



# Corporate governance and financial performance of listed deposit money banks in West Africa



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**Orientation:** There is little evidence on how corporate governance mechanism influences financial performance in Nigeria and Ghana.

**Research purpose:** The study investigated the effect of corporate governance mechanism on financial performance of listed deposit money banks (DMBs) in Nigeria and Ghana.

**Motivation for the study:** The dwindling performance of listed DMBs has been attributed to poor corporate governance mechanism which has resulted in intense pressure on the board of directors to approve decisions that adversely affect the company's financial performance.

**Research design, approach and method:** The study employed a quantitative research approach and used panel regression analysis techniques. The study sample consisted of 19 DMBs from the Nigerian Exchange Group and Ghana Stock Exchange for the period from 2014 and 2023.

**Main findings:** This study revealed that managerial ownership has a positive and significant effect on the financial performance of listed DMBs in Ghana.

**Practical/managerial implications:** The findings offer the Board more clarity regarding how to maintain a balanced level of board independence that enables effective decision making aimed at improving the overall performance of banks. The study has practical implications for investors to ensure that boards maintain their size for improving effectiveness and achieve optimal financial performance.

**Contribution/value-add:** The study provides new evidence on how corporate governance mechanism influences the financial performance of listed DMBs in Nigeria and Ghana. The study's findings show that present and potential shareholders might evaluate board qualities to make better investment decisions.

**Keywords:** board size; board independence; managerial ownership; foreign ownership; return on assets.

## Introduction

Global financial performance has experienced a significant decline over the past decade, with variations in the severity of this downturn among nations and businesses. The effect is evident in nations where management has significant discretion over the adoption of corporate governance practices and disclosures, leading to their weak implementation (Aziz & Abbas 2019; Nguyen et al. 2021). The dwindling performance of listed deposit money banks (DMB) has been attributed to poor corporate governance mechanisms, which have pressured the board of directors to approve decisions that negatively impact the company's financial performance. The failure of most banks to observe the code of corporate governance issued has made corporate governance a great challenge to investors, regulators, and academia at various levels.

This serial nature of banks collapse in Nigeria and Ghana has become worrisome to the regulators, policy makers, academia, investors, and society at large. Financial distress and collapse of many banks around the globe, particularly in sub-Saharan Africa are found to be connected to poor corporate governance. According to Obafemi, Oke and Adewale (2020), the intention of improving the overall performance of firms through recommended board composition as specified in the code of corporate governance has been defeated in the Nigeria banking industry. The defeat is because many boards of financial institutions do not contain directors with diverse intellectual capabilities who can contribute significant ideas to enhance financial performance of the

**Note:** Additional supporting information may be found in the online version of this article as Online Appendices.

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companies. This unpleasant situation has made most of the banks find themselves in financial distress most of the time and some that cannot be bailed out eventually are liquidated.

Corporate governance is a system that ensures accountability and transparency in corporate management, ensuring that directors and managers perform their functions effectively and provide investors with assurances of return on investment (Reddy, Locke & Frank 2010; Vintila & Gherghina 2012; Owusu & Weir 2017; Naciti 2019; Adegbayibi & Omole 2020). In West Africa where Nigeria and Ghana belong, corporate governance mechanisms are part of a governmental regulatory scheme that targets illegal behaviour in business entities to curb private sector corruption and aim to ensure fair market competition (Ada-Iuliana 2016).

The ownership concentration in most of the companies in Nigeria has persistently failed to showcase good governance culture and equally failed to establish robust mechanisms to balance the roles of the board of directors, shareholders, and management, who are key players in the system (Oyerogba 2014; Osho & Ogodor 2018). The prevalence of controlling owners in key management position and related party transactions are common features of firms in emerging economies like Nigeria and Ghana and this has been considered unfair to the minority shareholders who believed that it could be a way of redirecting the economic resources of the company and serving the interest of majority shareholders alone (Armitage, Connor & Norman 2017; Dey et al. 2018; Malahim 2023). On the other hand, managerial ownership (MAOW) in many banks is low as the directors are avoiding signing blank share transfer forms in case the firm becomes indebted even when the majority managerial shareholders are more beneficial to the banks (Inan 2009). There is therefore a need to empirically study the expropriating behaviour attached to different types of ownership structures and the best ownership structure that will help the financial institutions give good financial performance to compete with banks of the same category internationally.

Bank of Ghana (BoG) in its asset quality reviews of banks conducted in 2015 and 2016 identified a few indigenous banks that are vulnerable and distressed. The distress was connected to three key problems identified and of which unsatisfactory corporate governance is one of them (Frimpong 2018). Additionally, the BoG highlighted in 2018 that a number of banks that had been granted licences and started operations in 2017 were showing signs of difficulties in operation within 2 years of operating and this brought about the Consolidated BoG which was created for interventions by the BoG by combining five banks: BEIGE, Sovereign, Construction, uniBank, and Royal Bank. It was further posited by Dwamena and Yusoff (2022) that Ghana experienced a severe banking crisis between August 2017 and January 2020. This has brought to the centre stage of research how devastating the outcome of poor corporate governance could be.

