

## **BOARD OF DIRECTORS MONITORING AND FINANCIAL PERFORMANCE OF LISTED FINANCIAL SERVICES FIRMS IN NIGERIA**

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### **Abstract**

*The study focuses on the link between the monitoring of the board of directors and the financial performance of Nigerian-listed financial services firms. The study incorporates data from financial services firms from 2013 to 2022 and utilizes a quantitative research methodology using dynamic panel data for analysis. The results show a significant positive correlation between board of directors monitoring and financial performance, indicating that effective governance and oversight can improve these firms' financial outcomes. The findings of this study have important implications for regulators, investors, and other stakeholders in the Nigerian financial services industry. Further research could explore the specific mechanisms by which board of directors monitoring impacts financial performance and potential interventions to strengthen this relationship. This study contributes to the body of knowledge already available on corporate governance and financial performance in emerging nations and offers insightful information to both scholars and practitioners.*

**Keywords:** Financial performance, board of directors, monitoring, return on assets

### **1. Introduction**

Numerous studies have looked into the connection between corporate governance (CG) practices and company financial success, especially in developing nations like Nigeria. To ensure accountability, transparency, and eventually better financial performance, the Board of Directors (BoDs') role in monitoring and supervising management choices is crucial among the many governance structures (Hooghiemstra et al., 2019). The BoDs serve as a cornerstone of CG, aligning the interests of shareholders and management, mitigating agency problems, and fostering sustainable business practices (Fama & Jensen, 1983). In Nigeria, where CG practices are still evolving, understanding the effectiveness of board monitoring in enhancing firm performance is paramount (Hales et al., 2018; Mohammed et al., 2019).

Prior studies have highlighted the unique challenges faced by Nigerian firms, including weak institutional frameworks, regulatory inefficiencies, and pervasive corruption, which often undermine the effectiveness of CG (Buerter et al., 2020). Notwithstanding these obstacles, there have been notable changes to the Nigerian corporate environment, such as the 2018 adoption of the Nigerian Code of Corporate Governance (NCCG), which highlights the value of board independence, diversity, and active supervision in promoting company success. Nonetheless, there is ongoing discussion on the degree to which these reforms have resulted in better financial outcomes.

Empirical evidence on how board oversight affects Nigerian companies' financial performance has yielded mixed results. While some studies suggest that active board oversight, particularly through audit committees and independent directors, positively influences profitability and shareholder value (Adegboye et al., 2020), others argue that the effectiveness of board monitoring is often constrained by factors such as political interference, lack of expertise, and inadequate enforcement of governance (Adeyemi, Oluwatobi, 2018; Orazalin, 2020). These divergent findings underscore the need for further research to explore the nuanced dynamics of board monitoring in the Nigerian context.

Additionally, Recent studies have emphasized the need to move beyond agency theory and explore new variables that can better explain the relationship between BoDs and firm-level outcomes (Roberts et al., 2005). Minichilli et al. (2009) argue that solely examining demographic variables and financial performance overlooks the complex group dynamics within the BoDs, a crucial driver of board effectiveness. To advance research in this field, a more nuanced analysis of BoDs processes and activities is necessary.

Consequently, this present study seeks to contribute to the expanding corpus of literature by examining the connection between board oversight and Nigerian firms' financial performance. Specifically, it aims to assess the effectiveness of board oversight mechanisms, such as board composition, Board size (BS), and Board Independence (BI), in enhancing key financial metrics, including return on assets (ROA), return on equity (ROE), Risk Management Committee Diligence (RMCD), Ownership Concentration (OC), Managerial Shareholding (MSH), Female Gender Diversity, and Audit Committee Independence (ACI). By leveraging recent data and incorporating insights from contemporary studies, this research will provide a comprehensive analysis of the role of the BoDs in driving financial performance in Nigeria's unique corporate environment.

This study is timely and relevant in light of the ongoing issues and opportunities in Nigeria's CG landscape. It not only addresses a critical gap in the literature but also offers practical insights for policymakers, regulators, and corporate leaders seeking to strengthen governance frameworks and improve firm performance in Nigeria.

