



## CORPORATE GOVERNANCE AND RISK-TAKING BEHAVIOUR OF COMMERCIAL BANKING FIRMS IN NIGERIA

**Iwedi, Marshal, Dumkpege, Wisdom Letom and Nwogeh, Ogbonnaya Okike**

Department of Finance, Faculty of Administration and Management, Rivers State University Nkporlu-Oroworukwo  
Port Harcourt

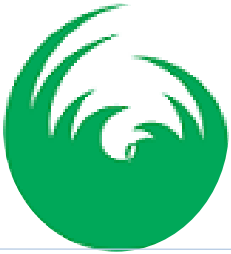
**ABSTRACT:** This study investigates the effect of corporate governance mechanisms on the risk-taking behaviour of Nigerian commercial banking firms, with risk-taking proxied by the non-performing loan ratio (NPL). The research is anchored in Agency Theory, complemented by Risk-Shifting and Regulatory Forbearance Theories, which explain how separation of ownership and control, weak oversight, and lenient regulatory intervention can incentivize excessive risk-taking. Employing a panel data approach covering 13 commercial banking firms over the period under review, the study applies pooled OLS, fixed effects, and random effects regression models, supported by unit root and correlation analyses to ensure data suitability and robustness. Descriptive statistics reveal elevated NPLs averaging 8.94%, substantial variation in board size (mean 12 directors), and a predominance of non-executive directors (average 64%), highlighting heterogeneity in governance structures. Correlation analysis indicates positive but weak associations between governance variables and NPLs, while panel regression results demonstrate that board size, percentage of executive directors, and percentage of non-executive directors do not have statistically significant effects on credit risk. These findings suggest a disconnect between formal board structures and effective risk management, implying that internal governance mechanisms alone are insufficient to mitigate bank risk in Nigeria. The study concludes that regulatory compliance, ownership structures, and behavioural governance factors play more critical roles in shaping risk-taking. Based on the findings, it is recommended that regulators strengthen enforcement of governance codes, banks align ownership and executive incentives with prudent risk behaviour, and boards enhance substantive effectiveness through capacity-building, risk oversight, and active strategic participation.

**Keyword:** Corporate Governance, Risk-Taking Behaviour, Commercial Banking Firms, Non-Performing Loans, Board Structure, Nigeria

### 1. INTRODUCTION

Risk-taking behaviour in Nigerian commercial banks has become a major policy and research concern due to its far-reaching implications for banking stability, asset quality, and systemic resilience. The Nigerian banking sector constitutes over 65 percent of total financial system assets and remains the dominant channel for financial intermediation, accounting for more than 80 percent of private sector credit and virtually all large-scale payment system activities in the economy (Nwokoma, 2019; CBN, 2025). As custodians of public deposits and key financiers of economic activity, banks

are inherently exposed to multiple forms of risk particularly credit, market, liquidity, and operational risks whose mismanagement can trigger widespread macroeconomic instability. Empirical evidence shows that periods of heightened risk-taking in Nigerian banks have coincided with aggressive credit expansion, sectoral concentration in oil and gas, real estate, and public sector lending, as well as increased exposure to foreign exchange volatility. For instance, industry non-performing loan (NPL) ratios rose above the regulatory benchmark of 5 percent, peaking at over 15 percent in 2017, before moderating in subsequent years, reflecting



persistent weaknesses in risk management practices (Ailemen & Emeni, 2020). Within this context, corporate governance assumes a critical role, as board effectiveness, ownership structure, executive compensation, and internal control systems directly shape managerial incentives and banks' risk appetite (Edeh & Iwedi, 2024). Historical evidence from Nigeria indicates that weak governance mechanisms manifested in insider abuses, ineffective boards, weak audit functions, and poor risk oversight have significantly contributed to bank failures and systemic distress, particularly during the pre- and post-consolidation periods (Sanusi, 2011; Sobodu & Akiode, 2020). Accordingly, understanding how corporate governance structures influence risk-taking behaviour is central to strengthening prudential regulation and safeguarding financial system stability (Uwuigbe et al., 2018).

