



Moderating Influence of Financial Sustainability on the Nexus between Corporate Governance Mechanisms and Financial Performance in Nigerian Deposit Money Banks

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Abstract: *This study examines the effect of corporate governance mechanisms—board composition, board size, audit committee independence, and audit committee meetings—on the financial performance of listed deposit money banks in Nigeria, while assessing the moderating role of financial sustainability. An ex-post facto research design was adopted using secondary panel data from listed Nigerian banks. Data were analysed with the Generalized Least Squares (GLS) Random Effects model, incorporating robust (Huber-White) standard errors to address heteroscedasticity and cross-sectional variation. The moderating effect of financial sustainability on the governance–performance relationship was also tested. The findings reveal that board size has a statistically significant negative effect on financial performance ($p < 0.05$), suggesting that excessively large boards may reduce efficiency and weaken effective oversight in Nigerian banks. In contrast, board composition, audit committee independence, and audit committee meetings show no significant influence on financial performance. Furthermore, the interaction effects between financial sustainability and each governance variable are insignificant, indicating that financial sustainability does not moderate the relationship between corporate governance mechanisms and financial performance. Overall, the model explains approximately 31.6% of the variation in financial performance. The study is limited to listed deposit money banks in Nigeria, which constrains the generalizability of the findings to non-listed or smaller financial institutions. Reliance on secondary data also limits control over the measurement of some governance variables. Practically, the results suggest that regulators and policymakers should focus on optimising board size and improving governance efficiency rather than expanding board membership. Socially, efficient governance structures enhance banking stability, investor confidence, and depositor protection. The study contributes to the literature by demonstrating that financial sustainability does not strengthen governance–performance linkages in the Nigerian banking sector, emphasising governance quality as the primary driver of financial performance.*

Keywords: Board, size, composition, independence, audit, meetings, Generalised

INTRODUCTION

Financial performance is a critical indicator of organizational success, particularly in the banking sector, where it reflects profitability, stability and the ability to meet stakeholder expectations (Platonova, et, al, 2018).

In the case of deposit money banks, financial performance is crucial because these institutions serve as the backbone of economic development by facilitating credit creation, financial intermediation, and fostering economic growth (Mondal, & Ghosh, 2012). Globally, the financial performance of banks is influenced by several factors, including macroeconomic conditions, regulatory environments and corporate governance mechanisms (Cancela, et, al, 2020). In recent years, the role of corporate governance has gained significant attention, as effective governance is expected to enhance accountability, transparency, and decision-making processes, all of which contribute to better financial performance (Hidayat, Affandi, & Anwar, 2025). This study specifically focuses on the moderating influence of financial sustainability on the nexus between corporate governance mechanisms such as (board composition, board size, audit committee independence, and audit committee meetings) and the financial performance of Nigerian deposit money banks.

Research in corporate governance and financial performance has already established that good corporate governance structures are essential for sustainable financial performance (Mateev, & Sahyouni, 2025). Globally, several corporate scandals, including the collapses of Enron and Lehman Brothers, have demonstrated that weak governance contributes to financial distress. Consequently, various countries, including Nigeria, have introduced governance codes to strengthen oversight, particularly in the financial sector. In Nigeria, corporate governance practices in the banking sector are governed by the Companies and Allied Matters Act (CAMA) 2020, the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks and Discount Houses (2014), and the Nigerian Code of Corporate Governance (2018). These frameworks emphasize effective board composition, appropriate board size, and the independence and effectiveness of the audit committee as essential mechanisms for promoting transparency and improving financial performance.

In practice, however, real-world evidence from Nigeria's banking sector highlights persistent governance challenges. According to the CBN Financial Stability Report (2023), some deposit money banks still face governance-related lapses such as insufficient independence of the audit committee, inadequate board oversight, and ineffective internal control systems. Reports from the Nigerian Deposit Insurance Corporation (NDIC) have also revealed that weak governance has contributed to financial distress and failures in some Nigerian banks. Furthermore, newspapers, industry analyses, and corporate governance watch reports continue to highlight issues like insider lending, boardroom conflicts and non-compliance with governance codes, all of which affect financial performance negatively.

The literature also reflects divergent findings on the relationship between corporate governance mechanisms and financial performance. Studies such as Uwuigbe (2011) and Okoye & Cletus (2020) found a positive relationship between board composition and financial performance, arguing that diverse boards bring a range of expertise that enhances decision-making. On the contrary, Yahaya & Yusuf (2022) found no significant relationship between board size and financial performance, suggesting that larger boards may be associated with inefficiency and slow decision-making. Studies like Ofoegbu & Odo (2019) identified audit committee independence as a critical driver of financial performance, emphasising that independent committees enhance oversight, reduce opportunistic behaviours and improve financial transparency. However, Adebayo et al. (2021) found that audit committee meetings alone, without substantive oversight processes, had little impact on financial performance. This conflicting evidence points to a gap in knowledge, particularly within the context of Nigerian deposit money banks, where unique regulatory and economic

challenges shape corporate governance practices. Thus, the moderating role of financial sustainability has been a subject of few studies.

The importance of this study lies in providing empirical evidence on how specific corporate governance mechanisms influence financial performance. Effective governance is not just a regulatory requirement but a strategic asset that enhances shareholder confidence, promotes operational efficiency, and reduces financial misconduct. Understanding these relationships is critical for policymakers, investors, banking regulators, and management.

Without the findings from this study, the banking sector could continue to experience governance inefficiencies, which threaten financial stability and economic growth. Poor governance in banks can lead to poor financial performance, erosion of public trust, bank failures, and systemic crises, all of which undermine economic development (Kamal, & Alam, 2025). Therefore, understanding the specific governance variables that drive financial performance is essential for strengthening governance reforms and fostering a healthier banking sector.

STATEMENT OF THE PROBLEM

In an ideal situation, corporate governance mechanisms such as board composition, board size, independence of the audit committee, and audit committee meetings should promote transparency, enhance decision-making, improve internal control processes, and ultimately enhance the financial performance of organisations (Efunniyi, et, al, 2024). In well-governed companies, effective corporate governance serves as a strategic tool for ensuring accountability, protecting shareholder interests, and strengthening financial performance (Vickneswaran, (2025). This is particularly important in the banking sector, where sound governance is critical for ensuring financial stability, investor confidence and sustainable profitability. However, the current situation in Nigerian deposit money banks suggests that corporate governance mechanisms have not fully translated into improved financial performance (Kafidipe, et, al, 2021).

Several Nigerian banks have experienced financial distress, operational inefficiencies, fraud, and regulatory penalties, raising questions about the effectiveness of their corporate governance practices (Nworji, et,al, 2011). Despite the regulatory frameworks provided by the Central Bank of Nigeria (CBN), the Financial Reporting Council of Nigeria (FRCN), and the Securities and Exchange Commission (SEC), weak governance structures persist in many banks, impacting their financial performance.

