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# ASSESSING THE IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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***ABSTRACT:*** *Corporate governance is the system by which business corporations are directed and controlled. In banks, quality corporate governance is critical to winning and retaining customer confidence and patronage. This study investigated the effect of corporate governance on the financial performance of some Deposit Money Banks (DMBs) in Nigeria from 2010-2019. Ex-post facto design was adopted in the study. Using secondary data from the annual reports and accounts of the sampled banks, the independent variables were board size (bods), board composition (bodcomp), audit committee (audcom), while the dependent was financial performance proxied by net interest margin (nim), return on assets (roa) and return on equity (roe). Multi-regression model was employed in the analysis. The findings showed that corporate governance has no significant effect on the reported figures for NIM, ROA and ROE. Thus, the study recommends among others, that board size should be monitored closely for better performance. This study expanded the quest for the influence of corporate governance on firms' performance especially as it relates to Nigerian Deposit Money Banks (DMBs).*

**KEYWORDS:** Corporate Governance, Board Size, Board Composition, Audit Committee, Financial Performance.

# I. INTRODUCTION

Corporate governance details the rules and regulations that ensure that a company is governed in a transparent and accountable manner such that the company survives and meets the expectation of its shareholders, creditors and other stakeholders (Akpan and Amran, 2014). It is not just corporate management; it also involves an effective, efficient and transparent administration to meet certain well-defined objectives (McIntyre, Murphy and Mitchell, 2007).

An important aim of corporate governance is the nature and extent of accountability of particular individuals in the organization and mechanisms that try to reduce or eradicate the principal–agent problem of poor corporate governance (Uwuigbe and Fakile, 2012). For the banking sector, Okafor (2011) argues that good corporate governance validates management integrity and defines the quality of financial services offered by banks, thereby influencing the sector's overall performance. Corporate governance in the banking industry provides the platform that is used to attract investors both local and foreign with the trust that their investment will be safe and properly utilized in the best possible means of managing an investment (Mohammed and Farouk, 2014; Abdulazeez, Ndibe and Mercy, 2016). Corporate governance has the capacity to strengthen investors' confidence in the economy of a country (Hermalin and Weisbach, 2003), besides, stabilizing and strengthening financial markets, protect investors, promote firm performance, and attract investments (Cheema & Din, 2013) and in particular, boost public confidence and ensure effective and efficient functioning of the banking system (Soludo, 2004).

Poor corporate governance may contribute to bank failure which can pose significant public cost and consequences (Rahman and Islam 2018; Hajer and Anis 2016; Onofrei, Firtescu, and Terinte, 2018). Massive corporate failures resulting from weak systems of corporate governance have highlighted the need to improve and reform corporate governance at an international level. Egungwu and Egunwu (2018); Adigwe, Nwanna and John (2016), and Ugwuanyi and Amanze (2014) all opined that the failure of banks in Nigeria and elsewhere has been largely due to merely inadequate corporate governance and failure of professional ethics. This is manifested in numerous instances of creative accounting practices, professional insensitive internal control and risk management position been seriously compromised even to the point of colluding with fraudsters. Non-adherence to corporate governance was identified as one of the critical issues in virtually all known instances of financial distress in the past (Okonkwo and Azolibe, 2020).

The board of directors plays an important role in improving corporate governance and the value of a firm (Hanrahan, Ramsay and Stapledon, 2001). Adekunle and Aghedo (2014) reveal a robust positive impact transmission from board size and its composition to firm performance. Ogege and Boloupremo (2014) posit that board composition also improves profitability of Nigerian banks. Yermack (1996), believes that the smaller the board size, the better the firms performance, and proposed an optimal board size of ten or fewer, stressing that large boardrooms tend to slow down decision making, and hence can be an obstacle to change. The composition of the board according to Companies and Allied Matters Act (1990) is a mix of executive and non- executive directors but not exceeding 15 or less than 5 members with separate positions for the chairman and chief executive officer. Tijjani and Anifowose (2013) pointed out that poor performance of boards can erode investors' confidence in banks and lead to investors divesting their investments that can paint a poor image of the financial sector. Thus, the relationship of the board and management, according

to Al-faki (2006), should be characterized by transparency to shareholders, and fairness to other stakeholders.