This weakness has negatively impacted the assurance of customers and investors in the companies thereby leading to decline in the value of investment of DMBs particularly in Nigeria and Ghana. Despite numerous studies on corporate governance in developing countries especially in Nigeria and Ghana, the role of board of directors (Owusu & Weir 2017) and ownership structure (Owusu & Weir 2017; Yahaya & Lawal 2018) on firm performance is analysed primarily to figure out the effects of different governance mechanism on different kinds of performance measures. It was, however, observed that the effect of foreign ownership (FOW) on corporate performance has not been adequately explored and has been largely left out of the assurance mechanism as stated in the code of corporate governance in both countries (Ndaks 2021; Pham & Do 2023). This has created a lacuna in literature, and to fill this gap the study will examine them as an additional dimension to corporate governance.

## Literature review

### Corporate governance

Corporate governance refers to the processes and structures by which the business and affairs of institutions are directed and managed to improve long-term shareholders' value (Agwor & Amuchekukwu 2020).

In the study by Osho and Ogodor (2018), corporate governance serves as a crucial control mechanism within a company, ensuring fairness, transparency, and accountability in all its financial records. It encompasses a comprehensive set of measures implemented within an organisation to address the interests of economic agents involved in the production process, aiming to create organisational surplus and facilitate equitable distribution among business stakeholders (Torneyeva & Wereko 2012).

Nigeria, being a part of the global economy over the past two decades, has equally followed this improvement pattern especially in the financial sector by reinforcing the need for greater concern for corporate governance in DMBs in the country. The first code of corporate governance in Nigeria was issued in 2003 by the Securities and Exchange Commission of Nigeria with a revision in 2011. Equally, there are industry-specific codes of corporate governance in Nigeria, and for DMBs, Central Bank of Nigeria issued a code of corporate governance after the consolidation in April 2006, with a revision in 2014 and 2018 respectively.

Ghana has been actively pursuing the corporate governance reforms close to two decades. Before the Securities and Exchange Commission (SEC) corporate governance rule was implemented in Nigeria in 2003, bad governance practices caused ongoing bouts of distress because of dwindling profitability and eroding public confidence in banking operations as directors approved heavy loans to themselves without enough collateral or with no collateral in some cases (Akpan & Riman 2012). Likewise, employees conspired with

outsiders to defraud banks, which resulted in a significant amount of non-performing loans. Therefore, the corporate governance code in the banking sector was aimed at preventing corporate abuses and promoting ethical business practices, despite not being specifically designed for the banking industry. Beyond the notable 2003 corporate governance code, regulators have periodically introduced additional guidelines to oversee Nigeria's financial system. Notably, the Central Bank of Nigeria (CBN) implemented the corporate governance code for banks in 2006 to address identified weaknesses in governance practices following the consolidation period. Additionally, the revised CBN prudential guidelines for licensed banks in 2010 included specific provisions to strengthen and complement the 2006 corporate governance code.

### Board of directors mechanism

The mechanisms of the board of directors encompass the attributes related to their control, including size, composition, and diversity. The board's primary role is demanding, as it involves fulfilling a variety of challenging responsibilities. Therefore, the board must not only prevent detrimental management practices that could result in corporate failures or scandals but also ensure that firms capitalise on opportunities to enhance value for all stakeholders.

Board size (BSZ) refers to the number of directors on board. It comprises all individuals who constitute the board of directors regardless of their other characteristics. Various opinions on the impact the size of the board plays in their ability to deliver on their mandate have led to the emergence of two schools of thought on the relevance of BSZ. One view is that smaller BSZs contribute to a company's success to a greater extent. The rationale is that smaller boards can take decisions more quickly, which prevents the waste of time in taking actions that may hinder an organisation's performance. However, a larger BSZ can give more time and effort to check the management actions and improve audit quality (Mc Donal & Westphal 2013).

Board composition influences the board's independence by distinguishing between inside and outside directors, typically represented by the percentage of outside directors on the board (Abu et al. 2016; Rahman & Sama 2018). Therefore, having many non-executive directors on the board encourages the management to be more vigilant and avoid behaviours that could tarnish the company's image. Additionally, the independence of these directors enables them to pressure the management to act ethically and adhere to regulatory standards in their conduct (Hassan & Jaffar 2008). Research suggests that boards with many independent directors are more likely to enhance a firm's financial reporting quality (Rashid et al. 2010; Sanda et al. 2011). They achieve this by hiring high-quality auditors and increasing the effectiveness of audit committees, thereby reducing the audit report lag for firms (Ahmed & Duellman 2007; Chen & Zhou 2007; Vafeas 2005).

### Ownership structure mechanism

Ownership structure of a public company has become an issue of global significance because of its legal implication. There are proprietors of enterprises, and each firm typically has a wide variety of owners, both in terms of type and number. Hence, ownership structure could be described as the internal structure of a corporate entity and the rights and obligations of the people with a legal or equitable stake in the company. When choosing the optimum governance structure for a specific company, it is important to take ownership concentration into account (Lawal et al. 2018; Hossain et al. 2021). Different aspects of ownership structure exist, and for instance, it can be managerial or non-managerial shareholders, shareholders concentration or dispersion, being whole or retail, being internal (domestic) or being foreign shareholders, being institutional or individual shareholders (Kao et al. 2018; Yahya & Lawal 2018; Jaarfar et al. 2019).

The manager's share of the company's equity is referred to as stock ownership (Christiawan & Tarin 2007; Ogabo et al. 2021).

