

CORPORATE GOVERNANCE AND PROFITABILITY OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Effective corporate governance has become a key concept in modern banking systems, which determines how financial institutions manage risks and deliver value. Therefore, this study examined the implications of corporate governance on the profitability of deposit money banks (DMBs) in Nigeria. The study analyzed how audit committee size, board size, and independent board members (independent variables) affect profitability, as determined by stock returns (dependent variable). A longitudinal correlational research design was employed to determine the relationships among the specified variables between 2009 and 2024. The population comprised 13 DMBs listed on the Nigerian Exchange Group with 12 of them selected as sample size. Data were gathered from the audited financial statements of the sampled banks. A multiple regression analysis technique was employed to measure the associations among the variables under study. Audit committee size ($\beta = 0.883$, $p < 0.05$) and board size ($\beta = 0.026$, $p < 0.05$) positively and significantly affect banks' profitability. Independent board members ($\beta = -0.040$, $p > 0.05$) have a negative but statistically insignificant effect on profitability. The study concluded that proper corporate governance contributes to better financial performance among banks. Therefore, it was recommended that deposit money banks improve their governance mechanisms, particularly through an appropriately structured board, a more effective audit committee and a larger board for greater financial performance and institutional integrity.

Keywords: Corporate governance, Audit committee size, Board size, Independent board members, Bank profitability

JEL classification: G21, G34, and M41

INTRODUCTION

The importance of a resilient financial system cannot be overemphasized in a rapidly advancing global economy. Policymakers in both affluent and developing nations are increasingly prioritizing financial sector stability as a cornerstone for economic progress and societal well-being (Steward & Chowdhury, 2021). As globalization accelerates and technological innovations reshape the banking landscape, deposit money banks play a key role in facilitating economic growth and enhancing citizens' financial resilience (Anwaar et al., 2020). Therefore, the importance of an effective corporate governance framework becomes evident, as it protects the interests of various stakeholders and aids sustainable growth within the banking sector (Rudi et al., 2020).

The concept of corporate governance entails the systems and processes that direct and control a company, effectively aligning its operations with the interests of shareholders while considering broader stakeholder engagement (Okoye et al., 2020). As cases of corporate failures surged in the early 1990s, the focus on governance practices intensified. It is now widely acknowledged that sound corporate governance structures are essential not only for corporate integrity but also for the stability of the broader financial system (Garzón & Manuel, 2021; Cheema & Din, 2024; Fitri *et al.*, 2023; Karin *et al.*, 2024; Okafor & Ibadin, 2023). The interdependence of governance frameworks and financial performance indicates that a well-organized CGS can significantly affect profitability and operational efficiency. Okafor and Ibadin (2023) underscored that integrity of financial services, particularly in the banking sector, is intrinsically linked to governance quality, reaffirming the need for ongoing scholarly inquiry into how corporate governance dynamics influence the profitability of deposit money banks in Nigeria.

The banking industry's events, resulting from poor corporate governance in the last ten years, emphasize the need to investigate the impact of corporate governance on bank profitability. These include the removal of Skye Bank PLC's board and management, the eventual revocation of Skye bank's license in 2018, the dismissal of the board of First Bank of Nigeria Holdings PLC in 2021, and the dismissal of the board of directors and management team of Union, Keystone, and Polaris Bank in 2024 (Tech Hive Advisory, 2024). All these point to the importance of effective corporate governance in ensuring excellent bank performance.

Scholars have identified a relatively large board of directors and audit committee as important factors for achieving a successful turnaround in any business organization (Fitri et al., 2023; Okoye et al., 2020). As a result, research into the significance of corporate governance on the financial strength of DMBs using audit committee, board size, and independent board members as proxies is required. Previous studies have also established a positively significant relationship between effective corporate governance and the return on assets and equity of deposit money banks (Ademola *et al.*, 2022; Kafidipe *et al.*, 2021; Demaki 2018, Okoye *et al.*, 2020; Dike & Tuffour, 2023). Most existing studies, however, have not delved into the impact of corporate governance on market-based variables, such as stock returns, hence, this study.