## **2. Literature Review and Hypotheses Development**

### **Board of Directors Monitoring**

The BoDs play a critical role in CG by monitoring management and ensuring alignment with shareholder interests, as emphasized by agency theory (Jensen & Meckling, 1976). Effective board monitoring reduces agency conflicts, mitigates managerial opportunism, and enhances financial

performance (Aibar-Guzmán et al., 2024; Noja et al., 2021). Independent directors, in particular, are pivotal in strengthening oversight, as they bring objectivity and reduce the risk of self-serving behavior by executives (Alsmady, 2022). Recent research shows that board monitoring improves company performance. Al Fadli et al. (2020) showed comparable findings in emerging markets, while Agarwala et al. (2023) discovered that board independence considerably enhances financial outcomes.

However, some studies, such as (Adu-Ameyaw & Yip Cheung, 2022), found a negative correlation, suggesting that excessive monitoring may hinder managerial decision-making. These contradictory results highlight how intricately board monitoring and performance are related. The relevance of board monitoring is further supported by resource dependence theory, which holds that diverse boards improve decision-making and business performance by giving access to vital resources and knowledge. For instance, Li et al. (2021) discovered that financial results are positively impacted by board diversity, including gender and competence. Similarly, (Githaiga et al., 2022) highlighted the role of board size in improving monitoring effectiveness, though larger boards may face coordination challenges.

### **Board of Directors and Firm Financial Performance**

The board of directors plays a vital role in CG, ensuring fiduciary duties are met and overseeing management to achieve the best financial outcomes (Al Fadli et al., 2020). Independent directors are particularly important as they safeguard shareholder interests and align management behavior with shareholder goals, as per agency theory (Crisóstomo et al., 2020). However, practical studies show mixed results on the relationship between board independence and financial performance. While some studies, such as (Alzeghoul & Alsharari, 2024), found a negative correlation in Moroccan banks, others like (Aibar-Guzmán et al., 2024) reported positive impacts.

Similarly, Agarwala et al (2023) linked board independence to improved corporate social responsibility (CSR) performance. Additionally, the debate over board size continues, with arguments for both larger and smaller boards. Larger boards may offer diverse skills and knowledge but can face coordination issues, potentially weakening monitoring (Barba Navaretti et al., 2022; Nagar & Schoenfeld, 2021). Studies like Abolo (2023) found no significant impact of board size on financial performance, while Adebayo et al. (2023) reported a positive effect in Nigerian banks. Conversely, (Ayeni-Agbaje et al., 2024) found a negative relationship in Nigerian deposit money banks. These mixed findings suggest the need for further research, leading to the following hypotheses:

*H<sub>1</sub> Board independence is positively correlated with firm financial performance.*

*H<sub>2</sub> Board size is positively correlated with firm financial performance.*

### **Female Gender Diversity and Firm Financial Performance**

Gender diversity on boards is crucial for ethical behavior and innovative decision-making (Ghaleb et al., 2021; Ntim, 2013). Studies show a favorable relationship between gender diversity and financial performance, though cultural biases can hinder implementation (Orazalin, 2020). Studies like Bagh et al. (2023) and Ismail et al. (2023) found that diversity in education, nationality, and

ethnicity positively impacts firm performance. Dancan et al. (2023) and Hamdan et al. (2023) also spotlighted the benefits of female board members in enhancing financial and environmental performance. However, Chatterjee and Nag (2022) noted that the active role of women directors, rather than their mere presence, drives performance improvements. These findings support the formulation of this hypothesis:

*H<sub>3</sub> Female gender diversity is positively associated with higher firm financial performance.*

### **Shareholders' Ownership and Firm Financial Performance**

Ownership concentration, which is regarded as the percentage of shares held by major shareholders, can enhance monitoring but may also lead to minority shareholder exploitation (Oh et al., 2017; Strange, 2018). Research shows mixed results, with some studies finding no significant link connecting ownership concentration and financial performance (Bao & Lewellyn, 2017). For instance, Aboud and Diab (2022) found state ownership negatively impacts performance, while concentrated ownership positively affects firm success. Ajao and Ejokehuma (2020) also emphasized how government and institutional ownership affect financial performance.

