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Corporate governance, risk management and financial performance of deposit money banks in Nigeria

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Abstract

This study investigates the effect of corporate governance on risk management and financial performance. Data covering 2010 to 2020 was collected from a sample of ten best-performing banks. The panel Ordinary Least Squares (POLS) result shows that governance disclosure influence financial performance significantly across performance measures. While role duality affects financial performance negatively with Tobin Q market-based measure, the effect of numbers of board committee (NBC) is positive with ROE accounting-based measure. Also, auditor type affects performance negatively with ROE but with Tobin Q, it does not show any effect. Also, the number of director significantly enhances risk management.

Keywords: Corporate governance, Risks management, Financial performance, Deposit money banks

Introduction

The purpose of this study is to assess the association among corporate governance, risk management and financial performance of deposit money banks listed on the Nigerian stock exchange. Specifically, the goals are to determine whether higher financial performance is an outcome of better corporate governance and to identify the corporate governance characteristics that are most important in reducing risk-taking excesses of banks. The increasing interest in corporate governance in both theoretical and empirical literature stems from its critical role in proper functioning of the banking system and the economy as a whole (Brogi & Lagasio, 2021). Corporate governance is believed to reduce the agency costs that may affect financial performance via the alignment of the inherent managers versus shareholders conflicting interest that arises from principal-agency relationship (Hassan & Halbouni, 2013; NTIM, 2013). In addition, corporate governance characteristics or mechanism provides a controlling devices to address this agency problem thereby help to reduce the associated of such conflicts and consequently translates into improve organisational performance (Hassan & Halbouni, 2013).

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Although studies have explore corporate governance-performance nexus to unravel the synergies among different governance characteristics, this study is one of the pioneering attempt that combined accounting-based and market-based performance measures to determine the corporate governance characteristics that are most important in reducing bank's risk-taking excesses of banks and improving performance in the Nigeria banking sector. There are several reasons why extending corporate governance literature to incorporate broad corporate governance characteristics otherwise referred to as mechanism while utilizing both accounting-based and market-based performance measures in the context of the Nigeria banking sector. First, most of the prior studies in this area utilized a single aspect or measures of financial performance or based on data collected from primary source through questionnaire while providing evidence that the importance of corporate governance is derivable only to the extent to which it limits risk-taking excesses of banks and improve performance which provide the impetus for the investigation of corporate governance in banks.

This study therefore is motivated to investigates how corporate governance characteristics affect bank performance using two performance-based measures with the aim of determining the relationship between corporate governance assessment and risk-taking. Also by combining both the accounting-based and market-based performance measures, the findings of this study could offer a better insight to the literature which have produced inconclusive results attributed in part to the use of only one performance-based measurement (accounting-based or market-based measure but nob both) with the exception of the study conducted by Hassan and Halbouni (2013) but their focus was on united Arab Emirates UAE. However, since institutional difference is capable of moderating the effect of governance on performance (Hassan and Halbouni, 2013) and given the difference in African institutional environment and Nigeria in particular with that of UAE, there is justification to extend the literature on corporate governance in the context of Africa and Nigeria in particular.

This study analyses the association between corporate governance, risks management and financial management of Nigeria deposit money bank. There are several reasons to choose Nigeria for this study. First, there is sparse literature on governance-performance relationship in Nigeria and most of the limited studies available in this area have used only one performance-based measurement. Meanwhile, the two performance-based measures have their own specific weakness. The market-based measures such as Tobin's Q tend to be more objective than the accounting-based measure, yet they are also not free from their own peculiar limitations (Gani & Jermias, 2006). This study offers an important contribution to corporate governance CG literature on bank by combining both performance-measures in the Nigeria context. Second, the data relied on in this study starts from year 2005, the year when the Central Bank of Nigeria (CBN) implemented the recapitalization policy of the banking sector to a minimum of ₦25billion from an initial level of ₦2billion with the goal of promoting

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efficiency in their operations. Given the role of the bank recapitalization on governance system in reducing the operating costs via reduction in branch networks and staff overheads which brings about economies of scale, the efficiency of risk management and financial performance of firms is expected to improve (Ahiakpor & Abdul-Majeed, 2020).

In Nigeria, several financial and non-financial institutions, including Bank PHB, Spring Bank Plc, Oceanic Bank Plc, Intercontinental Bank Plc, African Petroleum Plc, Levers Brother, and Cadbury Plc, have collapsed as a result of pervasive issues with the preparation of accounts as well as the deliberate misconduct of managers, which prompted the simultaneous dismissal of eight (8) bank chiefs by the governor of the central bank of Nigeria (Ogbeide, Ogiugo & Adesuyi. 2021). Corporate misbehavior stemming from poor corporate governance by executive directors and finance executives prevail in the Nigerian banking industry. As a consequence of poor governance, 61% of loans that are non-performing, and $13.3 billion in toxic assets and as a result the Central Bank of Nigeria (CBN) dismissed 8 of 24 corporate finance executives in Nigeria and infused 620 billion naira into the banks (Akande, 2016; Ezeoha, 2011). Without taking depositors and investors into account, corporate finance executives utilize inadequate governance strategies as possibilities for personal success (Akande, 2016). The basic issue was that poor corporate governance in banks made regulators' primary concern without adequate concern in safeguarding banking customers' funds (Adegbite, 2012). The particular issue was that certain company finance executives had insufficient corporate governance plans to assure compliance with regulations and improve organizational financial performance.