The existence of MAOW is necessary to reduce information asymmetry, according to Jensen and Meckling (1976), who found that by increasing the percentage of managerial stock ownership, shareholders' interests can be brought in line with managers' interests to reduce information asymmetry. The ownership structure's function in resolving conflict of interest as explained by the agency theory is referring to the monitoring that comes into play with a higher concentration of MAOW, suggesting that in companies with a wider distribution of ownership, the traditional owner-manager conflict is lessened because the large shareholder has greater incentives to monitor the manager (Andow & David 2016).

### Financial performance

Financial performance reflects the company's ability to allocate its resources effectively (Luthfiah & Suherman 2018). Financial performance also pertains to how effectively a company can utilise resources from its core business activities to generate revenue (Balagobei & Velnampy 2017). Financial performance determines a firm's competitive edge, business potential, management's economic interests, and the reliability of its current and future contractors.

Common financial performance indicators often encompass metrics such as profitability, efficiency, leverage, and liquidity. These metrics exhibit considerable diversity, spanning absolute values, return-based measures, internal and external benchmarks, single-period assessments, means, growth rates, and variability. In this study, we will evaluate companies' financial performance primarily through the lens of return on assets (ROA). Return on assets serves as a key measure, assessing the management's efficacy in generating revenue from the assets detailed in the company's financial performance statements.

## Theoretical review

This study is anchored on stakeholder theory, as introduced by Freeman (1984). This theory posits that corporations should prioritise the satisfaction of all stakeholders' interests, rejecting the narrow focus often associated with agency theory. Stakeholder theory, akin to resource dependency theory, advocates for representation of diverse interest groups on a company's board to foster consensus and mitigate conflicts. Stakeholders encompass identifiable groups or individuals with legitimate interests in an organisation, and their concerns hold intrinsic value. The theory emphasises the impact of managerial decision-making on all stakeholders, promoting a balanced approach where no single interest dominates. Given that corporate governance mechanisms aim to safeguard and represent stakeholders' interests, stakeholder theory, as articulated by Freeman (1984), is pertinent to this study. Efficient corporate governance practices establish a framework that operates to the advantage of stakeholders, ensuring that enterprises comply with recognised ethical standards and optimal procedures (Agwor & Amuchekwu 2020).

The board thus acts as a mediator in resolving the divergent interests of stakeholders and fosters the unity necessary for achieving organisational goals (Donaldson & Preston 1995). Despite the well-intentioned nature of this theory, it has faced criticism for burdening managers with excessive accountability to multiple stakeholders without clear guidelines for resolving conflicts arising from these interests. This situation has granted managers discretionary authority to prioritise certain interests (Jensen 2001). Jensen (2001) proposed that managers should pursue objectives aimed at increasing the long-term value of the firm, as ignoring the interests of certain stakeholders would not achieve this goal.

Stakeholder theory is considered appropriate because the ability of a public entity to reach a consensus among its key stakeholders, fostering the unity necessary for progress and averting any adversarial interests, relies on the effectiveness of the board of directors, particularly in terms of its size and independence (Tricker 2009).

## Empirical review

### Board mechanism and financial performance

Obafemi et al. (2020) employed a panel research design to assess the corporate governance practices and performance of a subset of Nigerian deposit money banks (NDMBs) post-consolidation. The study gathered secondary data spanning a decade from the annual reports and accounts of sampled NDMBs. The initial population comprised 22 listed NDMBs, with a randomly selected sample of 14. Corporate governance was assessed using BSZ and CEO duality, while performance was measured by returns on equity and ROA. The findings indicated a significant positive correlation between BSZ, CEO duality, and returns on equity, whereas the relationship between corporate governance indicators and ROA exhibited a negative and statistically insignificant

association. Nonetheless, the study highlighted the fact that all corporate governance measures reflect the characteristics of the company's board, suggesting a necessity for further examination.

Owiredu and Kwakye (2020) investigated the impact of corporate governance principles on the financial performance of banks in Ghana. Data for the study were collected from the annual reports and financial statements of selected banks spanning the years 2007–2016. The researchers employed a random effect model to analyse the data. The study revealed a significant positive correlation between BSZ and financial performance, as measured by both ROA and return on equity (ROE) in Ghanaian banks. Furthermore, the research identified a statistically significant positive relationship between FOW and financial performance, measured by ROE and ROA. However, the study also found a positive, albeit, statistically insignificant association between board independence (BID), institutional ownership, and the financial performance, as measured by ROA and ROE, of the banks sampled in Ghana. The study suggests that recent governance challenges may have altered the dynamics within the observed timeframe, highlighting the need for updated research in this area.

Gyamerah, Mensah and Asante (2020) extended the understanding of how corporate governance influences the performance of Ghanaian banks. Their study employed two performance metrics: ROA and Cost–Income Ratio (CIR). Cost–Income Ratio is a financial metric used to measure a company's operational efficiency. Cost–Income Ratio provides insight into how efficiently a company is managing its expenses in relation to the revenue it generates. Cost–Income Ratio is calculated by dividing a company's total operating expenses by its total operating income or revenue. Data spanning from 2005 to 2015 were collected from 21 commercial banks and analysed using regression techniques. The findings highlighted the fact that a larger BSZ diminishes banks' performance. Additionally, CEO duality and FOW were found to have negative impacts on bank performance. However, while CEO duality significantly affected CIR, its influence on ROA was not significant. Conversely, the impact of FOW was significant only on ROA. Furthermore, BID was found to have a significantly positive effect on both CIR and ROA, while audit committee independence did not significantly affect either metric. Despite being conducted in 2020, the study's timeframe concluded in 2015, potentially missing recent developments in the field.