Despite extensive regulatory interventions by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) including the 2014 Revised Code of Corporate Governance, enhanced risk-based supervision, and stricter board composition and tenure requirements risk-taking behaviour among Nigerian banks remains persistently elevated. Governance failures continue to surface through board entrenchment, concentrated ownership structures, political interference, and weak internal control systems, all of which undermine effective risk oversight and accountability (Oghojafor et al., 2011; Uwuigbe et al., 2018). These weaknesses are reflected in recurring prudential challenges, including periodic breaches of capital adequacy thresholds, rising loan loss provisions, and regulatory forbearance measures aimed at preventing systemic contagion. NDIC and CBN examination reports have consistently highlighted governance-related deficiencies as key contributors to asset quality deterioration and solvency pressures in several banks (Sanusi, 2011; Sobodu & Akiode, 2020). Furthermore, macroeconomic shocks such as exchange rate depreciation, double-digit inflation, oil price volatility, and fiscal imbalances have amplified banks' exposure to risk, revealing the limited effectiveness of governance frameworks that are often implemented as compliance exercises rather than as strategic risk management tools (Ailemen & Emeni, 2020). This persistent divergence between formal governance

provisions and actual risk-taking outcomes raises a critical question as to whether existing corporate governance mechanisms are capable of effectively constraining excessive risk-taking and promoting long-term stability in Nigerian deposit money banks.

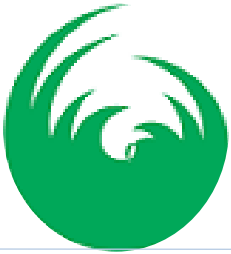
Although corporate governance in the Nigerian banking sector has received substantial scholarly and regulatory attention, notable gaps remain in understanding its direct influence on risk-taking behaviour as distinct from traditional performance metrics. Much of the extant literature concentrates on the relationship between corporate governance and profitability, return on assets, or operational efficiency, with relatively limited empirical focus on risk indicators such as credit risk, earnings volatility, leverage, and insolvency risk (Ogbechie, 2016; Oncioiu, 2020). Yet, persistent increases in non-performing loans, repeated capital injections, and governance-related enforcement actions suggest that excessive risk-taking remains a structural challenge within the sector (Ailemen & Emeni, 2020). Moreover, Nigeria's evolving regulatory environment driven by gradual alignment with Basel II and Basel III frameworks, heightened risk governance expectations, and structural disruptions arising from the COVID-19 pandemic and fintech competition has altered the risk environment in ways not fully captured by earlier studies. This underscores an inadequate understanding of the specific channels through which board structure, ownership concentration, executive incentives, and risk committee effectiveness shape banks' risk appetite in contemporary Nigeria. Consequently, this study seeks to empirically examine the influence of corporate governance mechanisms on the risk-taking behaviour of commercial banking firms in Nigeria, with the objective of providing evidence-based insights to support regulatory refinement, improve governance practices, and enhance the stability and resilience of the Nigerian banking system.

## **2. LITERATURE REVIEWS**

### **2.1 Conceptual Clarification**

#### **2.1.1 Corporate Governance**

Corporate governance refers to the system of rules, structures, and processes through which banks are directed and controlled to ensure accountability, transparency, and effective oversight of management. It



encompasses board structure, ownership arrangement, risk management oversight, and internal control mechanisms that align managerial actions with the interests of shareholders, depositors, and other stakeholders (Cadbury, 1992; OECD, 2015). In the banking sector, particularly in Nigeria, corporate governance plays a critical role in shaping managerial discretion and risk orientation, as weak board oversight, ownership concentration, and ineffective internal controls have been widely associated with excessive risk-taking and bank distress (Okpara, 2011; CBN, 2022). The Basel Committee on Banking Supervision (BCBS, 2019) emphasizes that strong board independence, effective risk committees, and sound internal control systems are essential governance pillars for restraining excessive risk appetite and promoting financial stability.

