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RESEARCH ARTICLE

CORPORATE GOVERNANCE MECHANISMS AND PROFITABILITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract: The main objective of this study was to examine the effect of corporate governance mechanisms on the profitability of listed deposit money banks in Nigeria. The independent variable being corporate governance mechanism was proxied by board expertise and board gender diversity while the dependent variable being profitability was proxied by return on capital employed. The research design adopted for this study was the ex post facto research as the secondary data were employed. The population of this study was fourteen listed deposit money banks in Nigeria. The method of data analysis employed was the ordinary least square regression analysis and the statistical package employed was SPSS version 21. Based on the analysis of the data, it was found out that board expertise has a positive but insignificant effect on the return on capital employed; board gender diversity has a significant positive effect on return on capital employed of listed deposit money banks in Nigeria. Thus it was concluded that board monitoring mechanisms have significant effect on profitability of listed deposit money banks in Nigeria. Based on this, it was recommended that the management of deposit money banks in Nigeria should not overlook the importance of diverse experiences on their boards despite the lack of statistical significance. Also that listed deposit money banks in Nigeria should actively promote gender diversity on their boards. Encouraging the inclusion of more female directors can lead to broader perspectives, enhanced decision-making processes, and ultimately, improved profitability as proven by this study.

Keywords: *Corporate governance mechanism, profitability, return on capital employed, board expertise, board gender diversity.*

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INTRODUCTION

Corporate governance has become a crucial aspect of modern business, particularly in the banking sector, where sound governance practices are essential for maintaining stakeholder trust and promoting financial stability. Listed deposit money banks, as key players in the financial system, are expected to demonstrate high standards of corporate governance to ensure their profitability and sustainability. In recent years, the banking sector has faced numerous challenges, including financial crises, regulatory changes, and increasing competition. These challenges have highlighted the need for effective corporate governance mechanisms to ensure that banks are managed in a responsible and sustainable manner. Corporate governance mechanisms refer to the systems and processes by which companies are directed and controlled. These mechanisms include the board of directors' size, board expertise, board gender diversity, audit committees, risk management processes, and shareholder engagement, among others.

Board expertise in corporate governance refers to the collective knowledge, skills, and experience of the individuals serving on a company's board of directors. Having a diverse and well-rounded board with expertise in various areas is crucial for effective decision-making, strategic planning, and oversight within the organization.

The expertise could be viewed in terms of industry Knowledge, accounting and finance knowledge, legal and regulatory understanding and international experience and so on. Having a board with diverse expertise ensures that the company benefits from a wide range of perspectives, skills, and knowledge, ultimately contributing to better decision-making, risk management, and long-term value creation for shareholders and stakeholders.

Board diversity in corporate governance refers to the inclusion of individuals from a variety of backgrounds, experiences, and demographics on a company's board of directors. This includes diversity in terms of gender, race, ethnicity, age, nationality, professional background, skills, and expertise. Promoting board diversity is not only a matter of social responsibility but also a strategic imperative for companies seeking to drive innovation, mitigate risks, and achieve long-term success in an increasingly diverse and dynamic business environment.

Profitability is the degree to which a business yield profit or financial gain. It is the ability of a company to use its resources to generate revenues in excess of its expenses (Uford, Mfon & Charles, 2023). In order words, it is the capability of a company to generate profits from its operation. Profitability can likewise be referred to as 'earning power'' or working performance of the business which add up to Investment (Hasan, 2021). Hence, the performance of the industry in terms of profitability inevitably becomes very important.

The relationship between corporate governance and firm profitability can be complex and dependent on various factors. However, Charles and Uford (2023) suggest that good corporate governance practices generally have a positive impact on a firm's profitability. Effective corporate governance promotes transparency and accountability within a company. This can enhance investor confidence, attract more investment, and improve access to capital, ultimately leading to improved financial performance. A well-structured board of directors with diverse skills and expertise can provide effective oversight and strategic guidance to the management team. This can help in making better decisions, minimizing risk, and maximizing profitability.

Strong corporate governance practices often include risk management frameworks and internal controls that mitigate risks. Effective risk management helps protect the company's assets, prevent financial losses, and maintain profitability.