The multifaceted corporate governance problems in the Nigerian banking sector (Yauri, Muhammed & Kaoje, 2012) and frequent banks collapse resulting poor corporate governance and internal control systems have reawakened the need to improve and reform corporate governance at both domestic and international levels (Onakoya, Ofoegbu and Fasanya 2011)**.**

Considerable scholarly evidence on the effect of corporate practices on financial performance of banks abounds in literature, though with contrasting views. Studies in Nigeria by Nguyen and Tran (2017), and Onakoya, Ofoegbu and Fasanya (2011), all point to the fact that good corporate governance positively affects banks performance. However, some studies particularly from outside Nigeria, like Love and Rachinsky (2013) in Russia and Naushadi and Malik (2015) in Canada, have failed to establish a link between corporate governance and bank performance, thereby, revealing that many empirical literatures lack consensus or established significant influence of corporate governance on financial performance of banks, and indicating the existence of a research gap.

Also, not many studies have considered how audit committee affects profitability. For instance, if the auditors are not independent and do not perform their duties with professional diligence, the value of the firm may suffer. Using the multivariate regression approach, this research will investigate how profitability ratios respond to board size and board composition as well as audit committee in the businesses.

## II. REVIEW OF RELATED LITERATURE

### Conceptual Review

### Corporate Governance Mechanism

Corporate governance mechanisms are policies, guidelines and control to manage an organization and reduce inefficiencies. Business owners and leaders use corporate governance mechanism to help managers and employees understand the acceptable behavior when completing business functions. A corporate governance structure combines controls, policies and guidelines that drive the organization toward its objectives while also satisfying stakeholders' needs. Corporate governance mechanism can be internal or external in nature. The internal mechanism controls monitor the activities and progress within the organization and take corrective measures when necessary. They include, in particular, board of directors, audit committees, auditor, ownership structure, mutual monitoring and supervisory board

External control mechanisms on the other hand, are controlled by those outside an organization and serve the objectives of entities such as regulators, governments, trade unions and financial institutions. These objectives include adequate debt management and legal compliance. External mechanisms are often imposed on organizations by external stakeholders in the form of union contracts or regulatory guidelines. External organizations, such as industry associations, may suggest guidelines for best practices, and businesses can choose to follow these guidelines or ignore them. Typically, companies report the status and compliance of external corporate governance mechanisms to external stakeholders.

### Combined Code of Corporate Governance

The Combined Code originally issued in 1998 drew together the recommendations of "Cadbury, Greenbury, and Hampel reports" (Uwuigbe, 2011). The Combined Code (2003) incorporates a number of key issues as addressed by the Higgs Report (2003) relating to

corporate governance principles; the role of the board and chairman; the role of non-executive directors and audit and remuneration committees.

These recommendations include a revised Code of Principles of Good Governance and Code of best practice; relating to the recruitment, appointment and professional development of nonexecutive directors. Also, included is “Related Guidance and Good Practice Suggestions” for nonexecutive directors, chairman, performance evaluation checklist; as well as a summary of the principal duties of the remuneration and nomination committees. Some of the main reforms included that at least half of the Board of Directors should comprise of non-executive directors, the Chief Executive Officer (CEO) should not be the chairman of the board and should be independent, board and individual directors” performance evaluation should be regularly undertaken, and that formal and transparent procedures be adopted for director recruitment.

In addition, the Nigerian Code of Corporate Governance 2018 was introduced to institutionalize corporate governance best practices in Nigerian companies. The Code is also to promote public awareness of essential corporate values and ethical practices that will enhance the integrity of the business environment. By institutionalizing high corporate governance standards, the Code will rebuild public trust and confidence in the Nigerian economy, thus facilitating increased trade and investment. Companies with effective boards and competent management that act with integrity and are engaged with shareholders and other stakeholders are better placed to achieve their business goals and contribute positively to society.

