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RESEARCH ARTICLE

Corporate Governance and Operational Performance of Deposit Money Banks in Nigeria

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ABSTRACT

The study examined the relationship between internal governance mechanisms and the operational performance of deposit money banks in Nigeria. The objectives of the study were to ascertain the relationship between board size, board independence, frequency of board meetings, and return on capital employed by deposit money banks in Nigeria. Time series data for the sampled banks were collected from the annual report and accounts of the individual banks for 11 years (2011-2020). Covariance analysis was estimated to test the hypotheses. The study found that board size has a weak (4% approx.) and negative relationship with the return on capital employed by deposit money banks in Nigeria. There is a strong (55% approx.) and positive relationship between return on capital employed and board independence of deposit money banks in Nigeria. Board meetings have a strong (70% approx.) and negative relationship with the return on capital employed by deposit money banks in Nigeria. The findings implied that as board size and board meetings increase, the return on capital employed decreases. However, as board independence increases, the return on capital employed increases significantly. It was recommended therefore that deposit money banks in Nigeria should have a board size that is not more than 10. This will facilitate decision-making and affect their operational performance positively. The number of independent board members should be increased to at least 60% in the financial service firms. This will adequately eradicate agency problems associated with executive directors having a personal interest in the organization, thereby making policies that will benefit them individually and not the stakeholders at large. The number of board meetings in the industry should be reduced to 4 times a year. This is because the increase in board meetings affects operational performance negatively.

Keywords: *Non-Performing Loans; Macroeconomic Variables; Nigeria*

1. Introduction

The incessant scandals, crises, and wreckage of organizations around the world are so alarming that the global financial market has been greatly destabilized and the growth of economies impeded. Notable organizations such as Arthur Anderson, Enron, Kmart, Adelphia Communications, and WorldCom are a few of the numerous international organizations that have collapsed as a result of the heightened crises. The sustained crises have not left Nigeria out of the whole saga. It affected companies such as Intercontinental bank, Oceanic bank, Cadbury, etc., thereby contributing to the downturn of the economy. With all of these, companies' sustainability has become an issue in determining the survival and continued growth of a country (Apodore & Zainol, 2014).

Corporate governance has become a topical issue because of its immense contributions to the growth of modern economies where the private sector plays a key role in the growth process. The absence of good corporate governance is often blamed for the woeful performance of business entities. Okoye, Evbuomwan, Achugamonu, and Araghan (2016) opine that developed private sector-driven economies with a history of established corporate governance structures consistently record high and predictable earnings growth. Thus, low economic growth rates that characterize developing nations are often attributed to the low level of corporate governance practices in these economies. Anya (2003) submits that although corporate governance has attracted a great deal of public interest in recent times due to its importance for the economic health of corporations and society, the concept is rather poorly defined globally since it covers a large number of distinct economic phenomena.

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Different individuals have explained corporate governance according to their perceptions of interest. Wolfensohn (1997) as cited by Anya (2003) asserts that corporate governance is about promoting corporate fairness, transparency, and accountability. Dyck (2001) conceptualizes it as the ability of the outsiders (shareholders, non-executive directors, and other stakeholders) to curtail the grabbing hands of the insiders (directors and managers). Shleifer and Vishny (1997) see corporate governance as a concept by which the suppliers of finance to corporations assure themselves of getting a return on their investments. Okoye et al (2016) submit that corporate governance stems from the problem of information asymmetry when a firm's insiders have more information than outsider stakeholders. The controlling shareholders can increase the degree of information asymmetry to protect their private interests (Richardson, 2000). In the achievement of the business objectives of growth and profitability, corporate governance is a major factor and it is concerned with the relationships that exist among firms' management, board of directors, shareholders, and other stakeholders. Osundina, Olayinka, and Chukwuma (2016) emphasized that corporate governance is a non-financial factor that affects the performance of companies and increases the accessibility of external finance that brings sustainable economic growth. Weak corporate governance may manifest in form of non-accountability and transparency to stakeholders, bribery scandals, violation of the rights of the minority shareholders, official recklessness among the managers and directors, weak internal control system, insider abuses, and fraudulent practices (Olumuyiwa & Babalola, 2012). Hence, the study examined the relationship between internal governance mechanisms and the operational performance of deposit money banks in Nigeria.