Yahya and Lawal (2018) investigated the impact of ownership structure on the firm value of NDMBs. Their analysis focused on the correlation between concentrated, managerial, and FOW and firm value, as well as ROE and ROA. The study utilised a sample of 15 banks listed on the Nigerian Stock Exchange and utilised secondary data extracted from the Audited Reports of NDMBs over a 9-year period (2008–2016). The data underwent analysis using the System Generalised Moment Method. The results indicated that only institutional

ownership had a positive and significant effect on financial performance, while the effects of other ownership structures were found to be insignificant.

Owusu and Weir (2017) examined the relationship between agency costs, ownership structure, and corporate governance mechanisms in Ghana over a decade, from 2000 to 2009. Their findings indicate that smaller BSZ and the presence of audit and remuneration committees are associated with decreased agency costs. They also observed that higher managerial and institutional ownership tends to reduce agency costs. However, the presence of duality and the proportion of non-executive directors on the board do not have a significant effect on agency costs. Additionally, the adoption of International Financial Reporting Standards and the quality of auditors have contributed to a reduction in agency costs. Overall, the study highlights the significant role played by the introduction of the Ghanaian Code in mitigating agency costs.

### Ownership structure and financial performance

Iwasaki, Ma and Mizobata (2022) researched and evaluated East European EU member states, Russia, and China in terms of the association between ownership structure and company performance, using a total of 4425 estimations gathered from 204 prior studies. The findings show that, as the conventional theory predicts, state ownership has a negative impact on the performance of the firms the state invests in, whereas the presence of both domestic and foreign investors as company owners has a positive impact on firm performance regardless of the difference in the country or region. We also discovered that managers' ownership generally has a beneficial effect on the success of the enterprises they own. The relationship between corporate ownership and performance, however, is generally tenuous. This research suggests that management discipline in developing nations is less rigorous than in industrialised economies.

Hossain et al. (2021) examine manufacturing firms registered on the Dhaka Stock Exchange (DSE), looking into the relationship between their ownership structure and firm performance. Dynamic panel data from 15 chemical and pharmaceutical companies listed on the DSE from 2011 to 2020 were used and panel data regression analysis was employed in the study. The study finds that institutional ownership, ownership concentration, and FOW have a significant positive impact on the financial performance of the tested companies, whereas MAOW and insider ownership have a negative impact. The research found no significant correlation between block holders' ownership and enterprises' performance.

Laporšek et al. (2021) examine the relationship between ownership structure and performance of Slovenian joint stock businesses. Data from all Slovenian joint stock companies' 2005–2017 annual financial reports and information on ownership structure at the firm level are used in the empirical analysis. It is discovered that Slovenian state-owned joint stock enterprises are less profitable than their

privately-owned counterparts using panel regression analysis. But there is no statistically significant correlation between ownership concentration and firm performance, as we have seen. The empirical results highlight the need for additional steps to enhance corporate governance of state-owned businesses in Slovenia.

## Research methodology

### Research design and data collection

This study utilised an *ex-post facto* research design, selected for its compatibility with readily available data in the annual reports of selected DMB listed firms on the Nigerian and Ghanaian Exchange Group Fact books. The data, spanning from 2013 to 2022, were collected from secondary sources, specifically the annual reports and Nigeria and Ghana Exchange Group Fact Books.

The population for this study consisted of 19 listed DMBs on the Nigerian and Ghanaian Exchange Group as of 31 December 2022. Specifically, there were 13 listed DMBs on the Nigerian Exchange Group and six listed DMBs on the Ghana Stock Exchange. From this population, a total of 13 DMBs listed on the Nigerian Exchange Group and six listed DMBs on the Ghana Stock Exchange were selected using census sampling techniques. This approach ensures a high degree of precision and provides comprehensive representation of the population.

### Model specification variables

The study adopted the model of Owusu and Weir (2017) to meet the specific objectives of the study:

$$FP = f(CGM)$$

$$FP_{it} = f(BDC_{it}, OWS_{it})$$

$$ROA_{it} = a + \beta_1 BDC_{it} + \beta_2 OWS_{it} + \epsilon_{it}$$

$$FP_{it} = f(BDC_{it})$$

$$FP_{it} = f(BSZ_{it}, BID_{it})$$

$$ROA_{it} = a + \beta_1 BID_{it} + \beta_2 BSZ_{it} + \epsilon_{it}$$

$$FP_{it} = f(OWN_{it})$$

$$FP_{it} = f(MAOW_{it}, FOW_{it})$$

$$ROA_{it} = a + \beta_1 MAOW_{it} + \beta_2 FOW_{it} + \epsilon_{it}$$

where, FP = Financial Performance, ROA = Returns on Assets, CGM = Corporate Governance Mechanism, BDC = Board Composition, BID = Board Independence, BSZ = Board size, OWS = Ownership Structure, MAOW = Managerial ownership, FOW = Foreign ownership, a = intercept,  $\beta_1 - \beta_3$  = coefficients to be estimated,  $\epsilon_{it}$  = Error term.

The independent variable for this study is corporate governance, which was proxied by board composition (BID and BSZ), as well as ownership structure proxied by MAOW, FOW, and institutional ownership. On the other hand, the dependent variable is financial performance and was proxied by ROA.

