024; Ekom Etim et al., 2023).

The board of directors is responsible for running the company and overseeing its operations. Research suggests that larger board memberships are associated with lower leverage and debt ratios (Adegbayibi & Adelowotan, 2024). This implies that the corporate board may exert pressure on managers to target lower debt or leverage ratios. Other key attributes of corporate governance include CEO remuneration, tenure, CEO duality, and board composition (Egwu & Ikpe, 2024; Oshim & Igwe, 2024). However, empirical findings on the connection between capital structure and corporate governance have been inconsistent

Board Size

The term "board size" (BSZ) refers to the number of directors on a board, encompassing all members regardless of their other characteristics. There are differing views on the impact of board size on a company's performance, resulting in two schools of thought.

Some argue that smaller boards are more effective, as they enable faster decision-making and avoid actions that could impair organizational performance. On the other hand, larger boards may devote more time and energy to verifying management activities and enhancing audit quality, potentially leading to better oversight (Adegbayibi & Adelowotan, 2024).

Research suggests that the ideal board size may depend on the complexity of the organization. For instance, major banks with multiple affiliates may require larger boards to monitor directors' actions effectively (Olateju et al., 2024). In Nigeria, boards are typically composed of executive and non-executive directors, with a larger board size potentially bringing more professionals to the table, making it harder for a CEO to dominate and leading to more informed decision-making. The hypothesis is therefore stated as follows:

H1: There is a significant relationship between board size and the performance of the Nigerian banking system.

Audit Committee

According to Egejuru, (2023), an audit committee is a committee of a company's board of directors that is responsible for overseeing the financial reporting process, internal controls, and audit activities. The audit committee is responsible for ensuring that the company's financial statements are accurate and reliable. The audit committee also reviews the company's internal control systems and monitors the external auditors. An essential component of good corporate governance is the role of the audit committee. In both the for-profit and the not-for-profit

world, the impact of accounting scandals and the distribution of finances can be immense, so the audit committee's role will be crucial in preventing such events.

According to Ukpong, (2024), audit committees also oversee the system of internal controls and ensure that the company complies with laws and regulations. Audit committee oversight extends to IT security and operational matters, including audit management software. Certified public accountants report directly to the committee, as opposed to reporting to management. The role of the audit committee includes such responsibilities as appointing and overseeing the work of the auditor and managing the auditor's compensation. Bekweri, (2024), also argued that the audit committee is responsible for helping independent auditors oversee the corporation's financial reporting system in a process independent of management. They achieve this in the following ways by providing vital oversight of the corporation's financial reporting processes, internal controls and independent auditors, serving as a check and balance over the company's financial reporting practices, and granting a forum for discussing financial concerns candidly and objectively. An audit committee is appointed by the board and is composed of between three and seven board directors who aren't part of the corporation's management. The hypothesis is therefore stated as follows:

H2: The audit committee has a significant impact on the performance of the Nigerian banking system.

Board Composition

According to Ukpong, (2024), board composition refers to the people on an organization's board of directors and what they bring to the board table, such as their management background and skills. Board composition varies widely depending on an organisation's goals and industry. Diversity in terms of members' experience, skills, and backgrounds can improve board performance. It offers deep insights, a wealth of experience, and the multiple perspectives necessary for an organisation to tackle challenging industry issues. The board must remain well-balanced over time. A balanced composition allows it to adapt to the changing demands of the business environment and ensures that it can fulfil its role in driving sustainable corporate performance (Okodugha,2021).

Theoretical Review

There are several theories in the area of corporate governance, but this study is anchored on the Stakeholder theory. Another theory considered in this study is the Agency Theory.

Stakeholder Theory

The Stakeholder Theory, introduced by R. Edward Freeman in 1984, emphasizes the importance of considering the interests of all stakeholders in organizational management and business ethics. This theory promotes a balanced approach, highlighting the impact of managerial decision-making on all stakeholders and ensuring that no one's interest predominates (Freeman, 1984).

