

BOARD INDEPENDENCE AND BANK ASSET QUALITY: MODERATION THE EFFECT OF EXECUTIVE COMPENSATION ON NIGERIAN DEPOSIT MONEY BANKS

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Abstract

The incessant occurrence of crisis in the Nigerian banking sector said to be replete with corporate governance failure and non-performing exposures remains a bane of banking industry development in the country. These problems which appear to be a regulatory conundrum have been a threat to the safety of customers' deposits and investors' funds in the industry. While the issue of non-performing exposures reverses the bank asset quality, that of corporate governance inadequacies retards the banks' smooth running. This is despite payment of huge executive compensation in the industry. To address this problem, this study examined the impact of Board Independence on the bank asset quality in Nigeria considering the moderating influence of executive compensation. Data were hand-extracted from the annual reports of a sample of thirteen (13) Deposit Money Banks (DMBs) and equally obtained from World Development Indicators database over the period 2014-2023. The data collected were analyzed using static panel models of fixed-effects, fixed-effects with robust standard errors and random-effects after a number of diagnostic tests. Based on the three (3) indicators of asset quality: loans-to-deposits ratio (LDR); loans-to-assets ratio (LTA); and non-performing loans ratio (NPFL), the results showed that board independence does not have significant effect on bank asset quality. Further, findings revealed that executive compensation does not largely have significant impact on bank asset quality but its interaction with other board independence showed some level of positive effect but with weak estimates. Based on these results, the study concluded that "boys' club syndrome" in the appointment of independent directors retard asset quality. Further inference showed that over-reliance on executive compensation as only tool by Nigerian banks' owners to align their interests with those of managers is anti-asset quality while the satisfactory preponderance of non-executive directors has tendency to compel executive directors to work towards improved bank asset quality despite huge compensation among others. The study recommended that the regulators endeavor to make realistic provisions for the excess of independent directors over other non-executive directors as contained in country's corporate governance code.

1. INTRODUCTION

Corporate governance has been defined to encompass a set of relationships involving the board, management, and all stakeholders to attain a firm's objective (OECD, 2021). It denotes the management of company affairs with assiduousness, transparency, responsibility, and accountability that maximizes shareholders' wealth. It focuses on the accountability mechanism that governs the rapport among shareholders, the board of directors, senior management, the workers, and other stakeholders (Hassan, 2020). Musah, et al. (2020) demonstrates that corporate governance describes the relationship among shareholders, board of directors and the senior management to specify the road map and performance of the company. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the bank is governed.

However, asset quality as a part of bank management demands the appraisal of a firm's assets in order to enable the measurement of the level and size of credit risk that is related with its processes. It relates to the left-hand side of a bank balance sheet and focuses on the quality of loans which provides earnings for a bank (Abata, 2020). Asset quality, being one of the indices for measuring performance is described as the classification of credits according to the probability of repayment which estimates the amount of loss that will probably be suffered on deteriorating credits (Abata, 2020). Asset quality is one of the most critical areas in determining the overall condition of a bank. The primary factor affecting overall asset quality is the quality of the loan portfolio and the credit administration program.

Executive compensation is composed of the financial and non-financial compensation or rewards received by an executive from their firm for services rendered to the organization (Farouk et al., 2015). Executive compensation differs substantially from typical pay packages for either hourly workers or salaried management and professionals in that executive pay is heavily biased toward rewards for actual results (Muzata & Marozva, 2022). In developing countries like Nigeria, executive remuneration policies, practices and basis of determination are hardly defined in the general corporate governance code of best practices for companies to adhere to.

The need to protect the banking system from near collapse, cause the central Bank of Nigeria in 2009 to inject #620 billion into eight (8) banks it had earlier bailed out. Among these banks were spring bank, Afri bank and Bank PHB. Two years after, in August 2011, the CBN sacked the management of the three banks above and handed them to AMCON (Asset management company of Nigeria) who through the bridge banking system created three companies to take over the assets and liabilities of the failed banks, manage them and sell to interested buyers.

Previously published empirical studies on the association between CEO compensation and business performance in Nigeria have been inconclusive. For example, Omoye and Ogiedu (2016), Edeh (2020) and Saidu and Lawal (2020) reported a significant positive effect of executive compensation on firm performance. Conversely, Olaniyi and Obembe (2017) and Ibeawuchi and Onuora (2021) reported significant negative effects. Yet Omotola and Akrawah (2019) and Omoregie and Kelikume (2019) reported insignificant effects. As a result of these contradicting findings, it has become necessary to revisit this area of interest to determine the effect of CEO characteristics, board size, and firm performance on CEO compensation of publicly traded Nigerian banks.

