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**BOARD GOVERNANCE AND LEVERAGE STRUCTURE ON THE PERFORMANCE OF
DEPOSIT MONEY BANKS (DMBs) IN NIGERIA**

POPOOLA-ADEBAYO M. (PhD)
Department of Banking & Finance
Yaba College of Technology
maryamadebayo12@gmail.com
08066871539

LAWAL IDRIS OLATUNJI
Department of Finance, LASU
Olatunjiidris0305@gmail.com
09024709904

OMOGBOYE, MICHEAL A.
Department of Banking & Finance
Yaba College of Technology
Holymiheal@gmail.com
08076471137

AND

OSISANYA FLORENCE P.
Department of Business Administration
Yaba College of Technology
florencekeni@yahoo.com
08037219636

Abstract

This study investigated the impact of board governance and leverage structure on the performance of deposit money banks (DMBs) in Nigeria, using Return on Equity (ROE) and Earnings per Share (EPS) as performance indicators. The study focused on the relationship between board characteristics such as board size (BIS), board independence (BID), and leverage structure, represented by the debt-to-total assets ratio (LEV), with firm size as a control variable. The data used in this study were collected from the annual reports of eight Nigerian deposit money banks over the period from 2011 to 2022, producing 96 observations. The analysis was conducted using fixed and random effect models to determine the impact of the independent variables on performance. The findings revealed that board size had a significant and positive influence on EPS, indicating that larger

boards contributed to better financial performance due to a diversity of expertise and more effective governance. However, board independence and leverage structure showed no significant impact on EPS. Similarly, board size and board independence demonstrated a positive relationship with ROE, but only board independence had a significant effect on ROE, suggesting that independent directors enhanced firm performance by providing stronger oversight and reducing agency costs. Leverage structure and firm size had positive but statistically insignificant effects on both EPS and ROE, implying that these variables did not play a substantial role in determining the financial performance of the sampled banks. These findings suggested that while board governance factors like board size and independence were important determinants of bank performance, leverage structure did not have a significant influence. The study contributed to the growing literature on corporate governance and its role in enhancing the performance of financial institutions in Nigeria.

Keywords: Board governance, leverage structure, financial performance, deposit money banks, Nigeria, return on equity, earnings per share.

Introduction

It is believed by some scholars such as Schumpeter (1912), McKinnon (1973), Shaw (1973), Creel et al. (2013), Yusifzada et al (2015), and Abbas, Afshan, and Mustifa (2022) that the performance of the financial system granger causes economic growth and stability. Essentially the performance of deposit money banks (DMBs) is crucial for economic growth and development. Banks play a fundamental role in the financial system, such as acting as financial intermediaries between the supply unit and the deficit unit, facilitating transactions, providing credit, and managing risks among others. As the banks perform their duties, they encounter different challenges that threaten their overall performance. Thus, their performance is influenced by various factors, which include board governance and leverage/capital structure. Knowing, the chemistry between these two elements and bank performance is important for articulating what action to be taken at a particular time and formulating policy/ies that would enhance the stability and efficiency of the bank.

Board characteristics or corporate governance are not the only factors that determine the performance of the bank. The structure of the banks' capital is also a factor to be considered.

Therefore, leverage structure pertains to the mix of debt and equity used to finance a bank's or a firm's operations. The level of leverage affects a bank's risk profile and financial performance. High leverage can amplify returns during good times but can also lead to significant losses during economic downturns. Therefore, a well-balanced leverage structure is vital for maintaining financial stability, minimizing the cost of capital, and achieving optimal performance. According to the study of Usoro (2022) capital structure has a significant influence on the profitability, liquidity, earnings, and dividend per share of banks.

This study focuses on the Nigerian banking sector, specifically deposit money banks, to explore the relationship between board governance, leverage structure, and bank performance. Nigeria's banking sector has undergone significant reforms

and transformations over the years, making it an interesting context for examining these relationships. By investigating these dynamics, the study aims to provide insights that can help improve governance practices and leverage management in Nigerian banks, thereby enhancing their overall performance. The research question on board governance, capital structure, and performance in deposit money banks in Nigeria is a critical area of study that has gained attention from researchers.