According to stakeholder theory, identifiable groups or individuals with legitimate interests in an organization are considered stakeholders, and their concerns are valuable in and of themselves. Effective corporate governance techniques create a structure that benefits all parties involved, guaranteeing that businesses follow accepted moral principles and best practices (Adegbayibi & Adelowotan, 2024; Etim, Igwe, Al-Faryan, & Udoh, 2023).

The board of directors plays a crucial role in mediating conflicts between stakeholders and promoting cohesion to achieve organizational objectives (Donaldson & Preston, 1995). However, this approach has faced criticism for overburdening managers with accountability to multiple stakeholders without providing clear instructions for resolving conflicts (Okodugha, 2021).

Despite this, stakeholder theory remains relevant, as managers should strive for goals that increase the firm's long-term worth by considering the interests of all stakeholders (Adegbayibi & Adelowotan, 2024). The effectiveness of the board of directors, particularly in terms of its size and independence, is crucial to a public entity's ability to reach an agreement among its major stakeholders, fostering unity and progress (Ukpong, 2024).

Agency Theory

The economic theory put forth by Alchian and Demsetz in 1972 and subsequently examined by Jensen and Meckling in 1976 forms the basis of agency theory (Okodugha, 2021). According to agency theory, there is an inherent conflict of interest between managers and shareholders in large organisations because ownership and control are separated. The managers' occasionally driven pursuit of self-interest may clash with the owners' objective of optimising profits. Two issues that could come up in agency interactions are intended to be resolved by agency theory. The first is the agency issue, which arises when the interests or desires of the principal and the agent conflict, and the second is that it is expensive or difficult for the principal to monitor the agent's actions. The issue is the principal's inability to confirm that the agent has acted appropriately. It further clarifies that banks, as a business, have obligations to more stakeholders than just shareholders. It is expected that after banks adopt good corporate governance processes, the interests of the stakeholders will take precedence over the management's self-serving objectives, increasing banks' profitability (Agamah, 2024a; John Olateju et al., 2024; Samuel, 2023)

Managers have an employment contract and receive a salary; unless they own shares or their compensation is based on profit or share values, their primary interests are likely to be the size of their compensation package and their position as company managers. The management is hired to run the business on behalf of the shareholders, but if they do not own shares in the company, they have no direct interest in future returns for shareholders or in the value of the shares. The owners anticipate that the agents will operate in their best interests (Musa, Ibrahim & Success, 2021). The managers should always operate in the owners' best interests, according to the contract terms between the owners and the management. However, since actions made by managers (agents) impact both the owners' and their well-being, it is hard to set up the ideal contract. This raises a basic question: how can managers, acting as representatives of their

organisations, be encouraged or convinced to behave in the shareholders' best interests? This is a very critical question in today's business environment (Agamah, 2024b; Olateju et al., 2024).

Empirical Review

Previous studies have explored the relationship between corporate governance and the banking system in Nigeria. For instance, Aginam and Obi-Nwosu (2024) examined the application of corporate governance in the performance of deposit money banks. The study specifically looked at how director compensation affected Nigerian banks. Analyse how Nigerian banks are affected by board size. Determine how board duality affects Nigerian banks and look into how gender diversity affects them. Multiple panel regression analysis was used in the study. The results of the study showed that the size of the board and the compensation of the directors significantly and favourably affect the return on assets of Nigerian deposit money institutions. The purpose of the board is allegedly to provide stability and support the CEO in maximizing shareholder wealth. The study advised deposit money banks to figure out the best payout that won't have an impact on performance. Since it has no discernible impact on the return on assets of deposit money banks in Nigeria, deposit money banks should avoid choosing a board size that is smaller than the average and should not rush to give each director many responsibilities.

Otekunrin, Doorasamy, Wright, Aregbesola, and Omojola (2024), investigated the relationship between the financial performance of Nigerian Deposit Money Banks (NDMBs) and corporate governance. Regression analysis was utilised to examine the data, and the study used a descriptive research design. The results provide empirical support for the rejection of the five null hypotheses and reveal a statistically significant relationship between the financial performance of NDMBs as determined by Tobin Q and corporate governance proxies, such as board meetings, board size, CEO duality, audit committee independence, and board independence. The study also discovered a negative and significant correlation between CEO duality and the financial performance of Nigerian deposit money institutions. Board independence and the financial performance of Nigerian deposit money banks are negatively and significantly correlated. The independence of the audit committee and the financial performance of Nigerian deposit money institutions are positively and significantly correlated. Board size and the financial success of Nigerian deposit money banks are positively and significantly correlated. To improve the credibility of corporate reporting in Nigerian listed banks, the study suggested that non-financial disclosure be strengthened.