Statement of the Problem

The priority of any organization is to effectively, efficiently, and ethically manage the company for profitable long-term growth and perpetual existence; the policies and practices of management must also align with the interest of shareholders and other stakeholders. Thus, the development of good corporate governance is essential to protect corporate stakeholders and maintain factors for control and prevention of collapse and long-lasting economic depression. It deals with the manner the providers of finance guarantee themselves getting a fair return on their investment and it gives ultimate authority and complete responsibility to the board of directors. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders, and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs to generate maximum returns on capital employed.

However, despite the listed corporate governance mechanisms and associated sanctions for non-compliance, there are still episodes of bank failures. For example, of 25 banks that emerged from the banking consolidation, no less than two banks have ceased to exist due to corporate governance infractions, lending credence to a 2015 survey by SEC, which produced evidence of the significant contribution of poor governance to most reported episodes of bank distress in Nigeria.

Though there is ample evidence in the literature that improved governance practices enhance financial performance, not many studies from Sub-Saharan African countries have considered how board size, board independence, and frequency of board meetings relate to return on capital employed. Using a correlation model, the study estimates how the return on capital employed (operational performance) responds to board size, board independence, and frequency of board meetings of deposit money banks in Nigeria.

Objective of the Study

The main objective of this study was to ascertain the relationship between internal governance mechanisms and the operational performance of deposit money banks in Nigeria. The specific objectives are as follows:

i. Determine the relationship between board size and return on capital employed of deposit money banks in Nigeria.
ii. Ascertain the association between board independence and return on capital employed of deposit money banks in Nigeria.
iii. Investigate the relationship between frequency of board meetings and return on capital employed by deposit money banks in Nigeria.

Statement of Hypotheses

The following null hypotheses were formulated for the study:

i. Board size does not have a strong relationship with the return on capital employed of deposit money banks in Nigeria.
ii. There is no strong interaction between board independence and return on capital employed by deposit money banks in Nigeria.
iii. The frequency of board meetings does not have a strong relationship with the return on capital employed by deposit money banks in Nigeria.

2. Review of Related Literature

2.1 Conceptual Framework

Corporate Governance

OECD (2005) defines Corporate Governance as "the framework through which commercial enterprises are governed and controlled". Incorporating the rules and methods for making corporate decisions, the corporate governance structure defines the rights and obligations of all main stakeholders/participants in the corporation. It also offers the structure for setting organizational goals, achieving them, and measuring performance." SEC–SEBI Committee (2003) defines corporate governance as "management's acknowledgment of the inalienable rights of shareholders as the genuine owners of the corporation and their position as trustees on behalf of the shareholders." Personal and corporate finances must be distinguished in the management of a corporation.

Ammar, Saeed, and Abid (2013) opine that an internal governance mechanism is a tool used by management to protect stakeholder interests. Rules, connections, systems, and procedures are all controlled within this framework (Osundina et al, 2016). Firms can attain stability and excellent management by adhering to corporate governance principles, rules, and laws. Sound corporate governance improves a company's efficiency and value on the capital market while boosting shareholder confidence. Assuring efficient and effective use of limited resources, creating competitive and efficient managed organizations and retaining investors are all benefits of good corporate governance (Arinze, 2013). An efficient corporate governance system makes employees and customers happy. It promotes financial report dependability and resource efficiency, enhancing reputation among internal and external stakeholders. Financial crises are less likely to occur when corporate governance is implemented, according to Dar et al (2011). It increases shareholder value, helps shareholders survive difficult times, develops the capital market, and enhances the global economy.

Board Size

Board size is an important board feature for two reasons. For example, the size of the board of directors may impact the firm's success. According to agency theory, the number of directors demonstrates the CEO's power over the board. In terms of profit management and performance enforcement, a larger board is more successful in preventing CEO dominance (Zahra and Pearce, 1989). Theoretically, board size matters in resource dependency. This theory's primary claim is that external parties control resources vital to achieving internal goals. Assembling a board of directors is one way for a firm to build and preserve these resources. In this view, a larger board of directors may better co-opt external influences, gaining significant resources for the company (Johnson, Daily, & Ellstrand, 1996).

Lipton and Lorsch (1992) a large board make it difficult to reach a consensus with the CEO. Larger studies show that large boards are difficult to coordinate, and that free-riding is widespread among these boards. They also think large boards struggle to make value-maximizing judgments.