Over time, measures have been put in place to improve corporate governance in the banking sector. These include the introduction of the Nigerian Code of Corporate Governance (2018), the CBN Code of Corporate Governance for Banks and Discount Houses (2014), and the requirement for banks to have independent directors and audit committees responsible for overseeing financial reporting and risk management. Additionally, corporate governance training programmes, disclosure requirements and sanctions for non-compliance have been introduced to encourage compliance.

Despite these efforts, the problem persists as some banks still manipulate financial reports, experience governance failures and perform poorly financially (Ofurum, & Nwachukwu, 2025).

Reports from the NDIC and the CBN's Financial Stability Report continue to highlight corporate governance lapses in the banking sector, indicating that existing governance frameworks are either poorly implemented or insufficiently enforced. The board composition, including the proportion of independent directors, board size, and the effectiveness of audit committee meetings, remains questionable in many banks, hindering the potential positive impact of governance on financial performance.

The effects of this persistent problem are far-reaching, including declining investor confidence, poor financial performance, increased risk of insolvency, and negative impacts on the overall stability of the banking sector (Gbadebo, 2021). This is concerning given the pivotal role of deposit money banks in Nigeria's economy, especially in mobilizing savings, providing credit, and facilitating economic growth.

The reason for this research is to examine the specific moderating influence of financial sustainability on the nexus between Corporate Governance Mechanisms (board composition, board size, independence of the audit committee, and audit committee meetings) and Financial Performance in Nigerian Deposit Money Banks. By focusing on these governance variables, the study seeks to determine whether effective governance structures truly translate into better financial outcomes in the Nigerian banking sector.

The gap in knowledge that this study intends to fill lies in the inconsistent and inconclusive findings of prior research and moderating effect of financial sustainability in emerging economies like Nigeria.

While some studies report a positive relationship between corporate governance and financial performance (Saidat, Silva, & Seaman, 2019), others find no significant relationship or even a negative association. Furthermore, most existing studies have focused either on general corporate governance principles without drilling down into the specific roles of board composition, board size, and audit committee functions. Additionally, few studies have incorporated recent governance reforms and their impact on bank performance, especially within the context of Nigeria's unique regulatory and economic environment.

In conclusion, understanding how these governance mechanisms influence financial performance is crucial for policymakers, regulatory authorities, investors and banking executives.

This study is therefore necessary to provide empirical evidence that can guide future governance reforms, improve financial performance, and strengthen the resilience of Nigeria's deposit money banks.

RESEARCH OBJECTIVE

The main aim of this study is to analyse the moderating influence of financial sustainability on the nexus between Corporate Governance mechanisms and financial performance in Nigerian Deposit Money Banks. Specifically:

- To examine the effect of board composition on financial performance.
- To analyse the effect of Board Size on financial performance
- To investigate the effect of Independence of Audit Committee on financial performance
- To examine the effect on Audit committee meeting on financial performance

SIGNIFICANCE OF THE STUDY

Practical Significance

This study provides insights for bank managers, board members and audit committees on which corporate governance mechanisms—board composition, board size, audit committee independence, and meeting frequency—most influence financial performance. Understanding these relationships helps banks design effective governance structures, optimise board size and diversity and enhance audit committee oversight, improving profitability, transparency and risk management.

Policy Significance

The findings inform regulatory discussions in Nigeria's banking sector.

Agencies like the CBN, FRCN and SEC can use the results to strengthen governance codes, promote smaller and more effective boards, ensure audit committee independence, and mandate regular meetings. Aligning governance practices with global standards enhances financial stability, attracts foreign investment, and supports economic growth.

Theoretical Significance

The study contributes to corporate governance literature, particularly Agency Theory, by providing empirical evidence from Nigerian deposit money banks. It examines how governance mechanisms impact financial performance in a developing economy, filling a contextual gap and enhancing the applicability of governance theories across diverse economic and institutional settings.

Scope of the Study

This study examines the moderating effect of financial sustainability on the relationship between corporate governance mechanisms—board composition, board size, audit committee independence, and audit committee meetings—and the financial performance of Nigerian deposit money banks from 2019 to 2024. Using panel data, the study combines cross-sectional and time-series analysis to assess how governance practices influence performance over time. The population includes the 14 listed deposit money banks in Nigeria, which are publicly traded and regulated by the CBN, FRCN, and SEC.

LITERATURE REVIEW

Conceptual Review

Financial Performance

Financial performance is a multifaceted concept that varies significantly depending on the perspective from which it is examined. In essence, it encompasses the ability of an organisation to generate profits, manage its resources efficiently, and create value for a diverse group of stakeholders (Wejesiri, et al, 2025). Consequently, a comprehensive understanding of financial performance requires integrating multiple viewpoints, including those of shareholders, management and broader society.

From a shareholder or investor perspective, financial performance is primarily concerned with a firm's ability to generate returns and enhance shareholder value (Yahaya, 2025). In this view, metrics such as earnings per share (EPS), return on equity (ROE), dividends, and stock

price appreciation are of paramount importance. Investors are focused on how effectively management utilises corporate resources to yield profits and drive growth. In other words, financial performance is seen as a measure of profitability and market value creation, which directly influences investment decisions and overall market confidence. However, it is important to note that this perspective has been critiqued for its narrow focus on short-term gains, often at the expense of long-term sustainability and stability.

In contrast, the managerial or operational perspective adopts a more internal view, emphasising the efficiency and effectiveness of a company's internal processes (Adiguzel, & Sonmez Cakir, 2025). Here, the focus shifts to how well the organisation manages its assets, controls costs, and optimises operations to achieve consistent profitability. Metrics such as return on assets (ROA) and operating cash flows, along with various cost-efficiency ratios, serve as critical indicators in this context. This approach argues that financial performance is not solely about the end result of profitability but also about the operational strategies and process improvements that lead to sustainable success (Yang, et, al, 2025).

Nevertheless, critics of this perspective argue that by concentrating primarily on operational metrics, one might overlook the influence of external factors such as market dynamics and stakeholder expectations that also impact overall performance (Wang, Zhang, Yao, & Zhu, 2025).

Furthermore, from a broader stakeholder or societal perspective, financial performance transcends the traditional view of profit generation (Albitar, et, al, 2025). This approach integrates the company's ability to create value for a wider range of stakeholders, including employees, customers, suppliers, communities and the environment. In this context, financial performance is measured not only by conventional financial metrics but also by indicators of corporate social responsibility (CSR), environmental, social and governance (ESG) factors, and sustainability practices. Essentially, this perspective defines financial performance as the overall impact of a company's activities on society, reflecting its commitment to ethical practices and long-term societal welfare. Although this broadened view provides a more holistic understanding of performance, some critics contend that quantifying these wider impacts can be challenging and might dilute the focus on the financial metrics traditionally valued by investors.