Research Questions

The important questions to which the researcher aims at providing answers are as follows:

- i. How does audit committee size significantly impact the profitability of deposit money banks in Nigeria?
- ii. How does board size impact the profitability of deposit money banks in Nigeria?
- iii. How do independent board members impact the profitability of deposit money banks in Nigeria?

Objectives of the study

The specific objectives of the study are as follows:

- i. Analyze the impact of audit committee size on the profitability of deposit money banks in Nigeria.
- ii. Assess the significance of board size on the profitability of deposit money banks in Nigeria.
- iii. Evaluate the impact of independent board members on the profitability of deposit money banks in Nigeria.
- iv. **Research Hypotheses**

The study empirically tested the following hypotheses:

H₀₁: The audit committee does not significantly impact the profitability of deposit money banks in Nigeria.

H02: Board size has no significant impact on the profitability of deposit money banks in Nigeria.

H03: Independent board members have an insignificant impact on the profitability of deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

Corporate Governance

According to Mugisha *et al.* (2025), it has been difficult to arrive at a universally accepted definition of CGI because each country and economy operates distinct systems of CGI which is based on varying powers, strengths, and influences of different management and stakeholders. However, the Organization for Economic Co-operation and Development (2023) stated that corporate governance can be described as a framework of relationships that relates together an organization's management, board of directors, shareholders, and stakeholders, providing a framework and mechanisms for a company's direction, setting objectives, attaining objectives, and monitoring performance. Yasser *et al.* (2021) defined corporate governance as a set of relationships that govern and regulate the various members of an organization. Therefore, ensuring effective corporate governance is crucial to organizational performance as it solves the existing conflict between the company's management and shareholders (Garzón & Manuel, 2021).

Audit Committee

Abdulazeezet.al. (2016) defined an audit committee as one that oversees quality financial reporting, internal control, and compliance while ensuring that earnings are not manipulated. Therefore, the size of the audit committee refers to a firm's composition of the audit committee in terms of membership, which represents diverse skills and ability to effectively conduct responsibilities. The role of the audit committee in corporate governance is crucial as it directly impacts the direction, accountability, and control of the organization (Al-Baidhani, 2016). Hence, ensuring good and strong financial reporting practices is a function of the audit committee, which forms an essential part of the board (Rifat *et al.*, 2022)

Board Size

This is one of the most widely researched concepts in corporate governance and relates to the number of board members, that is, the number of persons forming part of the board of directors (Danso *et al.*, 2024; Osman *et al.*, 2023). Two theories offer competing views on the effectiveness of board size in ensuring good corporate governance. The agency theory suggests a smaller size of board to ensure cohesive and effective monitoring, whereas the resource-dependence theory proposes that a larger board size is needed to provide more resources, expertise, and network (Tampakoudis *et al.*, 2022; Danso *et al.*, 2024). The CBN code prescribes the minimum and maximum number of directors constituting board size to 5 and 20, respectively.

Independent Board Members

According to Calderón *et al.* (2020), independent board members are non-executive directors with no relationship with the company, which could interfere with their fair and just judgment. They are independent directors who did not have any relationship with the CEO before joining the board, were not nominated by an insider, and had no affiliation with the firm before appointment. Therefore, they are expected to deliver unbiased monitoring, advice, and judgment (Karim, 2024). They function to safeguard the interests of shareholders and ensure effective

corporate oversight. Several studies have linked a stronger independent representation to firms' improved performance metrics (Karim, 2024; Chang, 2023).

Firm Size

Total assets, sales, market capitalization, or number of employees determines firm size (Almaskati *et al.*, 2019). Several studies have consistently used firm size as a control variable in examining corporate governance and bank performance (Abedin *et al.*, 2022; Abdulazeez *et al.*, 2016; Okoye *et al.*, 2020; Umar & Sani, 2020; Pham & Nguyen, 2021). The proxies used in measuring firm size in banking usually capture scale economies, diversification potential, and the firm's bargaining power, which can increase profitability (Danso *et al.*, 2024). However, larger size also comes with complexity and potential for agency slack; hence, effective governance must be at par with size to preserve profitability (Abedin *et al.*, 2022; Danso *et al.*, 2024).