### 2.1.2 Risk-Taking Behaviour

Risk-taking behaviour refers to the extent to which banks engage in activities that expose them to potential financial losses in pursuit of higher returns, particularly through lending, investment, and funding decisions. It reflects the balance between profitability and solvency under conditions of uncertainty (Borio, 2018). In empirical banking research, risk-taking is commonly measured using indicators such as the Non-Performing Loan Ratio (NPLR), Capital Adequacy Ratio (CAR), Z-score, and Loan-to-Deposit Ratio (LDR), with NPLR being especially relevant in developing economies like Nigeria where credit risk dominates banking vulnerabilities. High NPL ratios signal aggressive or poorly monitored lending practices, often linked to weak governance structures, ineffective risk oversight, and ownership concentration (Nwosu, 2020; Ene, 2022). Consequently, risk-taking behaviour in banks is not only a function of macroeconomic conditions but is also significantly shaped by the quality of corporate governance mechanisms in place.

### 2.2 Theoretical Foundation

This study is anchored primarily on Agency Theory, complemented by insights from Risk-Shifting Theory and Regulatory Forbearance Theory, to explain the relationship between corporate governance and risk-taking behaviour in banks. Agency theory (Jensen &

Meckling, 1976) posits that the separation of ownership and control creates incentives for managers to pursue self-interested strategies, including excessive risk-taking, particularly in highly leveraged and opaque institutions such as banks. These agency conflicts are amplified where governance mechanisms such as independent boards, effective risk committees, and robust internal controls are weak, enabling managers to shift risk to depositors and regulators through aggressive lending and speculative investments (Stulz, 2008; Laeven & Levine, 2009). Risk-shifting theory further explains that poorly capitalized or weakly governed banks deliberately increase risk exposure to maximize upside gains, while regulatory forbearance theory highlights how delayed or lenient supervisory actions encourage such behaviour by reinforcing moral hazard and “too-big-to-fail” expectations (Minsky, 1986; Sanusi, 2011). Together, these theories provide a strong conceptual basis for expecting corporate governance mechanisms to significantly influence the risk-taking behaviour of deposit money banks in Nigeria.

### 2.3 Empirical Reviews

Recent empirical evidence affirms that corporate governance plays a decisive role in shaping banks' risk-taking behaviour. Ofori, et al (2025), in Corporate Governance Effectiveness, Operational Risk and Financial Performance of Banks, applied panel regression on 18 banks (2019–2024) and found that effective board characteristics; including board size, meeting frequency, and financial expertise, significantly reduce operational risk. Similarly, a cross-country investigation by Magnis, et al (2024), Board Characteristics and Bank Risk-Taking: Cross-Country Evidence, using panel data analysis, demonstrated that stronger governance structures lower banks' risk-taking propensity, measured via Z-scores and return volatility. Eze (2024) examined the impact of the 2022 CBN Corporate Governance Code on loan growth and board oversight using an event-study methodology and difference-in-differences analysis of all Nigerian banks (2020–2023), finding that the Code significantly reduced excessive loan growth and strengthened board monitoring. Nduka (2023) analyzed audit committee diligence and enterprise risk management adoption in 18 banks (2018–2022) using logistic regression, reporting



that higher meeting frequency and expertise improve ERM implementation. Briggs (2023) employed a panel VECM on Rivers State banks (2018–2022) and demonstrated that governance reforms exert immediate causal effects on credit and operational risk outcomes. Edeh and Iwedi (2024) empirically examined the effect of corporate governance on the soundness of banking firms in Nigeria using panel data covering the period 2010–2022. Employing an ex post facto research design and panel random effects regression, the study assessed governance variables such as board representation, board size, audit committee independence, board activism, and audit committee meetings. The findings revealed a significant positive relationship between corporate governance mechanisms and capital adequacy, indicating that effective governance structures enhance the stability and soundness of Nigerian banks. The study therefore underscores the importance of strengthening corporate governance practices and regulatory oversight to mitigate excessive risk-taking in the banking sector. In Adebayo (2022), conducted a dynamic panel threshold regression using System GMM on 22 banks (2011–2020), finding that excessively large boards reduce decision-making agility and increase operational risk, while moderate boards enhance monitoring. Okoye (2022) applied fixed-effects panel regression on 18 banks (2014–2021) to examine CEO duality and risk exposure, observing that CEO duality increases risk, particularly in family-influenced medium-sized banks. Adedoyin (2022) constructed a compliance index on 18 banks (2020–2022), revealing that higher adherence to the CBN Corporate Governance Code improves capital adequacy and reduces credit risk. Adeleke (2021), using an ARDL cointegration model on 20 banks (2000–2019), reported that governance indicators drive long-term improvements in bank risk measures. Nte (2021) employed random effects GLS on 15 banks (2012–2020) and found that gender diversity promotes conservative lending policies. Ojo (2021), using Pearson correlation and multiple regression on 15 banks (2013–2020), demonstrated that audit committee independence and expertise reduce non-performing loans. Amadi (2020) conducted comparative case studies and content analysis on 20 financial institutions (2015–2017), suggesting that CEO duality enhances leadership stability during economic uncertainty only