Corporate Governance Mechanism

Corporate governance mechanisms encompass the systems, processes and structures through which organisations are directed and controlled, ensuring that the interests of shareholders and other stakeholders are protected (Zampella, et al, 2025). Critically, these mechanisms include several interrelated components, notably board composition, board size, independence of the audit committee, and the frequency and quality of audit committee meetings.

Board Composition

Board composition is a multifaceted concept that plays a pivotal role in ensuring effective corporate governance. In essence, board composition is more than just a count of directors (Goel, 2025), it reflects the diversity, expertise and balance between different types of directors, all of which contribute to the board's overall effectiveness. To begin with, from a corporate governance perspective, board composition is fundamentally concerned with the deliberate mix of executive and non-executive directors (Ali, et al, 2025). A well-composed

board ideally includes a healthy proportion of independent members alongside management insiders, thereby providing unbiased oversight and ensuring that the interests of shareholders are protected. Moreover, such diversity in skills and expertise enhances the board's ability to critically evaluate strategic decisions and effectively challenge management, which is essential for safeguarding long-term corporate interests (Dwekat, Taweel, & Salameh, 2025).

Furthermore, from a regulatory and compliance perspective, board composition must adhere to formal guidelines and statutory requirements established by regulatory bodies and corporate governance codes (Nair, & Zhang, 2025). For instance, many jurisdictions mandate a minimum number of independent directors to mitigate conflicts of interest and ensure transparency (Abiad, et al, 2025: Alam, et al, 2025: Sobhan, et al, 2025). In this context, board composition is not only measured by the number of directors but also by the quality and relevance of their expertise. Therefore, while compliance with regulatory standards is necessary, it is equally important that the board members possess the competencies required to fulfil their oversight roles, rather than merely satisfying formal quotas.

Board Size

Board size is a multifaceted concept in corporate governance, and its critical evaluation can be approached from various perspectives. To begin with, from a corporate governance perspective, board size refers to the total number of directors that form the governing body of an organisation. In this light, a larger board may offer a broader range of expertise, diverse experiences, and multiple viewpoints, thereby enhancing the board's ability to provide effective oversight and strategic guidance (Abiad, et al, 2025).

However, this perspective also highlights that an excessively large board may lead to coordination challenges, slower decision-making processes, and potential dilution of accountability, as the complexity of managing a larger group can impede clear communication and efficient consensus-building (Li, 2024). Furthermore, from an operational efficiency perspective, board size is critically linked to the effectiveness of decision-making and the agility of the board. In this context, a smaller board is often seen as more nimble and capable of making rapid decisions, which is particularly beneficial in fast-changing environments (Olayiwola, 2018). Conversely, while a larger board might bring in a richer pool of skills and insights, it may also introduce inefficiencies such as increased bureaucracy, potential for conflict, and difficulties in aligning diverse opinions towards a unified strategy. Thus, finding an optimal board size is crucial to balance the benefits of diverse perspectives against the need for quick, decisive action.

Independence of Audit Committee

The independence of an audit committee is a critical governance attribute that ensures unbiased oversight and effective monitoring of an organisation's financial reporting (Klein, 2002).

From a corporate governance perspective, independence refers to the degree to which audit committee members are free from any undue influence or conflicts of interest with management (Zhang, Zhou, & Zhou, 2007). In this view, independent committee members are essential because they provide an objective check on management decisions, thereby safeguarding the interests of shareholders and other stakeholders. When the audit committee is composed of directors who do not have significant personal or professional ties to the

firm's executive management, it is better positioned to challenge questionable practices and ensure that the financial reports accurately reflect the company's true performance (Zhang, et, al, 2007).

Moreover, from a regulatory and compliance perspective, audit committee independence is defined by adherence to statutory and regulatory guidelines that prescribe the composition and functioning of the committee (Lee, et, al, 2004). Regulatory bodies often require a minimum proportion of independent directors to prevent potential biases that may arise from close relationships with management. This regulatory framework is designed to ensure transparency and accountability in financial disclosures, as independent audit committees are less likely to be influenced by internal pressures. Consequently, regulatory standards serve as a benchmark that forces organisations to maintain a level of independence that is critical for upholding the integrity of the audit process.

Audit Committee Meeting

These meetings play a pivotal role in ensuring effective corporate governance, serving as a key mechanism for oversight, regulatory compliance, and performance enhancement (Jizi, et, al, 2025). From a corporate governance perspective, these meetings are far more than routine gatherings; they are vital forums where independent directors critically review financial reports, assess internal controls, and scrutinise audit findings (Gao, et, al, 2025).

In this light, the meetings provide an essential platform for holding management accountable, challenging questionable practices, and ensuring that the organisation's financial disclosures accurately reflect its performance. This open and transparent exchange not only reinforces the board's oversight responsibilities but also enhances stakeholder trust in the organization's governance.

Moreover, from a regulatory compliance perspective, audit committee meetings are defined by their adherence to established legal and regulatory guidelines. Regulatory bodies such as financial reporting councils and securities commissions mandate that companies conduct these meetings regularly and address specific agenda items, including risk assessments and audit processes. In this context, the meetings function as a compliance tool, ensuring that the organisation meets the rigorous standards required by law. Such adherence helps to prevent fraudulent financial practices and misstatements, thereby safeguarding the interests of investors and the broader public. In other words, by following these regulatory protocols, audit committee meetings contribute to the credibility and reliability of the company's financial reporting.

Additionally, from a performance and effectiveness perspective, audit committee meetings are viewed as dynamic events that directly influence corporate performance. In this regard, the quality of the discussions, the frequency of the meetings, and the promptness with which issues are resolved all contribute to the overall efficacy of the audit process. When meetings are conducted with thorough preparation, robust debate and effective follow-up actions, they can identify potential risks early, foster better decision-making, and ultimately lead to enhanced financial performance. This proactive approach not only minimises the risk of errors and mismanagement but also builds investor confidence by demonstrating that the company is committed to high standards of transparency and accountability.

Financial Sustainability

Financial sustainability refers to the capacity of an economy to uphold stable and sustained growth by efficiently managing and directing resources both private and public investments into projects that support environmental conservation while generating adequate financial returns. (Shahbaz, Dong, Balsalobre-Lorente, & Gedikli, 2023). It comprises smart budgeting, careful financial planning, and the creation of endowments or reserves that can help the organisation in troubled times.

In this view, financial sustainability is achieved when an organisation can continuously deliver its mission-driven activities while remaining financially stable and adaptable to changing economic conditions (Al Zaabi, & Nobanee, 2021).