Although studies have explore corporate governance-performance nexus to unravel the synergies among different governance characteristics, most of these studies specifically in the Nigeria context utilized a single aspect or measures of financial performance or data collected from primary source through questionnaire in analysing the corporate governance characteristics that are most important in reducing bank's risk-taking excesses of banks and improving performance and this has been attributed in part to the reason why their results is inconclusive. Meanwhile, the two performance-based measures have their own specific weakness. Furthermore, the few available studies on corporate governance-performance nexus that combines both accounting and market-based performance are either carried-out on countries outside Africa specifically Nigeria or utilise single aspect corporate governance variables. However, each components of governance mechanisms or characteristics influence performance differently and also since institutional difference is capable of moderating the effect of governance on performance (Hassan and Halbouni, 2013) and given the difference in African institutional environment and Nigeria in particular with the rest of the world, there is justification to extend the literature on corporate governance in the context of Africa and Nigeria in particular.

This study investigates the effect of corporate governance on risk management and financial performance of deposit money banks in Nigeria. The specific objectives are to:

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a. investigate the effect of internal governance mechanisms on financial performance;
b. analyse the effect of external governance mechanism on financial performance;
c. determine the specific governance mechanisms that affects risk management; and

This study offers a more knowledge of specific features of bank corporate governance characteristics or mechanisms that are crucial in determining efficient framework that will help to carry-out efficient risk management to reduce excessive risk-taking in the financial institutions. The study will also help to identify the best practices in bank corporate governance. This study would help management in identifying weakness in banks financial position that is traceable to the deficiency in the governance system and address such weaknesses. This study on cooperate governance would provide an insight to the framework through which corporate governance can be used as mechanism to increase professionalism and shareholders wealth in the banking sector without putting aside stakeholders interest. The study provides a more comprehensive and deeper knowledge of specific characteristics or mechanisms of bank corporate governance which will help to achieve a better system to conduct an efficient risk management.

The concept firm performance describes a person or thing acting in an organization with company-like legal standing. Because of its multifaceted aspects, it is a contentious problem in finance (Jegers, 1987). It is essential to adequately describe the many criteria by which a firm's performance should be assessed when analyzing its performance. Performance is described as "the time test of every approach" by Venkatraman and Varadarajan (2006). According to this definition, performance may be seen as a company's strategy's results or as an evaluation of how well a company has done in achieving its goals. Handayani and Rahayu (2018) defines financial performance measures the extent of the efficiency and effectives of a firm in achieving the set objectives based on the level of effectiveness and efficiency of the firm in managing the input and output. A firm is effective if the firm is capable of selecting accurate goals, while the efficiency of a firm is judge by the ratio of the input resource and output of organization. Since, only the selection and usage of suitable input that result in optimum output, effectiveness is a precondition for a firm to achieve efficiency.

According to Handayani and Rahayu, (2018) financial performance of firms can be measured by using financial ratios comprising of liquidity, activity, leverage, profitability and market value ratio which are the five most frequently use financial ratios. In some cases, financial performance is measure using the proportion of new product sales, profitability, capital used, and return on assets (ROA) (Hsu et al., 2007). Furthermore, other metrics for evaluating financial success include return on investment (ROI), earnings per share (EPS), and net income after tax (NIAT) (Grossman, 2000). It's interesting to note that researchers frequently compare managerial accounting indicators to financial measures in six dimensions: productivity (payroll costs divided by output); shrinkage (e.g. inventory loss, defects, sales returns); quality (number of production errors); and operating expenses

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(total operating expenses divided by sales) (Wright et al., 2005).

Words like manage, govern, regulate, and control have meanings that are provided in the literature on corporate governance. The models of corporate governance may be incorrect, nevertheless, since social scientists may come up with their own definitions and ideas of the topic. Therefore, corporate governance cannot be defined in a way that is generally agreed upon. For the sake of this research, corporate governance is defined as a set of guidelines that control interactions among a firm's management, shareholders, and stakeholders (Ching et al., 2006). The way an entity's activities and affairs are managed and controlled is described by the word governance in its everyday use (King, 2006; Shelefer and Vishny, 1997). However, according to the Organization for Economic Co-operation and Development (1999), corporate governance is a collection of relationships that control the actions of the different members of a business. The organization goes on to describe it as the system used to coordinate and govern commercial businesses. It outlines the rights and obligations of various corporate players, including the board, management, shareholders, and other stakeholders, as well as the policies and procedures for making corporate decisions. In doing so, it offers the framework for goal-setting, as well as the tools for achieving them and for tracking success.

Governance mechanisms are the methods employed at the organizational level to provide solution to the agency problems (Weimer and Pape, 1999). The integral parts of corporate governance are: performance, decision making and the mitigation of conflicting interests. Haniffa and Cooke (2002) classified internal control mechanism of corporate governance that affects organizational performance into board size, member committees supporting the board of the directors and separation of the roles of chairman and chief executive. Internal governance mechanisms include internal control services such as board size, board committee, board independence, board leadership and institutional investors. Denis and McConnell (2003) classified external governance mechanism into takeover market and the legal regulatory system. External governance mechanism covers takeover threats, product market competition, management labour market and mutual monitoring by managers security analysis, the legal environment and the role of reputation.

Hassan and Halbouni, (2013) used five measure of governance comprising of governance disclosure, board size, board committees, audit types and CEO roles duality. Brogi and Lagosio (2021) classified corporate governance into three main aspect comprising board structures, board functioning and external perception. Ntim (2013) used Tobin’s Q and total share return for market-based performance measures while ROE and ROA were used as accounting-based performance measures. The board size is the members of the people that constitutes the board members and it is widely believed that because larger boards used more time to take decision they are less efficient in capturing; role duality which means that the same person undertakes the role of chief executive such the role of chairman board of directors and such the level at which these two roles determines the board monitoring capability; board committees which refers to the compensation, risk management, audit, governance and nominating committees. Corporate

governance quality rises with the existence of separation committees and also with their meetings; and audits type which is the quality of auditors (Ntim, 2013)