## Theoretical Review

### Stakeholder Theory

This stakeholder theory was propounded by Freeman in 1984. The theory centres on how to strike a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Clark, 2004). It attempts to address the question of which groups of stakeholder deserve and require management’s attention (Sundaram and Inkpen, 2004). By stakeholders, it means all persons or groups including governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public with legitimate interests participating in an enterprise expectant of benefits and without any prima facie priority of one set of interests and benefits over another (Clark, 2004). With this, the stakeholder theory is better in explaining the role of corporate governance than the other theories by highlighting different constituents of a firm, not minding the initial misconception of narrowing to shareholders as the only interest group (Coleman, 2008). Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders

This study is anchored on the stakeholder theory because it offers a framework for determining the structure and operation of the firm that is cognizant of the myriad of participants who seek multiple and sometimes diverging goals (Donaldson and Preston 1995).

## Empirical Review

Olabisi & Omoleye (2011) investigated the relationship between corporate governance and the performance of banks in Nigeria. The study made use of a sample of five

consolidated banks. One hundred and thirty questionnaires were administered on the management staff of those selected banks, out of which 120 were returned and 10 were not properly filled. Statistical Package for Social Scientist (SPSS) was used to analyze the data collected and interpretation of data was done through simple percentages. Pearson Product Moment Correlation was used to test the relationship that exists between efficient Corporate Governance in the banking sector and the roles of external auditor and the composition of the board of directors. The study revealed that, lack of proper corporate governance is the bane of so many banks in Nigeria. The collapse and failure of many banks was as a result of both poor audit control and directors' negligence to observe due diligence and acceptable standard practices.

Grove, Patelli, Victoravich, & Xu (2011) carried out an empirical study on corporate governance and performance in the wake of the financial crisis using commercial banks in United States. The objective of the study was to examine if corporate governance will explain bank performance during the period leading up to the financial crisis? They adopted the factor structure by Larcker, Richardson, and Tuna (2007) to measure multiple dimensions of corporate governance for 236 public commercial banks. Findings revealed that corporate governance factors explain financial performance better than loan quality. They also found out that strong support for negative association between leverage and both financial performance and loan quality. Findings also showed a concave relationship between financial performance and both board size.

Okonkwo & Azolibe (2020) conducted an extensive research study on the effectiveness of corporate governance in Nigerian banks for the period 2006-2018. The study adopted secondary time series data obtained from annual reports of banks, publications of the Central Bank of Nigeria and Nigeria Stock Exchange annual reports and factbook. A diagnostic test was conducted to ensure that the models are in line with basic econometric assumptions. The granger causality test was applied to examine the effect of the independent variable on the dependent variable. The findings show that corporate governance has a significant effect on performance. It recommends an optimum proportion of outside directors for effective governance impacting performance positively.

Sarpong-Danquah, *et al.* (2018) carried out a research to consider the link between corporate governance and performance of quoted manufacturing firms in Ghana, selected 11 manufacturing firms and analyzed their financial report for the years 2009 to 2013. The study findings are that there is a strong positive link between board independence and equity return, and no statistical relationship between board size and return on equity. Generally, banks occupy an important position in the economic equation of any country such that its (good or poor) performance invariably affects the economy of the country. Poor corporate governance may contribute to bank failures, which can increase public costs significantly and consequences due to their potential impact on any applicable system. Poor corporate governance can also lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger liquidity crisis.

Ibe, *et al.* (2017) explored the effect of a corporate governance system on the financial performance of Nigerian insurance companies using 20 companies and found that the size of the board has a negative and significant impact on shareholder return while the board's independence and net profit margin have a significant positive relationship. They specifically stated that there is no significant positive association between the remuneration of executive

directors and the return on asset but the remuneration of non-executive directors has a significant negative impact on the return on asset

Hajer & Anis (2016) carried out a study on the impact of governance on bank performance: using commercial banks in Tunisian. Their empirical analysis was on a sample of eight Tunisian commercial banks listed on the Stock Exchange over the period 2000–2011. Findings from the study showed that there is no standard governance structure and that each bank should adopt the appropriate governance structure to improve the performance of the financial market, in general, and the banking market, in particular.