From a governmental or public sector perspective, financial sustainability emphasises the capacity of a government or public institution to meet its current and future obligations without resorting to unsustainable borrowing or jeopardising fiscal stability (Sinervo, 2020). It focuses on maintaining a healthy balance between revenue mobilisation, expenditure management, and debt sustainability. According to Allen, Schiavo-Campo & Garrity (2004), financial sustainability in the public sector ensures that fiscal policies are designed to support economic growth while avoiding excessive deficits that may burden future generations. This perspective often incorporates principles of transparency, accountability and long-term fiscal discipline, which are critical for maintaining public trust and macroeconomic stability.

In a broader developmental or environmental context, financial sustainability is viewed as an integral component of sustainable development. Also, noted Hassan, Mokhtar, Husin & Hassan (2024), encompasses that financial sustainability is the ability to fund social, economic, and environmental initiatives over the long term while aligning financial practices with sustainability principles.

This perspective emphasises responsible investment, ethical financing, and the integration of environmental, social and governance (ESG) criteria into financial decision-making. As noted by Bebbington and Gray (2007; Nkuri, Latiff, & Yusoff, 2021), true financial sustainability involves ensuring that economic activities do not deplete natural or social capital, thereby allowing future generations to meet their own needs.

THEORETICAL REVIEW

Agency Theory

Agency Theory, as propounded by Jensen and Meckling (1976), provides a robust framework for understanding how corporate governance mechanisms can mitigate conflicts between shareholders (principals) and managers (agents), thereby enhancing financial performance. In the context of Nigeria's deposit money banks, the key governance mechanisms—board composition, board size, independence of the audit committee, and audit committee meetings—play critical roles in reducing agency costs and ensuring that management decisions align with shareholder interests.

First, board composition is central to Agency Theory because a board with a well-balanced mix of independent and executive directors is more likely to provide effective oversight of management. When a board is composed of directors who possess financial expertise and are free from conflicts of interest, they can challenge managerial decisions and prevent

opportunistic behaviour that could harm shareholders. In Nigerian banks, where information asymmetry between management and shareholders is a significant concern, a robust board composition helps reduce such asymmetry, leading to more transparent and accountable financial reporting, which ultimately enhances financial performance.

Second, board size also affects the effectiveness of corporate governance. Agency Theory suggests that while a larger board may offer a broader range of expertise and diverse viewpoints, it can also lead to coordination challenges and dilute accountability. In practice, an optimal board size is needed to balance the benefits of diversity with the need for efficient decision-making. For Nigeria's deposit money banks, striking the right balance in board size is crucial because it ensures that the board is neither too cumbersome to hinder prompt oversight nor too small to lack critical expertise. Thus, the appropriate board size supports effective monitoring, reducing agency costs and improving financial outcomes.

Third, the independence of the audit committee is another vital component. According to Agency Theory, independent audit committees serve as an effective control mechanism by reducing the risk of management bias in financial reporting. When audit committees are free from the influence of management, they can objectively evaluate internal controls, scrutinise audit findings, and ensure that the financial information disclosed to shareholders is accurate and reliable. In the Nigerian banking context, ensuring audit committee independence minimises the chances of managerial manipulation of financial data, thereby building investor confidence and supporting improved financial performance.

Lastly, audit committee meetings represent the operational aspect of these governance mechanisms. Regular and effective meetings ensure continuous oversight, timely communication of issues, and swift resolution of discrepancies in financial reporting. From the perspective of Agency Theory, such meetings act as a periodic monitoring mechanism that keeps management in check, thus reducing the scope for agency conflicts. In Nigerian deposit money banks, where regulatory pressures and market volatility are common, consistent audit committee meetings provide the structure necessary to ensure that any deviations from sound financial practices are promptly addressed, thereby enhancing overall financial performance.

Board Composition and Firm Performance

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors (Shah, Butt, & Saeed, 2011). At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring.

Dependent directors are also important because they have insider knowledge of the organisation which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasley, 1996). According to Jensen and Meckling (1976), boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behaviour of management. The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Rhoades, Rechner, Sundaramurthy, (2000), Dehaene, De Vuyst, Ooghe (2001), and Omar (2003) found that non-executive director has a positive relationship with financial performance. For example, Limpaphayom and Connelly (2006), Lefort and Urzúa (2008) also found a positive relationship between

board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that a non-executive director is significantly related to firm performance that is measured by ROA. On the other hand, Coles, McWilliams, Sen (2001) demonstrated that there is a negative impact of outside directors on firm performance. Erickson, Park, Reising, Shin (2005), also found a negative relationship between greater board independence and firm value. However, Bhagat and Black (2002) and De Andres et al. (2005) found no significant relationship between the composition of the board and the value of the firm.

Board Size and Firm Performance

Board size is believed to be the basic aspect of the effective decision making. Vafeas (2005) suggested that the board size and its performance had a non-linear relationship. Both too small and too large of the board size is likely to make it ineffective. Jensen (1993) confirmed that the smaller board size is more correlated with the quality of monitoring. Lipton and Lorsch (1992) recommended that the ideal board size should not exceed eight or nine directors. Jensen (1993) claimed that when the board is more than seven or eight members, it is less effective because of the coordination and process problem, which in turn adds to weak monitoring. Although average board size is comparatively large, previous studies have shown that small boards are more effective because the directors can communicate better among them, as well as easy to manage; these factors promote a more resourceful conversation. For example, studies of the board size and corporate performance have indicated that small boards are linked with higher market values. Yermack (1996) documented a negative relationship between board size and firm value. Drawing from Yermack's study, Eisenberg, Sundgren and Wells (1998) provided a similar conclusion on the board size and the firm value in a sample of small and mid-size Finnish firms. Empirical evidence on the relationship between board size and firm performance provided mixed results. While, Ahmadu, Aminu and Taker, (2005), De Andres, Azofra, Lopez (2005), Mustafa (2006) and Chan and Li (2008), found that larger boards are associated with poorer performance, Beiner, Drobetz, Schmid, Zimmermann (2004); Bhagat and Black (2002) and Limpaphayom and Connelly (2006) found no significant association between board size and firm performance.

Independence of Audit Committee and Firm Performance

The empirical result of the relationship between audit committee independence and firm performance is ambiguous. Chan and Li (2008) found that independence of the audit committee (i.e., to have at least 50 percent of expert-independent directors serve on audit committee) positively impacts the firm performance as measured by (Tobin's Q). Similarly, Ilona, (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by ROA. Moreover, Erickson, Park, Reising, Shin (2005), asserted that independent directors can reduce agency problems. Based on the argument provided by Erickson et al. (2005) that directors' independence can reduce the agency problem, it can similarly argue that independent audit committee can also reduce the agency problems. In other words, a positive relationship between audit committee independence and firm performance is expected and justified. Agency theory suggested that the independence of a non-executive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function (Fama & Jensen, 1983). Some studies suggested that independent audit committees are less likely to be associated with financial statement fraud (Abbott, Parker, Peters, & Raghunandan, (2003); Abbott, Parker, Peters, 2004) and more likely to be associated with lower earnings management (Bedard, Chtourou,

and Courteau, (2004); Davidson, Xie, and Xu, (2004); Klein, 2002; Xie, Davidson, DaDalt, 2003) and a lower incidence of earning restatement (Agrawal & Chadha, 2005). This is because independent audit committee is able to provide unbiased assessment and judgment and monitor management effectively. Furthermore, Carcello and Neal (2000) suggested that the firms with a higher percentage of independent audit committees are less likely to receive a going-concern audit opinion from the auditors. Additionally, Carcello and Neal (2003) pointed out that independent audit committees are more effective in protecting auditors from dismissal following the going-concern audit report issuance.