Financial Leverage

The ratio of total debt to total assets or debt-to-equity ratio measures the extent to which assets are financed by debt (Al-Matari, 2022). The firm's ability to employ long-term funds to enhance returns for its owners (Meghanathi & Chakrawal, 2021). It is an important variable in corporate governance research as higher leverage levels have often been associated with increased financial risk and reduced agency issues, limiting managers' free cash flow (Almaskati *et al.*, 2019; Karim *et al.*, 2024).

Stock returns (as a measure of profitability)

The gain or loss earned by an investor from the purchase of shares represents stock return (Sumani, 2020). Stock return is the rate of return on an investment made in shares. Investors typically aim at dividend yields from a company's profitability and capital gains from increasing share values (Sulastri *et al.*, 2023). Profitability is a crucial instrument used for measuring a firm's financial strength, indicating the firm's capability to generate profit in relation to sales, assets, and capital and consequently increasing its share value over a specific period (Hassan *et al.*, 2024). Thus, stock return is a significant market-based measure of profitability that reflects investors' perception of investors of a firm's future earnings and risk.

Theoretical Review

The theoretical foundation on which this study is based is Shareholders' theory and Agency theory.

Shareholders Theory

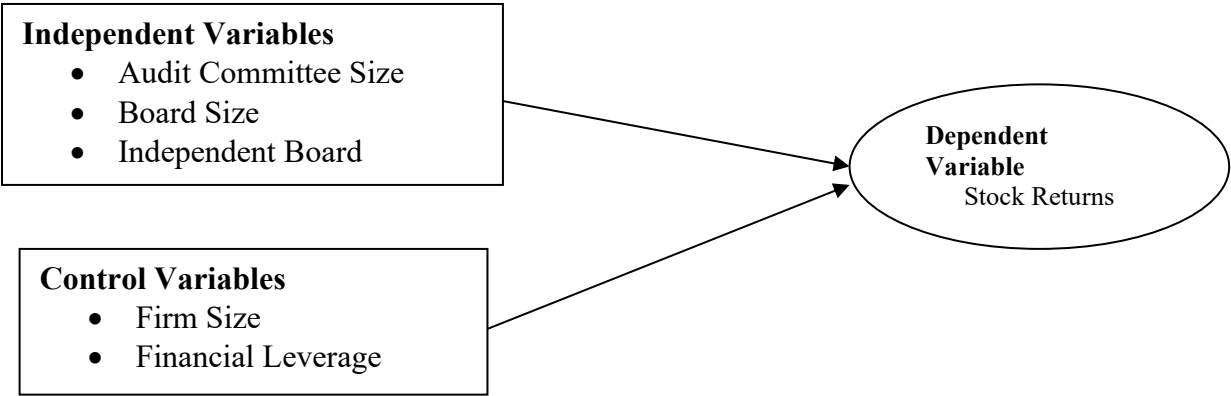
The shareholder hypothesis proposed by Friedman in 1970 serves as the theoretical basis for this research. This study discusses how corporate executives should conduct themselves in their respective business environments, emphasizing the importance of putting shareholders' interests first. It has served as a major ideology in corporate governance, emphasizing that a firm's primary objective is to maximize shareholder wealth. Friedman presented profit maximization as an ethical duty and not only an economic goal, stating that the diversion of corporate resources to social objectives is an illegitimate use of shareholders' wealth with no democratic accountability. Hence, a corporation's overall goal should be to increase the assets of shareholders. Since stock returns reflect investors' assessment of future earnings, banks' governance quality, and overall performance, they serve as market-based indicators that perfectly explain the core concept of shareholder theory.

Agency Theory

This provides a background for understanding the relationship between the shareholders, also known as the principals, and the agents, who are the board of directors in a firm. According to Mamdouh (2024), directors manage firms at the expense of company owners as a result of the diffused characteristics of ownership structure as propounded by Berle and Means (1932). Fama and Jensen (1983) proposed that effective boards and governance systems can help separate management and control functions and thus reduce agency conflicts while ensuring accountability. Hence, strong corporate governance framework, such as board structure and independent directors, is crucial for reducing agency problems and agency costs (Mamdouh, 2024).