Meanwhile, Managerial shareholdings, representing the proportion of shares owned by executives, align management interests with shareholders, reducing agency conflicts (Moudud-Ul-Huq et al., 2020a, 2020b). Research by Aboud and Diab (2022) and Ajao and Ejokehuma (2020) found that concentrated ownership positively impacts firm performance. However, Ali (2020) noted that ownership structure, excluding concentration, significantly improves financial performance. Abdullah et al. (2019) found that ownership concentration lowers return on assets (ROA) in some industries. These mixed results highlight the need for further research, leading to the hypothesis:

*H<sub>4</sub> Ownership concentration on the board positively improves firm financial performance.*

*H<sub>5</sub> Percentage of managerial shareholding is positively associated with firm financial performance.*

### **Audit Committee Independence and Firm Financial Performance**

The independence of the audit committee is essential for ensuring financial transparency and protecting shareholder value (Isah, Che-Ahmad, & Ishak, 2018). Independent audit committees can reduce managerial opportunism and enhance firm performance (Albersmann & Hohenfels, 2017; Herranz et al., 2022). However, some studies report negative correlations due to high professional fees or improperly valued assets (Bajra & Čadež, 2018; Khemakhem & Fontaine, 2019). Overall, the findings emphasize the importance of audit committee independence, leading to the hypothesis:

*H<sub>6</sub>: Independent audit committees are positively associated with firm financial performance.*

### **Risk Management Committee Diligence and Financial Performance**

The relationship between CG and the risk management committee has also been explored. Odubuasi et al. (2021) analyzed the combined impact of risk management committees and

enterprise risk management on Nigerian banks, revealing that risk committee account expertise and enterprise risk management positively impact financial performance. Ugwu et al. (2021) found that corporate risk management committees significantly impact Nigerian business performance, with corporate risk committee vigilance and composition positively affecting ROE. Recent studies have investigated the impact of risk management committee characteristics on financial performance in various contexts. Wasiu et al. (2022) examined the effect of risk committee characteristics on the financial performance of Nigerian deposit money banks, finding that meetings and gender diversity positively impact financial performance. Conversely, Odubuasi et al. (2022) discovered that risk committee effectiveness diligence, and composition significantly influence bank performance in Nigeria, South Africa, and Ghana. The following hypothesis is derived.

*H<sub>7</sub> Risk Management Committee Diligence Influences Firm Financial Performance*

**The underpinning theory of the study**

The underpinning theory of this present study is agency theory, as discussed by Panda and Leepsa (2017), which explains the relationship between principals (owners) and agents (managers), highlighting conflicts of interest that lead to agency problems such as moral hazard and adverse selection. Jensen and Meckling (1976) expanded this theory by introducing agency costs, which cover monitoring, compliance, and residual loss costs. Mitnick (2019) traces the theory's historical development and emphasizes its roots in early economic studies. Practical applications include corporate governance, as seen in Vitolla et al. (2020) and Bae et al. (2018), highlighting board structures and sustainability. The theory also extends to international governance and individual empowerment (Shogren, Wehmeyer, & Palmer, 2017), underlining its relevance across various organizational and social contexts.

**3. Method and Data**

The paper employed the use of dynamic panel data using the system GMM. The system GMM is more convenient for addressing not only the issues of endogeneity, but also the problems of omitted variables, error term measurements, and unobserved heterogeneity (Agarwala et al., 2023; Soto, 2009; Windmeijer, 2005). Data for the study were collected from the annual report of financial services firms listed on the Nigerian Exchange Group (NGX) from 2013 to 2022. The research model is presented below:

$$\vartheta_{it} = a + \gamma\vartheta_{i,t-1} = \sum_{\rho=1}^{\rho} \beta_{\rho}Z^{\rho}it + \sum_{q=1}^q \beta_qZ^qit + \sum_{r=1}^r \beta_rZ^rit + \sum_{j=1}^m \delta_jFFE_{dum_j} + \sum_{j=1}^n \theta_jY_j + \varepsilon_{it} \quad (1)$$