In this review, three core theories stand-out in explaining the nexus between corporate governance and financial performance and these are agency theory, stewardship theory and signalling theory. The connection between the shareholders (principals) and the management (agents) is explained by the agency theory (Donaldson & Davis, 1991). It proposes methods for addressing such conflicts, such as giving decision-making power to the agents who administer a project, in an effort to settle conflicting interests between the organization's administration and the owners. According to the agency hypothesis, firms have an opportunity to improve financial performance through reducing costs. Due to the conflicting objectives of managers and owners, the agency cost might be regarded by shareholders as a value loss (Jensen & Meckling, 1976). As a result, if agency costs are controlled effectively, they may contribute to increasing share value, which enhances the company's overall financial success. The total of monitoring costs, bonding costs, and residual costs is how Jensen and Meckling (1976) define agency costs. The corporate governance system should thus identify the root causes of these disputes in order to lower agency costs, which highlights the need of understanding "agency theory." Managers should behave in the principal's best interest if corporate governance controls are effective (Allen & Gale, 2001).

In agency theory, firms operational activities is based on contract in which one party (the principal) engages with another party called the agent to carry out some activities on their behalf (Brogi & Lagasio, 2021). The role of the principal is to monitor the way the agent deliver the responsibility by utilizing governance tools or mechanism while the agent on the other hands is expected to act according to the assign duties by its principal which may not usually be the case. The additional checks on management behaviour provided by governance through its mechanisms reducing the tendency for top managers to pursue their self-interest by using information asymmetric and also forced them to behave in such a way that maximizes the owners return. According to the agency hypothesis, corporate controls are missing in markets that have seen significant growth. Because of the effects, there are market failures, no markets, moral hazards, asymmetric knowledge, incomplete contracts, and moral selection. The higher the presence of independence members, the better is the performance and risk-avoidance in banks (Brogi & Lagasio, 2021). Several studies have shown that effective oversight, robust market competitions, management of CEO remuneration, cautious loan sourcing, an effective board of directors, markets for corporate governance, and concentrated ownership may assist in addressing the agency issue (Bonazzi & Islam, 2007). The CEO and chairman positions should be divided up among different people, according to advocates of the agency theory. As a result, the CEO and chair will be subject to necessary checks and balances (Gillan, 2006).

The stewardship theory contends that corporate executives who are also board members make appropriate strategic choices because they are more acquainted with the business' operations than outside directors (Brogi & Lagasio, 2021). The idea

holds that rather of being separated, the positions of CEO and chairman should be combined. The idea is that directors, by maximizing their utility, are better able to serve the interests of shareholders than by acting in their own self-interest. Several empirical studies that are now available provide weight to the stewardship theory's claims (Donaldson & Davis, 1991). In addition, the stewardship hypothesis contends that giving managers an option may inspire them to work more. Academics concur that the necessity for discretion to maximize shareholder value also influences management conduct, in addition to financial incentives, on this side of the debate. Stewardship theory also stresses the need for managers to act in the best interests of shareholders due to their concern for their reputation and desire for career progression. Agency expenses will thus be kept to a minimum (Donaldson & Davis, 1991).

The findings of different studies on the connection between corporate governance practices and financial performance that have previously been documented in the literature are confusing, which has been partially attributed to the technique of financial performance measurement (Hassan & Halbouni, 2013). The performance measurement employed plays an important role in the investigation of the relationship between corporate governance and performance because it relates to the sources of financial information presented in the financial statements by internal operators, which is useful for planning, directing, and controlling decision-making. The measurement is chosen by management in the interim based on the objectives of the firm (Al-ahdal, Alsambi, Tabash & Farhan, 2020).

Accounting-based performance indicators are used in many empirical research that look at the connection between corporate governance, risk, and financial performance. For their analysis of how corporate governance practices affect the performance of Islamic banks, Aslam and Haron (2019) used data from 129 Islamic banks (IBs) from 29 Islamic countries (Middle East, South Asia, and Southeast Asia) between the years 2008 and 2017. (IBs). It was shown that the Shariah board and audit committee had a favorable influence on IBs' performance. IBs' performance, however, is negatively and significantly impacted by the size of the board and the makeup of the risk management committee. Evidence associating CEO duality and non-executive directors to the effectiveness of IBs is also contradictory. Suhadak, Handayani, and Rahayu (2018) examine this topic by using data on companies listed in LQ45 on the Indonesian Stock Exchange between 2010 and 2016 to examine the effects of good corporate governance (GCG) on corporate value and the moderating effects of stock return and financial performance on the influence of GCG on corporate value. The findings indicated that higher GCG, a higher proportion of independent commissioners, institutional management control, and public ownership resulted in higher firm value. GCG's effect on firm value was demonstrated to be mitigated by stock return and financial performance, but not only by financial performance. Similar to this, Lajili (2009) investigates how corporate governance procedures and risk disclosure behavior in publicly traded Canadian firms relate to one another (TSX 230). Larger Canadian public businesses and boards of directors with more independent members are more likely to

provide risk management information in addition to the mandatory risk disclosures, it has been found. The risk disclosure process seems to be negatively impacted by ownership structures where minorities have voting rights, while CEO incentive compensation has mixed results. Tao and Hutchinson (2013) investigate the role of pay and risk committees in managing and monitoring the risk behavior of Australian financial organizations from 2006 to 2008 using 711 observations of enterprises in the financial sector. Risk and business performance were shown to be strongly associated, and the composition of the risk and compensation committees was also found to be favorably correlated. Additionally, when a director sits on both the risk and compensation committees, information asymmetry is decreased, which moderates the negative correlation between risk and firm performance for high-risk businesses. In order to investigate the link between the standard of corporate governance policy and financial performance, Ueng (2018) also employs a sample of 3,068 enterprises that were submitted to logistic regression analysis. According to the research, when a company's corporate governance processes are better, it is more probable that they will perform better. Stronger board ratings, pay policies, takeover defense tactics, accounting procedures, and formal governance standards all increase the likelihood that a company will outperform its rivals.