Regardless of the critical roles performed by deposit money banks in Nigeria's financial system, several of them have writhed with issues relating to governance and capital management. Boards of directors influence company decision-making and strategy by overseeing management and resource allocation (Endrikat, et al, 2021). Deficient board governance has often led to poor strategic decision-making, insufficient supervision, and at times, financial scandals. Analogously, funds mismatched have exposed banks to undue risks, which results in financial distress and, in critical cases, bank failures. A series of studies have analyzed how banks or other non-financial firms' performance is been influenced by certain factors and among these several studies there were mixed findings. However, there is no empirical research that jointly examined how board governance and leverage structure influence bank performance in the Nigerian context. Also, from the foregoing literature, there exists a gap as some authors reported a positive and significant relationship between board characteristics/capital structure and firm performance. Others claimed that these variables are negatively and insignificantly related. Given these identified gaps, the paper intends to investigate the impact of board governance and leverage structure on bank performance systematically.

Literature Review

Conceptual Review

Board Governance/Characteristics

According to Hafez (2017), boards play a crucial role in shaping firm governance by having direct access to managers and shareholders, making them an important internal governing mechanism. Furthermore, Parupalli et al, (2017) highlighted the significance of board structure composition in terms of having non-executive directors. These directors play a crucial role in monitoring the actions of the executive directors and ensuring that they align with the firm's policies and shareholders' interests. Effectively, the board of directors is now being held accountable for corporate wrongdoings and is also recognized as a potential catalyst for enhancing corporate governance. Similar to a business owner, a significant portion of the responsibility for addressing the surplus of power within companies has been given to the board of directors. Non-executive directors are brought in to enhance executive accountability.

Capital Structure

The capital structure of companies pertains to how the company is funded, utilizing a combination of debt and equity capital. It's all about the allocation of resources to the company from various sources, whether they be internal or external financiers. Corporate leverage decisions are crucial decisions made by firm executives, as suggested by several theories.

Financial Performance

Vicent (2020) views financial performance from a broader perspective, focusing on the extent to which financial objectives are met. It evaluates the firm's profitability and operations in monetary terms, as well as its overall financial health over a specific time frame. In Hay's (2019) definition, financial performance is described as an evaluation of a company's ability to effectively utilize its assets and generate revenue.

Theoretical Review**Trade-off Theory**

In 1973, Kraus and Litzenberger put forth the trade-off theory, which represents a delicate equilibrium between the costs associated with bankruptcy and the advantages of tax savings from debt. This theory is often presented as a rival to the pecking order theory of capital structure. The trade-off theory, which is widely discussed in the literature on capital structure, suggests that a company's ideal financing mix is determined by weighing the advantages and disadvantages of debt (Myers, 1977).

Agency Theory

The theory has an impact on the decisions regarding capital structure. According to Myers (2001), Jensen and Meckling developed this theory in 1976. Agency problems can occur when there is a disconnect between ownership and control in a company. In these cases, managers may not always act in the best interest of the owners, which means they may not prioritize maximizing the value of the firm (Berger & Di Patti, 2006; Myers, 2001).

Empirical Review

In his meta-analysis, Endrikat et al. (2021) tested whether a CSR committee mediates the relationship between board qualities and CSR and accounted for the possibility of an interaction between the two. They show that the board's size, the board's independence, and the representation of women are all influenced by CSR, both directly and indirectly through a CSR committee. Furthermore, we discover that connections vary according to the particular CSR dimension (i.e., social, environmental, or aggregate) and that institutional considerations at the national level modulate these effects.

Rizvi, et al. (2023) employed a configurational analysis to examine the link between board characteristics and firm performance in Pakistan. The researchers utilize various theories, such as resource dependence and agency theory. They used fuzzy-set qualitative comparative analysis to study a sample of 60 non-financial companies listed on the Pakistan Stock Exchange (PSX). They utilized information from the pre-crisis era. Their research reveals that various combinations of board attributes substantially influence firm profitability, specifically on return on assets (ROA) and return on equity (ROE). The authors emphasized the importance of policymakers evaluating corporations' current level of regulatory and competitive development to plan strategy effectively, given its focus on innovative governance solutions for industries outside of finance.