Board Independence

Since the collapse of large corporations like Enron and WorldCom, most organizations now recognize the vital role performed by independent directors. The Cadbury Report of 1992 and the Tyson Report of 2003 both emphasize the importance of non-executive directors. The Cadbury Report of 1992 highlighted the importance of board directors as corporate governance tools. Aiming to increase the board's effectiveness, the Tyson Report of 2003 focused on the role of non-executive directors. The board formulates the company's strategy and oversees the company's operations (Zinkin, 2010). Independent directors might actively engage in board deliberations and give their independent views. They will be shareholders on the board. They must guarantee that no insiders or management affect their presence or performance. The corporation hires independent directors to oversee executive directors and senior management. So, they would maximize interest value to serve the shareholders of shareholders. Independent directors should focus on many issues, according to Zinkin (2010). They should inquire about the company's commercial activities, product market segmentation, and important clients within each group (Fuzi, Rahim and Tan, 2012). Independent directors with appropriate sector experience would be more inclined to question CEOs and management teams in board discussions. Directors and committees must have independent directors. A non-executive audit committee, for example, must be majority independent. These guarantee independent directors defend interest shareholders from management control.

Board Meetings

The number of board meetings held each year represents the extent to which the board participates in monitoring, as the board has the authority to make significant decisions and supervise the board of management. As a result, a regular schedule of board meetings can improve management's attentiveness and supervision while also increasing the firm's worth (Ma & Tian, 2009). Vafeas (1999) examined the frequency of board meetings and found explanations both for and against a positive relationship between the frequency of board meetings and firm performance. Meetings provide an avenue for board members to converge and map out strategies on how to monitor managers and the operations of the bank. Hence the more frequent the meetings, the more we have a proactive board, setting standards and being participatory. On the other hand, fewer meetings will suggest an anticipatory board only responding to issues and events (reactive).

Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) is a profitability ratio that helps determine the profit that a company earns for the capital it employs. ROCE is measured by expressing Net Operating Profit after Taxes as a percentage of the total long-term capital employed. In other words, ROCE can be defined as a rate of return earned by the business as a whole. Like return on equity (ROE), which calculates the percentage return of equity shareholders, ROCE calculates the percentage return of all the capital providers together. If a business is financed completely by equity, ROE and ROCE will be the same. It is a useful metric for comparing profitability across companies based on the amount of capital they use (Ivanceikh and Glueck, 1989). The ROCE trend over the years is also an important indicator of performance. In general, investors tend to favor companies with stable and rising ROCE numbers over companies where ROCE is volatile and bounces around from one year to the next.

Return on capital employed (ROCE) is the ratio of net operating profit of a company to its capital employed. It measures the profitability of a company by expressing its operating profit as a percentage of capital employed. According to Katou (2008), capital employed is the sum of stockholders' equity and long-term finance. Alternatively, capital employed can be calculated as the difference between total assets and current liabilities. The formula to calculate return on capital employed is:

$$\text{ROCE} = \frac{\text{Net Operating Profit}}{\text{Capital Employed}}$$

Nigeria Deposit Money Banks

Commercial banks, also referred to as Deposit Money Banks (DMBs) are financial intermediaries that provide services, such as accepting deposits, granting of business loans, mortgage lending, and basic investment products like savings accounts and time deposits etc. Deposit Money Banks; act as financial intermediaries to channel savers' monies to firms and individuals who seek funding for their activities. They act as a catalyst to facilitate economic growth/development widely recognized by both monetary and development economists. The financial sector of Nigeria is dominated by the banking sector, especially the deposit money bank which provides the foundation for the development of the financial sector. Their credit component constitutes a major link between the monetary sector and the real sector of the Nigerian economy.

Deposit money banks mobilize financial resources and allocate them to productive investments to promote sustainable economic performance and facilitate a vibrant real sector. They not only store our saved cash and lend us money when we need it but act as the system of arteries that transport money around the economy; which is why they are often known as financial intermediaries. Hence their key function is to transfer surplus money from those who want to lend to those who want to borrow.

2.2 Theoretical Framework

Agency Theory by Jensen and Meckling (1976), Stakeholders Theory by Freeman (1984), served as a background and support on which the study was built. However, the study was anchored on stakeholder's theory.