Egwu and Ikpe, (2024), looked into how corporate governance affected the stability of Nigeria's banking system. An ex post facto research design was used for the investigation. According to the study, LLP and NPLR have a negative link with corporate governance, while LDR and LIQR have a good relationship. The study suggested that to maximise wealth and improve value for bank owners, bank management should be open and moral in all of their interactions. Additionally, to improve the health of the banks and ongoing stakeholders, banks need to occasionally comply with the policies and directions of the regulators.

The impact of corporate governance practices on the financial performance of Nigerian-listed deposit money banks was investigated by Joe, and Ibok (2024). Regression analysis using ordinary least squares was used in the investigation. The study discovered that while board

independence significantly improves return on equity and board diligence improves return on equity for Nigerian listed deposit money banks, board size had no discernible beneficial impact on return on equity. It was determined that the financial performance of Nigerian-listed deposit money institutions is significantly impacted by board monitoring procedures. In light of this, it was suggested that the appointment of independent non-executive directors to the boards of Nigerian deposit money banks should be given top priority by the management of these institutions. Additionally, it was suggested that listed deposit money institutions hold frequent and productive board meetings since this improves their financial results.

Section two of this study, which is a literature review, started with the conceptual review of concepts such as corporate governance, the pillars of corporate governance, the determination of good and bad corporate governance, board size, and the audit committee. The study also reviewed theories such as the stakeholder theory and agency theory. The empirical review shows a different trend. Some studies, such as Aginam and Obi-Nwosu, (2024), Oyerogba, Oladele, Kolawole and Adeyemo (2024), and Joe, and Ibok (2024), all found a positive relationship between corporate governance and the banking system performance in Nigeria, while studies such as Otekunrin, Doorasamy, Wright, Aregbesola, and Omojola (2024), Oshim and Igwe, (2024), and Egwu and Ikpe, (2024), found a negative relationship between corporate governance and the banking system performance in Nigeria.

The general observation from the empirical review is that the results have been mixed. This might be a result of variables used as a proxy for corporate governance, countries where the studies were conducted, and the scopes of the studies. This study, therefore, observed a gap in the literature. Most of the studies reviewed just made use of banks without factoring in the categories of these banks, such as first-tier banks or second-tier banks. This might also affect the results of such studies. Because first-tier banks have a higher capital base than second-tier banks in Nigeria, and as such, combining both tiers as one might result in a biased result. It is against the above reason that this study set out to investigate the role of corporate governance on the performance of the Nigerian banking system using three first-tier banks, Access Bank, GT Bank, and UBA, to conduct an extensive empirical study.

METHOD

This section focused on how this study was conducted. It discusses the analytical technique adopted, the sources of data, and the research design used.

Research Design

The study made use of annual time series data. It adopted the factorial experimental research design which allows the researcher to examine the effect of two or more independent variables simultaneously on the dependent variable and strengthen the external validity of the study. The study employed the ordinary least square (OLS) method to evaluate the impact of corporate governance on the profit performance of Nigerian commercial banks in Nigeria. Secondary data covering 2000 to 2023 was used.

Model Specification

Studies have examined the role of corporate governance on the profit performance of Nigerian commercial banks in the time past. This study adopted the same model used by Juster and Iraya, (2023); and Milupi, (2023). The model shows the linear function for this study is presented below:

$$NPF_t = \alpha_t + CB_t + \mu_t \tag{1}$$

To further expand equation 1, we have:

$$NPF_t + \alpha_t + \beta_t BDS_1 + \beta_t ADC_2 + \beta_t BD_3 + \mu_t \tag{2}$$

Where:

NPF: Net Profit of the Banks (a proxy for banking system performance of commercial banks) and is the dependent variable in the model.