The underpinning theory for this study is the Shareholders Theory, which suggests that management has the highest level of commitment to maximizing the interests of shareholders in a manner permitted by social values. Hence, the study uses stock return as the measurement for profitability to capture the impact of corporate governance on deposit money banks’ market-based performance.

Theoretical Framework



Empirical research by Aginam and Obi-Nwosu (2024), analyzed the influence of the size of board members on the performance of deposit money banks in Nigeria, specifically their profitability, and observed that the size of the board positively influences ROA in Nigerian deposit money banks. Padam and Sajeeb (2024) conducted a Nepalese study that explored the impact of corporate governance practices and bank-level constructs on the performance of commercial banks in Nepal. Their observation was that board size positively impacted earnings per share (EPS), suggesting that a larger board tends to improve EPS performance. The findings further indicated that board independence and EPS are significantly but negatively correlated, whereas the relationship between firm size and EPS was statistically insignificant and negative. In contrast, Edeh and Iwedi (2024) investigated corporate governance and bank soundness in Nigeria and observed that board size negatively and significantly influenced capital adequacy. The authors argued that bank soundness depends less on the number of board members and more on diversity and competence.

Dike and Tuffour (2023) used a cross-sectional survey involving 121 respondents to investigate the relationship between corporate governance and firm performance. Their findings revealed that board size and board committee exerted significant positive effects on bank performance, whereas board independence showed a significant negative association. According to the study, larger boards improve access to critical resources and expand the

scope of monitoring. The work of Ademola *et al.* (2022) corroborates these findings by examining Nigerian microfinance banks' performance as it relates to corporate governance. Their findings showed that board size plays a significant and positive role in MFB performance, implying that broader boards may contribute to better bank performance as more productive ideas emerge, monitoring becomes more intense, and necessary experience and knowledge are provided. This study also revealed that audit committee size positively affected organizational performance, supporting the argument that effective monitoring mechanisms strengthen financial outcomes. Abedin *et al.* (2022) also found that board size and independent directors significantly improved firm performance in developing economies. However, Rifat *et al.* (2022), examined the attributes of boards, audit committee characteristics, and performance of organizations in an emerging economy and reported that board independence negatively impacted return on assets and Tobin's Q, although it positively influenced stock returns. In addition, audit committee size was negatively associated with Tobin's Q, raising concerns regarding audit committee effectiveness and composition.

Olaoye and Adeyemi (2021) researched the influence of corporate governance on the performance of deposit money banks in Nigeria, where the performance measure was proxied by return on assets (ROA). The study's outcome indicates that board member size and board composition are negatively associated with performance, implying that increasing board membership alone may not necessarily translate into improved profitability. Nevertheless, audit committee size demonstrated a positive but statistically insignificant relationship with performance, positive because they provide recommendations and advice to the board and insignificant because of committee independence infringement. Kafidipe *et al.* (2021) analyzed the relationships among corporate governance, risk management, and financial performance of the Nigerian DMBs. From this study, ROE has a positive correlation with board member size, board independence, and board committee efficacy. In another related study, Oluwole (2021) reported that both board size and audit committee size exert significant positive effects on earnings per share among Nigerian banks.

Okoye *et al.* (2020) focused on the impact of corporate governance on the financial performance of Nigerian commercial banks and found that the size of the board and the size of the firm was positively associated with financial performance. It was recommended that the maintenance of an optimal board size capable of minimizing conflicts within the boardroom while ensuring effective oversight is necessary to enhance organizational performance. Adeyinka and Benjamin (2020) also established that board size positively affects the market performance of selected Nigerian banks when market price per share is used as the performance measure. In contrast, Umar and Sani (2020) discovered that board size negatively impacts the performance of listed deposit money banks in Nigeria, implying that excessively large boards may delay decision-making and reduce operational efficiency. Despite this, the research showed that board structure had a positive effect on performance due to the involvement of independent directors, enhancing managerial accountability.