On the contrary, studies such as Egungwu and Egungwu (2019) found that corporate governance mechanism had significant but negative effect on asset quality: Abdulazeez et al. (2019) investigated corporate governance and asset quality and found that corporate governance had insignificant effect on asset quality. In this regard, this study is exploring board independence and bank assets quality: moderating the effect of executive compensation in Nigeria.

2. HYPOTHESES DEVELOPMENT

Furthermore, the influence of board independence on bank asset quality in Nigeria has been a focal point of corporate governance discussions, given its critical role in ensuring objective decision-making and effective risk management. Independent board members are expected to provide unbiased oversight, which can enhance asset quality by reducing non-performing loans and improving risk assessment processes. However, the extent to which board independence contributes to asset quality in Nigerian banks remains inconclusive. For example, Adeola and Okafor (2022) found that banks with a higher proportion of independent directors experienced improved asset quality due to better monitoring and reduced management opportunism. Conversely, Bello et al. (2023) argued that the benefits of board independence could be undermined in the absence of requisite expertise among independent directors, leading to ineffective oversight. These conflicting findings underscore the need for further research to explore the optimal balance of board independence that enhances asset quality in the unique context of Nigerian banks.

In Nigerian banks, executive remuneration frequently prioritizes short-term profit maximization above the long-term objective of preserving asset quality. A strong correlation has been shown between excessive compensation packages, aggressive risk-taking, and subpar governance results. As an example, the pay structure of Intercontinental Bank incentivized executives to adopt riskier lending practices, which in turn resulted in a notable decline in asset quality and the bank's final failure (Sanusi, 2010). Hence the hypotheses:

H₀: Executive compensation, does not significantly affect the relationship between board independence and bank asset quality in Nigerian deposit money banks.

3. LITERATURE REVIEW

Concept of Corporate Governance

According to Appah (2019), corporate governance describes the association between the owners and managers in directing and controlling companies as separate entities. It is a structure of directing and controlling corporate entities, be they in the private sector, public sector or be they financial institutions to fulfill long-term strategic goals, taking care of the welfare of their employees and the local community, maintaining harmonious relations with their suppliers and customers and work in compliance with the legal framework that exists in the country and use such processes of production that generate minimum externalities of the negative kind of the nation as a whole. Appah, (2019) corporate governance provides the mechanisms, processes, and structures by which management ensures that resources are effectively and efficiently managed to achieve desired results by the owners.

Yuniasih (2018) state that corporate governance are those structures, systems, and processes utilized by the various organs of a firm as an effort to provide value added firm sustainable in the long term by taking into consideration the interests of stakeholders-based beliefs, ethics, norms, and rules. It is based on professional ethics in the firm. The major aim of good corporate governance is to ensure the efficient use of resources to reduce corporate fraud and

mismanagement with the purpose of maximizing shareholders wealth and aligning the conflicting interests of all stakeholders (Yimbila, 2017). Omeis & Appah (2021) resolved that the resulting difficulties of the privatization action, conversion economy, questions of institutional, legal, and capacity building as well as the rule of law are at the very core of corporate governance.

Hasibuan and Khomsiyah (2019) noted that the good corporation governance reduces agency problems and improve corporate performance. Murni, et al (2016) made the submission that good corporate governance inspire confidence to investors; liberalization of financial markets; improvement of the basis for the establishment of new corporate value system. According to Oluyemi, (2016) the importance of corporate governance cannot be taken lightly as it keeps the organization in business and creates a greater prospect for future opportunities. The general consequence of good corporate governance is to strengthen investors' poise in an economy. Corporate governance is thus about inculcating credibility, guaranteeing transparency and accountability as well maintaining an effective network of information disclosure that would nurture good corporate performance (Sani & Ali, 2017).

Board independence

Board independence presents the total number of independent directors on the board (Aslam & Haron, 2020). Board independence is important because it improves the effectiveness of the board as a control mechanism and strong the CG mechanism. The earlier study demonstrates how the interaction between independent nonexecutive directors and earnings management can lead to conflict (Saona et al., 2020). Board independence can prevent managers from abusing their positions of authority, waning investor interest, and effectively restraining earnings management. The study by da Costa (2017) intimated that the presence of non-executive directors on the board is due to a potential shortage and weakening of the alliance between the board of directors detriment and the corporate governance system. However, several studies found the mixed results (Saona et al., 2020; Wasan & Mulchandani, 2020) and some studies independence of the board is less likely to involve activities of financial statements manipulation (Luthan & Satria, 2016; Uwuigbe et al., 2015).