**Where:**

**$\vartheta_{it}$**  represents the FP, of  **$i$**  listed firms for  **$t$**  years;  **$a$**  is the constant term, and  **$\gamma\vartheta_{i,t-1}$**  indicates the lag value of FP, while  **$Z_{it}$**  is the predictor variable and  **$\varepsilon_{it}$**  is the error term. The System GMM estimations include the firm fixed effects ( **$CFE_{dum}$** ), which is meant to control for the heterogenous effects of unobserved factors across the firms. Also, the time (year) fixed effects

(Y<sub>j</sub>) capture the impact of the time trend for the periods under consideration. Consequently, the following regression model equation with econometric expression is used:

$$ROA_{it} = \beta_0 + \beta_1 BIND_{it} + \beta_2 BS_{it} + \beta_3 FGD_{it} + \beta_4 OC_{it} + \beta_5 MSH_{it} + \beta_6 ACI_{it} + \beta_7 RMCD_{it} + \beta_8 PROF + \beta_9 LEV_{it} + \beta_{10} FSIZE_{it} + \varepsilon_{it}$$

**Where:**

ROA = Return on Asset, BIND=Board Independence, BS= Board size, FGD= Female Gender Diversity, OC=Ownership Concentration, MSH = Management Shareholdings, ACI = Audit Committee Independence, RMCD = Risk Management Committee Diligence, PROF = Profitability, LEV = leverage, FSIZE = Firm size, ε= Stochastic error term.

**Table 1: Variable Measurement**

S/N	Variables	Variable type	Measurements	Source
1	ROA	Dependent	The net income is divided by total assets by year-end.	Latif <i>et al.</i> (2013)
2	BIND	Independent	This is the percentage of non-executive directors in total board size.	Wisdom and Oyebisi (2019).
3	BS	Independent	This is the total number of directors on the board.	Wisdom and Oyebisi (2019).
4	FGD	Independent	This is the percentage of female directors on the board.	Young <i>et al.</i> (2019).
5	OC	Independent	This is the proportion of shares owned by the largest shareholders to the total number of shares issued expressed as a percentage.	Sely and Wieta (2019).
6	MSH	Independent	This is the proportion of shares the management holds to the total number of shares issued expressed as a percentage.	Wisdom and Oyebisi (2019).
7	ACI	Independent	Measured with audit committee score	Collins <i>et al.</i> (2017)
8	RMCD	Independent	This is the total number of meetings the risk management committee holds in a year.	Shatnawiet <i>al.</i> (2021)
9	PROF	Control	The ratio of total debts to corporate assets at the end of a given accounting period.	Sely and Wieta (2019)
10	LEV	Control	The ratio of total debts to corporate assets at the end of a given accounting period	Jehu and Ibrahim (2020)
11	FSIZE	Control	The natural logarithm (LnTA) of a company's total asset	Afrifa & Taurin 2015

#### 4. Results and Discussion

Table 2 below presents the descriptive statistics of the study variables

**Table 2:** *Descriptive Statistics of the Study Variables*

Variable	Min	Max	Mean	Sd	Skewness	Kurtosis
ROA	0.04	26.47	3.60	3.76	2.80	13.54
BIND	0.12	0.96	0.63	0.14	0.09	3.00
BS	4	21	10.67	3.42	0.57	2.94
FGD	0	0.05	18.55	11.67	0.57	2.91
OC	0	0.78	0.32	0.20	0.56	2.44
MSH	0	61.03	17.57	20.15	0.79	2.02
ACI	0.16	0.75	0.48	0.07	-2.05	10.78
RMCD	2	9	4.02	1.23	1.68	8.16
PROF	-8.90	28.11	2.17	5.52	1.04	5.79
FSIZ	9.03	17.32	12.77	2.36	0.54	1.76
LEV	0.01	0.05	0.03	0.01	0.19	2.25