Inadequate identification, assessment and mitigation of risks can lead to significant financial losses. Managerial opportunistic behaviors as well as unethical accounting practices such as inflated revenues, conflict of interests, and earnings management practices have been identified as factors responsible for the collapse of these banks.

The board of directors and management of the affected banks were alleged to have over the years, derailed on their oversight functions, relinquished control to corporate managers who pursued their own self-interests, fraudulently mismanaged the banks and covered their tracks with fraudulent financial reports. This phenomenon questions the desirability of the codes. The empirical literature revealed a sector gap, as it was realized that most of the studies focused on other sectors other than the banking sector (Abdullah & Tursoy, 2023 -non finance firms; Mensah & Bein, 2023; manufacturing companies; Ria, 2023-non financial firms; Hong & Linh, 2022, -consumer goods sector).

It was also found out that some of studies used other measures of corporate governance than the ones in this study (Pucheta-Martínez & Gallego-Álvarez, 2020 - CEO duality, board compensation; Akinleye *et. al.,* 2019 - board activism, and committee activism; Ogundayo, 2019 - ownership structure). In addition to this, some studies used different predicted variable (Alabdullah, 2023 - return on assets (ROA); Andoh et al., 2023 - Tobin's q; return on net operating assets (RONOA); Titilayo *et. al.,* 2022- return on assets (ROA) and Tobin's Q; Olayiwola, 2018-net profit margin (NPM); Martinez & Moraes, 2014 - Tobin's q).

By examining the relationship between corporate governance mechanisms and profitability, this study aims to contribute to the existing literature and provide insights for policymakers, regulators, and banking industry stakeholders on the importance of effective corporate governance in promoting the sustainability and profitability of listed

deposit money banks. This study would help prospective investors to assess a company's transparency and accountability to prevent corporate scandals, fraud and issues pertaining to corporate liability and to ensure their intended investment is less susceptible to system risks.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Corporate Governance

According to the Cadbury Report 1992, corporate governance is defined as the "system by which businesses are directed and controlled". In other words, corporate governance is a general set of customs, regulations, habits and laws that determine how those charged with the responsibility should run a firm. Corporate governance is a set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating.

At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. But corporate governance goes beyond simply establishing a clear relationship between shareholders and managers (CIPE: Development Institute, 2013). In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks (Solanke *et. al*., 2022). The health of the organization depends on the underlying soundness of its individual components and the connections between them.

According to Almashhadani, (2023), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; sound disclosure regimes and an appropriate savings deposit protection system. Therefore good corporate governance mechanism affects firms profitability positively if it functions effectively and efficiently.

Profitability

Profitability is the degree to which a business yield profit or financial gain. It is the ability of a company to use its resources to generate revenues in excess of its expenses (Uford, Mfon & Charles, 2023). In order words, it is the capability of a company to generate profits from its operation.

Profitability can likewise be referred to as 'earning power" or working performance of the business which add up to Investment (Uford & Joseph, 2019; Hasan, 2021). According to Adebayo *et. al*., (2022), profit is characterized as the capacity an investment has, to acquire a sizable income from its consistent use in business. This suggests that profit is a composite idea relating to the effectiveness of the organization to earn profit. Furthermore, they argued that profitability measures the capacity of the firm to persistently create income, while Etim *et. al.* (2023) uncovered that the normal return, for the most part alluded to as profit, realize from the capital market, can likewise be considered as the opportunity cost.

In academic research, scholars often employ a wide range of profitability measures to evaluate the effectiveness, efficiency, and overall health of companies and some of them include; return on capital employed, net profit margin, gross profit margin, return on equity, return on total assets, return on shareholders' fund, return on assets ROA), return on equity, (ROE), earnings per share, net profit margin and gross profit margin and return on capital employed.

This study employed return on capital employed. Return on capital employed (ROCE) determines the company's profitability and the efficiency with which the capital employed is used to generate profit. The higher the better for the company as a higher ROCE indicates that the entity generates more earnings per ₦1 capital invested, and it is expressed as x%.

