

# Board Diligence and Asset Quality of Listed Deposit Money Banks in Nigeria

Onyeogubalu Ogochukwu Nkiru (PhD)<sup>1</sup>, Akwuobi Bridget Udekwesili (PhD)<sup>2</sup>, Okeke Onyekachi Nath (PhD)<sup>3</sup>

Department of Accountancy, Nnamdi Azikiwe University Awka.

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## ABSTRACT

The study examined the effect of board diligence on the asset quality of listed deposit money banks in Nigeria. The study adopted an ex-post facto research design over the period 2015 to 2024. The population comprised thirteen listed deposit money banks on the Nigerian Exchange Group, with a sample size of twelve banks after excluding Unity Bank due to missing 2024 reports. Secondary data were collected from the annual reports of the selected banks, focusing on the number of board meetings as a measure of board diligence and the non-performing loan ratio as a measure of asset quality. Panel EGLS (Period Seemingly Unrelated Regression) was used to test the hypothesis at 1% significance level and correct for heteroskedasticity and cross-sectional dependence. The findings revealed that board diligence has a negative effect on asset quality, as an increase in the number of board meetings leads to higher non-performing loan ratios ( $\beta = 0.0056$ ;  $p = 0.0000$ ). In conclusion, frequent board meetings may not necessarily translate into improved asset quality, but may instead be a response to worsening loan conditions. The study recommended that boards of listed deposit money banks in Nigeria improve the effectiveness and quality of their meetings by ensuring that each session focuses on strategic oversight, timely risk assessment, and practical credit management decisions rather than frequent routine deliberations. Board members should be provided with adequate information and analysis before meetings to enable data-driven discussions that directly address emerging loan quality issues.

**Keywords:** Board Diligence, Asset Quality, Deposit Money Banks

## INTRODUCTION

The banking sector plays a pivotal role in the economic development of any nation, serving as a conduit for financial intermediation, savings mobilization, and the provision of credit to both individuals and businesses. In Nigeria, the banking industry has undergone significant transformations over the past decades, including regulatory reforms, technological adoption, and the consolidation of financial institutions (Agu et al., 2024). These developments have enhanced the resilience and efficiency of banks, but they have also introduced complexities in governance and risk management. Deposit money banks, in particular, face the challenge of managing a large volume of financial assets while ensuring profitability and stability. The quality of these assets, often measured by the proportion of non-performing loans, is critical not only for the sustainability of individual banks but also for the stability of the broader financial system (Agha et al., 2023). Within this complex environment, governance mechanisms, particularly the effectiveness and diligence of bank boards, have emerged as a critical factor influencing operational performance and financial health. As banks go through competitive pressures and regulatory expectations, understanding the role of corporate governance, especially board diligence, becomes essential in ensuring that financial institutions operate prudently and maintain sound asset quality.

Board diligence, defined as the careful attention and active engagement of board members in overseeing the affairs of an organization, has gained prominence in today's business environment (Ikelegbe et al., 2025). In the banking sector, boards are tasked with monitoring management actions, approving major decisions, ensuring regulatory compliance, and safeguarding shareholders' interests. Ahmad et al. (2024) opined that their level of diligence directly affects the strategic direction of the bank, risk-taking behavior, and overall organizational

culture. Asset quality, on the other hand, reflects the effectiveness of a bank's lending and investment decisions and serves as an indicator of financial soundness (Abdulazeez et al., 2019). High asset quality indicates prudent lending practices and efficient risk assessment, whereas poor asset quality suggests lax monitoring, higher default risks, and potential financial instability. In the current Nigerian banking terrain, where non-performing loans remain a significant concern (Ojeka et al., 2021), both regulators and stakeholders emphasize the need for strong governance frameworks. Boards that are diligent in their supervisory responsibilities are better positioned to anticipate potential risks, enforce compliance, and ensure that lending decisions align with the bank's risk appetite. The relevance of examining this relationship is heightened by the increasing demand for transparency, accountability, and sustainability in corporate operations, highlighting the importance of board diligence in safeguarding not only shareholder value but also depositor confidence.