The independent director will have a better monitoring role in the firm. They will bring their connection and expertise to make the firm achieve better (Duru et al., 2015). In addition, it is noted that board independence and number board meeting variables are positive significant to the bank performance (Liu et al., 2015; Zhu et al., 2016; Chou and Buchdadi, 2017). For examining the impact of the independent board, we modified the variable definition used by Duru et al. (2015). The Independent Board of directors is the people with no family relationship with the firm's authorities who have power and do not hold a share in the firm. The board is independent if members do not have any ownership interest in the company. Have no family relationship with the company owner and have not been an employer in the past, excluding a member of the board or any subsidiary. Even though we found one study (Cavaco et al., 2017) argue independent board is negatively correlated with operating performance; we propose the positive association regarding the board of directors in banking have to pass fit and proffer test conduct by the central bank.

Assets Quality

Asset quality, also known as loan quality, is the overall risk associated with the various assets held by a person or organization. Bankers use it most frequently to calculate how many of their assets are financially at risk and how much provision for future losses they need to make. Loans, which can become non-performing assets if borrowers fail to meet their responsibilities to make payments, are the most frequent assets that need a strict assessment of asset quality. Risk managers frequently evaluate the quality of assets by giving each item a numeric ranking based on the level of risk involved (Nzoka, 2015). Asset quality concept refers to the examination or evaluation that defines the credit risks related to any tangible resources that often demand the payment of interest, such as investment and loan portfolios (Nzoka, 2015).

Asset quality as a characteristic of bank management necessitates the appraisal of a firm's asset in order to enable the measurement of the level and size of credit risk associated with its operation. According to the Basle Committee on Banking Supervision, the fundamental principles of effective banking supervision comprised twenty-five core principles out of which seven are designed to address the relevant issues of bank asset quality or credit risk management (Sani & Ali, 2017). Asset quality can be viewed as the credit risk associated with any asset that requires interest payments, such as investment and loan portfolios (Ogboru, 2019). According to Nzoka (2015), asset quality is mainly used by banks to determine how many of their assets are financially risky and how much allowance should be made for potential losses. According to Abata (2014), asset quality is the assessment of an entity's assets to facilitate the measurement of the level and scope of credit risk associated with its activities. Asset quality of a deposit-taking bank is mainly observed based on the bank's ability to collect its outstanding loans and advances on time, as indicated by the percentage of bad debts to total gross loans issued. Asset quality refers to the left side of a bank's balance sheet and focuses on the quality of loans that provide income to a bank (Abaat, 2014).

Executive Compensation

Executive compensation is the financial and other non-financial benefits received by an executive in return for services rendered to an organization. Empirically, Kim et al (2017) explained executive compensation as being composed of the financial compensation and other non-financial awards received by an executive from their firm for their service to the organization. This comprises of fixed salary, variable performance-based bonuses (cash, shares, or stock options) and benefits and other prerequisites all ideally configured to consider government regulations, tax law, the desires of the organization and the executive (Emmanuel et al., 2017). Generally, Executive compensation is set by the board of directors, specifically by the compensation committee consisting of independent directors, with the purpose of incentivizing the executive team, who have a significant impact on company strategy, decision-making, and value creation as well as enhancing executive retention. The executives of every company are significantly the decision makers, corporate strategy formulators and the overall value creators of the company. Consequently, these executives should be incentivized so that they adopt those strategies, investments, and actions that result in an increase in shareholder value (El-Sayed & Elbardan, 2016). In practice, previous studies (Ntim et al., 2019) note that

total executive compensation is broadly comprised of two models. Firstly, the total cash remuneration that is fixed compensation (comprising the base salary, annual bonus, contribution, and other monetary pay and benefits-in-kind). Secondly, the Equity-based remuneration/ Variable compensation (the value of granted equity, value of awarded long-term incentive plans and options awarded either as intrinsic or estimated).

Theoretical Framework

Resource-Based View (RBV)

The Resource-Based View (RBV) framework acknowledges that banks possess distinctive human resources that can be leveraged to gain a competitive advantage in the industry. Non-executive directors can provide strategic and unique resources to banks as board members. Moreover, executive directors responsible for the bank's day-to-day activities also possess unique resources deployed to manage their relationship with the shareholders as agents of the principal, thus aligning their interest with that of the principal for the overall strategic goal of the firm. According to the RDT literature, firms utilize distinctive and non-replicable resources to generate further resources. The resources referred to in this context comprise tangible and intangible assets, such as knowledge and experiences, as Wernerfelt (1984) and Barney (2018) noted.

According to Johnson, Daily, and Ellstrand (1996), resource-based theorists emphasis using representatives from interdependent organizations to obtain access to resources crucial for firm success. This theory expands the scope of corporate governance to encompass the strategic management perspective of the firm, with a particular focus on the organizational theory viewpoint. The directors are responsible for maximizing resources and optimizing the company's objectives. The resources available to a business can be categorized as tangible or intangible. These resources may include knowledge of laws, technology, competition, patents, access to equity and capital, relationships with customers, creditors, and other stakeholders, market awareness, political and socio-economic connections, cultural identity, and business networks.