In their 2019 study, Pucheta-Martínez and Gallego-Álvarez examine the impact of board qualities on company performance. In contrast to their assumptions,

CEO duality also has a positive effect on firm performance. In addition, there is no correlation between board compensation and firm performance.

Methodology

The researcher used secondary data for this study because the variables under investigation are quantitative. The data on this study's variables are collected from the annual report of the selected eight banks for the period 2011 to 2022. The total number of observations is 96. Thus, two models are estimated in this study, and the model specification for each is defined as. Equation for eps

$$eps_{it} = \alpha_0 + \alpha_1 bis_{it} + \alpha_2 bid_{it} + \alpha_3 lev_{it} + \alpha_4 fs_{it} + \mu_{it} \quad 3.1$$

Equation for ROE

$$roe_{it} = \beta_0 + \beta_1 bis_{it} + \beta_2 bid_{it} + \beta_3 lev_{it} + \beta_4 fs_{it} + \ell_{it} \quad 3.2$$

Results

The data employed in examining the relationship between board governance, leverage Structure, and performance of money deposit banks in Nigeria were described using line graph and Q-Q chart. Also, the nature of the data is explained using the descriptive statistics output. These results are displayed in table 4.1 and in the figures below

Descriptive Statistics

	EPS	ROE	BIS	BID	LEV	FS
Mean	1.565486	0.120330	13.76042	0.601285	0.865083	9.074041
Median	1.100000	0.116242	14.00000	0.562500	0.868443	9.291670
Maximum	7.780000	0.326848	21.00000	0.909091	0.919613	9.882239
Minimum	-13.57000	-0.463572	6.000000	0.380950	0.766472	0.000000
Std. Dev.	2.443988	0.103727	3.004365	0.129533	0.034230	1.055645
Skewness	-1.701994	-1.667744	-0.332204	1.021863	-0.637189	-6.749498
Kurtosis	17.50164	11.88312	3.152719	3.291410	3.136026	58.18279
Jarque-Bera	887.5392	360.1411	1.859047	17.04693	6.570174	12909.45
Probability	0.000000	0.000000	0.394742	0.000199	0.037437	0.000000
Observations	96	96	96	96	96	96

Source: Author 2025

The average values of earnings per share, return on equity, board size, board independence, leverage, and firm size are approximately 1.57, 0.12, 13.76, 0.60, 0.87, and 9.07 respectively. This shows that all average values of the variables are positive. Earning per share has the highest mean value. The maximum values and minimum values of the variables show that the values had increased over time. Leverage has the lowest standard deviation value while board size has the highest standard deviation value. This means that it is the most volatile variable. The skewness values for earnings per share, return on equity, board size, board independence, leverage, and firm size are approximately -1.70, -1.67, -0.33, 1.02, -0.64, and -6.75.

All the variables except board independence are negatively skewed, that is left-skewed distribution. The kurtosis values are larger than 3 except for board size, board independence, and leverage which have values a bit above 3. This means that they are leptokurtic. This leptokurtic characteristic suggests that there would be occasional outliers in the future. The probability values associated with Jarque-Bera, with respect to earning per share, return on equity, board independence, and firm size are approximately 0 percent. While board size and leverage have a value of 0.39

and 0.04 respectively. This signifies that these variables are not normally distributed except for board size which has a probability value above 5 percent.

Pairwise Correlation

eps	roe	bis	bid	levfs		
eps	1.0000					
roe	0.8547	1.0000				
bis	0.1071	0.0298	1.0000			
bid	-0.2955	-0.3575	-0.5318	1.0000		
lev	-0.1052	-0.0248	0.0544	-0.0734	1.0000	
fs	0.2599	0.3375	0.1083	-0.2492	0.0225	1.0000

Source: Author 2025

Table 4.2 shows the correlation result between the variables. This result reveals that board size and board independence have a strong negative correlation. While a very weak positive correlation exists between-board size and leverage, indicating almost no relationship between board size and leverage. Firm size also has a weak positive correlation with board size. Board independence and leverage have a very weak negative correlation, indicating almost no relationship between board independence and leverage. Board independence and firm size have a moderate negative correlation. Lastly, leverage and firm size are weakly correlated.