## III.METHODOLY

This study adopted the ex-post facto research design. The motive being that the data for the study already exit and can neither be manipulated nor changed. Data on audited annual financial statements of the 13 banks under study covering a period of 10 years (2010-2019) were retrieved from the database of the Central Bank of Nigeria (CBN).

The empirical model is estimated as follows:

$$FinPerf = F(bods) \qquad eq.1$$
$$FinPerf = F(bodcomp) \qquad eq.2$$
$$FinPerf = F(Audcom) \qquad eq.3$$

Equations 1-3 capture the interaction between the dependent and independent variables of the study; however, equations 4-6 captures the explicit form of the regression models as follows:

$$FinPerf_{it} = \alpha_0 + \alpha_1 bods_{it} + \varepsilon_{it} \qquad eq.\ 4$$
$$FinPerf_{it} = \alpha_0 + \alpha_1 bodcom_{it} + \varepsilon_{it} \qquad eq.\ 5$$
$$FinPerf_{it} = \alpha_0 + \alpha_1 Audcom_{it} + \varepsilon_{it} \qquad eq.\ 6$$

Where: *bods*: Board size; *bodcom:* Board composition; *audcom:* Audit committee; *FinPerf:* Financial performance (measured by net interest margin, return on asset and return on equity); *i*=Individual deposit money banks; *t*=time frame; $\varepsilon$ = Error Term; $\alpha_1$ = regression coefficient.

In this study, the multivariate regression estimation technique was employed data. This method was adopted because the study is composed of multiple dependent and independent variables. The analysis was done in sections: descriptive statistics (mean, standard deviation, minimum and maximum value, correlation coefficient, variance inflator factor, and Breusch-Pagan and Cook-Weisberg test for heteroskedasticity) and inferential statistics (Multivariate Regression).

### Data Analysis

The analysis was done in order of precedence; *first,* descriptive statistics of the variables; *second,* correlation matrix (Pearson correlation) *third,* variance inflation factor and heteroscedasticity, and *fourth,* the results of the Multivariate Regression and all results are presented in tabular forms.

***Descriptive Statistics***

**Table 4.1: Summary of Descriptive Analysis**

| stats | roe | roa | nim | audc | bods | bodcomp |
|---|---|---|---|---|---|---|
| mean | 6.706935 | 1.482308 | 17.89051 | 6.053846 | 13.43846 | 16.80844 |
| p50 | 10.69995 | 1.3712 | 16.75135 | 6 | 14 | 15.58705 |
| sd | 40.30932 | 2.354576 | 27.73884 | .4542911 | 3.446161 | 10.6666 |
| min | -394.3182 | -9.5318 | -132.3781 | 4 | 5 | 0 |
| max | 110.6938 | 9.5364 | 127.1915 | 9 | 21 | 60 |
| skewness | -7.762706 | -1.098255 | -.6312849 | 1.716386 | -.1085978 | .6863425 |
| N | 130 | 130 | 130 | 130 | 130 | 130 |

***Source:*** *Researcher's Computation, 2022.*

Table 4.1 shows the mean (average) of the dependent (return on equity –ROE; return on asset – ROA and net interest margin – NIM) and independent (audit committee –audc; board size – bods and board composition –bodcomp) variables of the study, their standard deviation (magnitude of dispersion), skewness as well as the minimum and maximum values. The results shed light on the nature of the selected DMBs in Nigeria. *First,* net interest margin (*nim)* shows the highest average with value of 17.89; this was followed by corporate governance variable of board composition (*bodcomp*) with value 16.80. *Nim* shows the highest dispersion with a standard deviation value of 16.75, which was closely followed by *bodcomp* with a standard deviation value of 15.58.

The dispersion of corporate governance and financial performance measures showed that the sampled DMBs are not too dispersed from each other; an indication of relative change in governance composition, size and audit committee as well as the performance of the DMBs. The variation of the study variables during the period under review was captured by the minimum and maximum values. The results of the minimum values revealed that corporate governance variable of *bodcomp* is zero (0) while *bodcomp* recorded the highest value (60); the maximum value was recorded by Stanbic IBTC Bank in 2010.