This is given as:

$$\text{ROCE} = \frac{\text{Profit before interest and tax}}{\text{Shareholders fund+longterm loan}} = \frac{100}{1}$$

Board of Directors' Expertise and Profitability

Board expertise in corporate governance refers to the collective knowledge, skills, and experience of the individuals serving on a company's board of directors. Having a diverse and well-rounded board with

expertise in various areas is crucial for effective decision-making, strategic planning, and oversight within the organization. The expertise could be viewed in terms of industry Knowledge, accounting and finance knowledge, legal and regulatory understanding and international experience and so on.

Having a board with diverse expertise ensures that the company benefits from a wide range of perspectives, skills, and knowledge, ultimately contributing to better decision-making, risk management, and long-term value creation for shareholders and stakeholders. Haniffa & Cooke (2000) defined board expertise as the degree of experience possessed by a company's board of directors. It's used to characterize the board members' level of exposure to and knowledge of business organization finance and management.

A board of directors' financial expertise can affect a firm's financial performance in several ways. For instance Jia, (2019) noted that board members with financial expertise can contribute to more informed strategic decisions regarding investments, mergers and acquisitions, capital allocation, and financial risk management. Board members with financial expertise according to Igbekoyi *et. al*. (2021), can assess and mitigate financial risks more effectively, such as market volatility, liquidity issues, or capital structure concerns.

A board with strong financial expertise signals to investors that the company is managed by knowledgeable and capable individuals who prioritize financial health and long-term value creation Adusei (2019) From prior studies board expertise has a positive effect on financial performance (Emiaso & Okafor, 2023; Ramdani & Witteloostuijn, 2020). On the contrary Igbekoyi *et. al.,* (2021) and recording a negative effect of board expertise in their studies. Thus, based on the above submission this study hypothesized that;

Ho$_1$: Board expertise has no significant effect on the return on capital employed of listed deposit money banks in Nigeria

Board of Directors' Gender Diversity and Profitability

Board diversity in corporate governance refers to the inclusion of individuals from a variety of backgrounds, experiences, and demographics on a company's board of directors. This includes diversity in terms of gender, race, ethnicity, age, nationality, professional background, skills, and expertise. Promoting board diversity is not only a matter of social responsibility but also a strategic imperative for companies seeking to drive innovation, mitigate risks, and achieve long-term success in an increasingly diverse and dynamic business environment.

Gender diversity is significantly increasing, there have been a significant progress in female representation in the board of directors (Daily *et. al.,* 1999). Board gender diversity is a significant aspect of corporate governance, it is defined as the presence of female directors on the board of directors of corporations (Arora, 2022; Ahern & Dittmar, 2012). There is a plethora of literature with ambiguous results on the relationship between gender diversity in the board of directors and firms' financial performance.

For example, Higgs (2003) report argues that diversity could improve board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented. According to Yameen *et. al*., (2019) board gender diversity can influence board efficiency at both individual and team levels. Gender diversity fosters a firm's competitive advantage by creating a positive reputation for the firm as well as by creating a positive impact on customers (Ria, 2023).

However, inspite of all of these advantages, scholars have termed board gender diversity a double-edged weapon (Miyienda et al., 2012), stating that diversity can enhance or hinder strategic change depending on firm performance and the power of women directors. Thus this study hypothesized that;

Ho$_2$: Board gender diversity has no significant effect on the return on capital employed of listed deposit money banks in Nigeria.

Theoretical Framework

Several theories have been advanced in the empirical literature to support the effect of corporate governance mechanism on profitability of firms.

But this study is anchored on upper upper echeon theory.Upper Echelons theory was initially introduced by Hambrick and Mason (1984), which posits that an organization is a reflection of its top executives. This theory postulates that top executives analyze situations and prospective decisions via a lens, sculpted by their attributes (Hambrick & Mason, 1984).

These lenses thereby leverage the strategic choice (e.g. innovation, diversification, capital structure, and dividend policy, among others) and organization performance (e.g. profitability, growth, and survival, among others). The Upper Echelon theory holds the assumption that top management teams have substantial impact on firm's outcome through the decisions that they make which are uncertain and possess ambiguity.