**TABLE 1:** Descriptive statistics.

Countries	Variables	ROA	BSZ	BID	MAOW	FOW
Nigeria	OBS	120.00	120.00	120.00	120.00	120.00
	Mean	0.16	13.82	61.27	10.47	1.78
	S.Dev.	0.29	3.19	12.46	17.43	3.29
	Min	-0.46	6.00	36.84	0.00	0.00
	Max	0.75	21.00	93.75	101.98	11.00
	Kurtosis	2.33	2.54	3.06	10.45	3.39
Ghana	OBS	80.00	80.00	80.00	80.00	80.00
	Mean	2.89	8.49	76.45	0.07	0.59
	S.Dev.	2.66	1.67	10.14	0.26	0.93
	Min	-8.75	6.00	44.44	0.00	0.00
	Max	6.60	12.00	100.00	1.00	2.93
	Kurtosis	2.33	2.54	3.06	10.45	3.39

ROA, returns on assets; BSZ, board size; BID, board independence; MAOW, managerial ownership; FOW, foreign ownership; OBS, observed.

## Ethical considerations

This article followed all ethical standards for research without direct contact with human or animal subjects.

## Results and discussion of findings

### Descriptive statistics

The descriptive statistics for the variables from DMBs in Nigeria are presented in Table 1. For financial performance, as measured by ROA, the mean value is 0.161 with a standard deviation of 0.291. This indicates a high degree of variability in ROA across the sampled DMBs, as the standard deviation value deviates significantly from the mean. The range of ROA values spans from a minimum of -0.456 to a maximum of 0.749. The normal kurtosis value for ROA is 2.332 indicating that the data are normally distributed.

The descriptive statistics for BSZ show that it has a mean value of 13.817 with a standard deviation of 3.186. This indicates a considerable degree of variability in BSZ across the sampled firms, as the standard deviation is notably different from the mean. Board size ranges from a minimum of 6 to a maximum of 21. The normal kurtosis value for BSZ is 2.545 indicating that the variable follows a normal distribution.

Also, in Table 1, the mean value of BID is 61.274, with a standard deviation of 12.456. This suggests considerable variation in BID among the sampled DMBs firms, as the standard deviation substantially deviates from the mean. The range spans from a minimum of 36.842 to a maximum of 93.750%. Normal kurtosis value is 3.057 indicating a normal distribution of the variable in the data.

Managerial ownership exhibits a mean value of 10.473 and a standard deviation of 17.427, indicating significant variability among the sampled DMBs firms. Managerial ownership ranges from a minimum of 0.000 to a maximum of 101.977%. Abnormal kurtosis value is 10.450 indicating an abnormal distribution of the variable in the data.

Lastly, according to Table 1, FOW has an average value of 1.783 and a standard deviation of 3.288 indicating

considerable variability among the sampled firms in terms of FOW. Foreign ownership ranges from a minimum of 0 to a maximum of 11. Kurtosis is normal with value of 3.388. This suggests an abnormal distribution of the data for the variable.

The descriptive statistics for variables from DMBs in Ghana are presented in Table 1. According to the table, financial performance, as measured by ROA, has an average value of 2.892 and a standard deviation of 2.660. This indicates significant variability in ROA across the sampled DMBs, as the standard deviation considerably deviates from the mean. Returns on Assets ranges from a minimum of -8.754 to a maximum of 6.599. Normal kurtosis value is 2.33 indicating a normal distribution of the variable in the data.

Also, in Table 1, BSZ exhibits an average value of 8.488 and a standard deviation of 1.669. This indicates considerable variability in BSZ among the sampled firms, as the standard deviation significantly deviates from the mean. Board size ranges from a minimum of 6 to a maximum of 12. Normal kurtosis value is 2.545 indicating a normal distribution of the variable in the data.

In Table 1, BID has an average value of 76.454 and a standard deviation of 10.138, indicating significant variability among the sampled DMBs. Board independence ranges from a minimum of 44.444 to a maximum of 100%. Kurtosis is normal, with value of 3.057304 indicating a normal distribution of this variable. Managerial ownership has an average value of 0.075 and a standard deviation of 0.265, suggesting moderate variability among the sampled DMBs, as the standard deviation is relatively close to the mean. Managerial ownership ranges from 0 to 1. The kurtosis is abnormal with value of 10.44979 indicating an abnormal distribution of this variable.

Lastly, from Table 1, FOW of listed DMBs in Ghana has an average value of 0.587 and a standard deviation of 0.934 indicating moderate variability among the sampled firms as the standard deviation is relatively close to the mean. Foreign ownership ranges from a minimum of 0 to a maximum of 2.931. Kurtosis is normal with values of 3.388 indicating that the data for this variable are abnormally distributed.

The normality test was conducted using Shapiro–Wilks test of normality and the result is presented in Online Appendix 1. The result of Shapiro–Wilks test for data normality is 0.922 indicating that the data are normally distributed. Furthermore, a multicollinearity test was conducted to confirm the validity of the assumption of the regression model. In a situation where two or more explanatory variables are highly correlated, meaning that one can linearly predict from the others with a certain degree of accuracy, then there is a problem of multicollinearity. The variance inflation factor (VIF) value is used to investigate the relationship between the variables themselves and the result is not found to be significant leading to the conclusion that there is multicollinearity because the VIF and tolerance values are comparatively beyond the established rule of thumb.