Through the resource's dependency theory lens, board structure studies focus on how inside and outside directors manage agency and stakeholder relationships using available resources. Hillman et al. (2000) associated the resource dependency theory (RDT) role of directors with the environment, past performances, and strategies. Asset quality and corporate governance impact banking risk theoretically, but to what extent? And which specific corporate governance metrics and asset quality interactions affect banking risk as proxied by the distance to default (DTD)? Therefore, this study fills this literature gap by answering these questions. However, this study relates to very few studies examining the interactions between corporate governance, asset quality, and banking risk, such as Gaganis et al. (2020), Meuleman and Vander Vennet (2020), and Altunbas et al. (2018). Also, to establish this relatedness, this study had to expand the scope of some variables to mirror the variables within the context of the uniqueness of the banking industry in Nigeria.

Empirical Review

Abdulazeez et al. (2019) examined the impact of board structure (Board independence) on the asset quality (NPL and LDR) of listed fifteen deposit money banks in Nigeria for a period of 2008-2017. Research design used is ex post facto. Data were collected on the exogenous and endogenous variables and analyzed by OLS robust regression, after conducting descriptive statistics and correlation. It was found that board independence had no significant impact on Asset Quality. However, only two corporate governance variables cannot significantly explain asset quality as evident from the low coefficient of variation of 6% and 3% model separately. The exogenous variables and methodology used in this study are different, creating gaps which this present study filled. Osamor et al. (2019) evaluated corporate governance indicators and asset quality of twelve (12) listed DMBs in Nigeria. Using ex-post facto research design, data of 2012 to 2017 and analyzed using ordinary least square, fixed effect, random effect techniques and decomposition of the selected DMBs. Findings revealed that both Board Independent (BI) and Board Size (BS) have a positive relationship with Asset Quality (AQ). This means that board independence had a strong positive relationship with asset quality, while board size showed a weak positive relationship with asset quality across. It is noticed that the OLS econometric methodology used for this work is inappropriate. The study should have employed only the panel data regression technique.

Hope and John (2023) investigate the influence of board characteristics on earnings management of listed deposit money banks in Nigeria over the period of from 2016 to 2021. Board size, board diversity, and board composition serve as indicators of the characteristics of the boards of the listed deposit money banks in Nigeria. Discretionary accruals is utilized as an indicator for the practice of earnings management in this study. The data is sourced from the published annual audited accounts and financial reports of listed deposit money banks. A panel dataset comprising twelve publicly traded banks is utilized covering five years. The study employs various methodologies including descriptive statistics, correlation analysis, the Hausman test, and panel regression. The findings reveal a significant negative association between board size, board composition, and earnings management. However, board diversity does not appear to have a meaningful impact on earnings management. They study recommends that shareholders of commercial banks in Nigeria establish effective boards with an adequate number to fulfill an oversight that will mitigate earnings management

The impact of corporate governance (CG) on business success was investigated by Ugwu et al. (2021). The study's goals were to dissect the relationship between CP and board size, board composition, audit committee size, and board independence. Purposive sampling was used to identify eight (8) companies listed on the Nigerian Stock Exchange for this exploratory research study. From 2006 through 2017, these companies' annual reports were mined for information. The data was analyzed using panel data regression, and several regressions were utilized to examine the results. The findings demonstrated that elements of corporate governance affect financial output. Manufacturers in Nigeria saw a favorable and statistically significant relationship between board size and ROA. However, the makeup of the board impacted ROA negatively and insignificantly. Additionally, for Nigerian manufacturing

enterprises, ROA improved significantly once an independent audit committee was established. Finally, a significant inverse relationship was found between ROA and the financial success of Nigerian enterprises and the degree to which their boards were independent.

Methodology

Research Design

This study is factored on an ex-post-facto research design because the data were secondary data extracted from the financial statements of the affected banks and the researchers do not have the capacity to change the state or direction.

Population, sampling and data collection

The population of interest for this study comprises all deposit money banks listed on the Nigerian Stock Exchange (NSE) as at December (2022) for the period of ten years from 2013 to 2022. Data were extracted from the annual reports of thirteen (13) banks who are listed on the Nigeria Exchange Group (NGX) as 31 December 2023. The data related to the three measures of bank asset quality (Loans-to-Deposit Ratio [LDR], Gross Loans proportion in total assets [LTTA] and Non-performing Loans proportion in Gross Loans [NPFL]) and four corporate governance characteristics as well as a number of bank-specific and corporate governance control variables were extracted from these banks' annual audited financial statements over the period 2014-2023. The extraction of data was started in 2014 because various reforms effected in Nigerian banking industry had already taken effect by the year while 2023 was most recent year for publication of annual reports of banks in Nigeria as at time of collecting the data. The macroeconomic variable adopted, that is the real gross domestic product growth rate (RGDP) was obtained from World Development Indicators (WDI) database of the World Bank Group. Based on the collection of data from 13 banks over 10 year's period, 130 bank-year observations are probable. However, owing missing data of some banks, analysis was carried out on unbalanced 128 bank-year observations.