Panel Data Analysis

In this section, the researcher introduces short panel data models to examine the influence of capital structure on the financial performance of deposit money banks in Nigeria. Since the data set is a short panel, the fixed effect method was employed to estimate the panel model specification stated previously. The results are reported in tables 4.3 to 4.6 respectively.

Result of Fixed Effect Model for the First Equation (Model One)

	Regressors Coef	Std. Err	Z-stat	PV
BIS	0.3157286	0.094597	3.34	0.001
BID	4.233602	2.714989	1.56	0.123
LEV	8.651801	10.24669	0.84	0.401
FS	0.1546058	0.2232835	0.69	0.491
cons	-14.2121	9.86917	-1.44	0.154

Note that the dependent variable is earnings per share (eps) and firm size is taken to be the control variable.

Source: Author 2025

Table 4.3 displays the results of the fixed effect model for model one. The board size, board independence, leverage, and firm size coefficients are approximately 0.32, 4.23, 8.65, and 0.15 respectively. All the variables positively impact earnings per share (the performance indicator). Only board size has a significant influence on performance. It has a statistically significant positive coefficient at the 1% level suggesting that an increase in board size (BIS) is associated with an increase in EPS. Thus, a larger board size might bring diverse expertise and effective governance, leading to better firm performance (higher EPS). It is also noted that the coefficient for leverage (LEV) is positive but not statistically significant. This suggests that leverage does not have a significant impact on EPS in this sample.

The positive but not statistically significant impact of firm size implies that firm size does not have a significant effect on EPS in this model. This indicates that larger firms might benefit from economies of scale and greater market power, but the lack of significance could indicate that size alone is not a strong determinant of performance in this context. This result is confirmed by the output of the random effect model displayed below.

Result of Random Effect Model for the First Equation (Model One)

Regressors	Coef	Std. Err	Z-stat	PV
BIS	0.2358373	0.0927919	2.54	
0.011				
BID	1.190391	2.480784	0.48	
0.631				
LEV	0.3628072	9.056673	0.04	
0.968				
FS	0.260263	0.2176381	1.20	
0.232				
cons	-5.070993	8.775275	-0.58	
0.563				

Note that the dependent variable is earnings per share (eps) and firm size is taken to be the control variable.

Source: Author 2025

As shown above, the result of the random effect model is used to verify the output obtained from the fixed effect model. Board size, board independence, leverage, and firm size have coefficient values of 0.24, 1.19, 0.36, and 0.26 respectively. The coefficient for board size is positive and statistically significant at the 5% level. This suggests that an increase in board size is associated with an increase in EPS. Larger boards may provide diverse expertise and improve governance, leading to better firm performance as reflected in higher earnings per share. The coefficient figure for board independence is positive but not statistically significant, indicating that board independence does not have a clear or strong impact on EPS in this model. The coefficient for leverage and firm size are positive but highly insignificant, implying that leverage and firm size do not have a significant impact on EPS in this sample. This result is the same as that of the fixed effect model, meaning that there is an overwhelming fact that board size, board independence, leverage structure, and size have a positive impact on earnings per share. The second model of the study is then tested using the two estimators and the results are reported below.

Result of Fixed Effect Model for the Second Equation (Model Two)

Regressors	Coef	Std. Err	Z-stat	PV
BIS	0.0028793	0.0036996	0.78	
0.439				
BID	0.250819	0.1061816	2.36	
0.020				

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LEV	0.5658895	0.4007422	1.41
0.162			
FS	0.000309	0.0087325	0.04
0.972			
cons	-0.5624486	0.3859774	-1.46
0.149			

Note that the dependent variable is return on equity (roe) and firm size is taken to be the control variable.