An individual holds different vision, perception and interpretation to these uncertainties and therefore make different strategic choices. Although the theory of Upper Echelon was originally targeted for top management team (TMT), prior research has applied this theory to the board of directors, acknowledging that board of directors are a part of the "supra top management teams" (Chouaibi *et. al.,* 2018). The Upper Echelon theory complements the corporate governance theories on board of directors by underlying demographic attributes of board members.

Hambrick and Mason (1984) built their theory on the premise of behavioral theory with their primary focus being on identifying managerial characteristics that can be used as variables to the cognitive base and values that upper echelons bring about that impact the company's outcome- both strategy and effectiveness wise. These managerial characteristics are used to help understand *how* it is that board heterogeneity impacts firm outcome and earnings management. The theory recognizes that top management team (TMT) are affected by own cognitive base and values which influence their decisions on the strategy which ultimately influence firm outcome and stakeholder's value maximization. (Ogaluzor & Chukwu, 2022).). Thus, TMT works within the limitations that their own cognitive frame holds (Canella & Holcomb, 2015).

This theory is relevant to this study in the sense that the board of directors in carrying out their advisory and monitory roles need to bring their managerial characteristics to bare. Also this theory states have it that managerial background traits or characteristics estimate organizational outcomes, planned choices and the performance levels. In addition to this the boards of directors are a part of the top management teams that make strategic decisions and choices that can positively impact on the financial outcome of the firm.

Empirical Reviews

Khan and Mahmood (2023) evaluated corporate governance' influence on firm performance, operationalizing corporate governance through the utilization of eight indicators: board size, ownership structure, CEO duality, independence of audit committee, firm size, firm age, firm leverage, and firm growth.

Meanwhile, firm performance was assessed based on return on assets and return on equity. The study was conducted within the context of the Pakistan Stock Exchange, with a sample comprising 100 publicly listed non-financial sector firms. Data pertaining to the study variables was systematically collected and analyzed over a ten-year span, spanning from 2013 to 2022, employing appropriate statistical tools.

The study's outcomes disclosed that a smaller board size, moderate leverage, CEOs serving on multiple boards, a high degree of independence within audit committees, larger firm size, younger firms, and sustainable growth have a positive impact on firm performance. However, high leverage was observed to negatively affect firms' profitability, particularly in periods of high interbank offered rates.

Madi *et. al.* (2023) scrutinized the interplay between the characteristics of a company's board of directors, the attributes of its audit committee, and the financial performance of firms listed on the Palestine Exchange (PEX). To gauge financial performance, proxies such as Return on Assets (ROA) and Return on Equity (ROE) were employed. The board's characteristics were represented by the proportion of non-executive directors and the

board's size, while the audit committee's attributes included the number of non-executive members, the financial expertise within the committee, the frequency of audit committee meetings, and the size of the committee. To achieve this objective, an analysis encompassed all companies listed on the exchange that published annual reports within the years 2011 to 2019.

The findings of the analysis indicated that board size exhibited a negative and statistically significant association with ROE, and the frequency of audit committee meetings was significantly linked to ROE. On the other hand, firm size displayed a negative relationship with ROA, and a positive connection between leverage and ROE was observed, albeit at a significance level of 10%. In contrast, other relationships with financial performance did not reach statistical significance.

Mensah and Bein (2023) conducted a comparative assessment of the impact of effective corporate governance on the financial performance of manufacturing companies in South Africa, Nigeria, and Ghana. A purposive sampling method was employed to select a total of 60 manufacturing companies for the study, with 29 hailing from South Africa, 17 from Nigeria, and 14 from Ghana. The research employed both the Generalized Method of Moments (GMM) and Fully Modified Ordinary Least Squares (FMOLS) methods to estimate the influence of corporate governance on these firms' financial performance.

It was observed that South Africa had the lengthiest average board tenure, standing at 7.85 years, followed by Nigeria at 4.7 years and Ghana at 3.9 years. The study disclosed that the average board tenure had a positive and statistically significant effect on the return on invested capital (ROIC) of companies in South Africa and Ghana, while the effect in Nigeria was positive but statistically insignificant. Furthermore, the study highlighted the percentage of female directors on corporate boards, with South Africa having the highest representation at 24.26 %, followed by Ghana at 17.8 %, and Nigeria at 17.3 %. Importantly, it was found that female representation on corporate boards had a positive and statistically significant impact on the return on net operating assets (RONOA) across all the firms.