Furthermore, the skewness result shows that all corporate governance variables (*audc* = 1.71; and *bodcomp*= 0.68) are positively skewed with financial performance, except board size (*bods* = -0.108) that is negatively skewed with financial performance measures. Again, whether the corporate governance and financial performance variables negatively or positively correlate was assessed using the correlation matrix (Pearson correlation); the results are presented in Table 4.2.

***Pearson Correlation***

**Table 4.2: Correlation Matrix**

| | roe | roa | nim | audc | bods | bodcomp |
|---|---|---|---|---|---|---|
| roe | 1.0000 | | | | | |
| roa | 0.3585 | 1.0000 | | | | |
| nim | 0.3536 | 0.9283 | 1.0000 | | | |
| audc | 0.0112 | 0.1644 | 0.1750 | 1.0000 | | |
| bods | 0.0476 | 0.1481 | 0.1315 | 0.1185 | 1.0000 | |
| bodcomp | 0.1220 | 0.1261 | 0.1131 | 0.0775 | 0.0497 | 1.0000 |

***Source:*** *Researcher's Computation, 2022.*

In Table 4.2, the result shows that *audc* (0.0112)*, bods* (0.0476)*,* and *bodcomp* (0.1220) are positively correlated with financial performance measures. Moreover, the correlation matrix also revealed that no two (2) explanatory variables of the study were perfectly correlated, since none of the correlation coefficients exceed 0.9. The result of correlation is confirmed using the Variance Inflation Factor (VIF) (for testing for the presence of multicollinearity) and Breusch-Pagan and Cook-Weisberg results (for testing for the presence of heteroskedasticity).

### *4.2.3 Variance Inflation Factor (VIF) Test for Multicollinearity*

**Table 4.3: VIF Result**

| Variable | VIF | 1/VIF |
|---|---|---|
| audc | 1.02 | 0.980818 |
| bods | 1.02 | 0.984308 |
| bodcomp | 1.01 | 0.992329 |
| Mean VIF | 1.01 | |

***Source:*** *Researcher's Computation, 2022.*

The result of mean VIF=1.01, which is less than the accepted mean VIF value of 10.0; impliedly, there is non-existence of multicollinearity problems in the specified models of corporate governance and financial performance. Again, the VIF result suggests that the specified corporate governance and financial performance models are void of econometric biases and the results can be relied upon.