when governance culture is strong. Ene (2019), through panel regression and survey methods on 14 banks (2016–2019), reported that CEO dominance increases approval of high-risk loans. Omoregie (2018) applied panel fixed/random effects on 10 banks (2010–2018), confirming that board independence negatively correlates with non-performing loans.

Ezeoha (2017) examined the association between foreign ownership, governance disclosure, and credit risk in Nigerian banks using pooled OLS regression on a sample of 21 banks (2006–2015). The study found that foreign ownership improves governance transparency and lowers credit risk. Srivastav and Hagedorff (2016) investigated corporate governance and bank risk-taking across international bank holding companies, employing panel regression techniques to analyze board effectiveness, executive compensation, and risk management practices, concluding that strong internal governance significantly reduces excessive risk-taking. Finally, Ofori (2015) analyzed ownership type and risk-taking using fixed- and random-effects models on 16 banks (2010–2015), finding that institutional ownership restrains risk-taking while managerial ownership encourages excessive lending. These findings are reinforced by foundational studies: Mutton et al. (2015) found that insider-dominated boards promote aggressive lending, Pathan (2015) confirmed that larger and more independent boards mitigate excessive risk-taking, and Laeven & Levine (2015) demonstrated cross-country evidence that institutional ownership reduces risk-taking while entrenched owners amplify it. Collectively, these studies highlight that board structure, ownership configuration, and governance quality interact to shape banks' risk-taking behaviour, emphasizing the need for integrated corporate governance mechanisms to ensure financial stability.

Despite a decade of intensive empirical investigation (2015–2025) into corporate governance and bank risk-taking, gaps remain. Many studies isolate individual governance variables, such as board size, CEO duality, or audit committee diligence, without examining the integrated effect of multiple governance dimensions on risk behaviour. Methodologically, static models like OLS or fixed-effects estimations fail to capture dynamic feedback loops where past risk outcomes influence future governance adjustments. Theoretically, Nigerian



research predominantly relies on Agency Theory, neglecting institutional and legitimacy pressures that shape managerial decisions. Finally, most studies conclude prior to the 2022 CBN Corporate Governance Code and post-COVID financial recalibrations, limiting their relevance to contemporary banking. These limitations justify the present study, which adopts a dynamic panel methodology, integrates multiple governance dimensions, and incorporates both Agency and Institutional theoretical perspectives to provide timely, policy-relevant insights into bank risk-taking in Nigeria.

### 3. METHODOLOGY

In line with the objective of examining the effect of corporate governance mechanisms on the risk-taking behaviour of commercial banks in Nigeria over time, the study adopts a panel research design. The panel design is appropriate as it enables the analysis of multiple banks across several years, thereby capturing both bank-specific characteristics and time-specific effects. This approach improves the robustness of empirical inference by controlling for unobserved heterogeneity and increasing the degrees of freedom of the estimations. The population of the study comprises all thirteen (13) commercial bank firms listed on the Nigerian Exchange Group as at the period under review. Given the manageable size of the population, the study adopts a census approach, thereby covering all the listed banks. Secondary panel data were sourced from the audited annual reports and corporate governance disclosures of the sampled commercial banks, as well as relevant publications from the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC).