Musa and Yahaya (2023), employing the Generalized Method of Moments (GMM) regression, scrutinized the role of corporate governance in the optimization of firm value within a dataset encompassing 134 listed firms on the Nigerian Exchange Main Board over a ten-year span from 2013 to 2022.

The data utilized in this research was derived from panel data extracted from the annual reports and accounts of the selected firms, with data processing was carried out using STATA 15.1. The findings of the study revealed that risk committee size, leverage, asset tangibility, profitability, and firm size held substantial and statistically significant effects on firm value. In contrast, concentrated ownership, board size, audit committee size, remuneration committee size, audit quality did not exhibit significant impacts on firm value.

Etuk and Akpan (2023).examined the effect of corporate governance on annual report readability in Nigeria by drawing samples from oil and gas firms that were listed on the floor of the Nigerian Exchange Group (NGX) from 2012-2021. In this study, board size, audit firm type, and ownership structure were the corporate governance mechanism employed. The dependent variable of annual report readability was proxied in terms of annual report page length in line with related extant literature.

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a panel regression analysis. The result showed that board effectiveness has a significant effect on annual report readability; audit quality had an insignificant effect on annual report readability; ownership concentration had an insignificant effect on annual report readability.

Eshiet, *et. al.* (2023) studied the effect of corporate governance attributes on financial reporting quality of listed manufacturing firms in Nigeria. Data for the study were obtained annual reports of sampled 42 manufacturing firms listed on the NEG for

the years 2012 to 2021. The data were analysed with the aid of panel regression using STATA version 14.

The findings of the study show that board gender diversity and board diligence have significant effect on timeliness of financial reporting of listed manufacturing firms. The study suggested board membership of 7 and 8. Enoidem *et. al.,* (2023) examined the effect of board monitoring mechanisms on earnings managements of non-finance firms listed on the floor of the Nigeria Exchange Group from 2012-2021.

The independent variable of the study being board monitoring mechanism was proxied by board size (BODS), board independence (BODI) and board gender diversity (BGDV) while the dependent variable being earnings management was proxied by Modified Jones Model (MJON). Furthermore, in line with related extant literature, the study controlled the model goodness of fit by employing the variable of cash flow return from operations (CFOA) The research design adopted for this study was ex post facto, purposive sampling technique was employed and secondary source of data used was obtained from the studied companies' annual report and Nigeria Exchange Group fact book.

Least square variable regression was adopted to analyze and test the three hypotheses formulated for the study. The study revealed that board size, board independence, board gender diversity has significant negative effect on earnings management of non-finance firms listed on the floor of the Nigeria Exchange Group. It was thus concluded that board monitoring mechanisms have significant effect on earnings management of listed non-finance firms in Nigeria.

Ria (2023) aimed to explore the role of capital structure as a mediating factor in the relationship between corporate governance and company performance within the non-financial sector of Indonesia. The data for this research was extracted from financial statements of companies listed on the Indonesia Stock Exchange during the period from 2017 to 2021, with a sample comprising 15 companies. The study revealed that aspects of corporate governance, such as board independence, board size, and the presence of an audit committee, were significantly linked to both capital structure and company performance. However, gender diversity exhibited an insignificant relationship with both capital structure and company performance. Furthermore, the research found that capital structure did not effectively mediate the influence of corporate governance elements, including board independence, board size, audit committee, and gender diversity, on company performance.

Akpan *et. al.,* (2022) evaluated the moderating effect of audit committee gender diversity on the relationship between social responsibility disclosure and earnings management of selected consumer goods companies in Nigeria. Earnings management was the dependent variable and the independent variable employed in this study was corporate social responsibility measured as social donation disclosure, employee relation disclosure, while audit committee gender diversity was used as the moderating variable.

Ex post facto research design was adopted, secondary data were used and three hypotheses were tested. The results showed that audit committee gender diversity significantly moderate the relationship between social donation disclosure and earnings management. Also, the study found that audit committee gender diversity significantly moderates the relationship between customer complaints disclosure and earnings management. Finally, the result showed that audit committee gender diversity significantly moderates the relationship between employee disclosure and earnings management.