METHODOLOGY

Correlational research, which is appropriate in exploring relationships among variables and their strengths, was used in this research. The use of this research design helped in assessing the extent of the effects of corporate governance variables on the profitability of selected DMBs in Nigeria. The population comprised all 13 DMBs

on the Nigerian Group Exchange as of December 31, 2024. From the population, twelve (12) banks were purposively selected as the sample and these are those that have remained in operation before 2009. The research used secondary data collected from the audited annual financial statements of the sampled banks from 2009 to 2024. The corporate governance variables considered in the study include audit committee size, board size, and independent board membership, while stock returns were used to represent profitability. Firm size and financial leverage were incorporated as control variables to account for their possible influence on profitability. For data analysis, the study used panel data multiple regression. The technique was considered appropriate because it is a combination of cross-sectional and time-series observations, allowing for a more detailed assessment of the interaction between the variables across the selected banks and over the specified period.

Model Specification

The study’s model specification is made mathematically as follows:

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \mu.....3.1$$

Hence;

Econometrically expressed, it would become:

$$NPL = \beta_0+\beta_1AUC_{it}+ \beta_2BOS_{it}+ \beta_3IBM_{it}+\beta_4FMZ_{it}+ \beta_5FLV_{it}+ \mu.....3.2$$

Where STR = Stock Returns

AUC = Audit Committee Size

BOS = Board Size

IBM =Independent Board Members

FMZ = Firm Size

FLV = financial leverage

β_0 = Constant

β_1 - β_3 = Coefficient of each individual variable

i = Number of banks

t = Number of years covered by the study

μ = Error term

Decision rule: The null hypothesis is rejected when the probability value is less than the 0.05 significance level; otherwise, it is accepted.

Table I

Variable measurement

SN	PROXY	TYPE	MEASUERMENT
1	Stock Return	Dependent variable	Difference between the yearly share price and the dividend
2	Audit Committee	Independent variable	The members constituting the audit committee

3	Board Size	Independent variable	The company board of directors membership
4	Independent Board Members	Independent variable	The number of independent directors who have no direct relations with the company, through shareholders' partners or management members of the company.
5	Firm Size	Control Variable	Total assets of each bank.
6	Financial Leverage	Control variable	Total debt÷ Total Equity

Source: Compiled by the researcher (2025)

RESULTS

This chapter presents the analysis and discussion of the results of the panel regression. Stock returns (the dependent variable) were used to represent profitability, financial leverage, and firm size as control variables, and board size, audit committee, and independent board members were used to simulate corporate governance.

Descriptive Analysis

Descriptive statistics of stock return, board size, audit committee and independent board members, firm size, and financial leverage for the period of 2009-2024 is presented in Table 1.

Table II: Descriptive Statistics for the study

	STR	AUC	BOS	IBM	FMZ	FLV
Mean	98.69836	8.26	14.36	3.61	7.164894	0.499386
Median	95.04645	8.00	14.00	3.00	7.03	0.477121
Maximum	117.9096	12.00	21.00	7.00	9.38	1.30103
Minimum	4.2849	7.00	9.00	2.00	5.42	0.7821
Std Dev.	59.26185	1.33	2.18	1.03	0.835149	0.335556
Skewness	8.938076	1.05	0.22	0.89	0.317227	0.018609
Kurtosis	114.7309	3.69	3.54	3.93	2.615737	2.263361
Jarque-Bera	212322.4	22.80	2.26	18.78	9.123999	9.021708
Probability	0.2391	0.493	0.32	0.53	0.86	0.35
Observations	192	192	192	192	192	192

Source: Author's computation (2025)

The mean value for stock returns ($M = 98.70$) indicates a generally favorable performance; however, the substantial standard deviation ($SD = 59.26$) indicates significant variability among the observed returns across the sample. This result implies that while some banks realize considerably high returns, others underperform dramatically, possibly due to differing corporate governance practices or external economic conditions.