Agency Theory

The agency theory was propounded by Mitnick (1973) and propagated by Jensen and Meckling (1976). The theory states that the agency relationship is a contractual agreement under which one or more persons (principal) engage another person (the agent) to perform certain service(s) on their behalf including delegation of some decision-making authority to the agent (Jensen & Meckling, 1976). Furthermore, agency theory suggests that there is potential for "managerial mischief" when the interests of firms' owners and managers (agents) diverged (Dalton, Hitt, Certo, & Dalton, 2007). For example, agents must compile and deliver financial reports (earning quality reports) which are fundamental to business operations, agent decision–making, managerial decision–making, and the nature and efficiency of capital markets (Osemeke & Adegbite, 2014). A relationship between corporate governance policies and financial performance reports issued by the 'agent' would thus be expected. The 'principal's' interest is anticipated to be prioritized through proper compliance with corporate governance code standards capable of improving operational performance. This also explains the management-shareholder relationship. As a result of this theory, the principal was able to better understand how management was required to compile and deliver profits reports to the agents. Thus, agency theory is thought to be a good theoretical framework for this study's fundamental and particular aims.

Stakeholders Theory

Freeman (1984) proposed the stakeholder theory, which states that firms exist to serve people with a stake in the firm's future, not shareholders. Stakeholder theory, according to Phillips, Freeman, and Wicks (2003), focuses on the interests and well-being of people who might help or hinder the fulfilment of the organization's goals (Phillips et al., 2003). It stresses business ethics and values, as well as the responsibility of firm management to balance shareholder financial interests with stakeholder interests. According to Post, Preston, and Sachs (2002), a stakeholder is any organization, group, or organization that has an interest in an organization's activities, goals, or policies. Stakeholders include creditors, directors, workers, government (and its agencies), shareholders, suppliers, unions, and the local community. There are numerous views on stakeholder theory. First, the descriptive stakeholder method identifies and classifies an organization's stakeholders without attributing any value assertions to their claims or authority (Kaczmarek, Kimino & Pye, 2014). Second, normative stakeholder theory grants stakeholders intrinsic value claims based on the moral rights of each individual harmed by corporate activity. Normative stakeholder theory is concerned with the rights and obligations of the players involved and how to establish a fair balance of stakeholders (DeFond & Lennox, 2011). Stakeholder theory combines four ideas: A business decision always enhances or undermines someone's interests, values, and rights, according to the open question argument. The integration thesis claims that discussing either business or ethics without discussing the other is illogical (Freeman et al., 2010). The normative and instrumental components of Stakeholder theory are significant to this study because it supports agency theory by capturing all other important stakeholders who rely on earnings reports to make economic choices. It explains how persons and institutions inside and outside listed firms demand accurate earnings information, which may be ensured by rigorous adherence to the Corporate Governance Code and other legal regulations. So, if the board of directors and management truly care about the interests of all stakeholders, they will fully comply with the corporate governance code and ensure that the audited financial reports presented to stakeholders are accurate, relevant, and accurately reflect the true economic situation of the quoted companies without putting any stakeholder at a disadvantage. The Board of Directors and Management must be able to balance the needs of all stakeholders so that no one feels neglected (Choi, Lee & Williams, 2011).

2.3 Empirical Review

Ibrahim and Danjuma (2020) examined the implication of corporate governance on the performance of quoted deposit money banks in Nigeria. The objective of the study was to investigate the connection between corporate governance proxy (Board size, Board composition, and Firm size) and Return on Asset (ROA) of quoted deposit money banks in Nigeria for a period of 5 years (2015-2019). Data for the study was obtained from secondary sources i.e., audited annual reports of fifteen (15) listed banks on the floor of the Nigeria Stock Exchange (NSE, 2017). The study employed panel data analysis using the regression model. Findings showed that there is a significant relationship between board composition, the board size, and firm size, and the ROA of deposit money banks in Nigeria.

Kalsie and Shrivastav (2020) examined the relationship between the board size and firm performance of 145 non-financial companies listed in the NSE CNX 200 Index of India corresponding to 16 industries. The study is carried out for a period of five years from 2008 to 2012. The firm performance has been measured using Tobin's Q and the market-to-book value ratio (MBVR) as market-based measures and return on assets (ROA) and return on capital employed (ROCE) as accounting-based measures. The fixed-effect model, random effect model, and feasible generalized least square (FGLS) regression models are applied to achieve the above-mentioned objectives. The results conclude that the board size has a positive and significant impact on the firm performance.