Using partial least squares, Ukhriyawati, Ratnawati, and Riyadi (2017) analyze the effects of asset structure, capital structure, risk management, and excellent corporate governance on financial performance and firm value in the setting of banking businesses listed on the Indonesia Stock Exchange (PLS). The study's conclusions state that asset structure has a positive and significant impact on earnings, capital structure has a negative and significant impact on earnings, risk management has a positive but insignificant impact on earnings, good corporate governance has a positive and significant impact on earnings, asset structure has a positive and significant impact on free cash flow, and risk management has a positive but insignificant impact on earnings.

Olamide, Uwalomwa, and Ranti (2015) utilized ordinary least square regression to examine data from the annual reports of banks listed on the Nigerian Stock Exchange's floor in order to investigate the impact of effective risk management on bank financial performance. The performance of banks as determined by return on equity has been shown to be negatively correlated, but not significantly. In a related vein, Pandya (2011) examined the influence of corporate governance frameworks on the performance of selected Indian banks as measured by return on assets (ROA) and return on equity (ROE) using statistical approaches. Public and private banks operating in India were the sampled public and private banks used in this study. The results show that corporate governance practices and bank financial performance are not significantly correlated. Similar to this, Suroso, Widyastuti, Salim, and Setyawati (2017) used data from 11 sharia banking institutions in Indonesia to examine the effects of corporate governance and intellectual capital on the financial performance of the company using two dependent variables, asset growth (AG) and return on asset (ROA), as well as seven independent variables, including human capital, structural capital,

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and capital employed, which is a subvariable of intellect. According to the study's conclusions, intellectual capital has a positive and significant influence on ROA but no effect on AG. The increase of a company's assets is unaffected by corporate governance, despite the fact that it has a beneficial influence on ROA.

Similar to this, Kabir and Thai (2017) examine the moderating effect of various corporate governance aspects on the relationship between corporate social responsibility CSR and financial performance among Vietnamese listed firms using ordinary least squares regression analysis along with fixed-effects and two-stage least squares models. The results show that CSR programs are beneficial to a company's ability to succeed financially. State ownership has no such impact, but aspects of corporate governance, like foreign ownership, board size, and board independence, strengthen the positive correlation between CSR and financial performance. Aggarwal (2013) used a sample of 20 companies from the S&P CNX Nifty 50 Index to explore the relationship between corporate governance and financial performance. The data was analyzed using regression, correlation, t-tests, and F-tests for the period from FY 2010-11 to FY 2011-12. Governance rankings have been shown to have a large, positive impact on a corporation's ability to make money. In addition, Kelley(2015) reviews the empirical literature that examines the connections between governance structures and risk management duties as well as how these factors impact banks' performance and risk-taking. The paper claims that although there are governance mechanisms in place, they may not be enough to stop banks from taking unwarranted risks. Since all company-wide risk exposures must be monitored and managed, it is crucial to establish a strong and independent risk management department.

Additionally, Asghar, Sajjad, Shahzad, and Matemilola (2019) examine the moderating impact of profits management on the relationship between CG-value and CG-risk in the Pakistani emerging economy using a panel data of 71 nonfinancial listed enterprises for the years 2008 to 2017. The results indicate that CG greatly enhances the business value and performance indicators. In addition, CG mitigates the practices of earning management and lessens the risk that occurs when managers behave opportunistically and commit fraud. Similar to this, Ali, Sial, Brugni, Hwang, Khuong, Khanh, and Gunja-Dong (2019) investigate how corporate social responsibility (CSR) modifies the relationship between corporate governance and firms' financial performance using a panel of data from a sample of 3400 Shanghai Stock Exchange (SSE) listed firms, based on yearly observations from 2009 to 2018. The results show a link between having female board members and greater business performance, and corporate social responsibility (CSR) moderates this association. This implies that include female board members in strategic decision-making enhanced the link between CSR and company financial success. The study discovered that CSR mediated the association between foreign institutional investors and the firm's financial performance and that these investors had a positive effect on enterprises' financial success. Based on a panel data analysis on a sample of 164 companies on a yearly year observations for Real Sector businesses on the Istanbul

Stock Exchange (ISE) from 2005 to 2008, Gürbüz, Aybars, and Kutlu (2018) estimate the effect of corporate governance on financial performance in Turkey. The same accounting-based metric forms the basis of their study. The study's conclusions demonstrate how strong corporate governance and institutional ownership have a positive effect on financial success. Also found is that firms included in the corporate governance index are more heavily impacted by institutional investors.

Irawati, Maksum, Sadalia, and Muda (2019) conducted an empirical analysis of GCG variables, other regulatory-driven factors, and bank size using data from 30 banks registered in BEI for the years 2011 to 2015. The research finds that the capital adequacy ratio, management ownership, and bank size have a positive, significant influence on financial performance, whereas other factors like NPL and committee audit have a minimal to insignificant impact. Iqbal, Nawaz, and Ehsan also study the connection between corporate governance and the financial performance of MFIs in Asia (2018). Throughout 18 Asian countries between 2007 and 2011, a panel dataset from 173 MFIs was used for the study. The study developed a corporate governance index based on seven variables, such as ownership type, board size and makeup, CEO characteristics, and index score. Then, it was examined how each of the five main financial performance criteria was projected to be associated with this index in a two-way fashion. The possible simultaneity between corporate governance and financial performance was addressed utilizing an instrumental variable-based two-stage least squares estimation approach. The results provide evidence that sound company governance and financial performance are endogenous relationships. Conclusion: MFIs that adopt sound governance techniques are more successful and long-lasting, and vice versa; MFIs with better governance processes are more resilient. Similar to this, Ellul (2020) investigates the empirical literature that examines how governance structures and risk management activities connect to one another as well as how they influence banks' risk-taking and performance. The paper's authors argue that conventional governance structures may not be enough to curb banks' appetite for risk, and that an effective and independent risk management function is thus needed to track and control all company-wide risk exposures.