***Breusch-Pagan and Cook-Weisberg Test for Heteroskedasticity***

**Table 4.4: Breusch-Pagan and Cook-Weisberg Result**

```
Ho: Constant variance
Variables: fitted values of roe

chi2(1)      =    46.45
Prob > chi2  =   0.0000
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***Source:*** *Researcher's Computation, 2022*

Table 4.4 shows the Breusch-Pagan and Cook-Weisberg results; the result revealed that variables corporate governance and financial performance fit-well in the specified

models of the study, since chi2(1) = 45.45 and Prob. > chi2 = 0.0000, which is statistically significant at 0.05% level; this suggests that there is non-existence of heteroskedasticity problem in the specified models of corporate governance and financial performance of DMBs in Nigeria.

***Test of Research Hypotheses***

**Table 4.5: Multivariate Regression Results for Board Size (bods) and Financial Performance (roe, roa and nim) of DMBs in Nigeria**

| Equation | Obs | Parms | RMSE | "R-sq" | F | P |
|---|---|---|---|---|---|---|
| roe | 130 | 2 | 40.42069 | 0.0023 | .2901001 | 0.5911 |
| roa | 130 | 2 | 2.337678 | 0.0219 | 2.871771 | 0.0926 |
| nim | 130 | 2 | 27.60514 | 0.0173 | 2.25259 | 0.1359 |

| | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| roe | | | | | | |
| bods | .5562207 | 1.032698 | 0.54 | 0.591 | -1.487148 | 2.59959 |
| _cons | -.7678164 | 14.32352 | -0.05 | 0.957 | -29.10935 | 27.57371 |
| roa | | | | | | |
| bods | .1012113 | .0597247 | 1.69 | 0.093 | -.0169643 | .2193869 |
| _cons | .122184 | .828382 | 0.15 | 0.883 | -1.516911 | 1.761279 |
| nim | | | | | | |
| bods | 1.058524 | .7052766 | 1.50 | 0.136 | -.3369866 | 2.454034 |
| _cons | 3.665579 | 9.782186 | 0.37 | 0.708 | -15.69015 | 23.02131 |

***Source:*** *Researcher's Computation, 2022.*

Table 4.5 shows the multivariate regression estimation coefficients, t-statistics, probability of t-statistics, probability of f-statistics as well as $R^2$ of the models of corporate governance and financial performance. A careful examination of the result showed that R-squared for return on equity (roe) is 0.0023, return on asset(roa) is 0.0219 and net interest margin (nim) is 0.0173; this imply that the independent variable (board size –bods) explained about 0.23%, 2.19% and 1.73% of the systematic variations in the dependent variables (roe, roa and nim*)*. The small R-squared suggests that there are other excluded variables that determine financial performance other than the size of the board alone.

Furthermore, the Prob. F-statistics (roe = 0.2901001; roa = 2.871771 and nim = 2.25259) with probability value of 0.5911, 0.0926 and 0.1359 respectively revealed that the results are insignificant at 5percent level; this suggests that board size insignificantly affects financial performance of DMBs in Nigeria. Again, an increase in governance attribute (*bods)* will lead to a decrease in roe, roa and nim by 0.556%, 0.101% and 1.058% respectively. Also, the results are further supported by the t-values, indicating that while board size insignificantly affects financial performance of DMBs in Nigeria, the result is positive.

***Decision:*** The Prob. value for all financial performance variables (roe, roa and nim) are greater than 0.05, indicating a rejection of the alternate hypothesis and acceptance of the null hypothesis, which implies that board size does not have significant effect on the net

interest margin, return on assets and return on equity reported by deposit money banks in Nigeria.

**Table 4.6: Multivariate Regression Results for Board Composition (Bodcomp) and Financial Performance (roe, roa and nim) of DMBs in Nigeria**

| Equation | Obs | Parms | RMSE | "R-sq" | F | P |
|---|---|---|---|---|---|---|
| roe | 130 | 2 | 40.16439 | 0.0149 | 1.932651 | 0.1669 |
| roa | 130 | 2 | 2.344888 | 0.0159 | 2.068151 | 0.1528 |
| nim | 130 | 2 | 27.66839 | 0.0128 | 1.657779 | 0.2002 |

| | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| roe | | | | | | |
| bodcomp | .4608895 | .3315279 | 1.39 | 0.167 | -.1950952 | 1.116874 |
| _cons | -1.039899 | 6.59253 | -0.16 | 0.875 | -14.08435 | 12.00455 |
| roa | | | | | | |
| bodcomp | .0278351 | .0193554 | 1.44 | 0.153 | -.0104628 | .0661329 |
| _cons | 1.014444 | .3848869 | 2.64 | 0.009 | .2528799 | 1.776009 |
| nim | | | | | | |
| bodcomp | .2940533 | .2283825 | 1.29 | 0.200 | -.1578404 | .7459471 |
| _cons | 12.94793 | 4.541453 | 2.85 | 0.005 | 3.961889 | 21.93397 |