Model Specification

Based on deductions from previous studies (Gorowa & Igbo, 2016; Truong & Nguyen, 2015), asset quality is made a function of corporate governance practices to test the study's hypotheses as follows:

$$\text{Bank Asset Quality} = f(\text{CGXTERISTIC}, \text{Control Variables}) \text{ --- (3.1)}$$

$$\begin{aligned} BAQ_{it} = & \beta_0 + \beta_1 BCNED_{it} + \beta_2 LogEXCOM_{it} + \beta_3 (BCNED \times EXCOM)_{it} + \beta_4 SIZE_{it} + \\ & \beta_5 ROA_{it} + \beta_7 LEVEQ_{it} + \beta_6 LogBMEET_{it} + \beta_7 RGDP_{it} + \mu_{it} \text{ --- (3.2)} \end{aligned}$$

To test the sixth hypothesis with the proposition that “executive compensation does not significantly affect board gender independence and bank asset quality nexus in Nigeria”, the equation 3.2 was expanded to include executive compensation as a moderating variable alongside with interaction with measures of board independence (BCNED).

Table 1: Measurement of Variables

S/N	Notation	Variable Name	Category	Variables' Measurements	Source
1	LDR	Loans-to-deposit	Dependent Variable	Proportion of gross loans to customers in Customers' deposits	Aslam et al. (2021)
2	LTTA	Loans-to-Assets	Dependent Variable	Proportion of gross loans to customers in Total Assets	Aslam et al. (2021)
3	NPFL	Non-Performing Loans	Dependent Variable	Proportion of Non-performing Loans in	Aslam et al. (2021) Shaheen et al. (2024)
4	BCNED	Board Independence	Independent Variable	Proportion of Non-executive Directors in the board	Bulus and Lawal (2021)
5	LogEXCOM	Executive Compensation	Independent/Moderating Variable	Natural Logarithm of Compensation to the Executive Directors	Sheikh et al. (2018)
6	BCNED×EXCOM	Board Independence and Executive Compensation	Interaction Variable	Interaction between BCNED and LogEXCOM	Rehman et al. (2021) Salehi et al. (2018) Sheikh et al. (2018)
7	SIZE	Board Size	Control Variable	Natural Logarithm of Bank Total Assets	Salami et al. (2020)
8	ROA	Profitability	Control Variable	Ratio of Net Income to Total Assets	Shaheen et al. (2024)
9	LEVEQ	Leverage	Control Variable	Ratio of Bank Total Liabilities to Total Equity	Aslam et al. (2021)
10	LogBMEET	Board Meeting	Control Variable	Natural Logarithm of Number of Board Meetings held in a Year	Salami et al. (2020)
11	RGDP	Gross Domestic Product Growth	Control Variable	Annual Real GDP Growth Rate	Aslam et al. (2021), Salami et al. (2020)

Method of Data Analysis

Based on the level at which data were obtained for the study which is cross-sectional and time series, the longitudinal design is applicable to this study. This necessitated the application of panel data model. Though panel data model may be dynamic or static, static panel model was applied because of the small sample size of banks used for the study. Following this approach, a choice was made between Panel Fixed-Effects model (FE) and Panel Random-Effects model (RE) using Hausman Statistics (Hausman). The statistical significance of Hausman at $p\text{-value} < 5\%$ makes appropriate the choice of FE otherwise RE is appropriate. Upon the choice FE, the procedure allows for the conduct of heteroscedasticity test and in particular groupwise heteroscedasticity test in panel fixed-effects model (HET) was conducted.

On the choice of RE as a result of statistical insignificance of Hausman, a Breusch and Pagan Lagrangian multiplier test for random-effects model (Lang.Multiplier) was performed to establish there are panel effects among the sample units. If significant at p-value<5%, there are panel effects and RE was selected. Otherwise Pooled Ordinary Least Square regression (Pooled OLS) is appropriate.