Jusup and Sambuaga (2022) provided empirical evidence regarding the role of gender diversity in the governance function on earnings management practices. The study discussed the role of women in the composition of the board of directors to reduce earnings management practices. The study uses agency theory and stakeholder theory in its discussion. Analysis of the results was done using multiple linear regression method on a sample of 45 LQ companies for the period 2016-2020. Hence, based on the purposive sampling method, 115 observations were obtained. The results show that the presence of female directors can reduce accrual earnings management

behavior. The noted however that the percentage of women on the board of directors does not affect the company's earnings management practice.

Akpan & Nkanga (2023) examined the effect of corporate governance attributes on segment reporting of listed conglomerates firms in Nigeria. Ex post facto research design was adopted for the study and five listed conglomerate firms were purposively selected. Secondary data were extracted from these companies' annual reports and the Nigeria Exchange Group fact book. The data for the study was analyzed using OLS regression technique and the findings revealed that board size, board diligence and board gender diversity have significant positive effect on segment reporting measured by the number of reportable segments.

Zgarni and Fedhila (2022) examined the effect of board characteristics on real earnings management. Using panel data econometrics, on all Tunisian commercial banks over the period 2008-2019, the authors show that board gender diversity has a disciplinary role in real earnings management as measured by discretionary revenue on equity securities. However, they show that board independence increases the real earnings management. As for board size, board duality, as well as the number of meetings carried out per year by the board of directors, they prove that they have no significant effect on real earnings management.

Okpo and Ubi (2019) studied the relationship between the corporate governance mechanisms and corporate performance of manufacturing companies listed on the floor of Nigeria Exchange Group. The data for the study were extracted from annual reports of the selected firms for the period 2010 to 2017. The data were analysed using regression models. The results of the analysis show significant a positive relationship between board size and corporate performance while negative relationship was found between board composition and independent directors.

METHODOLOGY

This study adopted ex post facto research design in ascertaining the effect of corporate governance mechanisms on financial performance of listed deposit money banks in Nigeria. This design was suitable for this study because the study made use of secondary data that were extracted from the studied firm's annual reports. The population of this study consisted of all the deposit money banks listed on the floor of the Nigeria Exchange Group.

As at 31 December, 2022 the total number of listed deposit money banks in Nigeria were fourteen according to the Nigerian Exchange Group fact book, and these constituted the population of the study. Since the population of the study was not too large, the entire fourteen deposit money banks listed on the Nigerian Exchange Group that constituted the population of this study were taken to form the sample of the study.

Thus the sampling technique used was census. Secondary data was used in carrying out the analysis of this study. The secondary data were obtained from the annual financial report and accounts of each of the 14 banks for the period 2013-2022. Data were also obtained from the Nigeria Stock Exchange Fact books. The OLS technique was adopted because it is relatively easier to understand and implement.

Model Specification

The model used in this study is adapted from the work of Titilayo et al., (2022) and was modified to suit this study as presented below;

Profitability=f (Corporate governance mechanisms)
ROCE = f (board expertise, board gender diversity)

$$ROCE_{it} = \beta_0 + \beta_1 BODE_{it} + \beta_2 BODG_{it} + \beta_3 FIMZ_{it} + \mu_{it} \quad (1)$$

Where;

ROCE = Return on capital employed
BODE = Board expertise
BOGD = Board gender diversity
FIMZ = Firm size (control variable)
B_0 = Constant
B_1- B_3 = Slope Coefficient to be determined in the study
μ = Stochastic disturbance
i = i^{th} banks
t = time period

Table 1: Operationalization of the variables

S.No.	Variables	Measurement	Source	Approiri Expectation
1	Return on capital employed	Ratio of operating profit to capital employed	Titilayo *et. al.*, (2022)	
	Independent variable			
2	Board expertise	Ratio of board members with accounting and finance qualifications to total board size.	Madi *et. al.*, (2023)	+
3	Board gender diversity	Ratio of female board members to total board size.	Mensah & Bein (2023)	+
4	Firm size (control variable)	Log of total assets	Alabdullah (2023)	+

Source: Researcher's operationalization (2023)