BDS: Board Size

ADC: Audit Committee

BDC: Board Composition

α_t : The Intercept

β_t : β_1 to β_3 are the parameters in the model.

μ_t : Error term

At the end of this study, we are expecting BDS (+), ADC (+), and BDC (+).

Nature and Sources of Data

The study used cross-sectional data from three different tier-one banks in Nigeria: Access Bank, GT Bank, and UBA. The data for the study were obtained from the listed banks' financial annual reports from 2000 to 2023. These banks were selected for several reasons:

- i. Market Leadership: As tier-one bank, they are among the largest and most influential banks in Nigeria, with a significant market share and presence.
- ii. Financial Performance: These banks have consistently demonstrated strong financial performance, making them representative of the Nigerian banking industry's success stories.
- iii. Data Availability: As listed banks, their financial annual reports are publicly available, providing a reliable source of data for the study.
- iv. Comparability: The selected banks operate in the same regulatory environment and market conditions, allowing for meaningful comparisons and insights.

Analytical Techniques

The analytical technique employed for this study is the Ordinary Least Square (OLS) method, which is based on the outcome of the unit root test. All variables were stationary at the order of integration zero I(0), and the suitable analytical technique for such an outcome is OLS. This method enables the derivation of a regression coefficient which predicts the level of change in the dependent variable (gross domestic product) caused by variation in the levels of explanatory variables (government expenditure on education and government expenditure on health). The Ordinary Least Square (OLS) method is one of the simplest methods of linear regression. The goal of OLS is to closely “fit” a function with data. It does so by minimising the sum of squared errors from the data. Preliminary tests performed on the variables are the Augmented Dickey-Fuller Tests for unit roots to ensure that the variables used in this study are stationary, reliable, and consistent to avoid the problem of spurious regression.

RESULTS

This section presents and analyses all the empirical results of this study. However, it is necessary to conduct unit root tests to avoid having spurious results. In a time, series context, a unit root signifies that the series is non-stationary. Consequently, this significantly influences how analysts can analyze and model the series. For instance, analysts often use this test to determine whether a time series is stationary or non-stationary.

Unit Root Test Results

To examine the time properties of the data is done to avoid spurious regression. The orders of integration of the variables are examined using the Augmented Dickey-Fuller (ADF) test statistics. The result presented in Tables 1, 2, and 3 shows that all variables achieved stationarity at a level of 5% critical value. The unit root test results for the four banks used are presented below using the Augmented Dickey-Fuller (ADF). Note: Net Profit which is a proxy for the profit performance of commercial banks, (NPF), Board Size (BDS), Audit Committee (ADC), and Board Composition (BDC) were stationary at a level (order of integration zero) for all three banks used as a case study such as Access Bank, First Bank, Guaranty Trust Bank, and United Bank for Africa for the period under review 2003-2023. The annual financial reports were used to obtain data for the study.

Table 1: Unit Root Test Results for Access Bank using Augmented Dickey-Fuller (ADF)

Variables	ADF	1% critical value (***)	5% critical value (**)	Order of integration
NPF	-4.461179	-3.808546	-3.020686	I (0)
BDS	-3.639272	-3.808546	-3.020686	I (0)
ADC	-3.614918	-3.808546	-3.020686	I (0)
BDC	-3.576472	-3.808546	-3.020686	I (0)

Source: Authors’ computation using Unit Root Augmented Dickey-Fuller (ADF (E-Views 9)

Table 2: Unit Root Test Results for Guaranty Trust Bank using Augmented Dickey-Fuller

Variables	ADF	1% critical value (***)	5% critical value (**)	Order of integration
NPF	-3.689969	-3.808546	-3.020686	I (0)
BDS	-4.189375	-3.808546	-3.020686	I (0)
ADC	-4.576472	-3.808546	-3.020686	I (0)
BDC	-3.461179	-3.808546	-3.020686	I (0)

Source: Authors' computation using Unit Root Augmented Dickey-Fuller (ADF (E-Views 9))

Table 3: Unit Root Test Results for United Bank for Africa using Augmented Dickey-Fuller

Variables	ADF	1% critical value (***)	5% critical value (**)	Order of integration
NPF	-3.868383	-3.857386	-3.040391	I (0)
BDS	-4.755516	-3.920350	-3.065585	I (0)
ADC	-5.477226	-3.808546	-3.020686	I (0)
BDC	-3.184290	-3.831511	-3.029970	I (0)

Source: Authors' computation using Unit Root Augmented Dickey-Fuller (ADF (E-Views 9))

The unit root test for all the four tier one banks namely Access Bank, Guaranty Trust Bank, and United Bank for Africa all achieve stationarity at first difference. This prompted the study to use the Ordinary Least Square (OLS), method to analyse the study.