In examining the audit committee size, the mean of 8.26 ($SD = 1.33$) reflects a relatively consistent committee size across banks. The maximum size recorded was 12, while the minimum stood at 7, indicating that banks are maintaining a sizable audit committee, which may enhance monitoring and governance effectiveness. In this

context, the skewness of 1.05 indicates a slight positive skew, implying that a few banks may have larger audit committees.

The board size metric revealed a mean of 14.36 (SD = 2.18), with values ranging from 9 to 21. This distribution indicates that banks in the sample generally adhere to a moderately sized board, which is often associated with more effective governance practices. The observed skewness (0.22) connotes a fairly symmetrical distribution of board sizes, implying that most board sizes of most banks cluster around the mean.

Independent board members exhibited a mean of 3.61 (SD = 1.03). The values for this variable show a promising trend toward enhancing governance through increased independence, which is often linked to enhanced decision-making and CP. The reported maximum of 7 independent members denotes a push toward achieving higher governance standards, although the presence of a minimum of 2 highlights variability in adherence among the institutions.

Firm Size (FMZ) and Financial Leverage (FLV) displayed means of 7.165 and 0.499, respectively. Firm size generally aligns with these banks’ expected growth and operational scale, while the financial leverage mean indicates a conservative approach to leveraging, essential for maintaining financial stability. The lack of substantial variability in financial leverage (SD = 0.335) signifies that most banks maintain similar leverage ratios, indicating possible adherence to regulatory or risk management standards.

Table III: Pooled regression analysis results

Dependent variable: STR				
Method: Panel least squares test				
Sample: 2009 2024				
Periods included: 16				
Cross-sections included: 12				
Total panel observations: 192				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUC	0.883	0.269	3.286	0.000
BOS	0.026	0.007	3.642	0.000
IBM	-0.040	0.019	-2.168	0.031
FMZ	0.001	0.000	2.485	0.013
FLV	-0.001	0.000	-0.257	0.798
C	0.316	0.059	5.317	0.000
R-squared	0.448	Mean var dependent		0.18
Adjusted R-squared	0.441	S.D.-dependent var		0.16
S.E. of the regression	0.153	Akaike information criterion		-0.91
Sum squared resid	16.135	Schwarz criterion		-0.87
Log likelihood	322.426	Hannan-Quinn crater.		-0.89

F-statistic	6.884	Durbin-Watson stat	1.23
Prob(F-statistic)	0.000		

Source: Author's Computation, 2025manuscripts

Table 2 employs pooled regression analysis using panel least squares, with stock returns as the dependent variable across an unbalanced panel of 192 observations concurrently examining eight (12) deposit money banks. In general, the R-squared value in the entire model is 0.448; therefore, the independent variables included in the regression model explain approximately 44.8% of the variation in stock returns, while the adjusted R-squared value of 0.441 accounts for the number of variables used. Furthermore, the F-statistic value of 6.884 at a probability level less than 0.001 proves the regression equation's significance.

The coefficient of the independent variable "Audit Committee Size" (AUC) is 0.883, and its standard error is 0.269, giving rise to the t-statistic of 3.286 with a highly significant probability value of 0.000. Hence, this result shows the strong positive impact of audit committee size on banks' return on stocks, supporting the claim that greater oversight can positively affect firms' finances. The coefficient for board size (BOS) also turns out to be positive and equal to 0.026, with a probability value of 0.000 and a t-statistic of 3.642.

Independent board members (IBM) show an inverse relation with a negative value of -0.040, having the value of t-statistics equal to -2.168 and a p-value of 0.031. The inverse relationship makes one question the efficiency of independent board members in the examined situation since a higher number of independent board members do not mean financial benefits.

Concerning the size of the firm (FMZ), only a very weak positive correlation exists, with a coefficient of 0.001, t-statistics of 2.485, and a p-value of 0.013; in other words, larger banks may have better performance on stock market returns. Financial leverage (FLV) demonstrates a very weak correlation with a coefficient of -0.001 and t-statistics of -0.257 (p=0.798).