The relationship between board diligence and asset quality is increasingly being recognized as a determinant of bank performance and stability. Diligent boards engage in regular and thorough review of financial statements, credit policies, and management strategies, ensuring that lending decisions are based on sound risk assessment and market analysis (Mwambuli & Mbuya, 2022). By actively monitoring management and scrutinizing the quality of loans extended, boards can identify early signs of credit deterioration and take corrective action before small issues escalate into significant non-performing loans. This oversight role extends to setting internal controls, reviewing risk management frameworks, and fostering a culture of accountability within the bank. Evidence suggests that banks with proactive and engaged boards are more likely to maintain high-quality assets, as these boards are attentive to both external regulatory expectations and internal operational standards (Adegboye et al., 2020). In the Nigerian context, where the banking sector has experienced episodes of financial distress due to poor credit management and governance failures, understanding how board diligence influences asset quality is particularly critical.

A strong and effective banking sector requires careful management of financial assets to ensure stability, profitability, and confidence among depositors. When bank boards actively oversee operations, monitor lending practices, and enforce sound risk management, the quality of assets tends to remain high. In such a setting, non-performing loans are minimized, financial resources are allocated efficiently, and the institution can withstand economic shocks (Ojeka et al., 2021). Boards that are attentive to their responsibilities ensure that management adheres to established policies and regulatory requirements, which promotes trust among investors, customers, and other stakeholders. In practice, however, many banks face challenges in maintaining high asset quality despite regulatory frameworks and governance guidelines (Abdulazeez et al., 2019). Non-performing loans continue to account for a significant portion of total lending, reflecting lapses in credit appraisal and risk assessment (Adegboye et al., 2020). In some instances, boards fail to exercise rigorous scrutiny over major financial decisions, allowing poor lending practices and operational inefficiencies to persist. This situation is compounded by pressures for short-term profits, internal governance weaknesses, and gaps in accountability mechanisms, which limit the effectiveness of board oversight. The consequences of weak board diligence and declining asset quality are significant for both individual banks and the wider financial system. Banks with a high volume of non-performing loans face reduced profitability, limited ability to lend, and increasing vulnerability to liquidity crises. Depositors may lose confidence in the safety of their funds, while shareholders experience diminished returns and potential capital erosion. On a broader scale, the accumulation of poor-quality assets can undermine the stability of the banking sector, increase the risk of systemic failures, and necessitate regulatory interventions.

A review of existing studies such as those by Ahmad et al. (2024), Sylvanus et al. (2024), Muhammad et al. (2023), Mwambuli and Mbuya (2022), Ojeka et al. (2021), Adegboye et al. (2020), Islam (2020), and Abdulazeez et al. (2019) shows that previous research on corporate governance and asset quality has largely focused on board structure, gender diversity, audit committee activities, and risk committee roles. While some studies have examined board diligence, most were conducted outside Nigeria or over shorter timeframes, leaving limited evidence on how board diligence specifically affects asset quality among Nigerian deposit money banks using recent data. Moreover, variations in methods and measures, such as fixed effects, pooled regression, and static estimators, have produced mixed results, creating uncertainty about the true direction and strength of the relationship. Consequently, this study fills the gap by examining the effect of board diligence, measured by the number of board meetings, on asset quality (measured by the non-performing loan ratio) of listed deposit money

banks in Nigeria, using recent panel data from 2015 to 2024 and employing Panel EGLS to correct for heteroskedasticity and cross-sectional dependence. Hence, the study examined the effect of board diligence on the asset quality of listed deposit money banks in Nigeria. Board diligence was measured using number of board meetings while asset quality was measured using non-performing loan ratio.

### **Research Hypothesis**

H<sub>0</sub>: Board diligence has no significant effect on the asset quality of listed deposit money banks in Nigeria.

## **LITERATURE REVIEW**

### **Conceptual Review**

#### **Board Diligence**

Board diligence refers to the careful attention, active involvement, and persistent engagement of members of a company's board in overseeing the operations and strategic direction of the organization (Emiaso & Okafor, 2023). It captures the extent to which board members fulfill their responsibilities with thoroughness, continuously monitoring management activities and ensuring that decisions align with the goals and policies of the organization (Sanyaolu et al., 2020). Arguably, it goes beyond mere attendance at meetings or formal compliance with governance rules; it encompasses active questioning, critical review of financial statements, and a commitment to hold management accountable for performance and risk management. In organizations where board diligence is practiced effectively, decisions are taken with careful consideration of their long-term implications, promoting stability and reducing exposure to operational or financial failures. Board diligence also reflects a sense of responsibility and accountability towards the organization's stakeholders, including shareholders, employees, and regulatory authorities. Board members who exhibit diligence allocate sufficient time and effort to understand complex issues, assess potential risks, and evaluate the credibility of management reports (Osazevbaru & Imasuen, 2022).