Ordinary Least Square (OLS) Method

The Ordinary Least Squares regression (OLS) is a common technique for estimating coefficients of linear regression equations, which describe the relationship between one or more independent quantitative variables and a dependent variable (simple or multiple linear regression). The Ordinary Least Square (OLS) Method was used to achieve the set objectives of this study, which include examining the effect of board size on the profit performance of commercial banks, to determine the effect of board composition on the profit performance of commercial banks; and to investigate the effect of the audit committee on the profit performance of commercial banks.

Table 4: The Ordinary Least Square (OLS) Results for the four banks

BANKS	ACCESS BANK		GTB		UBA	
	Coefficient	Prob. Val.	Coefficient	Prob. Val.	Coefficient	Prob. Val.
C	4.847748	0.0079	8.923444	0.0935	3.326957	0.0397
BDS	0.067493	0.4268	0.001887	0.9881	-0.020299	0.5247
ADC	0.154684	0.3194	-0.873677	0.4618	0.126979	0.5775
BDC	0.000437	0.9934	0.386775	0.2973	0.042381	0.0033
R^2	69.1%		67.2%		61.3%	
Adj R^2	56.9%		59.1%		50.9%	
Prob (F-Stat.)	0.642		0.725		0.025	
DW	2.564		2.747		2.184	
F-Test	0.569		0.443		3.979	

Source: Authors’ computation of the three banks using (E-Views 9)

From Table 4 above, it is imperative to point out some of the relevant statistical and econometric criteria, for instance, the coefficient of multiple determination R^2 indicating that the explanatory power of the independent variables is robust in the model (Gujarati, 2003). The F-Statistic, which determines the overall significance of the model, revealed that the overall relationship in the model for UBA is significant, while that of Access Bank and GTB is not significant, as shown in Table 4. Also, the probability value for UBA is significant, while that of Access Bank and GTB is not significant. The Durbin-Watson (DW) Statistics show the absence of serial correlation in the residuals of the estimated model. In this regard, the coefficients of determination R^2 for the banks imply that 69.1% (Access Bank), 67.2% (GTB), and 61.3% (UBA) variation in Net Profit (NPF) is collectively explained by explanatory variables in the model for each of the banks used as a case study.

The regression results presented in Table 4 above offer some interesting outcomes. First, looking at Access Bank, the coefficients of board size (0.067493) (0.4268), audit committee (0.154684) (0.3194), and board composition (0.000437) (0.9934) assume positive but statistically insignificant at 5%. This implies that the activities of the board of directors, audit committee, and board composition have a positive impact on the profit performance of commercial banks, but the large numbers that constitute the board of directors, audit committee, and board composition do not statistically impact profit performance of commercial banks.

Furthermore, the case of Guaranty Trust Bank shows a very interesting outcome; the coefficients of board size (0.001887) (0.9881), and board composition (0.386775) (0.9934) assume positive and statistically insignificant at 5%, while audit committee (-0.873677) (0.2973) indicate negative and statistically insignificant. This implies that the activities of the board of directors and board composition have a positive impact on the profit performance of commercial banks, but the large numbers that constitute the board of directors, audit committee, and board composition do not statistically impact the profit performance of

commercial banks, while that of audit committee does not impact nor contribute to profit performance of GTB.

Lastly, for United Bank for Africa, the coefficient of board size (-0.020299) (0.5247) indicates negative and statistically insignificant profit performance of commercial banks, while the audit committee (0.126979) (0.5775) indicates a positive and statistically insignificant profit performance of commercial banks, but board composition (0.042381) (0.0033) shows positive and statistically significant with profit performance of commercial banks. This implies that board size does not impact or contribute to the profit performance of UBA, and audit committee impact but does not significantly contribute to the profit performance of UBA, while board composition has positive and statistical significance implying that board composition impacts and contributes to the profit performance of UBA.