Consistent with the panel structure of the data, the study employs panel econometric techniques to investigate the effect of corporate governance mechanisms on bank risk-taking behaviour. The analytical procedures include descriptive statistics, correlation analysis, panel unit root tests, panel regression estimation, diagnostic tests, and robustness checks. The use of panel data analysis enables the study to effectively account for firm-specific heterogeneity and temporal dynamics. The general functional form of the model is specified as follows:

$$Y_{it} = \alpha + \beta X_{it} + u_i + \lambda_t + e_{it} \quad (1)$$

In specific terms, the functional model for this study is given as;

$$NPL_{it} = \alpha + \gamma_1 BSE_{it} + \gamma_2 PED_{it} + \gamma_3 NED_{it} + \lambda_t + vit \quad (2)$$

Where:

NPL is non-performing loan ratio,

BSE is the board size,

PED is percentage of executive directors,

NED is percentage of non-executive directors.

Yit = dependent variable (non-performing loan ratio) for firm i at time t

Xit = vector of explanatory variables (Board size, percentage of executive directors, percentage of non-executive directors)

$\alpha$  = intercept term

$u_i$  = unobserved firm-specific effects

$\beta$  = common slope coefficient

$\lambda_t$  = time-specific effects (macroeconomic/environmental shocks)

$e_{it}$  = random error term

### 4. RESULTS AND DISCUSSIONS

**Table 1: Descriptive Statistics**

	NPL	BSE	PED	NED
Mean	8.935714	11.94700	0.313831	0.640086
Median	9.100000	12.00000	0.333333	0.666667
Maximum	20.60000	22.00000	0.818182	1.285714
Minimum	0.000000	0.000000	-0.285714	0.000000
Std. Dev.	4.418975	4.068064	0.137760	0.184519
Skewness	-0.001206	-0.800751	-0.562486	-1.605712
Kurtosis	2.485173	4.507043	4.058494	7.741861
Jarque-Bera	4.793045	87.45078	43.14636	593.1061



Probability	0.091034	0.000000	0.000000	0.000000
Sum	3878.100	5185.000	136.2027	277.7973
Sum Sq. Dev.	8455.336	7165.781	8.217352	14.74245

Sources: Extract from Eview-10.

**KEY**

**NPL** is non-performing loan ratio,

**BSE** is the board size,

**PED** is percentage of executive directors,

**NED** is percentage of non-executive directors.

Table 1 presents the descriptive statistics of the study variables, providing preliminary insights into the distributional characteristics of bank risk-taking and corporate governance indicators. The mean non-performing loan ratio (NPL) of 8.94 percent exceeds the Central Bank of Nigeria’s prudential benchmark of 5 percent, indicating relatively high credit risk and suggesting that, on average, Nigerian deposit money banks exhibit elevated risk-taking behaviour during the period under review. The wide range of NPL values (0 to 20.6 percent) and a standard deviation of 4.42 point to substantial cross-bank and time variation in asset quality, reflecting differences in risk management effectiveness. The near-zero skewness (-0.001) and kurtosis slightly below 3 suggest an approximately symmetric and moderately platykurtic distribution, although the Jarque-

Bera statistic indicates non-normality at the 5 percent level.

With respect to corporate governance variables, the average board size (BSE) of approximately 12 directors aligns with regulatory recommendations for Nigerian banks, but the large dispersion (standard deviation of 4.07) and maximum of 22 directors indicate considerable variation in board structures. The negative skewness and high kurtosis suggest that while most banks cluster around the mean board size, some maintain unusually large boards, which may affect monitoring efficiency. The percentage of executive directors (PED) averages 31.4 percent, implying that executive directors constitute less than one-third of board membership on average, consistent with governance codes emphasizing board independence. Conversely, the percentage of non-executive directors (NED) averages 64.0 percent, reinforcing the dominance of non-executive representation. However, the high kurtosis and strong negative skewness of NED indicate concentration around high values with extreme observations, suggesting uneven adherence to optimal board composition across banks.