Abbott and Parker (2000) and Chen, Moroney, & Houghton (2005) suggested that having a higher proportion of independent non-executive directors in audit committees increases the tendency to assign industry-specialist auditors. In summary, all of these studies suggested that independent audit committees are associated with lower earnings management because they can be regarded as effective monitors.

Audit Committee Meeting and Firm Performance

The numbers of audit committee meeting are considered to be an important attribute for their monitoring effectiveness (Lin, Li, and Yang, 2006). Anderson, Mansi, Reeb (2004) noted that audit committees monitors the internal control and provide reliable information to the shareholders. Therefore, audit committee strengthens the internal auditing function and oversee management's assessment of business risk (Hsu, 2007). The number of audit committee meetings is considered as a proxy for audit committee activity (Xie et al. 2003). Therefore, the audit committee that meets more frequently with the internal auditors is better informed about auditing and accounting issues. When an important auditing or accounting issue arises, the audit committee can direct the proper level of internal audit function to address the problem promptly. Therefore, an audit committee that meets frequently can reduce the possibility of financial fraud (Raghunandan, Rama, Scarbrough, 1998; Abbott, Parker, Peters, 2004). Inactive audit committees with fewer numbers of meetings are unlikely to supervise management effectively (Menon and Williams, 1994). Beasley, Carcello, Hermanson, Lapides, (2000) found that fraudulent firms with earning misstatements have fewer audit committee meetings than non-fraud firms. An active audit committee with more meetings has more time to oversee the financial reporting process, identify management risk and monitor internal controls.

As a result, firm performance increases with audit committee activity. More importantly, there have been very few studies that examined the effect of audit committee meeting on firm performance. For example, Hsu (2007) found that there is a positive relationship between audit committee meeting and firm performance.

Previous studies suggested that firms with the higher number of audit committee meetings experience less financial restatement (Abbott et al., 2004), are less likely to be sanctioned for fraud as well as aggressive accounting (Abbott et al., 2000; Beasley et al., 2000) and are associated with lower earnings management incidence (Xie et al., 2003). These studies suggested that audit committees that meet regularly during the financial year are associated with effective monitoring. The more frequent they meet, the more efficient they discharge their oversight responsibilities.

RESEARCH DESIGN

This study employs ex-post facto design to examine the relationship between the predictor variables corporate governance mechanism and financial performance in which the investigation starts after the fact has occurred without interference from the research.

Population of the Study

The study population comprises all thirteen (13) commercial banks listed on the Nigerian Stock Exchange (NSE) as of 31st December, 2024. These banks, actively participating at the time of data collection, have published financial reports in compliance with the Companies and Allied Matters Act (2020) and IFRS. This study used a census approach, analysing all 13 listed banks as the unit of analysis, as recorded by the NSE.

Table 2: Population of the Study

S/N	BANKS
1.	Access Bank
2.	Fidelity Bank
3.	First Bank
4.	First City Monument Bank (FCMB)
5.	Guarantee Trust Bank
6.	Union Bank
7.	United Bank
8.	Zenith Bank
9.	Eco Bank
10.	Stanbic IBTC Bank
11.	Sterling Bank
12.	Unity Bank
13.	Wema Bank

Sample Size and Sampling Technique

There are two main sampling approaches: probability and non-probability sampling. Probability sampling ensures that every member of the population has a known and non-zero chance of selection through random procedures, making it suitable for quantitative research and statistical generalisation (Cornesse et al., 2020). Common probability sampling methods include simple random, stratified random, cluster, and systematic sampling.

In contrast, non-probability sampling does not rely on random selection. This study adopted a non-probability approach, specifically convenience sampling, due to data availability. Accordingly, the sample comprised 13 banks quoted on the stock exchange.

Sources and Methods of Data Collection

The data for this study was collected from secondary sources known as panel data. The researcher employed the use of the secondary sources to collect data for corporate governance mechanism (CM) and financial performance (FP). Same was used for firm specific factors of corporate governance mechanism (Board Composition, Board Size, Independence of Audit Committee and Audit committee meeting).

The data was extracted from the annual reports of the banks as at December, 2024 following the retrospective nature of reports.

Operationalization and Measurement of Variables

As earlier explained in the conceptual frameworks, the independent variables for this study are effects of corporate governance mechanism (Board Composition, Board Size, Independence of Audit Committee and Audit committee meeting) on financial performance of Nigeria deposit money banks

Table 4: Measurement of Variables

Variables	Proxies/Definition	Abbreviation	Formula	Author
Financial Performance	ROA (Return on Assets),	FP	Profit after tax/total asset	(Fatihudin, 2018).
Board Composition	Total number of board members	BC	Log Total number of board members	Goel, (2025).
Board size		BS	Log of total asset	Abiad, Abraham, El-Chaarani, & Binsaddig, (2025).
Independence of audit committee	The number of non executive directors	IA	ratio of non-executive directors to the total number of board members	Shukla, Narayanasamy, Ayyalusamy, & Pandya, . (2020).
Audit committee Meetings	Number of meetings of audit committee in a year	ACM	Number of meetings of audit committee in a year	(Bansal, & Sharma,2016).
Financial sustainability	Return on capital employed	FS	$\frac{\text{Operating Profit}}{\text{Total Assets} - \text{Current Assets}}$	(Gleißner, Günther, & Walkshäusl, 2022)

METHOD OF DATA ANALYSIS

The aim of this study is to examine the moderating effect of financial sustainability in the relationship between corporate governance mechanism and financial performance.

Model Specification

This study adopts the model of Kothari, Leone, and Wasley, (2005), Kim, and Woodruff, (2012).

$$FP_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 BS_{it} + \beta_3 IA_{it} + \beta_4 ACM_{it} + \beta_5 FS_{it} + \beta_6 BC * FS_{it} + \beta_7 BS * FS_{it} + \beta_8 IA * FS_{it} + \beta_9 ACM * FS_{it} + \mu_{it} \dots\dots\dots$$

Where:

FP= financial Performance

BC= Board composition,

BS= Audit independence

IA=Independence of audit committee

ACM= Audit committee Meetings

FS= Financial sustainability

β =Constant

μ = error term

Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Fp	78	0.901	.416	.328	2.963
Bc	78	17.596	16.952	.25	147.6
Bs	78	9.5	2.743	2	15
Ia	78	6.442	2.709	.8	12.6
Acm	78	0.562	0.125	0.17	0.75
Lfs	78	18.315	1.615	14.369	20.997

The descriptive statistics provide an overview of the study variables based on seventy-eight (78) firm-year observations used to examine the moderating role of financial sustainability.