In financial institutions, board diligence assumes heightened importance because the implications of decisions are often directly linked to the stability of the institution and the protection of depositors' funds. Boards that are committed to careful supervision contribute to the establishment of internal checks, review lending practices, and monitor investment decisions to reduce the risk of poor financial outcomes. Board diligence shapes not only decision-making processes but also the organization's resilience in facing financial, operational, or regulatory challenges. The active engagement of board members thus serves as a mechanism to ensure that management acts responsibly, risks are managed effectively, and the institution operates in a sustainable manner (Islam, 2020). The effectiveness of board diligence can be observed in how consistently the board participates in strategic discussions, ensures compliance with statutory and regulatory obligations, and oversees organizational performance (Emiaso & Okafor, 2023). Boards that demonstrate high levels of diligence often engage in long-term planning, monitor deviations from policies, and maintain vigilance over the organization's operations. This sustained involvement signals a commitment to preserving the integrity and stability of the institution, guiding it towards sustainable growth, and safeguarding the interests of all stakeholders. Board diligence was measured using the number of board meetings held, which reflects the level of active engagement and oversight by board members. The number of board meetings indicates how frequently the board convenes to review organizational performance, make decisions, and monitor management activities.

#### **Asset Quality**

Asset quality refers to the overall condition and risk profile of the resources held by an organization, especially the financial instruments and loans that generate income (Sylvanus et al., 2024). It indicates how reliable and productive these assets are in contributing to the organization's financial stability and growth. In banking, asset quality is often evaluated through the level of non-performing loans, reflecting how effectively the bank manages lending and investment decisions (Abdulazeez et al., 2019). High asset quality is associated with sound financial practices, prudent risk management, and careful monitoring of borrowers or investment counterparts. Organizations with high-quality assets are able to sustain operations, generate income consistently, and

withstand adverse economic conditions. The evaluation of asset quality focuses on how well the assets perform in relation to the obligations of the borrowers or the returns on investments. It also considers the likelihood of loss or default, assessing the vulnerability of resources to financial deterioration. A strong portfolio of assets demonstrates that the organization has implemented careful appraisal methods, monitored repayments diligently, and avoided exposure to risky or unsustainable ventures.

In banks, asset quality is central to stability because a significant portion of their resources is tied to loans and advances extended to customers (Cheruiyot, 2016). Maintaining high-quality assets ensures that the bank can meet its obligations to depositors and stakeholders while sustaining profitability. Banks with sound asset quality demonstrate responsible credit management, efficient allocation of funds, and effective oversight of financial transactions (Badunenko et al., 2022). The reliability of these assets also influences the confidence of investors and regulators, shaping perceptions of the institution's financial health. Asset quality is therefore a critical aspect of an institution's overall performance. It captures the organization's capacity to generate returns from its financial resources while minimizing the risk of losses (Sylvanus et al., 2024). Asset quality was measured using the non-performing loan ratio, which indicates the proportion of loans in a bank's portfolio that are not generating interest or principal repayments. The non-performing loan ratio is calculated as the total non-performing loans divided by the total outstanding loans, reflecting the level of credit risk in the bank's assets.

## THEORETICAL FRAMEWORK

Agency Theory was first propounded by Michael C. Jensen and William H. Meckling in 1976 as a framework to explain the relationship between principals, typically shareholders, and agents, usually managers, in an organization (Gwala & Mashau, 2023). The theory emerged from concerns about how individuals entrusted with decision-making responsibilities may act in their own interests rather than those of the owners of the organization. It sought to provide a structured explanation of how conflicts of interest arise when there is a separation between ownership and control, and how monitoring mechanisms and incentive structures can help align the goals of managers with those of shareholders.

The main postulations of Agency Theory center on the notion that conflicts of interest are inherent in relationships where one party delegates decision-making authority to another (Sjåfjell, 2025). Managers, as agents, may pursue personal gains such as higher compensation, job security, or other benefits, which could be at the expense of shareholders' wealth or organizational performance. To mitigate these conflicts, principals implement monitoring mechanisms, including board oversight, performance evaluations, and reporting requirements (Al-Faryan, 2024). The theory emphasizes that proper governance structures, diligent supervision, and aligned incentives are necessary to ensure that agents act in accordance with the objectives of the principals. It also highlights the importance of accountability and transparency in reducing risks associated with mismanagement or opportunistic behavior.