**Table 2: Correlation Matrix**

Probability	NPL	BSE	PED	NED
NPL	1.000000			
BSE	0.243248	1.000000		
	0.0000	-----		
PED	0.220553	0.508351	1.000000	
	0.0000	0.0000	-----	
NED	0.341522	0.355615	-0.176325	1.000000
	0.0000	0.0000	0.0002	-----

Sources: Extract from E-views 10.

Table 2 shows that NPL is positively and significantly correlated with board size ( $r = 0.243$ ), percentage of executive directors ( $r = 0.221$ ), and percentage of non-executive directors ( $r = 0.342$ ) at the 1 percent level, indicating that variations in corporate governance characteristics are associated with changes in bank risk-taking behaviour. The strongest association is observed

between NPL and NED, suggesting that higher non-executive representation does not automatically translate into lower credit risk, possibly reflecting weak board effectiveness rather than mere board composition. Inter-correlations among governance variables are moderate, with the highest correlation between BSE and PED ( $r = 0.508$ ), remaining below critical multicollinearity



thresholds, thus indicating no serious multicollinearity concerns and supporting their joint inclusion in the regression model.

**Table 3: Panel Unit Root Results (At Level)**

Variable	Test Method	Test Statistic	Probability	Cross-Sections	Observations
NPL	Levin, Lin & Chu (t*)	-5.01094	0.0000	13	420
	Im, Pesaran & Shin (W-stat)	-6.00884	0.0000	13	420
	ADF – Fisher Chi-square	93.8932	0.0000	13	420
	PP – Fisher Chi-square	197.821	0.0000	13	420
BSE	Levin, Lin & Chu (t*)	-1.90384	0.0285	13	420
	Im, Pesaran & Shin (W-stat)	-2.39825	0.0082	13	420
	ADF – Fisher Chi-square	46.8626	0.0142	13	420
	PP – Fisher Chi-square	43.8167	0.0290	13	420
PED	Levin, Lin & Chu (t*)	-3.83631	0.0001	13	420
	Im, Pesaran & Shin (W-stat)	-4.52368	0.0000	13	420
	ADF – Fisher Chi-square	77.4044	0.0000	13	420
	PP – Fisher Chi-square	118.633	0.0000	13	420
NED	Levin, Lin & Chu (t*)	-3.80923	0.0001	13	420
	Im, Pesaran & Shin (W-stat)	-4.85430	0.0000	13	420
	ADF – Fisher Chi-square	77.9609	0.0000	13	420
	PP – Fisher Chi-square	118.940	0.0000	13	420

**Source:** Extract from E-views 10.

The panel unit root results in Table 3 indicate that all variables (NPL, BSE, PED, and NED) are stationary at level, as the null hypothesis of unit root is consistently rejected across the Levin–Lin–Chu, Im–Pesaran–Shin, ADF–Fisher, and PP–Fisher tests at the 5 percent

significance level. This confirms that the series do not exhibit stochastic trends and are suitable for panel regression analysis without further differencing, thereby minimizing the risk of spurious estimation results.

**Table 4: Correlated Random Effects - Hausman Test**

Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.202894	6	0.0127

**Sources:** Extract from E-views 10.

The Hausman test is particularly decisive in guiding model selection. With a chi-square value of 16.20 and a p-value of 0.0127, the test rejects the null hypothesis that

the Random Effects estimator is consistent. Consequently, the Fixed Effects model is preferred for interpretation.

**Table 4: Panel Regression Results**

Dependent variable: Non-performing loan ratio (NPL)			
	(1)	(2)	(3)
VARIABLES	POL	FXE	RDE
BSE	-0.116548 (0.2508)	-0.115710 (0.2539)	-0.116548 (0.2486)
PED	-0.942799	-0.237151	-0.942799



	(0.8174)	(0.9541)	(0.8166)
NED	0.072309	0.743775	0.072309
	(0.9850)	(0.8487)	(0.9850)
Constant	-0.134007	-0.130740	4.334478
	(0.4661)	(0.4751)	(0.0001)
F-test	46.02583	15.54993	46.02583
Prob.(F-stat.)	0.000000	0.000000	0.626525
Observations	406	434	434
R-squared	0.409025	0.433560	0.409025