**TABLE 2:** Correlation analysis.

Variables	ROA	BSZ	BID	MAOW	FOW	VIF
ROA	1.000 0.000	-	-	-	-	-
BSZ	-0.175* 0.013	1.000 0.000	-	-	-	1.507 -
BID	0.108 0.128	-0.574* 0.000	1.000 0.000	-	-	1.672 -
MAOW	-0.288* 0.000	0.163* 0.021	-0.262* 0.000	1.000 0.000	-	1.655 -
FOW	-0.148* 0.036	0.147* 0.038	-0.350* 0.000	0.625* 0.000	1.000 0.000	1.764 -

ROA, returns on assets; BSZ, board size; BID, board independence; MAOW, managerial ownership; FOW, foreign ownership; VIF, variance inflation factor.

\*, represents 5% level of significance.

Based on the evidence presented in Table 2, it can be concluded that there is no multicollinearity problem. This is because the VIF values for all the variables are less than 10 and the tolerance values for all the variables are greater than 0.10 (rule of thumb). Therefore, the study can rely on the regression co-efficient to predict the level of impact of independent variables on dependent variables and the outcome of the findings can be considered valid. Also, the heteroscedasticity test was conducted using Breusch–Pagan or Cook–Weisberg test to check the validity of a homoscedasticity assumption that variances in the residuals are constant as the absence of homoscedasticity violates the assumption and may lead to wrong inference and the result was presented in Online Appendix 2 which revealed the absence of heteroskedasticity given the probability value of 0.2799 and 0.1674 which is higher than the expected threshold of 0.05 implying that the error term is not constant across the residuals. Likewise, variables for the study were also tested for autocorrelation which depicts how closely variable values are correlated across time using the Wooldridge test for autocorrelation in the panel data and the result shows a probability value of 0.4084 indicating insignificance at 5% and indicating the absence of autocorrelation. Panel unit root test was conducted to identify the stationary conditions of the variables using the Levin–Lin–Chu test and the result was presented in Online Appendix 3 which shows that all the variables are integrated of order zero, that is 1(0). The Hausman test conducted to specify the appropriate model from between the fixed-effect model and the random effect model shows a result that favours the fixed effect model and the result was presented in Online Appendix 4.

The correlation co-efficient represents the linear association or relationship between the dependent and explanatory variables and shows symptoms of multicollinearity. The result in Table 2 shows the relationship between corporate governance and financial performance. From Table 2 where the variables for firms are discussed, the relationship between ROA and BSZ is negative and it implies that both variables move in the opposite direction as a one-time improvement in BSZ will lead to 17.5% decrease in ROA, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.175$  and  $p$ -value of 0.013.

The relationship between BID and ROA is positive and it implies that both variables move in the same direction as a one-time improvement in BID will lead to 10.8% increase in ROA, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.108$  and  $p$ -value of 0.128. Also, the relationship between MAOW and ROA is negative and it implies that both variables move in the opposite direction as one time improvement in MAOW will lead to a 28.8% decrease in ROA, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.288$  and  $p$ -value of 0.000, while the relationship between FOW and ROA is negative and it implies that both variables move in the opposite direction as one time improvement in FOW will lead to 14.8% decrease in ROA, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.148$  and  $p$ -value of 0.036.

From the same Table 2, it was observed that the relationship between BSZ and BID is negative and it implies that both variables move in the opposite direction as one time improvement in BID will lead to 57.4% decrease in BSZ, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.574$  and  $p$ -value of 0.000. It was also observed that the relationship between MAOW and BSZ is positive and it implies that both variables move in the same direction as one time improvement in MAOW will lead to a 16.3% increase in BSZ, and the relationship is significant at 5% as this is evidenced by the coefficient value of 0.163 and  $p$ -value of 0.021, while the relationship between FOW and BSZ is positive, and it implies that both variables move in the same direction as one time improvement in FOW will lead to a 14.7% decrease in BSZ, and the relationship is significant at 5% as this is evidenced by the coefficient value of 0.147 and  $p$ -value of 0.038.

From Table 2, it was observed that the relationship between BID and MAOW is negative, and it implies that both variables move in the opposite direction as one time improvement in MAOW will lead to a 26.2% decrease in BID, and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.262$  and  $p$ -value of 0.000. It was also observed that the relationship between FOW and BID is negative, and it implies that both variables move in the opposite direction as one time improvement in FOW will lead to a 35% decrease in BID and the relationship is significant at 5% as this is evidenced by the coefficient value of  $-0.350$  and  $p$ -value of 0.000.

The relationship between MAOW and FOW is positive and it implies that both variables move in the same direction as one time improvement in FOW will lead to 62.5% increase in MAOW and the relationship is significant at 5% as this is evidenced by the coefficient value of 0.625 and  $p$ -value of 0.000. It is equally observed that the relationship between the independent variables is not too strong to cause multicollinearity as none of them