Source: Author 2025

The result of the fixed effect model for the second model of this study is reported in table 4.5 above. The coefficients of board size, board independence, leverage, and firm size are almost 0.003, 0.25, 0.57, and 0.0003 with associated probability values of 0.44, 0.02, 0.16, and 0.97 in that order. Board size has a positive but insignificant coefficient, suggesting that board size does not have a meaningful impact on return on equity. This positive impact means that larger boards can theoretically bring diverse perspectives that enhance firm performance. Board independence is directly and significantly related to return on equity. That is independent boards are often better at monitoring management and reducing agency costs, which can lead to improved firm performance, as reflected in a higher return on equity. Leverage and firm size have a positive but insignificant influence on return on equity. This output is corroborated by the random effect model.

Result of Random Effect Model for the Second Equation (Model Two)

Regressors	Coef	Std. Err	Z-stat	PV
BIS	0.0009984	0.0037594	0.27	
0.791				
BID	0.0184544	0.0997093	0.19	
0.853				
LEV	0.2077815	0.3620116	0.57	
0.566				
FS	0.0113482	0.0088206	1.29	0.198
cons	-0.1872267	0.3509651	-0.53	0.594

Note that the dependent variable is return on equity (roe) and firm size is taken to be the control variable.

Source: Author 2025

In table 4.6 the outcome of the analysis conducted on the relationship between corporate governance, leverage, and performance is shown. The coefficient values of board size, board independence, leverage, and firm size are approximately 0.001, 0.02, 0.21, and 0.01 respectively. This implies that board size, board independence, leverage, and firm size are directly related to return on equity and this is the same outcome of the fixed effect model.

Discussion of Findings

This study has examined the impact of corporate governance indicators and the leverage structure of deposit money banks on their performance. It is revealed that board size has a positive and significant impact on return on equity. This finding is supported by the findings from the work of Odunayo (2019). But the study of Naveed et al (2020) found that there is a negative correlation between board size

and return on equity. Several authors such as Rizvi, et al. (2023), Palaniappan (2017a), and Palaniappan (2017b) findings are not in line with the insignificant relationship between board size and performance.

In this study board independence has a positive and insignificant influence on return on equity. The studies of Neeti et al. (2020) and Odunayo (2019) are in accordance with this study's findings. Odunayo (2019) stated that board independence and return on equity are positively related. And Neeti et al. (2020) posited that independent directors has no significant impact on return on equity. Studies by Pucheta-Martínez and Gallego-Álvarez (2019), and Usman et al. (2022) support the positive link between board independence and performance

Usoro (2022) documented that capital structure has a significant association with earnings per share, this is against the findings of this study as leverage has an insignificant impact on earnings per share and return on equity. Similarly, Shahwan (2018) revealed that a strong and statistically significant positive correlation exists between capital structure and financial performance. Lastly, Ali et al (2020) revealed that leverage has a significant and negative impact on firm performance which is not in line with this study's findings.

Conclusion and Recommendations

Conclusions

The study concludes that board size positively and significantly impacts bank performance. However, board independence did not show a significant relationship with either earnings per share or return on equity but has a positive impact on them. Therefore, it is concluded that board independence has a positive but insignificant impact on performance. Thus, the leverage structure of banks, measured by the ratio of debt to total assets, is found to have a positive influence on earnings per share and return on equity. It is concluded that leverage structure has a direct influence on performance.

Recommendations

It is recommended that the banks should consider optimizing their board size to ensure a balance between diverse expertise and effective decision-making. A larger board appears to contribute positively to performance, but banks should be cautious to avoid excessively large boards that may lead to inefficiencies. Since board independence did not show a significant impact on performance, it is recommended that the banks should re-examine the roles and effectiveness of independent directors. It may be beneficial to focus on the quality and engagement of independent directors rather than merely increasing their number. Indeed, it was suggested for further studies that similar studies should be conducted using qualitative investigation such as focus group discussion guide (FGD), In-depth Interview among others to ascertain whether similar results will be achieved.

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