Table 2 is based on a sample size of 35 firms from financial services listed on NGX

The results showed that the mean ROA was 3.60%, consistent with (Wisdom & Oyebisi, 2019). The BIND ratio result was 63% on average, indicating that non-executive members dominated the board which agreed with (Ngo et al., 2023). The study also showed that the average ACI ratio was 48%, exceeding the SEC requirement of at least one non-executive member (Herbert & Agwor, 2021). The results further showed that the number of meetings of the RMCD was 4 times on average, with a minimum of 2 times and a maximum of 9 times. Additionally, the OC had a mean value of 32%, while the MSH had a mean value of 18%. The PROF ratio had a mean value of 2.70%, with a maximum value of 28.11% and a minimum value of -3.35%. The results showed that FSIZ and LEV had mean values of N12.77 million and 0.03, respectively. The skewness and kurtosis values for most variables fell within the normal distribution range, indicating that the data was normally distributed (Kline, 2011). Overall, the findings provide insights into the CG and financial performance of listed firms in Nigeria.

#### Correlation Matrix

The results of the correlation matrix presented in Table 3 below indicate that there are no serious correlations between the dependent and independent variables. The highest correlation observed was that of ROA with ( $r = 0.48$ ), while FSIZ correlated with several variables, including BIND, BS, OC, MSH, ROE, and RMCD, with correlation coefficients ranging from 0.32 to 0.52 (Cohen, 1992; Pallant, 2005). However, these correlations do not pose a threat of multicollinearity, as the correlation coefficients are below the 90% threshold (Hair et al., 2014; Tabachnik & Fidell, 2007). Overall, the correlation analysis provides insights into the relationships between variables in this study.

**Table 3. Correlation Matrix**

Variables.	ROA	BIN	BSIZE	FGD	OC	MSH	ACI	RMCD	PROF	FSIZ	LEV	VIF
ROA	1.00											
BIND	-0.17	1.00										1.28
BS	-0.24***	0.05	1.00									1.54
FGD	0.14	-0.06	-0.03	1.00								1.09
OC	0.13***	0.19**	-0.16	-0.06	1.00							1.39
MSH	0.02	-0.04	-0.16	-0.10	-0.07	1.00						1.48
ACI	-0.07**	0.14	0.23***	0.03	-0.17**	-0.04	1.00					1.14
RMCD	-0.21***	0.21***	0.21***	0.04	-0.16	-0.18**	0.07	1.00				1.40
PROF	0.10**	0.08	-0.06	0.02	-0.06**	0.25	0.14	-0.06	1.00			1.23
FSIZE	-0.29**	0.05**	0.52***	0.19**	-0.35***	-0.43**	0.14**	0.44	0.05	1.00		2.78
LEV	-0.10	0.06	-0.09	-0.05	0.04	0.18	-0.05	-0.28	0.00	-0.27	1.00	1.16

\*\*\*significant at 1% level; \*\*significant at 5%; and \*at 10% level

The result in Table 3 suggests that multicollinearity is not an issue as the VIF of all the variables falls within the approved threshold.

### Regression Results

The study estimates a two-step system GMM which is more robust (Roodman, 2009), and is presented in Table 4.

**Table 4: Return on Assets Estimation Results: System GMM**

Variables	Coef.	Std. Err.	z-statistics	P-value
ROA				
L1.	0.333***	0.106	3.13	0.002
BIND	-1.249**	0.655	-1.91	0.057
BS	-179.069***	40.856	-4.38	0.000
FGD	4.922	7.181	0.69	0.493
MSH	0.231**	0.094	2.44	0.015
ACI	0.393**	0.201	1.96	0.050
OC	71.252***	26.248	2.71	0.007
RMCD	320.862***	94.167	3.41	0.001
PROF	-0.167	0.298	-0.56	0.575
FSIZ	9.185**	2.026	4.53	0.000
LEV	-0.068	0.044	-1.55	0.122
_cons	112.403**	49.84	2.26	0.024
Statistics	Coefficient		P-value	
Wald chi2(19)	18350.87			
Prob > Chi <sup>2</sup>			0	
AR2			0.679	
Hansen J.			0.797	