**TABLE 3:** Two-sample T-Test with unequal variances.

Variable	Obs	Mean	Std. Err.	Std. Dev.
BSZ (Nigeria)	120	13.817	0.291	3.186
_BSZ (Ghana)	80	8.488	0.187	1.669
combined	200	11.685	0.265	3.745
Diff	-	5.329	0.346	-
diff = mean (BSZ) - mean (_BSZ)	-	-	-	$t = 15.423$
Ho: diff = 0	-	-	-	190.402*
Ha: diff < 0	Ha: diff! = 0	-	Ha: diff > 0	-
Pr (T < t) = 1.000	Pr (T > t) = 0.000	-	Pr (T > t) = 0.000	-
BID (Nigeria)	120	61.274	1.137	12.456
_BID (Ghana)	80	76.454	1.133	10.138
combined	200	67.346	0.973	13.754
Diff	-	-15.180	1.605	-
diff = mean (BID) - mean (_BID)	-	-	-	$t = -9.455$
Ho: diff = 0	-	-	-	192.328**
Ha: diff < 0	Ha: diff! = 0	-	Ha: diff > 0	-
Pr (T < t) = 1.000	Pr (T > t) = 0.000	-	Pr (T > t) = 0.000	-
MAOW (Nigeria)	120	10.473	1.591	17.427
_MAOW (Ghana)	80	2.60e+0.7	0.738	6.60e+0.7
combined	200	1.04e+0.7	0.307	4.35e+0.7
Diff	-	-2.60e+0.7	0.738	-
diff = mean (MAOW) - mean (_MAOW)	-	-	-	$t = -3.523$
Ho: diff = 0	-	-	-	79***
Ha: diff < 0	Ha: diff! = 0	-	Ha: diff > 0	-
Pr (T < t) = 1.000	Pr (T > t) = 0.000	-	Pr (T > t) = 0.000	-
FOW (Nigeria)	120	1.783	0.300	3.288
_FOW (Ghana)	80	0.075	0.030	0.265
combined	200	1.1	0.190	2.683
Diff	-	1.708	0.302	-
diff = mean (FOW) - mean (_FOW)	-	-	-	$t = 5.664$
Ho: diff = 0	-	-	-	121.353****
Ha: diff < 0	Ha: diff! = 0	-	Ha: diff > 0	-
Pr (T < t) = 1.000	Pr (T > t) = 0.000	-	Pr (T > t) = 0.000	-

BSZ, board size; BID, board independence; MAOW, managerial ownership; FOW, foreign ownership; Obs, observed.

\*, Welch's degrees of freedom; \*\*, Welch's degrees of freedom; \*\*\*, Welch's degrees of freedom; \*\*\*\*, Welch's degrees of freedom.

is above 0.70 which is an indication for strong relationship between the variables.

To achieve the objective of the study, independent group *t*-test is employed as it is designed to compare means of same variables between two groups. For the study, we compare the mean of BSZ, BID, MAOW, and FOW between the group of Nigeria DMBs and the group of Ghana DMBs and the result is presented in Table 3. Ideally, these samples are randomly selected from a larger population of subjects and the study assumes two-sample *t*-test with unequal variances because of the differences in the group observations and other corporate characteristics. The *t*-statistic shows the value of 15.423 with 190.402 degrees of freedom. The corresponding two-tailed *p*-value is 0.0000, which is less than 0.05. It is concluded that the difference of means in the BSZ of both DMBs in Nigeria and DMBs in Ghana is different from 0 and implies that the DMBs of Nigeria engage more directors on their board than DMBs in Ghana.

Table 3 shows that the difference between BID of DMBs in Nigeria and Ghana is insignificant. This is evidenced by the *t*-statistic showing the value of -9.455 with 192.328 degrees of freedom. The corresponding two-tailed *p*-value

is 1.000, which is higher than 0.05. The analysis indicates a statistically significant difference in the mean board independence between DMBs in Nigeria and DMBs in Ghana. This implies that DMBs in Nigeria have a higher proportion of non-executive directors on their boards compared to DMBs in Ghana. Furthermore, it is shown that the difference between MAOW of DMBs in Nigeria and Ghana is insignificant. This is evidenced by the *t*-statistic that shows the value of -3.523 with 79 degrees of freedom. The corresponding two-tailed *p*-value is 0.999, which is higher than 0.05. The analysis indicates a statistically significant difference in the mean managerial ownership between DMBs in Nigeria and DMBs in Ghana. This implies that DMBs in Nigeria have a higher proportion of non-executive directors on their boards compared to DMBs in Ghana. Table 3 shows that the difference between FOW of DMBs in Nigeria and Ghana is significant. This is evidenced by the *t*-statistic showing the value of 5.664 with 121.353 degrees of freedom. The corresponding two-tailed *p*-value is 0.000, which is less than 0.05. It is concluded that the difference of means in the FOW of both DMBs in Nigeria and DMBs in Ghana is different from 0 and implies that the DMBs in Nigeria engage more foreign investors than DMBs in Ghana.



TABLE 4: Panels corrected.

Variables	Standard errors (PCSEs)			Regression results		
	Nigeria			Ghana		
	Coef.	Z	p	Coef.	Z	p
ROA						
BSZ	-0.014	-1.650	-	-0.336	-1.970	-
BID	-0.006	-3.010	-	-0.033	-1.120	-
MAOW	-0.007	-4.510	-	0.793	2.460	-
FOW	0.013	1.500	-	-2.071	-1.920	-
CONS	0.816	3.670	-	8.013	2.840	-
No of Observations	120.000	-	-	80.000	-	-
R-sqd	0.197	-	-	0.128	-	-
Adj R-sqd	-	-	-	-	-	-
Hausman	10.620	-	0.031	16.100	-	0.003
Breush Pagan	1.910	-	0.160	-	-	-

ROA, returns on assets; BSZ, board size; BID, board independence; MAOW, managerial ownership; FOW, foreign ownership; R-sqd, R-Squared; Adj R-sqd, adjusted R-squared.