Owiredu and Kwakye (2020) examined the influence of corporate governance principles on banks' financial performance in Ghana. Data for the study was gathered from the annual reports and the financial statements of the sampled banks from the period 2007-2016. A random-effect model was used to analyze the data. The study found a significant positive relationship between board size and financial performance measured by ROA and ROE of banks in Ghana. Additionally, the study found a statistically positive relationship between foreign ownership and financial performance measured by ROE and ROE. Interestingly, the study outcome further indicated a positive but no statistical relationship between board independence and institutional ownerships and ROA and ROE of the sampled banks in Ghana.

Shrivastav and Kalsie (2020) examined the relationship between internal corporate governance mechanisms and firm performance of NSE-listed companies. Firm performance has been measured using Tobin's Q and MBVR as market-based measures and ROA and ROE as accounting-based measures. Econometric Analysis is performed using Fixed Effect with-in and Least Square Dummy Variable model, Random effect model, and Feasible Generalized Least Square model on a panel of 178 non-financial NSE listed firms for a period of eight years from 2011-2018. Board size, Board Composition, Board independence, and CEO Duality have a significant negative impact on firm performance measures; on the other hand, Chairman Identity has a significant positive impact on firm performance. However, Board Activity has no impact on firm performance. Umar, Norfadzilah, Hussaini, and Habibu (2020) investigated the relationship between corporate governance in the board of directors and the financial performance of Nigerian banks. Furthermore, the research made use of secondary data obtained from the annual reports of fifteen (15) banks listed in the Nigeria Stock Exchange for the year 2013 to 2015. The random effect model was used to examine the effect of the predictors on financial performance. The results indicated that the relationship between board independence and ROA is negatively insignificant. Board meetings and ROA were found to be negatively significant. However, the relationship between board genders, the board size, and ROA was negatively insignificant. While the relationship between firm size and ROA is positively significant.

Vianney, Iravo, and Namusonge (2020) examined the influence of Board composition practices on the Governance Performance of public institutions in Rwanda. The target population for the study was 378 managers from 10 public institutions in Rwanda. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. The ordinary least squares (OLS) regression method of analysis was adopted. The findings confirm that there is a statistically significant influence on Board composition practices and corporate governance performance in public institutions in Rwanda.

3. Methodology

An *ex-post-facto* (after the facts) research design was adopted for the study. This is because *ex-post-facto* is based on historical data. Secondary sources of data were employed for analysis. It is cross-sectional data that were extracted from the annual report and accounts of sampled deposit money banks in Nigeria. The population for the study was the 24 deposit money banks in Nigeria listed on the Nigeria Exchange Plc as of December 2020. The study made use of five banks, purposively sampled out of the 24 deposit money banks in Nigeria. The sampling techniques are based on the industry ranking of these institutions. Access Bank Plc, First Bank Nigeria Plc, Zenith Bank Plc, Guaranty Trust Bank Plc, and United Bank for Africa Plc were the deposit money banks sampled for the study. The sampling was based on the CBN ranking of deposit money banks. These banks were ranked the best five banks in the industry and account for 80% of the industry capitalization. The research variables are structured into dependent and independent variables for analysis. The dependent variable of the study is the return on capital employed while the independent variables were board size, board independence, and board meetings. The technique for data analysis is correlation analysis. Correlation analysis was used to evaluate the relationship between internal governance mechanism and operational performance of deposit money banks in Nigeria. The procedure for conducting the data analysis for both firm and industry level include:

i. Graphical representation of the dependent and independent variables to show movement patterns during the period under study.
ii. A descriptive statistic to check the validity of the result and data.
iii. A correlation analysis was performed to examine the relationship between selected variables.

3.1 Model Specification

A correlation model was employed to evaluate the relationship between internal governance mechanism and operational performance of deposit money banks in Nigeria. The model was specified as follows:

$$r_{xy} = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum(x_i - \bar{x})^2 \sum(y_i - \bar{y})^2}}$$

Where; r_{xy} is the correlation coefficient of the linear relationship between the variables x and y x_i is the values of the x-variable in the sample $\bar{x}$ is the mean of the values of the x-variable y_1 is the values of the y-variable in the sample $\bar{y}$ **is** the mean of the values of the y-variable x represents Return on Capital Employed y represents other variables (Board Size, Board Independence, and Board Meetings) taken separately in each case.