Financial performance has a mean of 0.901 and a standard deviation of 0.416, indicating moderate variability among firms, with values ranging from 0.328 to 2.963.

Board composition shows a mean of 17.596 and a high standard deviation of 16.952, reflecting substantial variation in board structures across firms. Board size averages 9.5 members with a standard deviation of 2.743, suggesting moderate differences in board membership, with sizes ranging from 2 to 15.

Audit committee independence records a mean of 6.442 and a standard deviation of 2.709, indicating varying levels of adherence to governance best practices, while audit committee meetings have a mean of 0.562 and a standard deviation of 0.125, showing mild variation in committee activity.

Financial sustainability has an average value of 18.315 with a standard deviation of 1.615, and a relatively narrow range (14.369–20.997), suggesting that most firms exhibit moderate financial stability, though differences in resilience remain evident.

Matrix of Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) fp	1.000					
(2) bc	-0.004	1.000				
(3) bs	-0.518	-0.023	1.000			
(4) ia	-0.065	0.077	0.100	1.000		
(5) acm	0.236	0.038	-0.132	-0.064	1.000	
(6) lfs	0.333	0.009	-0.300	0.132	-0.072	1.000

The correlation matrix shows the direction and strength of relationships among corporate governance mechanisms, financial sustainability, and financial performance. Financial performance has a weak negative correlation with board composition ($r = -0.004$) and audit committee independence ($r = -0.065$), suggesting limited direct influence. Board size exhibits a moderate negative correlation with financial performance ($r = -0.518$), implying that larger boards may hinder performance due to coordination inefficiencies. In contrast, audit committee meetings show a weak positive correlation with financial performance ($r = 0.236$), indicating that frequent meetings may enhance oversight. Financial sustainability is

weakly to moderately positively correlated with financial performance ($r = 0.333$), suggesting that more sustainable firms tend to perform better. Board size is moderately negatively related to financial sustainability ($r = -0.300$), while audit committee independence shows a weak positive association ($r = 0.132$). Overall, the results indicate weak direct effects of governance mechanisms but highlight the positive role of financial sustainability, providing preliminary support for its moderating influence on financial performance.

Variance Inflation Factor

	VIF	1/VIF
Bs	1.152	.868
Lfs	1.146	.873
Ia	1.049	.954
Acm	1.035	.966
Bc	1.009	.992
Mean VIF	1.078	.

Multicollinearity occurs when explanatory variables are highly correlated, potentially distorting regression estimates. The results show that all VIF values range from 1.009 to 1.152, with a mean VIF of 1.078, which is well below the acceptable thresholds of 5 or 10. Corresponding tolerance values range from 0.868 to 0.992, exceeding the minimum acceptable level of 0.10. These results indicate the absence of multicollinearity, implying that the independent variables are sufficiently distinct. Consequently, the regression coefficients can be interpreted reliably, and the model is suitable for further inferential analysis, including testing the moderating effect of financial sustainability.

Pooled ols Linear regression

Fp	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Bc	-.001	.003	-0.48	.635	-.007	.004	
Bs	-.06	.022	-2.76	.007	-.103	-.017	***
Ia	.001	.019	0.05	.962	-.037	.039	
Acm	.912	.437	2.09	.04	.041	1.784	**
Lfs	.135	.051	2.63	.011	.033	.237	**
Bcfs	0	0	0.67	.507	0	0	
Bsfs	0	0	-0.73	.47	0	0	
Iaifs	0	0	-0.21	.834	0	0	
Acmfs	0	0	-0.82	.412	0	0	
Constant	-1.364	1.041	-1.31	.194	-3.441	.713	
Mean dependent var		0.901				0.416	
R-squared		0.376				78	
F-test		4.544				0.000	
Akaike crit. (AIC)		60.843				77.340	

*** $p < .01$, ** $p < .05$, * $p < .1$

The pooled Ordinary Least Squares (OLS) regression model was initially estimated to examine the effect of corporate governance mechanisms and financial sustainability on financial performance without accounting for firm-specific differences. The results indicate that among the governance variables, board size, audit committee meetings, and financial sustainability are significant predictors of financial performance, while board composition

and audit independence do not exhibit a statistically meaningful influence under the pooled structure.

The findings reveal that board size exerts a negative and significant effect on financial performance. This suggests that overly large boards may become less effective in strategic coordination and decision-making, thereby reducing firm efficiency.

In contrast, audit committee meetings show a positive and significant relationship with financial performance, implying that frequent committee engagement enhances oversight capacity and leads to improved accountability and performance outcomes. Financial sustainability also demonstrates a positive and significant impact on financial performance, indicating that firms with stronger financial resilience are more likely to operate efficiently and deliver better economic outcomes.

However, the moderating role of financial sustainability, represented through the interaction terms between financial sustainability and the governance variables, was not statistically significant in the pooled model. This means that under the assumptions of pooled OLS, financial sustainability does not appear to strengthen or weaken the effect of corporate governance on financial performance.

Although the model demonstrates an overall significance, as reflected in the F-statistic ($p < 0.001$) and an R-squared value of 0.376, the pooled estimation technique is not considered appropriate for the data structure. The pooled OLS model assumes homogeneity among firms and does not take into account unobserved firm-specific characteristics such as managerial structure, internal governance culture, or differences in corporate strategy. These omitted factors are particularly relevant in panel datasets where firms vary significantly over time and across entities.

Furthermore, prior diagnostic testing using the Breusch-Pagan Lagrangian Multiplier test confirmed that the pooled OLS model was inadequate for this dataset. The significant test statistic ($p = 0.000$) indicated that the null hypothesis of no significant difference across entities was rejected. This finding suggests that firm-level heterogeneity exists and should be accounted for in the model specification.

Based on this evidence, the pooled OLS model is rejected in favour of a more robust panel data estimator, such as the random effects or fixed effects model, which can better accommodate unobserved heterogeneity and generate more reliable and efficient parameter estimates.