***Source:*** *Researcher's Computation, 2022.*

Table 4.6 shows the multivariate regression estimation coefficients, t-statistics, probability of t-statistics, probability of f-statistics as well as $R^2$ of the models of corporate governance and financial performance. A careful examination of the result showed that R-squared for return on equity (roe) is 0.0149, return on asset(roa) is 0.0159 and net interest margin (nim) is 0.0128; this imply that the independent variable (board composition–bodcomp) explained about 1.49%, 1.59% and 1.28% of the systematic variations in the dependent variables (roe, roa and nim*)*. The small R-squared suggests that there are other excluded variables that determine financial performance other than the composition of the board alone.

Furthermore, the Prob. F-statistics (roe = 1.932651; roa = 2.068151 and nim = 1.657779) with probability value of 0.1669, 0.1528 and 0.2002 respectively revealed that the results are insignificant at 5percent level; this suggests that board composition insignificantly affects financial performance of DMBs in Nigeria. Again, an increase in governance attribute (*bodcomp)* will lead to a decrease in roe, roa and nim by 0.460%, 0.027% and 0.294% respectively. Also, the results are further supported by the t-values, indicating that while board composition insignificantly affects financial performance of DMBs in Nigeria, the result is positive.

***Decision:*** The Prob. value for all financial performance variables (roe, roa and nim) are greater than 0.05, indicating a rejection of the alternate hypothesis and acceptance of the null hypothesis, which implies that board composition does not have significant effect on the net interest margin, return on assets and return on equity reported by deposit money banks in Nigeria.

**Table 4.7: Multivariate Regression Results for Audit Committee (Audcom) and Financial Performance (roe, roa and nim) of DMBs in Nigeria**

| Equation | Obs | Parms | RMSE | "R-sq" | F | P |
|---|---|---|---|---|---|---|
| roe | 130 | 2 | 40.46394 | 0.0001 | .016035 | 0.8994 |
| roa | 130 | 2 | 2.331607 | 0.0270 | 3.554135 | 0.0617 |
| nim | 130 | 2 | 27.41711 | 0.0306 | 4.045318 | 0.0464 |

| | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| roe | | | | | | |
| audc | .9930541 | 7.842219 | 0.13 | 0.899 | -14.52412 | 16.51023 |
| _cons | .695138 | 47.60805 | 0.01 | 0.988 | -93.50552 | 94.8958 |
| roa | | | | | | |
| audc | .8519091 | .4518833 | 1.89 | 0.062 | -.0422192 | 1.746037 |
| _cons | -3.675018 | 2.743264 | -1.34 | 0.183 | -9.103035 | 1.752999 |
| nim | | | | | | |
| audc | 10.68732 | 5.313644 | 2.01 | 0.046 | .1733667 | 21.20127 |
| _cons | -46.80888 | 32.25774 | -1.45 | 0.149 | -110.6363 | 17.01856 |

***Source:*** *Researcher's Computation, 2022*

Table 4.7 shows the multivariate regression estimation coefficients, t-statistics, probability of t-statistics, probability of f-statistics as well as $R^2$ of the models of corporate governance and financial performance. A careful examination of the result showed that R-squared for return on equity (roe) is 0.0001, return on asset (roa) is 0.0270 and net interest margin (nim) is 0.0306; this imply that the independent variable (audit committee - audcom) explained about 0.01%, 2.70% and 3.06% of the systematic variations in the dependent variables (roe, roa and nim*)*. The small R-squared suggests that there are other excluded variables that determine financial performance other than the composition of audit committee.

Furthermore, the Prob. F-statistics (roe = 0.016035; roa = 3.554135 and nim = 4.045318) with probability value of 0.8994, 0.0617and 0.0464 respectively revealed that the results are insignificant at 5percent level; this suggests that audit committee insignificantly affects financial performance of DMBs in Nigeria. Again, an increase in governance attribute (*audit committee)* will lead to a decrease in roe, roa and nim by 0.993%, 0.851% and 10.68% respectively. Also, the results are further supported by the t-values, indicating that while audit committee insignificantly affects financial performance of DMBs in Nigeria, the result is positive.

***Decision:*** The Prob. value for all financial performance variables (roe, roa and nim) are greater than 0.05, indicating a rejection of the alternate hypothesis and acceptance of the null hypothesis, which implies that audit committee does not have significant effect on the net interest margin, return on assets and return on equity reported by deposit money banks in Nigeria.

## IV. CONCLUSION

This study investigated the effects of corporate governance on the financial performance of Deposit Money Banks (DMBs) using several governance mechanisms such

as board size, audit committee, and board composition and financial performance measures of return on asset, return on equity and net interest margin. Given the inferential statistics results, the study concludes that corporate governance attributes do not significantly affect the financial performance of Deposit Money Banks (DMBs) in Nigeria.

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