Discussion of the Findings

The coefficient for audit committee size is 0.883, with a t-statistic of 3.286 and a p-value of 0.000, resulting into null hypothesis (H_{01}) rejection. This result indicates a notable positive connection between the size of the audit committee and banks' stock returns. This result corresponds with the findings of other researchers who also agreed through their different studies that audit committee size significantly and positively affect bank performance (Ademola *et al.*, 2022; Joshua *et al.*, 2019; Oluwole , 2021). Hence, a larger audit committee could result in enhanced monitoring, increased expertise, stronger financial reporting integrity, and better risk surveillance.

Similarly, board size exhibits a coefficient of 0.026 with a t-statistic of 3.642 and a p-value of 0.000, resulting in the rejection of the null hypothesis (H_{02}). The findings demonstrate that larger board sizes are associated with increased stock returns. It resonates with the resource dependence theory, which emphasizes the benefits of having diverse perspectives and expertise within the boardroom. This findings is consistent with the majority of the studies reviewed, whose results indicates that board size and bank performance are significantly positively related to the justifications that a larger board size indicates increased diversity of expertise, improved control and monitoring, stronger risk governance structure, robust stakeholder representation, increased capacity for committees, and stronger bank performance (Aginam &Nwosu, 2024; Dike & Tuffour, 2023; Oluwole, 2021;

Abdulazeez *et al.*, 2016; Kafidipe *et al.*, 2021; Padan & Sajeeb, 2024; Ademola *et al.*, 2022). Few studies, however, have presented an adverse but significant effect of board size on bank performance, stating that increasing board size will lead to reduced firm performance and that it is not about a large board size but a well-diversified board member who actively participates in the management of the organization (Olokoyo *et al.*, 2019; Olaoye & Adeyemi, 2021; Edeh & Iwedi, 2024)

On the contrary, the coefficient for independent board members is recorded at -0.040 with a t-statistic of -2.168 and a p-value of 0.031, leading to the study rejecting the null hypothesis (H_0). While this signals that an increase in the number of independent board members correlates negatively with profitability metrics, it is essential to consider the context. This result points to potential inefficiencies or lack of cohesion among independent directors in the Nigerian banking context, as highlighted by Fama and Jensen (1983) in their governance studies. They contend that independent board members, while essential for mitigating conflicts of interest and upholding shareholder interests, must also be integrated effectively into the broader governance framework to fulfill their potential positively. Furthermore, the empirical results align with previous contributions on corporate governance, which concur with the outcomes that board independence exerts negative and significant influence on bank performance (Olokoyo *et al.*, 2019; Padan & Sajeeb, 2024; Dike & Tuffour, 2023). The negative relationship could be attributed to excessive monitoring, which slows down decision-making, inadequate technical expertise of independent directors, or risk-averse nature of independent directors, which may reduce revenue-generating activities and profitability. However, some studies have posited that board independence positively influences firm performance (Rifat *et al.*, 2022; Danso *et al.*, 2024; Abedin *et al.*, 2022; Al-Matari & Mgamal, 2019).

Regarding the control variables, the regression analysis shows that firm size (FMZ) has a positive impact on the stock returns of listed deposit money banks in Nigeria. In particular, FMZ had a coefficient of 0.001, a t-statistic of 2.485, and a probability of 0.013. These statistics show that large banks have higher stock returns than smaller banks. Although the coefficients are low, they are statistically significant; hence, firm size positively affects stock performance. The implication of the result is that large banks record improved financial performance because they have a greater chance of accessing various financing opportunities.

The positive relationship between firm size and stock performance can be attributed to several benefits associated with large firms. For instance, large banks are able to diversify their operations and reduce risks associated with running business ventures because they enjoy huge capital, extensive branch network, high market share, easy access to financing sources, economies of scale, and other factors that improve organizational performance. This result is consistent with the findings of Akinola (2022), who found that larger firms are more internally efficient, leading to increased financial performance. According to Danso *et al.* (2024), firm characteristics, such as size, play an important role in improving organizational performance through the proper use of available resources. Similarly, Fitri *et al.* (2023) considered firm size as one of the important factors influencing the performance of corporations, particularly in the banking industry.