Data Analysis and Interpretation

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LDR	128	0.6849	0.1949	0.0375	1.4336
LTTA	128	0.4308	0.1023	0.0605	0.7688
NPFL	128	0.0464	0.0418	0.0000	0.2681
BCNED	128	0.6184	0.1562	0.1667	0.9167
EXCOM	128	532,000,000	431,000,000	63,000,000	2,580,000,000
LogEXCOM	128	19.8041	0.7868	17.9587	21.6691
SIZE	128	28.4915	1.0038	25.7764	30.9065
ROA	128	0.0160	0.0155	-0.0953	0.0562
LEVEQ	128	7.2885	3.3653	-2.9513	16.4681
BMEET	128	6.0859	1.9843	3.0000	12.0000
LogBMEET	128	1.7571	0.3093	1.0986	2.4849
RGDP	128	0.0200	0.0232	-0.0179	0.0631

Source: Author's Computation (2024)

Descriptive Analysis

Like the LDR scenario, the mean (maximum) value of 43% (77%) for LTTA is an indication that larger proportion of bank assets in Nigeria account for loans which is an indication of bank profit generation ability. It is also a reflection of the use of bank assets to propel the economy as credit facilities to deficit-spending units have the potential to bolster the country's gross domestic product (GDP). However, a minimum value of 6% for LTTA shows an underutilization of the assets. This is often characteristic of a bank with large proportion of toxic assets that has been acquired by Asset Management Corporation of Nigeria (AMCON). Overall, mean values of LDR and LTA suggest a satisfactory level of bank asset quality in Nigeria though laden with some level of risk exposures. For proportion of non-performing loans in gross loans (NPFL) which has a mean value of 4.64%, the fact that it is <5% emphasizes the higher level of asset quality of Nigeria banks given regulatory benchmark. However, a maximum value of 26.8% shows that some Nigerian banks face higher level of non-performing assets exposures which may threaten their going concern. Thus, it is not surprising quite a number Nigerian banks fall under CBN sanctions for high level of non-performing assets exposures after granting them some level of forbearance.

The requirements of the industry corporate governance code (effective until 2019) and Nigeria Code of Corporate Governance 2018 is followed if mean (maximum) value of proportion of non-executive directors of board of Nigerian banks (BCNED) is considered. A mean

(maximum) value of 61.84% (91.67%) reflects a higher level of board independence which has potential to install sound corporate governance practices if the independence truly reflects in the banks' governance system.

For executive compensation (EXCOM), the mean value of ₦532,000,000 depicted in Table 4.1 suggests that, to a larger extent, bank owners' attempt to resolve the agency problem and align their interests with those of managers for a realistic shareholder wealth maximization. It may, otherwise, indicate an unholy expropriation of non-controlling interests if majority of the owners are on the board. The huge maximum value of ₦2,580,000,000 confirms that executive compensation is on the high side in the Nigerian banking sector. Although EXCOM is reported under summary statistics, the natural logarithm of EXCOM (LogEXCOM) is used as the study's variable to test relevant hypotheses.

Correlation Analysis and Multi-collinearity Diagnostics

The study adopted pairwise correlation analysis and variance inflation factor (VIF) to detect extent of relationship and multi-collinearity problems among the non-interaction variables. While VIF is applicable to the detection of multi-collinearity only, pairwise correlation analysis is useful for both diagnostics. The results of pairwise correlation and VIF analyses are presented in Table 4.2 and Table 4.3 respectively. In Table 4, While the negative relationship with LDR and LTТА is unfavourable, that of NPFL is favourable to the quality of the Nigerian banks' assets. BCNED is only negatively to LTТА. Its positive and negative relationships with NPFL and LTТА respectively call for a lot of questions while the positive relationship with LDR is in order.

Table 3: Correlation Matrix

Variable		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
LDR	(1)	1.00									
LTТА	(2)	0.84	1.00								
		(0.00)									
NPFL	(3)	0.26	0.15	1.00							
		(0.00)	(0.09)								
BCNED	(4)	0.11	-0.03	0.23	1.00						
		(0.22)	(0.76)	(0.01)							
LogEXCOM	(5)	-0.03	-0.16	-0.04	-0.36	1.00					
		(0.74)	(0.08)	(0.63)	(0.00)						
SIZE	(6)	-0.27	-0.33	-0.02	-0.31	0.39	1.00				
		(0.00)	(0.00)	(0.84)	(0.00)	(0.00)					
ROA	(7)	0.10	0.02	-0.06	-0.27	0.37	0.42	1.00			
		(0.26)	(0.79)	(0.50)	(0.00)	(0.00)	(0.00)				
LEVEQ	(8)	-0.08	-0.01	-0.15	-0.20	-0.07	0.38	0.01	1.00		
		(0.35)	(0.91)	(0.09)	(0.02)	(0.42)	(0.00)	(0.90)			
LogBMEET	(9)	-0.06	-0.03	0.25	0.11	-0.19	0.22	-0.20	0.11	1.00	
		(0.50)	(0.73)	(0.00)	(0.23)	(0.03)	(0.01)	(0.02)	(0.20)		
RGDP	(10)	-0.09	-0.01	-0.14	-0.07	-0.04	0.02	0.10	0.08	-0.01	1.00
		(0.31)	(0.90)	(0.11)	(0.41)	(0.67)	(0.85)	(0.25)	(0.35)	(0.93)	

LogEXCOM is negatively related to all measures of bank asset quality. The negative relationship of LogEXCOM with NPFL suggests the fact that executive compensation has the potential to promote bank asset quality while measured by non-performing loans-to-gross loans. However, its negative relationship with LDR and LTТА reverses the better asset quality evidence when asset quality is measured using NPFL. Like LogEXCOM, LogBS behaves similarly with all measures of asset quality in terms of statistical signs but in this case all are positive. The positive correlation coefficients with LDR and LTТА suggests favourable asset quality-LogBS relationship but positive LogBS-NPFL relationship suggests otherwise. The relationship of SIZE, LEVEQ and RGDP with each indicator of asset quality adopted is similar to the scenario of LogEXCOM and BCNED with all measures of bank asset quality.