In a different context, a plethora of empirical data analyzes the connection between corporate governance, risk, and financial success by fusing accounting- and market-based performance indicators with an integrated measure. For instance, Al-ahdal, Alsamhi, Tabash, and Farhan (2020) used an OLS to estimate the impact of corporate governance mechanisms on the financial performance of countries in the two regions based on a sample of 53 non-financial listed companies in India and 53 GCC countries, and it was discovered that accountability audit committees that are transparent are important for good corporate governance. In a manner similar to this, Hassan and Halbouni (2013) use cross-section regression on data from 95 United Arab Emirates (UAE) listed companies connected to the financial and non-financial sectors to discover that voluntary disclosure, CEO duality, and board size have a significant impact on firms' performance. Additionally, they learn that, during periods of unpredictable economic situations, accounting-based

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performance evaluation is more objective than market-based measurements.

In a manner similar to Ntim (2013), who examined 169 South African listed corporations between 2002 and 2017 using an integrated corporate governance index development aggregating 50 comprehensive sets of CG provisions found in King II, it was found that compliance with stakeholders provisions have a significant positive relationship with financial and performance. Additionally, Dalal and Thaker (2019) use a number of measures of return on asset and Tobin's Q ratio to examine the effect of ESG factors on the profitability and value of Indian public limited enterprises. The 65 Indian firms featured in the NSE 100 ESG Index database were analyzed using annual ESG data from 2015 to 2017. The use of random effect panel data regression analysis allowed researchers to determine if ESG factors had an influence on the firms' financial performance. The study's findings demonstrate how improved firm ESG performance increases financial success as determined by accounting and market-based measures.

When it comes to the financial crisis of 2007–2008, Aebi, Sabato, and Schmid (2012) investigate whether better bank performance was associated to risk management–related corporate governance initiatives. To evaluate the performance of banks, buy-and-hold returns and ROE were employed. Findings revealed that banks had much higher (i.e., less negative) stock returns and ROE throughout the crisis because the CRO at these institutions directly reports to the board of directors, not the CEO (or other corporate entities). On the other hand, common aspects of corporate governance are often irrelevant or even negatively related to how well the banks performed during the financial crisis. Alabdullah, Yahya, Nor, and Majeed (2016) utilize a sample of 109 non-financial enterprises from the fiscal year 2011 to examine the processes of corporate governance and their effects from the viewpoints of two variables: an analysis of CEO turnover and company financial performance. The information that is currently available suggests that corporate governance approaches like increasing board size have a positive effect on reducing financial leverage, which enhances financial performance. Board independence and the non-duality structure had no effect, while executive turnover had a significant negative impact on the correlation between a number of the factors, including board size and financial leverage. Rossi, Nerino, and Capasso (2015) also investigate whether there is a relationship between the corporate governance of Italian listed companies and their financial performance using the CGQI, a quality index for corporate governance based on a population made up of all Italian companies listed on the Italian Stock Exchange in the year 2012. While there is a positive association between CGQI and Return on Equity, there is a negative correlation between Tobin's q and CGQ1.

In a similar vein, Hassan and Halbouni's (2013) analysis of the impact of corporate governance policies on listed firms in the United Arab Emirates (UAE). The study conducts a cross-section regression analysis on a sample of 95 UAE listed companies from the financial and non-financial sectors to see if there is a significant relationship between governance mechanisms (voluntary disclosure, CEO duality, board size, board committee, and audit type) and performance of UAE firms while

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controlling for firm size, industry type, firm listing years, and leverage. The study employs data that was made public in 2008 and computes the financial performance of UAE companies using the accounting-based measures of Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The empirical data show that although none of the governance parameters significantly affects a company's market performance metric, voluntary disclosure, CEO duality, and board size have a significant effect on the UAE accounting-based performance measure. The results also demonstrate that the size of a company is the only control variable that has a significant impact on its performance. This study provides evidence that accounting-based performance metrics are more objective in uncertain economic times. According to the study's findings, emerging markets may use corporate governance's core principles.

Materials and Methods

Research is carried out in a planned and scientific manner with the aims of providing solution to a particular lacuna or a set of research question (Kurniaty, Handayani & Rahayi, 2018). This study is an explanatory study in which the unit of analysis is the deposit money banks listed in the Nigerian stocks exchange using data collected from the annual report and financial statement of the banks.

The population is thirty one (31) banks that makes-up the Central Banks of Nigeria (CBN) list of deposit money banks (DMB) as of 2021. These banks operate branches that are geographically dispersed across the country.

The study is based on non-probability random sampling approach in the selection of samples while the purposive sampling will be used as the sampling method to select the samples on the basis of a predetermine criteria (Solimun. et al, 2017). The criteria used is based on ten (10) top-performing deposited money banks that are listed in the Nigeria stock exchange market between the period of 2010 and 2020 with continuous annual financial report based on their market capitalization. The total sample size is ten (10) banks and the numbers of years is sixteen (11) years which produced 110 observations.

The data for this study is secondary data and the annual report and financial statements of the selected deposit money banks provide source of manual collection of data. The period of coverage of the data collected is ten (10) years from 2010-2020. The choice of this period is mainly to cover the period preceding the implementation of bank recapitalization policy which pose serious implication on the performance and corporate governance of banks in Nigeria. The variables of interest in the study consist of financial performance which is the dependent variables measured by ROE and Tobin's Q with the aim of achieving a more robust result, corporate governance is represented by five (5) governance mechanism comprising of governance disclosure, board size, role duality, board committees, and audit type and risk management was measure by z-score. The following subsections discuss how the variables used in the study are measured.