4. Data Presentation and Analysis

Table 1. Descriptive Statistic

	ROCE	BDSIZE	BDIND	BDMEET
Mean	0.094972	15.32000	8.320000	6.120000
Median	0.088493	15.00000	8.000000	6.000000
Maximum	0.237433	21.00000	14.00000	10.00000
Minimum	-0.058788	10.00000	6.000000	4.000000
Std. Dev.	0.056626	3.033419	1.789311	1.847668
Skewness	0.119144	0.240418	0.805211	0.391189
Kurtosis	3.312158	2.249414	3.499769	1.908479
Jarque-Bera	0.321299	1.655379	5.923397	3.757363
Probability	0.851590	0.437058	0.051731	0.152791
Sum	4.748604	766.0000	416.0000	306.0000
Sum Sq. Dev.	0.157116	450.8800	156.8800	167.2800
Observations	50	50	50	50

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 1. above reveals the variable description of the 50 observations of the panel data for sampled deposit money banks in Nigeria. From the table, the industry minimum values are Return on capital employed: -0.058788; Board Size: 10; Board Independence: 6; and Board Meetings: 4. However, the banks' maximum is Return on capital employed: 0.237433; Board Size: 21, Board Independence: 14, and Board Meetings: 10. The industry mean values for the variables studied are Return on capital employed 0.094972, Board Size: 15.32, Board Independence: 8.32, and Board Meetings: 6.12.

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 1, the probability of the Jarque-Bera Statistics for all the explanatory variables has a nonsignificant p-value as follows, Return on capital employed (0.851590), Board Size (0.437058), Board Independence (0.051731), and Board Meetings (0.152791). The no significance of the p-values depicts a normal distribution for all the variables. This is further confirmed by the skewness coefficients which is less than one in all the variables under study. The kurtosis coefficient also provides a second level of confirmation that all the explanatory variables are normally distributed with Return on capital employed (3.312158), Board Size (2.249414), Board Independence (3.499769), and Board Meetings (1.908479).

Table 2. Covariance Analysis Result of the Industry Level Panel Data
Covariance Analysis: Spearman rank-order
Date: 01/06/22 Time: 12:11
Sample: 2011 2020
Included observations: 50

Covariance Correlation t-Statistic **Probability**	**ROCE**	**BDSIZE**	**BDIND**	**BDMEET**
ROCE	208.2500			
	1.000000			

BDSIZE	-10.24000	204.5800		
	-0.049611	1.000000		
	-0.344137	-----		
	0.7322	---- -		
BDIND	93.07000	123.3250	201.2000	
	0.554677	0.607863	1.000000	
	3.536826	5.303745	-----	
	0.0009	0.0000	-----	
BDMEET	-143.7400	11.69500	65.75500	200.1600
	-0.704039	0.057794	0.327662	1.000000
	-6.868468	0.401076	2.402753	-----
	0.0000	0.6901	0.0202	-----

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 2. suggests that there is a weak (4% approx.) and negative relationship between return on capital employed and board size, with a t-Statistic of 0.344137 and a Probability of t-Statistic of 0.7322. Return on capital employed and board independence share a positive and strong relationship (55% approx.) with a t-Statistic of 3.536826 and a Probability of t-Statistic of 0.0009. Return on capital employed and board meetings, also have results that are in tandem with board independence. The two variables (Return on capital employed & Board Meetings) share a strong (29.8% approx.) and negative relationship with a t-Statistic of 6.868468 and a Probability of 4.3 Test of Hypotheses

The three hypotheses formulated in section one of this study were tested using the following decision rule:

Statement of Decision Rule: Reject H_0 if the P-value is less than the A-value (0.05), the t-statistic is > 2, and if the correlation coefficient is > 0.50 otherwise accept the null hypotheses.

Hypothesis One: Board size does not have a strong relationship with the return on capital employed of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.7322 is > Avalue 0.05; the t-statistic of 0.344137 is < 2, and the correlation coefficient of 0.049611 is < 0.50. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. This implies that board size does not have a strong relationship with the return on capital employed by deposit money banks in Nigeria.