However, FLV had a coefficient of -0.001, a t-statistic of -0.257, and a probability of 0.798. The statistics imply that the probability exceeded the conventional 5% level of significance; hence, financial leverage has a negative but statistically insignificant impact on the stock returns of Nigerian deposit money banks. This means that changes in the financial leverage of the sampled banks did not significantly affect their stock performance during

the period under review. With the negative coefficient, it is possible to state that overreliance on debt financing method is likely to decrease a firm's ability to make profit due to the high interests rates involved. However, the insensitivity of the test shows that leverage had no impact on the value of investors' decisions about banks' stock market performance. This result could be attributed to the characteristics associated with the banking sector, where the deployment of borrowed funds is expected.

This result confirms Meghanathi and Chakrawal's (2021) view of the impact of high leverage on the performance of firms because of the high costs of borrowing. Although, the relationship between leverage and stock price is insignificant, it implies that other issues, apart from leverage ratio, may determine the stock performance of deposit money banks in Nigeria. Therefore, appropriate leverage may not be detrimental to performance because there are other variables that have more impact on profitability.

These outcomes extend knowledge to the ongoing discourse in corporate governance research, urging scholars and practitioners alike to delve deeper into the mechanics of governance structures within deposit money banks. They underscore the necessity for continued empirical investigations into how governance factors can be optimized to promote enhanced financial performance, drawing insights from precedent scholarly works while adopting a reflective approach suitable for the Nigerian banking landscape as indicated by Olutokunbo, Adeade, and Lawal (2020), and backed by contemporary studies such as those by Ahmed (2023) and Muturi and Omondi (2023).

Conclusion

Research into the impact of corporate governance on banks' profitability is of great importance because effective corporate governance will positively impact almost every aspect of an organization and vice versa. A series of bank failures have been witnessed over the years, resulting in the board of management being removed, dissolved, or dismissed by the Central Bank of Nigeria. Therefore, knowing how different aspects of corporate governance affect banks' profitability is crucial to all stakeholders, especially the owners (shareholders), hence the, need for this study. In this study, corporate governance was found to affect the profitability of DMBs in Nigeria by considering board size, size of audit committees, and independent board members as variables of corporate governance, while stock return was taken as an indicator of profitability. Twelve (12) listed deposit money banks were used in the sample collection. The study results show that there is significant and positive correlation between board size and stock return with a coefficient of 0.0026, t-statistics of 3.642, and p-value of 0.000. Therefore, larger size of the board will improve the stock return performance. There is also a positive and significant association between audit committee size and stock return performance, with a coefficient of 0.883, t-statistics of 3.286, and a p-value of 0.000. This implies that a larger audit committee size will improve stock return performance. On the other hand, the association between independent board membership and stock return performance is significantly negative with co-efficient of -0.040, t-statistics of -2.168 and a p-value of 0.031. A critical look at this finding reveals that most studies that align with board independence exerting a significantly positive effect were not conducted in Nigeria. This calls for further research as it would have been expected that the more independent members that are on board, the better the bank's performance. Are these independent directors truly independent?

This study also confirms the shareholder's theory, which assumes that corporate governance mechanisms are put in place to reduce agency-associated problems and ensure that governance practices result in value creation for shareholders.

Overall, this study established that corporate governance is indeed a determinant of banks' profitability, especially as it concerns shareholders and all stakeholders.

Recommendations

Considering the results of this study, DMBs are recommended to:

- i. Have a reasonable number of strong audit committees to boost financial transparency and investor trust;
- ii. Maintain a board structure of considerable size and ensure that the board members have expertise in diverse fields to promote strategic decision-making and adequate monitoring.
- iii. Avoid relying too much on independent directors while ensuring that the independent board members have relevant experience. Regulatory authorities should also encourage board composition based on competency rather than independence.

Suggestions for further research

Further studies may be conducted to examine the extent to which corporate governance affects listed firms in non-banking sectors to determine whether the outcome of this study also applies across industries. The survey-based approach can also be adopted with bank executives, regulators, and audit committee members as respondents to understand the negative relationship between independent board members and bank performance.

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