In the context of this study, the dependent variables are financial performance and it is measured using two sets of constructs: accounting-based and market-based measures in line with Hassan and Halbouni (2013) and Al-ahdal, Alsamhi, Tabash and Farhan (2020). The accounting based measured of performance that will be used is rectum on equity (ROE)

while the market-based measure of performance that will be used is Tobin's Q. While the accounting-based measures are easier to control, the market-based measures are less controllable because they are subject to external factors and such are more objective (Al-ahdal, Alsamhi, Tabash & Farhan, 2020).

1. Return on equity: ROE measures the return on shareholders' equity and the firms efficiency at making profits calculated by dividing profits after tax by total equity shares at the end of the year (Al-ahadl, Alsambi, Tabash & Farhan, 2020).

2. Tobin's Q: This represents the expectations of the market about the profitability of the organization calculated by the ratio of the market capitalization plus total debt to total asset of the firm (Al-ahdal, Alsambi, Tabash & Farhan, 2020). It is an estimates of the value of intangible assets such as the market power, goodwill, quality of the management, and the growth opportunities (Gani & Jermias, 2006; Ghazali, 2010). Tobin's Q helps to determine the market book value ratio which is the market book value at the end of the year of the firm divided by the book value of assets total.

The two independent variables in the study are corporate governance and risk management.

1. Corporate Governance

In line with previous studies on corporate governance, the study selected internal governance mechanisms or characteristics comprising of governance disclosure, board size, role duality, and board committees as well as one external governance mechanism which is audit type. The underlying reason for selecting these five variables is data availability. The variables are defined as follows:

a. Governance voluntary disclosure (GovDisclousure): This is also referred to as transparency disclosure and is defined as the degree to which information relating to governance decision such as management process, investors rights, ownership structure and any other information relating to corporate management responsibility is disclose in the annual report (Hassan and Halbouni, 2013). To measure governance disclosure in this study, the governance disclosure index where 1 is assigned if the firm disclose virtually all relevant information regarding corporate management responsibility in their report for the year under consideration and 0 otherwise is used based on evidence from Hassan, (2012) and Hassan & Halbouni, 2020).

b. Board size (BoardSize): This is the size of the board of director's measure by the total numbers of the directors

c. Board committees (BoardCommittees): This is the total numbers of board committees mentioned in the annual reports

d. Auditors type (AuditorType): This consider whether the type of auditor is internal or external measured dummy variable that take the value of 1 if the external auditors is part of the Big Four audits firms and 0 otherwise.

e. Role duality role (RoleDuality): This describes whether the CEO is also among the board members or not proxy by dummy variables that take the value of 1 if the CEO is also the chairperson of the board and 0 otherwise

2. Risk Management

The risk management deals with the coordination of risk-taking excesses of banks. In this study, risk-taking is proxy by z-score as used by Brogi and Lagasio, (2021) proxy by the ratio of the average

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ROE after deducting current asset ratio to the standard deviation of average ROE.

In line with the stated objectives, four (4) set statistical models are specified as follows:

Model 1: Internal Governance Mechanisms on Financial Performance

The model to investigate the effect of internal governance mechanisms on financial performance using both accounting (ROE) and market-based performance measures (Tobin's Q) is specified as follows:

Roe = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality) (1a)

Q = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality) (1b)

Model 2: External Governance Mechanisms on Financial Performance

The model to investigate the effect of external governance mechanisms (audit type) on financial performance using both accounting (ROE) and market-based performance measures (Tobin's Q) is specified as follows:

Roe= f(AuditType) (2a)

Q= f(AuditType) (2b)

Model 3: Specific Governance Mechanisms that affects Risk Management

The model to determine the specific governance mechanisms that affects risk management is specified as follows:

Z-score = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality, AuditType) (3)

The data being from secondary sources specifically the annual report and statement of account, its validity is subject to the extent to which the selected banks comply with the regulation of the Nigeria Accounting Standard Board (NABS) on the preparation of financial report and disclosure of financial information. The reliability of the data is also subject to the users perception of the appropriateness and adequacy of the information provided in the annual report and financial statements for decision making and financial planning. The secondary data was collected via the internet from the website of the selected banks. The published annual report covering the period from 2005 to 2020 on the selected variables will be downloaded from the website of the selected banks online.

In the analysis of the model formulated to address the research goal, before the actual estimation of the model, preliminary analysis involving descriptive statistics, test for multicollinearity via the pairwise correlation in correlation matrix, and unitroot test were carried-out on the panel data set. The descriptive statistics include the mean, maximum, minimum, standard deviation, kurtosis, and Jarque-Bera. While the mean measures the average of each variable, the standard deviation measures the variation between each mean in a given data-set. The Jarque-Bera statistics measure the normality of the data, while the skewness and kurtosis show the distribution's form of the variables. The correlation matrix quantifies multicollinearity between or among explanatory factors. Multicollinearity occurs when a model has variables that are not only connected to the response variable, but also to one another. There is need to check and address the presence of multicollinearity in a multiple regression to prevent producing misleading results. The empirical estimation was carried-out using the panel least-squares technique and to address the restrictive assumption of homogeneity in coefficients across firms

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and time, the intercept was allow to vary across time and firms which permits the existence of differences at sample level resulting from disparity in economic fundamentals of the firms included in the study.

Results

Table 4.1 demonstrates the descriptive statistics for the ten (10) deposit money banks over the period of 2010 to 2020.