The results of VIF analysis presented in Table 4.3 confirm the multi-collinearity status of the study's explanatory variables as presented in Table 4.2. The statistical benchmarks for collinearity diagnostics using VIF and similar approaches as presented in Table 4.3 are that VIF should not be >10, R-squared not >0.90 and tolerance not <0.10 (Salami & Uthman, 2022; Salami et al., 2024)

Table 4: Variance Inflation Factor (VIF) Analysis

Variable	VIF	SQRT VIF	Tolerance	R-Squared
BCNED	1.73	1.32	0.5767	0.4233
LogEXCOM	1.82	1.35	0.5507	0.4493
SIZE	2.56	1.60	0.3900	0.6100
ROA	1.47	1.21	0.6796	0.3204
LEVEQ	1.52	1.23	0.6583	0.3417
LogBMEET	1.43	1.20	0.6995	0.3005
RGDP	1.07	1.03	0.9358	0.0642
Mean VIF	4.97			

Source: Author's Computation (2024)

Test of Hypotheses

Table 5: Board Independence (BCNED) and Bank Asset Quality with Moderation of Executive Compensation

	(1)	(2)	(3)	(4)	(5)
	DEPENDENT VARIABLES				
VARIABLES	LDR	LTТА	LTТА	NPFL	NPFL
BCNED	-3.476	-0.658	-0.658	0.736	0.736**
	(-1.533)	(-0.573)	(-0.497)	(1.486)	(2.711)
LogEXCOM	-0.0984	-0.0216	-0.0216	0.0389**	0.0389***
	(-1.211)	(-0.520)	(-0.484)	(2.171)	(3.255)
BCNEDxEXCOM	0.178	0.0308	0.0308	-0.0354	-0.0354**
	(1.529)	(0.524)	(0.436)	(-1.394)	(-2.475)
SIZE	-0.116***	-0.100***	-0.100***	-0.0230***	-0.0230
	(-3.804)	(-4.988)	(-7.956)	(-2.645)	(-1.393)

ROA	5.354***	3.643***	3.643**	0.669**	0.669***
	(4.140)	(5.361)	(2.908)	(2.282)	(3.470)
LEVEQ	0.0142**	0.0120***	0.0120	0.00748***	0.00748
	(2.050)	(2.949)	(1.641)	(4.249)	(1.276)
LogBMEET	-0.00219	-0.0261	-0.0261	0.0162	0.0162
	(-0.0376)	(-0.867)	(-1.152)	(1.246)	(0.938)
RGDP	-1.162*	-0.404	-0.404	-0.327**	-0.327***
	(-1.875)	(-1.347)	(-1.510)	(-2.524)	(-3.086)
Constant	5.761***	3.660***	3.660***	-0.179	-0.179
	(3.637)	(4.054)	(3.696)	(-0.461)	(-0.406)
R-squared	0.163	0.340	0.340	0.243	0.243
F-Test/Wald	33.22***	6.881***	31.13***	4.305***	13.74***
HET			1606.34***		1271.28***
Lang.Multiplier	14.62***				
Observations	128	128	128	128	128
Number of Banks	13	13	13	13	13
Hausman	11.02	23.33***		37.22***	
Model Type	RE	FE	Robust FE	FE	Robust FE

Source: Author's Computation (2024). **Note:** z/t-statistics in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; Wald Statistics (Wald), Hausman Statistic (Hausman), Langragian Multiplier test and groupwise heteroscedasticity test in fixed-effect model (HET) report Chi-square statistics; F-test report F-statistics. RE and FE stand for panel random-effects and fixed-effects models. Robust FE indicates panel fixed-effects models with robust standard errors upon evidence of heteroscedasticity.

This is reflected in the negative and statistically insignificant coefficients of “BCIND×EXCOM” in the LDR and LTТА models indicating that with executive compensation BCIND cannot be an instrument of improved asset quality of banks in Nigeria. This is also revealed in the NPFL models with positive and statistically insignificant coefficients of “BCIND×EXCOM”. For control variables, positive coefficients with majority of the estimates being statistically significant are identities of ROA and LEVEQ. Similar statistically significant estimates but with negative coefficients are traceable to SIZE and RGDP as presented in Table 3.