### Corporate governance mechanism and financial performance of listed deposit money banks in Nigeria and Ghana

The regressed result showing how measures of corporate governance in terms of BSZ, BID, managerial ownership, and FOW affect firm financial performance after meeting the basis for a Best Linear Un-bias Estimate (BLUE) is shown in Table 4. The Hausman specification test conducted produced a *p*-value of 0.031 for model 1 and 0.003 for model 2 which was significant at 5%. This implies that the variation across entities is assumed to be systematic with the independent variables included in the model; hence, the fixed-effect model is the most suitable for interpretation. However, the observed statistical problem of cross-sectional made the researcher to employ the correlated panels corrected standard errors regression to correct the statistical error. From the regression result, the estimates for the linear model are presented in Table 4 for both models. The table shows Wald  $\chi^2$  (4) showing 29.48 and probability of the model 1 to be 0.000 and Wald  $\chi^2$  (4) showing 11.78 and probability of the model 2 to be 0.019 which shows that the model is statistically significant at 5%. The R-squared for model 1 is 0.197, and this implies that the independent variables in the model 1 jointly explain 19.7% of the variation in the financial performance of DMBs in Nigeria with other variables captured by the error term. Likewise, the R-Squared for model 2 indicates 0.128, and this implies that the independent variables in model 2 jointly explain 12.8% of the variation in the financial performance of DMBs in Ghana.

The overall result shows that the measures of corporate governance have a negative effect and are of significance value for the financial performance of listed DMBs in Nigeria and Ghana respectively. The individual results for the variables as shown in Table 4 showed that BSZ among DMBs in Nigeria have a coefficient of  $-0.014$  and z statistics of  $-1.650$  indicating a negative but insignificant effect while the effect of BSZ on financial performance of DMBs in Ghana has a coefficient of  $-0.336$  and z statistics of  $-1.970$  and this implies that BSZ has a negative and significant effect on financial performance. It then means that a large

BSZ should be discouraged because of the variety of opinions that can bring difficulty in making vital decisions and also delay decisions that will move the company forward and lead to decrease in their financial performance. Likewise, Table 4 showed that BID among DMBs in Nigeria has a coefficient of  $-0.006$  and z statistics of  $-3.010$  indicating a negative and significant effect while the effect of BID on financial performance of DMBs in Ghana has a coefficient of  $-0.033$  and z statistics of  $-1.120$  and this implies that BID has a negative but insignificant effect on financial performance. It then means that companies should be weary of high BID because of diluted authority of people with less experience of what is obtainable in the business environment, and this may cause negative performance.

Also, MAOW among DMBs in Nigeria has a coefficient of  $-0.007$  and z statistics of  $-4.510$  indicating a negative and significant effect, while the effect of MAOW on financial performance of DMBs in Ghana has a coefficient of  $0.793$  and z statistics of  $2.460$ , and this implies that MAOW has a positive and significant effect on financial performance. It then means that DMBs in Ghana have a better MAOW and the DMBs in Nigeria need to improve on their MAOW to reduce the agency problem of moral hazard and improve on financial performance. Also, FOW among DMBs in Nigeria has a coefficient of  $0.013$  and z statistics of  $1.500$  indicating a positive but insignificant effect, while the effect of FOW on financial performance of DMBs in Ghana has a coefficient of  $-2.071$  and z statistics of  $-1.920$  and this implies that FOW has negative and significant effect on financial performance. It then means that DMBs in Nigeria have a better FOW and the DMBs in Ghana need to improve on their governance practice to attract more FOW to inculcate better practice and improve on financial performance.

The study aligns with the study of Obafemi et al. (2020) which assessed the effect of corporate governance and financial performance and revealed a negative but significant effect of BSZ on financial performance of listed DMBs in Nigeria. It also supports the findings of Sanni (2019) and Iwasaki et al. (2022) that investigated the effect of BID on the financial performance of listed DMBs in Nigeria and the findings revealed a negative but significant effect of BID on the financial performance of listed DMBs in Nigeria. However, the findings of the study negate the results of Ibitamuno, Amadi and Ogbugh (2018) which examined the effect of corporate governance on financial performance of listed DMBs in Nigeria. Corporate governance proxies included BSZ, BID, and ownership structure and ROA. The results of the study indicate an insignificant relationship between MAOW and financial performance.

### Conclusion and recommendations

The study concluded that corporate governance has a negative but significant effect on the financial performance of listed DMBs both in Nigeria and Ghana.

- Based on the findings of the study, the following recommendations are made:
- The investors in the banking sector should see to it that boards maintain their size for effectiveness and optimum financial performance.
- For improved performance, the BID should be moderated for proper balance so that appropriate decisions that will improve the financial performance of the banks will be made.

This study was limited to listed DMBs in Nigeria and Ghana. So, further studies should investigate other sectors in Nigeria and Ghana, such as multinational manufacturing firms, oil and gas and telecommunication sectors. Moreover, future studies can explore other areas of corporate governance such as ownership concentration and board diversity in the form of gender diversity.

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### Authors' contributions

A.T. conceptualised, gathered, and evaluated the data. M.O. reviewed and finalised the article.

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### Data availability

Data used for this study are publicly available from the Nigeria and Ghana Stock Exchange website. Data are also available from the corresponding author, A.T. upon reasonable request.

### Disclaimer

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