Table 1: Descriptive Statistics

	ROE	TQ	ZS	GD	BZ	NBC	ND	RD	AT
Mean	8.17E+10	1.141365	6.09E+11	0.754545	13.84991	5.341513	12.93916	0.920844	0.927462
Median	9.91E+08	1.133220	3.77E+10	1.000000	14.00000	5.000000	13.00000	1.000000	1.000000
Maximum	4.22E+11	1.897000	3.09E+12	1.000000	25.00000	10.00000	16.00000	1.000000	1.000000
Minimum	77500000	1.005000	4.50E+08	0.000000	7.000000	4.000000	9.000000	0.000000	0.000000
Std. Dev.	1.17E+11	0.083342	8.54E+11	0.432326	3.124181	1.413617	1.901916	0.254251	0.248015
Skewness	1.377244	6.858496	1.389793	-1.182952	0.194517	1.197349	0.255475	-3.135618	-3.378114
Kurtosis	3.727289	62.90618	3.780525	2.399375	3.697168	4.188129	1.995864	11.30044	12.71353
Jarque-Bera	37.19905	17310.82	38.20354	27.30865	2.921374	32.75356	5.817893	496.0346	641.6631
Probability	0.000000	0.000000	0.000000	0.000001	0.232077	0.000000	0.054533	0.000000	0.000000
Sum	8.99E+12	125.5501	6.70E+13	83.00000	1523.490	587.5664	1423.307	101.2928	102.0208
Sum Sq. Dev.	1.49E+24	0.757101	7.96E+25	20.37273	1063.895	217.8161	394.2840	7.046127	6.704734
Observations	110	110	110	110	110	110	110	110	110

Note: ROE is the ratio of net profit to shareholders equity, TQ is the ratio of the market capitalization plus debt divided by total assets, BL is the board size, GD is governance disclosure, BC is board committee, RD is role duality, AT is the auditor type and ZS is the Z-score.

Source: Author Computation, 2022

The results in Table 1 show that the mean values of return on equity (ROE) accounting-based measure of financial performance, Tobin Q market-based measure of financial performance and risk management (ZS) are 8.1717, 1.141365 and 6.0909 respectively. On the corporate governance indicators, the result shows that the mean value of governance disclosure (GD), board size (BZ), number of board committee (NBC), Number of directors (ND), role duality (RD) and auditor type are 0.754545, 13.84991, 5.341513, 12.93916, 0.920844 and 0.927462 respectively while the minimum score for each indicator is 0.000000, 7.000000, 4.000000, 9.000000, 0.000000, and 0.000000 respectively. The standard deviation of each corporate governance indicator is 0.432326, 3.124181, 1.413617, 1.901916, 0.254251, and 0.248015 respectively.

Table 2 illustrate the correlation between the variable. The correlation analysis provides the means to determine the trend of the association between any pair of variable in the model. It shows not only the extent of the association between the pairs of variables in the model but also provides on indication for the presence of multicollinearity in the model or otherwise

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Table 2: Correlation Result

	ROE	TQ	ZS	GD	BZ	NBC	ND	RD	AT
ROE	1.000000								
TQ	0.059259	1.000000							
ZS	0.982391	-0.029618	1.000000						

GD	0.062335	-0.020145	0.109128	1.000000					
BZ	0.047129	0.009039	0.047658	-0.032961	1.000000				
NBC	-0.194656	-0.060897	-0.185541	0.127012	-0.153518	1.000000			
ND	0.473239	-0.001433	0.500021	-0.101788	0.095477	-0.311914	1.000000		
RD	0.156956	0.012378	0.159790	-0.138319	0.119345	-0.272347	0.361175	1.000000	
AT	0.143311	0.015773	0.143613	-0.143620	0.101193	-0.105928	0.157505	0.260074	1.000000

Source: Author Computation, 2022

The result in the Table 2 shows that governance disclosure (GD), board size (BZ), and number of directors (ND), role duality (RD) and auditor type (AT) and risk management (ZS) have a positive association with the accounting-based financial performance measured by ROE while its association with the number of board committee (NBC) is negative. In terms of the market-based financial performance measured by Tobin Q (TQ), findings demonstrate that board size (BZ), role duality (RD), auditor type (AT) and number of board committee (NBC) have a positive association with financial performance while its association with governance disclosure (GD), risk management (ZS) and number of directors (ND) is negative. The result of multicollineanly test shows that there is no high correlation among the variable which indicate the absence of multicollineanly except in the case of risk management (ZS) with return on equity (ROE) and since the two variables are used in a separate model, this prevent the likelihood of multicollinearity in the estimation.

A panel data regression was estimated using the five (5) governance indicators covering governance disclosure (GD), board committee (BD), board size (BZ), role duality (RD) and audit type (AT) to explain the effects of corporate governance on financial performance..

The panel least squares is used in the estimation of the first objective of the study which is to determine the effect of internal governance mechanism on financial performance represented in the first model using both accounting (ROE) and market-based performance measures (Tobin's Q) specified in chapter three as follows:

Roe = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality) (1a)

Q = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality) (1b)

The result of the estimation is presented in in Table 4.3

Table 3: Panel ordinary least squares (POLS)

Dependent Variable: LOG(ROE)				**Dependent Variable:** TQ			
Variable	Coefficient	t-Statistic	Prob.	Variable	Coefficient	t-Statistic	Prob.
GD	0.544350	2.805682	0.0061	GD	-0.019686	-3.245108	0.0016
BZ	-0.076729	-0.309455	0.7577	BZ	0.001325	1.397060	0.1657
NBC	-0.720141	-3.356818	0.0011	NBC	0.001127	0.577137	0.5652
D(RD)	-0.006859	-0.085607	0.9320	D(RD)	-0.003016	-1.464037	0.1465
C	27.05223	6.799194	0.0000	C	1.152279	114.3259	0.0000
R-squared	0.883679			R-squared	0.725134		
Adjusted R-squared	0.910409			Adjusted R^2	0.688297		
F-statistic	14.78511			F-statistic	3.397007		
Prob(F-statistic)	0.000000			Prob(F-statistic)	0.012129		
Durbin-Watson stat	1.527682			Durbin-Watson	2.130280		

Note: ***,**,* indicates at 11%,5% and 10% level of significance respectively
Source: Author Computation, 2022

The results in Table 3 shows that board size (BZ) and role duality as corporate governance mechanisms have no significant effect on ROE whereas governance disclosure (GD) and numbers of board committee (NBC) as corporate governance mechanisms have significant effects on ROE. While the effect of governance disclosure (GD) is positive, the effect of numbers of board committee (NBC) was negative.