For estimates presented in Table 3 with BCNED as independent variable, no reversal of the coefficients of BCNED is noticeable upon the inclusion of LogEXCOM as BCNED negative coefficients in LDR and LTТА models are retained. It is also evident that positive coefficients of BCNED in the NPFL models are retained including the statistically significant coefficient in the NPFL model with Robust FE estimates. As a moderating variable, none of the coefficients of LogEXCOM in Table 3 is incidental to better bank asset quality being negative in LDR and LTТА models and positive in NPFL models. However, the interaction of LogEXCOM with BCNED reveals better bank asset quality. This is observable from the positive coefficients of “BCNED×EXCOM” in the LDR and LTТА models. Better still, the negative coefficients of “BCNED×EXCOM” in the NPFL models especially one with Robust

FE estimates being statistically significant confirm the improvement in bank asset quality in Nigeria. This is sufficient from the point of view of adoption of BCNED as a measure of asset quality to reject the fifth hypothesis and conclude that executive compensation has significant influence on the relationship between board independence and bank asset quality in Nigeria.

Summary and Conclusion

The success of an economy also depends on the success of its banking sector as banks have a lot of role to play in the economic liberalization of a country. The ability of banks to shoulder their traditional responsibility of financial intermediation in the form of providing funds from surplus-spending units to deficit-spending units is a function of their better financial condition as embedded in CAMELS framework index. An important component of this framework (component “A”) represents the core identity of depository financial institutions is “loans and advances”. This component “A” which means “Asset Quality” forms the core aspect of prudential guidelines and supervisory instructions of their regulators. The better financial standing of a bank has something to do with the quality of corporate governance system existing in the bank. In Nigeria, issues of non-performing assets exposure and serious infractions have continued to reoccur and have attracted a number of sanctions from the CBN. Corporate governance practices are embedded in board leadership structure, board process, board composition, board ownership structure and board characteristics. Issues of compensation, sustainability and disclosures are also raised in corporate governance practices dissection.

From the results of the tests of hypotheses according to the objectives from this study, it is evident that a few revelations were unveiled in relation to how some corporate governance practices affect the bank asset quality in Nigeria. The study also revealed how executive compensation affect the corporate governance practices geared towards improved bank asset quality. Overall, results worthy of being reckoned with were obtained from the impact of board independence on bank asset quality when board independence is measured using proportion of non-executive directors on the board (BCNED) to a certain extent. Though results obtained on the moderating influence of executive compensation are laden with some restricted generalizations, evidence of improvement was noticeable when executive compensation interacted with the corporate governance mechanisms adopted for the study to explain bank asset quality in Nigeria.

It is also conceivable that the failure of board independence to explain favorably the bank asset quality might be attributable to the so-called “boys’ club” syndrome identifiable with the appointment of independent non-executive directors in the one-tier corporate governance system typical of Nigerian corporate governance practices. When personalities of the “boys’ club” status are appointed as independent directors, they will just appear as independent directors in name but not in action. This might be responsible for the failure of the so-called independent directorship to propel bank financial standing in terms of asset quality, which is an important component of bank CAMELS framework. CAMELS framework is an acronym for measuring bank overall financial standing indicating Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, Liquidity and Sensitivity to Risk (Salami et al.,

2021). The board independence from the preponderance of non-executive directors on the bank boards which is evident in Nigeria also failed to materialize in terms improved asset quality as the impact of BCNED is not only positive in the NPFL models but also statistically significant. This may have something to do with level of non-performing assets composition of which included huge insider loans in Nigeria banking industry as unveiled by CBN.

This study's findings with insignificant impact of board independence on bank asset quality in Nigeria are comparable to the findings of Abdulazeez et al. (2019). Similar findings were also obtained by Hafez (2015) and Yusuf et al. (2018) except that their outcome variables are measures of financial performance like ROA and ROE other than asset quality adopted in this study. However, contrary results were found by Aslam et al. (2021), Bulus and Lawal (2021) with only LDR as outcome variable, Fiador and Sarpong-kumankoma (2020), Karaye et al. (2022) using independence of board credit committee and Osamor et al. (2019). The significantly positive and negative impact of board independence on bank performance found by El-chaarani et al. (2022), Naveed (2020) and Olokoyo et al. (2019) are contrary to the findings of this study.

Based on the failure of board independence to significantly and favourably explain bank asset quality, it can be concluded that the "boys' club syndrome" is taking place in the appointment of independent directors into boards of banks in Nigeria. This has made their so-called independence to be more of nomenclature without all requisite substance. It is also worthy of conclusion that insider loans attributed to the majority of non-executive directors with substantial shareholding prevent their presence from being contributory to the asset quality in Nigeria.

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