ANALYSIS AND DISCUSSION OF RESULTS

Data Analysis

Table 2: Descriptive statistics of the effect of corporate governance mechanism on profitability of listed deposit money banks in Nigeria

	N	Minimum	Maximum	Mean	Std. Deviation
ROCE	140	.14	.37	.14527	.14282
BODE	140	.21	.69	.4106	.09286
BOGD	140	.0	8.0	3.100	1.6284
TOTAL ASSETS	140	33915651.0	14972310000.0	3122348494.643	3063363733.1675
Valid N (listwise)	140				

Source: SPSS 21 Output (2023)

Table 2 above shows the descriptive statistics of all the variables of this study. From the output above, the lowest return on capital employed (ROCE) in the banking sub-sector between 2013 to 2022 was 14% while the highest was 37%. Standard deviation and average were about 13% respectively which shows that financial performance in this sub-sector was good.

This is true because an average bank made about 13% returns on equity which is not bad in anyway. For firm size, the highest total assets during the study period was ₦14,972,310,000,000 lowest was ₦33,915,651,000, and standard deviation of ₦3,063,363,733,167.50. An average bank had assets amounting up to ₦3, 122, 348, 494, 643 and these statistics show a very high level of capitalization in terms of assets for these banks. Moreso, in the sector, an average bank had about 41% of board members who had qualifications in accounting and finance. The highest was 69% while the lowest was 21%. Standard deviation however, came in at about 9 % and from these, it can be said that the banking industry is characterized by high population of board members with accounting or finance qualifications.

Finally, the average board of directors in the banking industry had about 3 female directors. At the highest level, there were up to 8 female directors and there was none at the lowest level. Standard deviation of about 2 however, shows that there is high prioritisation of board gender diversity (BOGD) in the banking industry.

Table 3: Pearson Product Moment Correlation analysis of the relationship between corporate governance mechanism and profitability

	ROCE	BODE	BOGD	FIMZ
ROCE	1			
BODE	.118	1		
BOGD	.114	.309	1	
FIMZ	.201	.231	.324	1

Source: SPSS 21 Output (2023)

Table 3 shows the correlation matrix of the dependent and independent variables of this study. From the Table, return on equity (ROCE) and board expertise (BODE) were positively correlated (coeff. = 0.118). Board gender diversity (BOGD) showed weak positive correlation with ROCE (0.114 as coefficient) while firm size (FIMZ) and ROE also exhibited a weak positive correlation (0.201). The weak coefficients further confirm the absence of autocorrelation among the independent variables.

Regression Analysis

Table 4: Model summary of the effect of corporate governance on profitability of listed deposit money banks in Nigeria

Model	R	R square	Adjusted R square	Std. error of the estimate	Durbin-Watson
1	.733[a]	.537	.516	.12643	1.679
a. Predictors: (Constant), BODE, BOGD, FIMZ,					
b. Dependent Variable: ROCE					

Source: SPSS 21 Output (2023)

Table 5: Analysis of variance (ANOVA) of the effect of corporate governance on profitability of listed deposit money banks in Nigeria

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.303	6	.050	13.154	.000[b]
	Residual	2.126	133	.016		
	Total	2.428	139			
a. Dependent Variable: ROCE						
b. Predictors: (Constant), BODE, BOGD, FIMZ,						

Source: SPSS 21 Output (2023)

Table 6: Coefficients of the effect of corporate governance on profitability of listed deposit money banks in Nigeria

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.432	.574		-2.496	.014
	BODE	.013	.009	.139	1.541	.126
	BOGD	.020	.008	.242	2.463	.015
	FIMZ	1.110	.441	.220	2.518	.013
a. Dependent Variable: ROCE						

Source: SPSS 21 Output (2023)

Table 4 and 5 above represents the results obtained from the regression analysis for this study. The results indicate that the OLS regression had an R-squared value of 0.537. This implies that the independent variables of this study could explain about 53.7% of the systematic changes in the dependent variable.

However, the unexplained part could be attributed to other variables not captured in the model but captured in the error term. The result of the F-statistics (13.154) in the ANOVA for the sampled banks with an associated p-value of 0.000 indicates that the independent variables have a statistically significant effect on the dependent variable of this study.