Regarding market based financial performance measured by Tobin Q, it is clear that from Table 4.3 that aside governance disclosure (GD) and role duality (RD) which shows a negative significant effect, the other two governance mechanism comprising of board size (BZ) and numbers of board committee (NBC) has an insignificant positive effects on market-based financial performance.

The panel least squares is used in the estimation of the second objective of the study which is to determine the effect of external governance mechanisms (audit type) on financial performance using both accounting (ROE) and market-based performance measures (Tobin's Q) specified in chapter three as follows:

Roe= f(AuditType) (2a)

Q= f(AuditType) (2b)

The result of the estimation is presented in in Table 4.4

Table 4: Panel ordinary least squares (POLS)

Dependent Variable: DLOG(ROE)				**Dependent Variable:** LOG(TQ)			
Variable	Coefficient	t-Statistic	Prob.	Variable	Coefficient	t-Statistic	Prob.
AT	-0.054451	-3.462712	0.0008	D(AT)	0.001851	0.546503	0.5860
C	0.088925	5.329819	0.0000	C	0.129831	14.65714	0.0000
R-squared	0.920405			R-squared	0.600113		
Adjusted R-squared	0.910409			Adjusted R-squared	0.610090		
F-statistic	2.041321			F-statistic	0.911043		
Prob(F-statistic)	0.006256			Prob(F-statistic)	0.016523		
Durbin-Watson stat	2.386660			Durbin-Watson stat	2.060860		

Note: ***,**,* indicates at 11%,5% and 10% level of significance respectively
Source: Author Computation, 2022

The results in Table 4 shows that auditor type as the only external governance mechanism tested in this study has a significant negative effect on ROE whereas its effect on market –based financial performance measured by Tobin Q is not statistically significance at the 0.05 critical value. This implies that auditor type affect financial performance negatively when the accounting based measured is used and when the market-based measure of financial performance is used it does not show any effect.

The panel least squares is also utilised in the analysis of the third objective of the study which is to determine the specific governance mechanisms that affects risk management specified in chapter three as follows:

Z-score = f(GovDisclosure, BoardSize, BoardCommittee, RoleDuality, AuditType) (3)

The result of the estimation is presented in in Table 5

Table 5: Panel ordinary least squares (POLS)

Dependent Variable: LOG(ZS)			
Variable	Coefficient	t-Statistic	Prob.
D(GD)	-0.228235	-0.707494	0.4810
BZ	-0.118383	-1.732121	0.0866
NBC	-0.118478	-0.975807	0.3317
ND	1.110305	9.962515	0.0000
RD	-0.927279	-1.434681	0.1547
AT	0.925215	1.516972	0.1327
C	12.81132	5.525811	0.0000
R-squared	0.690088		
Adjusted R-squared	0.670094		
F-statistic	34.51423		
Prob(F-statistic)	0.000000		
Durbin-Watson stat	0.212521		

Source: Author Computation, 2022

The results in Table 5 shows that aside the number of directors (ND) which shows a positive significant effect on risk management (ZS), all other governance mechanisms; governance disclosure (GD), board size (BZ), role duality (RD) and numbers of board committee (NBC) have no significant effect on risk management. Thus, the only governance mechanism that significantly enhances risk management is the number of directors which can be attributed to the calibre of directors of the selected deposit money banks in terms of experience, education and expertise. Although, governance disclosure, board size and number of board committee are not statistically significant, their estimates are negative implying that they affect risk management negatively but not significantly while auditor type shows an insignificant positive effect on risk management. By and large, the only governance mechanism that significantly enhances risk management is the number of directors.

5. Discussion

This study sought for unravel the effect of cooperate governance and risk on the financial performance of deposit money banks in Nigeria. On the effect of internal governance mechanisms on financial performance, there is evidence that governance disclosure (GD) exerts a significant positive effect on accounting based financial performance measured by ROE while the effect of numbers of board committee (NBC) was negative whereas when the market-based financial performance measured by Tobin Q is used, governance disclosure (GD) and role duality (RD) which shows a negative significant effect on financial performance. It can be deduced that, governance disclosure is the only internal corporate governance mechanism that influence financial performance significantly across the two performance measures but the direction of the influence is sensitive to the performance based measure that is used. While role duality affects financial performance negatively when a market-based financial performance measured by Tobin Q is used, the effect of numbers of board committee (NBC) is positive when accounting based financial performance measured by ROE is used. It was also found that auditor type affect financial performance negatively when the accounting based measured is used and when the market-based measure of

financial performance is used it does not show any effect. Also the study shows that, the only governance mechanism that was found to significantly enhances risk management is the number of directors.

By and large, there is evidence that cooperate governance have a significant effect on the risk management and financial performance of deposit money banks but its effects is sensitive to the performance measure that is used and the cooperate governance mechanism under consideration.

Based on the findings from the analysis on the corporate governance on risk management and financial performance, the study offers the following recommendations: To further enhance the management of risks in the bank subsequent appointment of for members to the board of directors should be strictly based strict consideration for educational qualification, experience and expertise. Also, members of the internal auditors need not to be allowed to team-up with the members of the external auditors. Finally, all necessary corporate management information need to be clearly disclosed in the financial statement to enhance the effect of corporate management on financial performance,

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