Fixed Effect Regression Results

Fp	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Bc	-.002	.002	-0.78	.437	-.006	.003	
Bs	-.048	.025	-1.95	.056	-.098	.001	*
Ia	-.011	.017	-0.66	.509	-.045	.022	
Acm	.979	.561	1.75	.086	-.145	2.103	*
Lfs	.234	.067	3.48	.001	.099	.368	***
Bcfs	0	0	1.14	.258	0	0	
Bsfs	0	0	0.96	.342	0	0	
Iaifs	0	0	-0.20	.845	0	0	

Fp	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Acmfs	0	0	-4.15	0	0	0	***
Constant	-3.034	1.359	-2.23	.03	-5.756	-.313	**
Mean dependent var		0.901	SD dependent var			0.416	
R-squared		0.397	Number of obs			78	
F-test		4.097	Prob > F			0.000	
Akaike crit. (AIC)		0.152	Bayesian crit. (BIC)			16.649	

*** $p < .01$, ** $p < .05$, * $p < .1$

The fixed effects regression model was estimated to account for unobserved firm-specific characteristics that may influence financial performance but are constant over time. The results reveal notable differences compared to the pooled OLS model, indicating that controlling for firm-level heterogeneity improves the explanatory strength and reliability of the model.

The findings show that board composition (BC) has a negative but statistically insignificant effect on financial performance ($p = 0.437$), suggesting that changes in board structure or diversity within firms do not significantly contribute to performance outcomes when firm-specific attributes are held constant. Similarly, audit independence (IA) also demonstrates an insignificant negative association with financial performance ($p = 0.509$), implying that independence of the audit committee alone may not be sufficient to drive financial improvements unless supported by complementary governance mechanisms.

Board size (BS), however, shows a negative and marginally significant effect on financial performance (Coef. = -0.048, $p = 0.056$). This result indicates that while larger boards may bring more experience and expertise, they may also suffer from slower decision-making and coordination inefficiencies, which adversely affect firm performance. Audit committee meetings (ACM) exhibit a positive and weakly significant relationship with financial performance (Coef. = 0.979, $p = 0.086$), implying that frequent audit committee engagement enhances oversight and accountability, which in turn improves financial outcomes.

Financial sustainability (LFS) remains a strong and statistically significant predictor of financial performance (Coef. = 0.234, $p = 0.001$). This suggests that financially resilient firms are better positioned to leverage internal governance frameworks, allocate resources efficiently, and maintain operational stability, which collectively translates into higher financial performance.

Regarding the moderating effects, most interaction terms (BC×FS, BS×FS, and IA×FS) are insignificant, indicating that financial sustainability does not moderate the relationship between these governance mechanisms and financial performance under the fixed effects specification. However, the interaction between audit committee meetings and financial sustainability (ACM×FS) is negative and highly significant ($p < 0.01$).

This suggests that as financial sustainability increases, the positive effect of audit committee meetings on financial performance weakens. In practical terms, in firms that are already financially stable, additional audit meetings may contribute little to performance improvement and may even translate into governance redundancy or administrative costs.

The R-squared value of 0.397 indicates that approximately 39.7% of the variation in financial performance is explained by the independent variables after accounting for unobserved firm-level effects. The overall model is statistically significant ($F = 4.097$, $p = 0.000$), confirming its validity.

The results demonstrate that firm-level characteristics matter in explaining financial performance outcomes, hence validating the use of the fixed effects model. Moreover, the interaction results highlight that the moderating role of financial sustainability is selective: it is particularly relevant in the relationship between audit committee activity and financial performance, rather than across all governance mechanisms.

Radom effect model Regression results

Fp	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Bc	-.002	.003	-0.60	.545	-.007	.004	
Bs	-.052	.024	-2.19	.029	-.098	-.005	**
Ia	-.002	.018	-0.11	.91	-.038	.034	
Acm	.974	.491	1.98	.047	.012	1.935	**
Lfs	.157	.059	2.67	.008	.042	.272	***
Bcfs	0	0	1.01	.314	0	0	
Bsfs	0	0	-0.38	.702	0	0	
Iafs	0	0	-0.10	.919	0	0	
Acmfs	0	0	-1.88	.06	0	0	*
Constant	-1.796	1.203	-1.49	.135	-4.154	.561	
Mean dependent var		0.901	SD dependent var			0.416	
Overall r-squared		0.316	Number of obs			78	
Chi-square		.	Prob > chi2			.	
R-squared within		0.208	R-squared between			0.460	

*** $p < .01$, ** $p < .05$, * $p < .1$

The random effects regression model was estimated to capture both within-firm and between-firm variations in financial performance while assuming that unobserved firm-specific factors are uncorrelated with the independent variables. The results reveal important insights into how corporate governance mechanisms and financial sustainability jointly influence financial performance across the sampled firms.

Board composition (BC) displays a negative but statistically insignificant effect on financial performance ($p = 0.545$), implying that changes in board structure or representation do not significantly influence performance outcomes in the short run. Audit independence (IA) is also insignificant ($p = 0.910$), indicating that the level of independence of the audit committee does not, by itself, improve financial outcomes under the random effects model.

Board size (BS), however, has a negative and statistically significant effect on financial performance (Coeff. = -0.052, $p = 0.029$). This suggests that larger boards tend to negatively affect firm performance, possibly due to slower decision-making, coordination problems, or agency-related costs associated with monitoring inefficiencies. This result reinforces the idea that board effectiveness may depend more on quality and expertise than on size.

Audit committee meetings (ACM) have a positive and significant effect on financial performance (Coeff. = 0.974, $p = 0.047$). This implies that active and frequent audit committee engagement strengthens oversight, internal control, and accountability, which in turn contributes to better financial outcomes for firms.

Financial sustainability (LFS) is also a positive and highly significant determinant of financial performance (Coeff. = 0.157, $p = 0.008$). The result suggests that firms with stronger financial resilience are better able to allocate resources efficiently, withstand operational shocks, and implement governance structures effectively, resulting in superior performance. Regarding the moderating effect of financial sustainability, three of the interaction terms — $BC \times FS$, $BS \times FS$, and $IA \times FS$ — are statistically insignificant, indicating that financial sustainability does not moderate these governance relationships under the random effects specification.

However, the interaction between audit committee meetings and financial sustainability ($ACM \times FS$) is marginally significant at the 10% level ($p = 0.06$), suggesting a partial moderating effect. This finding implies that the positive influence of audit committee meetings on financial performance weakens slightly as financial sustainability increases. In other words, in already financially stable firms, additional audit committee meetings may have a diminishing marginal impact on performance, possibly because such firms already have strong internal control systems in place.

The model indicates moderate explanatory power, with an overall R-squared of 0.316. Furthermore, the R-squared "between" value of 0.460 suggests that much of the variation in financial performance is explained by differences across firms rather than within firms over time — a justification for considering the random effects model.

The random effects model provides a broader perspective by incorporating both within-firm and between-firm variation. However, the final determination of whether the random effects or fixed effects model is more appropriate will depend on the Hausman test, which compares both estimators.

If the Hausman test indicates that differences across firms are correlated with the predictors, the fixed effects model is preferred. If not, the random effects model is valid and more efficient.