**Sources:** Extract from E-views 10.

Table 4 presents the panel regression results examining the influence of corporate governance variables board size (BSE), percentage of executive directors (PED), and percentage of non-executive directors (NED) on the non-performing loan ratio (NPL) of Nigerian commercial banks. Across all model specifications (POL, FXE, RDE), the coefficients of BSE, PED, and NED are statistically insignificant at conventional levels ( $p > 0.05$ ), indicating that these governance attributes do not have a measurable impact on credit risk. Specifically, BSE exhibits a small negative coefficient (-0.1165), PED shows a larger negative coefficient (-0.9428), and NED has a negligible positive coefficient (0.0723), but none are statistically meaningful. The models show moderate explanatory power, with R-squared values of 0.41–0.43, suggesting that approximately 41–43% of the variation in NPL is accounted for by the included governance variables, although other factors likely drive risk-taking behaviour. The significant F-statistics in POL and FXE models confirm overall model fit, but the high p-values for individual coefficients reinforce the conclusion that formal board structures, in terms of size and composition, are not effective in constraining credit risk in Nigerian banks under current practices.

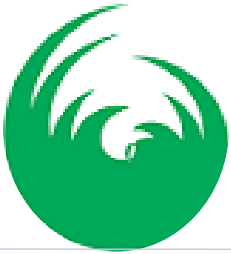
#### 4.1 Discussion of Findings

The results indicate that core corporate governance variables board size, percentage of executive directors, and percentage of non-executive directors do not exert a statistically significant effect on non-performing loan (NPL) ratios in Nigerian commercial banks, across pooled OLS, fixed effects, and random effects models. Even though the Hausman test favors the fixed effects specification, the governance coefficients remain consistently insignificant, suggesting that formal board

structures, as currently implemented, do not meaningfully constrain credit risk. This contrasts with theoretical expectations and international evidence, where larger, independent, and diverse boards typically reduce bank risk (Pathan, 2015; Mutton et al., 2014; Ongore & K'Obonyo, 2016). Comparisons with both global and Nigerian studies suggest that board composition alone may be insufficient to influence risk-taking behaviour in Nigeria. While ownership structures particularly institutional and foreign shareholding have been shown to stabilize banks (Laeven & Levine, 2009; Ofori, 2023), the internal board characteristics captured in this study fail to exhibit similar effects. The findings further imply that regulatory compliance mechanisms, such as adherence to the CBN Corporate Governance Code, may play a more dominant role in constraining risk than internal governance structures (Eze, 2024; Adedoyin, 2022).

#### 5. CONCLUSION

This study investigated the influence of corporate governance mechanisms board size, percentage of executive directors, and percentage of non-executive directors on the risk-taking behaviour of Nigerian deposit money banks, proxied by non-performing loan ratios (NPL). Using panel data analysis across pooled OLS, fixed effects, and random effects models, the findings reveal that formal board structures do not exert a statistically significant impact on NPL, despite theoretical expectations that stronger, more independent boards should constrain excessive risk-taking. The results suggest a persistent disconnect between governance design and actual risk management practice, indicating that internal board composition alone is insufficient to mitigate credit risk in the Nigerian



banking context. The study further highlights that regulatory frameworks, ownership structures, and institutional enforcement likely play a more decisive role in shaping banks' risk-taking behaviour. The paper recommends as follows:

- i. Regulatory bodies such as the CBN and NDIC should enhance monitoring and enforcement of corporate governance codes to ensure that formal board structures translate into effective oversight and risk control.
- ii. Commercial banks should prioritize ownership mechanisms and executive incentive structures that align managerial behaviour with prudent risk-taking, as these may have a more direct influence on credit risk than board composition alone.
- iii. Commercial banks should complement board size and composition reforms with capacity-building initiatives, such as risk management training, independent audit empowerment, and active participation in strategic risk decisions, to improve substantive governance outcomes.

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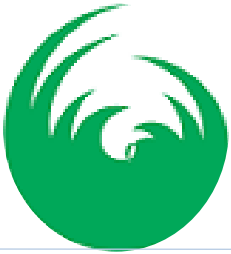
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