DISCUSSION OF FINDINGS

Board Expertise and Return on Equity

The results obtained from the regression model in Table 8 also revealed that board expertise [coef.= 0.139(0.126)] has a non-statistically significant positive effect on return on capital employed of listed deposit money banks in Nigeria during the period under study. This implies that board expertise has no significant effect on return on capital employed of the banks under study.

Board expertise may have an insignificant effect due to various factors that could diminish h its impact. Even if board members

possess expertise in specific areas such as finance, operations, or technology, their influence on the company's overall performance and strategic direction may be limited. If the board's decisions are frequently overridden by management or if their recommendations are not consistently implemented, their expertise may not translate into meaningful improvements on financial performance.

If expertise is not effectively synthesized and applied to address the company's challenges and opportunities, it may not result in the necessary strategic insights and actions to drive ROCE growth. Titilayo *et. al.*, (2022) notes that it is pertinent to know that even if the board possesses strong expertise, the company's management may fail to effectively execute the recommendations put forward by the board.

Without proper follow-through and execution of strategies informed by board expertise, the impact on ROCE may be minimal. This result is contrary to those of Emiaso and Okafor (2023) and Mensah and Bein (2023) who found a board expertise to have a positive effect on financial performance.

Board Gender Diversity and Return on Equity

The results for the effect of board gender diversity on return on equity of listed deposit money banks in Nigeria [coef. = 0.242 (0.015)] presented a significant positive result. This implies that increase in number of female directors on the boards of listed deposit money banks would cause about 24.2 % increase in return on their equities. Put differently, as female directors increase, return on equity also increases and as female directors reduce, return on equity follows suit. This could be because women bring diverse perspectives, experiences, and insights to the decision-making process.

Also, studies indicate that companies with greater gender diversity on their boards are more innovative and creative. Women directors may bring a fresh approach to problem-solving, idea generation, and strategic planning, fostering a culture of innovation that can drive business growth and financial success. Having female representation on boards can help companies better understand and respond to the needs, preferences, and behaviors of their female customer base, enabling them to develop products and services that resonate with a diverse market and drive financial success. Some authors note that gender diversity on boards can enhance corporate governance practices and regulatory compliance. By fostering an inclusive and diverse boardroom environment, companies can capitalize on the full range of talent, expertise, and perspectives available to them, driving sustainable growth, profitability, and value creation.

By promoting women's representation on boards of directors and creating an inclusive and equitable boardroom culture, companies can leverage the benefits of diversity to enhance decision-making, innovation, risk management, reputation, and overall financial performance. Chouaibi *et. al.,* (2018) observed that it is essential for organizations to recognize the value that women bring to top leadership roles and to actively work towards achieving greater gender diversity in their boardrooms for long-term business success.

A possible explanation for this is that a more gender diverse board could improve decision-making, eliminate groupthink, and improve corporate governance, ultimately contributing to better financial performance. Similar findings exist in the literature in the studies of Madi (2023); and Ogudaya *et. al.,* (2019) who asserted a positive relationship between board gender diversity and diverse proxies of financial performance. This finding is however, not in line with those of Andoh (2023) and Ria (2023) who found insignificant positive relationship between them.

CONCLUSION AND RECOMMENDATION

Board of directors exist to protect the interests of shareholders, owing to the divorce of management from ownership in corporate entities. They are saddled with the responsibility of providing independent oversight of management performance, as well as monitoring and disciplining management for the overall interests of the shareholders which is dependent on financial performance or profitability. Pertaining to this, this research has discovered that board diversity proxies jointly influence financial performance and thus, it was concluded that corporate governance mechanisms has

significant influence on financial profitability. Despite the fact that board expertise showed a positive but statistically insignificant effect on return on equity, listed deposit money banks should not overlook the importance of diverse experiences on their boards. Despite the lack of statistical significance, cultivating a board with diverse expertise remains beneficial for addressing complex challenges and fostering innovation within the banking industry.

Given the significant positive effect of board gender diversity on return on equity, listed deposit money banks in Nigeria should actively promote gender diversity on their boards. Encouraging the inclusion of more female directors can lead to broader perspectives, enhanced decision-making processes, and ultimately, improved financial performance as proven by this study.

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