Diagnostics Test

Statistics	Action	Results	Decision
Breusch and Pagan	$\text{chibar}^2(01)$	1.21	
Lagrangian multiplier test	$\text{Prob} > \text{chibar}^2$	0.1355	$p > 0.05$ accept H_0 pooled OLS is appropriate
F test	F (12, 56) P Value	5.49 0.000	$P < 0.05$ reject H_0 : fixed effect is more appropriate than pooled OLS
Hausman Test	$\text{chi}^2 (5)$	7.42	

Statistics	Action	Results	Decision
	P value	0.1915	P>0.05 accept H ₀ : random effect is more appropriate
Modified Wald(heteroskedasticity)	chi ² (13)	8301.44	
	P value	0.0000	P<0.05 reject H ₀ : there is heteroskedasticity
Wooldridge (autocorrelation) test	F (1, 12)	4.519	
	P value	0.0550	P>0.05 accept H ₀ there is no autocorrelation
Pesaran's test (cross sectional independence)		-0.138	
	P value	0.000	P<0.05 accept H ₀ there is no Cross Sectional independence
cross sectional independence			

Generalized Least Squares (GLS) Random Effects model with robust (Huber-White / sandwich) standard errors

Fp	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
Bc	-.002	.002	-0.92	.356	-.005 .002	
Bs	-.052	.022	-2.30	.021	-.095 -.008	**
Ia	-.002	.013	-0.15	.877	-.028 .024	
Acm	.974	.646	1.51	.132	-.293 2.24	
Lfs	.157	.102	1.54	.123	-.043 .357	
Bcfs	0	0	0.67	.502	0 0	
Bsfs	0	0	-0.61	.541	0 0	
Iafs	0	0	-0.23	.821	0 0	
Acmfs	0	0	-0.95	.342	0 0	
Constant	-1.796	1.865	-0.96	.335	-5.452 1.859	
Mean dependent var	0.901		SD dependent var		0.416	
Overall r-squared	0.316		Number of obs		78	
Chi-square	.		Prob > chi2		.	
R-squared within	0.208		R-squared between		0.460	

*** $p < .01$, ** $p < .05$, * $p < .1$

The GLS Random Effects model with robust standard errors examines the effects of corporate governance mechanisms and financial sustainability on financial performance, producing reliable estimates despite heteroskedasticity or panel correlation.

The results show that board size is the only governance variable with a statistically significant effect on financial performance, exhibiting a negative relationship at the 5% level. This

indicates that larger boards may reduce efficiency due to coordination problems, slower decision-making, and weaker oversight.

Board composition, audit committee independence, and audit committee meeting frequency are statistically insignificant, suggesting that these governance structures do not meaningfully influence financial performance. Although audit committee meetings and financial sustainability display positive coefficients, their lack of significance implies that effectiveness and integration, rather than mere existence or frequency, are more important.

The moderating effects of financial sustainability on the governance–performance relationship are also insignificant, indicating that sustainability does not alter how governance mechanisms affect performance. The model explains 31.6% of the variation in financial performance and captures cross-sectional differences more effectively than within-firm changes over time. Overall, the findings highlight board size as the key governance factor influencing financial performance in this context.

DISCUSSION OF FINDINGS

The GLS Random Effects results with robust standard errors indicate that board size is the only corporate governance variable with a statistically significant relationship with financial performance. The negative effect suggests that larger boards reduce performance due to coordination and communication inefficiencies, supporting prior studies that associate smaller boards with better firm value and stronger managerial monitoring, particularly in Nigerian banks.

In contrast, board composition, audit committee independence and audit committee meetings are statistically insignificant, indicating that the existence of these structures alone does not improve financial outcomes. This implies that governance quality is more important than formal structures, especially in emerging economies like Nigeria where governance mechanisms are often compliance-driven and weakly enforced.

The moderating effect of financial sustainability on the governance–performance relationship is also insignificant, suggesting that sustainability practices do not influence how governance affects bank performance. This may reflect the developmental and compliance-oriented nature of sustainability initiatives in the Nigerian banking sector, limiting their ability to enhance governance effectiveness.

CONCLUSION

The findings reveal that corporate governance mechanisms have a mixed and generally limited impact on financial performance among the sampled institutions. Board size shows a significant negative relationship with performance, indicating that excessively large boards may reduce oversight efficiency, while board composition, internal audit, and audit committee meetings are statistically insignificant. This suggests that existing governance practices are largely compliance-driven rather than strategically performance-oriented.

Financial sustainability shows a positive but insignificant relationship with financial performance and does not significantly moderate the governance–performance link.

RECOMMENDATIONS

This study recommends the following:

Effective corporate governance requires more than mere regulatory compliance; it demands strong functional capacity within governance structures.

Regulatory authorities should therefore promote frameworks that emphasise the quality of board and audit committee deliberations, sound decision-making processes, and clear accountability mechanisms. Such an approach ensures that governance structures contribute meaningfully to organisational performance rather than existing only to satisfy formal requirements. Optimizing board size is also critical to governance efficiency. Evidence shows that excessively large boards tend to reduce performance due to coordination challenges and slower decision-making. Firms should therefore maintain a manageable board size that facilitates effective communication, timely decisions and stronger accountability in line with corporate governance best practices.

The independence and effectiveness of internal audit units must also be strengthened. Internal audit functions should be granted full autonomy and provided with adequate resources to enhance monitoring, risk assessment and internal control systems. Regulators should enforce minimum competence and continuous training standards to ensure that internal auditors can perform their oversight roles effectively.

Similarly, the quality of audit committee oversight should be prioritised over the frequency of meetings. Audit committees should focus on substantive deliberations and the effective implementation of recommendations. Continuous training in governance ethics, financial literacy, and oversight responsibilities will further improve their effectiveness.

In addition, firms should adopt long-term financial sustainability strategies that emphasise stable revenue generation, reinvestment, and resilience to financial risks. Strong sustainability practices enhance investor confidence and support sustained financial performance. Finally, regulatory agencies such as the Central Bank of Nigeria, the Securities and Exchange Commission, and the Financial Reporting Council of Nigeria should strengthen enforcement mechanisms through consistent inspections and sanctions.

Linking governance effectiveness to managerial performance evaluation will further promote accountability-driven reforms and ensure that governance practices translate into improved organisational outcomes.

The present study has provided important insights into the relationship between corporate governance mechanisms, financial sustainability and financial performance. However, several areas remain open for further scholarly inquiry. To begin with, future research should consider broadening the scope of governance variables. The present study focused on board composition, board size, internal audit and audit committee meetings; nevertheless, other relevant indicators such as CEO duality, ownership concentration, board gender diversity and managerial expertise may offer a more comprehensive understanding of how governance structures influence firm outcomes.

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