Discussion of Findings

From the results of the analysis presented in Table 4, we found that the board size for Access Bank, and Guaranty Trust Bank has a positive effect on the banking system performance for the period under review (20003 to 2023), while the board size of United Bank for Africa has a negative effect on its profit performance for the period under review (2003 to 2023). There were mixed findings here, which might result from the large number of board members or lack of effectiveness, which might be attributed to the negative effect. This finding is also similar to that of (Prisyliya Putri et al., 2023a; Ramdani et al., 2023a; Suriadi, 2023a). The board composition plays a vital role in commercial banks, from Table 4, the study discovered that the board composition of Access Bank, Guaranty Trust Bank, and United Bank for Africa has a positive effect on the profit performance of the banks used as a case study. This finding is similar to that of Bello & Monica, (2023); Sharma, (2023; Tapa and Mat, (2023), but contradict the findings of Adamu, Jiddah, Ibrahim (2023); and Milupi, (2023a). The board composition of companies or banks helps to reveal how direction and control can be improved to further improve the overall banks' performance as indicated by (Kudal* & Dawar, 2020). The board must remain well-balanced over time. A balanced composition allows it to adapt to the changing demands of the business environment and ensures that it can fulfil its role in driving sustainable corporate performance.

From the results presented in Table 4, the study found that the audit committee for Access Bank and United Bank for Africa had a positive effect on the profit performance of these banks, while the audit committee had a negative effect on Guaranty Trust Bank the profit performance for the period reviewed (2003 to 2023) as evidence in the results presented in Table 2. The results are similar to previous findings such as those (Adabenege, 2023; Arjang & Rahman, 2023a; Graham, 2023a; Nguyen, 2022a). This goes to prove that the audit committee play an important role in the banking system.

CONCLUSION AND RECOMMENDATIONS

From a banking industry perspective, good corporate governance demands that banks operate safely and soundly comply with applicable laws and regulations and protect the interests of depositors. This study investigated the implication of corporate governance on the profit

performance of Nigerian commercial banks. In particular, the study looked at how board composition, size, and audit committee performance affected commercial bank profits as well as how commercial bank profit performance was affected by these factors. The study employed the ordinary least square (OLS) method to evaluate the impact of corporate governance on the profit performance of Nigerian commercial banks. The secondary data, which is cross-sectional, covering 2000 to 2023, was used.

The variables in the model consist of net profit (NPF), which is the dependent variable and is a proxy for performance, while the independent variables are the board size, board composition, and the audit committee using four tier-one banks in Nigeria, namely Access Bank, Guaranty Trust Bank, and United Bank for Africa. The three listed banks' annual financial reports were used to obtain data for the study. The study found that the board size for Access Bank and Guaranty Trust Bank had a positive effect on the banks' profit performance for the period under review (2003 to 2023), while the board size of United Bank for Africa had a negative effect on its profit performance for the period under review (2003 to 2023). The study also discovered that the board composition of Access Bank, Guaranty Trust Bank, and United Bank for Africa positively affects the profit performance of the banks used as a case study. Lastly, we also found that the audit committee for Access Bank and United Bank for Africa had a positive effect on the profit performance of these banks. In contrast, the audit committee had a negative effect on Guaranty Trust Bank's profit performance for the period reviewed (2003 to 2023).

Based on the study's findings, the following recommendations are made:

- i. Banks should maintain a smaller board size to reduce agency costs, enhance efficiency, and improve profit performance. An average board size of below 10 members is suggested.
- ii. Banks should enforce corporate governance regulations, ensuring a balanced board size and sufficient independent non-executive directors to maintain board independence.
- iii. Keeping overhead costs in check is crucial, as larger boards can lead to increased expenses.

The study emphasizes the importance of strong corporate governance practices for overall organizational effectiveness, even if board size, audit committee, and board composition may not directly impact profit performance.

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