Hypothesis Two: There is no strong interaction between board independence and return on capital employed by deposit money banks in Nigeria.
Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.0009 is < Avalue 0.05; the t-statistic of 3.536826 is > 2, and the correlation coefficient of 0.554677 is > 0.50. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that board independence has a strong relationship with the return on capital employed by deposit money banks in Nigeria.

Hypothesis Three: The frequency of board meetings does not have a strong relationship with the return on capital employed by deposit money banks in Nigeria.
Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.0000 is < Avalue 0.05; the t-statistic of 6.868468 is > 2, and the correlation coefficient of 0.704039 is > 0.50. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that the frequency of board meetings does not have a strong relationship with the return on capital employed by deposit money banks in Nigeria.

4.1. Discussion of Findings
The covariance analysis result reveals that board size has a weak and negative relationship with the return on capital employed by deposit money banks in Nigeria. This implies that as board size increases, the return on capital employed decreased non significantly. This result is not out of place because the size of the board of a firm determines the amount spent on directors' remuneration which is an expense. Expenses reduce the profit which is a major component of the return on capital employed. The result indicates that the presence of a large board hinders the decision-making processes. This aligns with the too many cooks spoil the broth theory.

The finding is consistent with the findings of Edeti and Garg (2020) who found a negative and insignificant relationship between corporate governance and financial performance. However, the following studies made contradicting findings; Ibrahim and Danjuma (2020); Kalsie and Shrivastav (2020); Ajemunigbohun, Elegunde, and Azeez (2020). The reason for the disparity could be because of the sector and geographical location of the study.

The covariance analysis result reveals that board independence has a strong and positive relationship with the return on capital employed by deposit money banks in Nigeria. This implies that as board independence increases, the return on capital employed also experienced a significant increase. This means that an increase in the number of independent directors of deposit money banks increases their performance. This highlights the need for independent actors on the board of banks which reduces the principal-agent problem playing out in these banks.

The findings of this study are in tandem with the findings of Vianney, Iravo, and Namusonge (2020); Ibrahim and Danjuma (2020); Kalsie and Shrivastav (2020); and Ajemunigbohun, Elegunde, and Azeez (2020) who found board independence to have a significant relationship with the financial performance of firms. Edeti and Garg (2020) have a negative relationship with financial performance.

The covariance analysis result reveals that board meetings have a strong and negative relationship with the return on capital employed of deposit money banks in Nigeria. This implies that as board meetings increase, the return on capital employed decreases. This could be explained by the fact that the regularity of the meetings between the board members of the banks, leads to significant expenses in hosting the meetings. The amount most banks spend on hosting board meetings and annual general meetings is always very high, which affects the profit of the banks.

The findings of this study are in tandem with the findings of Vianney, Iravo, and Namusonge (2020); Ibrahim and Danjuma (2020); Kalsie and Shrivastav (2020); and Ajemunigbohun, Elegunde, and Azeez (2020) who found board independence to have a significant relationship with the financial performance of firms. Edeti and Garg (2020) have a negative relationship with financial performance.

Summary of Findings

i. Board size has a weak (4% approx.) and negative relationship with the return on capital employed of deposit money banks in Nigeria.
ii. There is a strong (55% approx.) and positive relationship between return on capital employed and board independence of deposit money banks in Nigeria.
iii. Board meetings have a strong (70% approx.) and negative relationship with the return on capital employed of deposit money banks in Nigeria.

5. Conclusion

The study examined the relationship between internal governance mechanisms and the operational performance of deposit money banks in Nigeria. From the panel covariance analysis, it was revealed that board size has a weak and negative relationship with return on capital employed. Board independence has a positive and significant effect on the return on capital employed by deposit money banks in Nigeria. The frequency of board meetings shares a negative and strong relationship with the return on capital employed. The study, therefore, concludes that internal governance mechanisms (board independence & board meetings) share a strong relationship with the operational performance of deposit money banks in Nigeria.

6. Recommendations

The study made the following recommendations:

i. Deposit money banks in Nigeria should have a board size that is not more than 10. This will facilitate decision-making and affect their operational performance positively.
ii. The number of independent board members should be increased to at least 60% in the financial service firms. This will adequately eradicate agency problems associated with executive directors having a personal interest in the organization, thereby making policies that will benefit them individually and not the stakeholders at large.
iii. The number of board meetings in the industry should be reduced to 4 times a year. This is because the increase in board meetings affects operational performance negatively.

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