No. of Group	34
No. of Instruments	33

\*\*\*significant at 1% level; \*\*significant at 5%; and \*at 10% level

The findings reveal that BI has a negative and significant relationship with ROA ( $\beta = -1.249$ ,  $p$ -value = 0.057), which contradicts the stakeholders and agency theory (Chebri, 2023; Gambo et al., 2019; Qian Long et al., 2019). Similarly, BS exhibits a negative and significant relationship with ROA ( $\beta = -179.069$ ,  $p$ -value = 0.000), opposing the expectations of stakeholders and agency theory (Akinwole & Ajide, 2020; Bello & Shadrach, 2023; Kajola et al., 2017). On the other hand, FGD shows a positive but insignificant association with ROA ( $\beta = 4.922$ ,  $p$ -value = 0.493), leading to the rejection of the hypothesis that FGD significantly impacts firm performance (Mihail et al., 2022; Zalata et al., 2022).

In contrast, MSH demonstrates a positive and significant relationship with ROA ( $\beta = 0.231$ ,  $p$ -value = 0.015), aligning with stakeholders and agency theory (Jensen & Meckling, 2019; Panda & Leepsa, 2017). Similarly, ACI has a positive and significant relationship with ROA ( $\beta = 0.393$ ,  $p$ -value = 0.050), supporting agency theory (Arslan & Abidin, 2019; Yasser et al., 2015). Furthermore, RMCD shows a positive and significant coefficient ( $\beta = 320.862$ ,  $p$ -value = 0.001), consistent with both agency theory and resource dependence theory (Chen & Rezaee, 2012; Madawaki & Amran, 2013). Additionally, OC has a significant positive relationship with ROA ( $\beta = 71.252$ ,  $p$ -value = 0.007), indicating that higher OC enhances firm performance in Nigerian listed financial service firms (Ajao & Ejokehuma, 2020). This finding supports the hypothesis of a significant relationship between OC and ROA. Overall, the study provides valuable insights into the relationships between various CG variables and firm performance in Nigerian listed financial service firms.

## 5. Conclusion and Suggestions for Future Research

This study investigates the impact of corporate governance (CG) on the financial performance of Nigerian-listed financial services firms. While the findings provide valuable insights, they may not be generalizable to all listed companies in Nigeria or to developed economies with stronger investor protection mechanisms (Aibar-Guzmán et al., 2024). The study is also limited by its narrow focus on two CG attributes—board of directors’ characteristics and risk management committee diligence—and its restricted time frame (2013-2022). These limitations highlight the need for broader research to fully capture the dynamics of CG and financial performance.

To enhance the robustness of future studies, researchers could expand the sample size and extend the time frame. Additionally, exploring other CG attributes, such as chief executive officer education, cultural diversity of committee members, or the role of sustainability practices, could provide deeper insights into the CG-performance relationship (Okoye et al., 2020). Comparative studies across other African countries or investigations into non-financial sectors could also offer a more comprehensive understanding of CG practices and their impact on firm performance in Nigeria and beyond.

This study contributes to the growing body of literature on CG and financial performance in Nigeria, highlighting the country’s progress in CG regulation, particularly within the financial services sector (Herbert & Agwor, 2021). However, further research is essential to fully unravel

the complexities of this relationship and to identify best practices that can enhance firm performance and stakeholder confidence in Nigeria's corporate landscape.

#### Avenues for Future Research

- i. Expand the scope to include non-financial firms and cross-country comparisons within Africa.
- ii. Investigate additional CG attributes, such as CEO education, cultural diversity, and sustainability practices.
- iii. Extend the time frame and sample size to improve the generalizability of findings.
- iv. Explore the role of technological advancements and digital governance in shaping CG practices.
- v. Examine the impact of regulatory changes and enforcement mechanisms on CG effectiveness.

By addressing these areas, future research can provide a more holistic understanding of CG and its implications for financial performance in emerging markets like Nigeria.

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