Agency Theory is particularly relevant to the study of board diligence and asset quality in Nigerian deposit money banks because it provides a rationale for why attentive boards are essential in supervising management. When boards actively engage in oversight and monitor lending and investment decisions, they reduce the risk that managers will take actions that could harm the financial health of the bank (Glinkowska & Kaczmarek, 2015). By ensuring that management adheres to prudent credit and investment policies, diligent boards help maintain high-quality assets and prevent the accumulation of non-performing loans. The theory supports the idea that the level of board involvement directly affects the extent to which banks manage risks effectively, demonstrating the critical link between governance practices and the stability of financial institutions.

## Empirical Review

Ahmad et al. (2024) explored how the frequency of board meetings, representing board diligence, influences non-performing loans in commercial banks in Pakistan. Using panel data drawn from audited annual reports of twenty banks between 2009 and 2020, they applied fixed and random effects estimators. Their findings showed that while board meeting frequency had a positive relationship with non-performing loans, the effect was not statistically significant.

Sylvanus et al. (2024) studied the relationship between board characteristics and asset quality management among listed commercial banks in Nigeria. The research focused on board size and gender diversity as they relate to the non-performing loan ratio. Employing an ex-post facto design, data were obtained from annual reports of selected banks from 2013 to 2023. Using Pooled Estimated Generalized Least Squares at a 5% significance level, the study found that board size positively affects the non-performing loan ratio, while gender diversity has a significant negative effect.

Muhammad et al. (2023) analyzed how the size of the risk committee moderates the relationship between board attributes and credit risk exposure in listed deposit money banks in Nigeria. Using an ex-post facto design and data from 2009 to 2019, the study applied panel regression with Stata software for analysis. The results revealed that board size significantly affects credit risk exposure both before and after moderation. It was also found that board diligence and size contribute to lowering banks' credit risk exposure. The study emphasized that the Central Bank of Nigeria should continue enforcing strong corporate governance compliance to ensure financial stability.

Mwambuli and Mbuya (2022) assessed the effect of board meetings on loan performance in Tanzanian listed banks. Using an explanatory design and purposive sampling to select six banks, they found that board effectiveness positively influences loan performance through members' independence, gender, and skills diversity. However, the study showed that frequent board meetings negatively affect loan performance.

Ojeka et al. (2021) examined how audit committee meetings affect non-performing loans in Nigerian deposit money banks. The study used secondary data from the financial statements of fifteen banks and applied an ex-post facto research design. Employing multiple regression and panel data analysis, the Hausman test confirmed the random effect model as appropriate. Findings indicated that audit committee meetings have a negative but statistically insignificant relationship with non-performing loans.

Adegboye et al. (2020) investigated how board diligence influences non-performing loans in Nigerian banks between 2009 and 2017. Using static and dynamic panel estimators, the study revealed that board diligence significantly and negatively affects non-performing loans. The results suggest that strong governance practices enhance loan quality and promote bank stability.

Islam (2020) investigated the relationship between board activity and non-performing loans among publicly listed banks in the United States. Data covering 102 banks from 2002 to 2015 were obtained from COMPUSTAT, CRSP, and SEC filings. The study found that non-performing loans are inversely related to the frequency of board committee meetings, implying that active boards help improve asset quality.

Abdulazeez et al. (2019) studied how board structure, measured by board size and independence, affects asset quality in Nigerian deposit money banks over a ten-year period (2008–2017). Data were obtained from annual reports of fifteen banks and analyzed using descriptive statistics, correlation, and OLS robust regression. The findings revealed that board structure variables did not significantly influence asset quality. The study recommended that independent directors should become more engaged in their responsibilities to improve banks' asset management.

## **METHODOLOGY**

This study adopted an ex-post facto research design to examine the effect of board diligence on the asset quality of listed deposit money banks in Nigeria. The choice of this design was based on the nature of the data, which are historical and already documented in the banks' annual reports (Ikwuo et al., 2025; Elom et al., 2025). The study did not involve any manipulation of variables but relied on existing financial and governance information to determine the relationship between board diligence and asset quality. This design is appropriate for establishing causal relationships among variables using secondary data drawn from actual corporate practices. The population for this study comprised the thirteen (13) deposit money banks listed on the Nigerian Exchange Group as of 2024. These banks are recognized entities under the regulatory oversight of the Central Bank of Nigeria (CBN) and the NGX. Table 3.1 presents the full list of the banks forming the population of the study.

**Table 3.1: Study Population**

1. Access Bank Plc
2. Ecobank Transnational Incorporated Plc
3. Fidelity Bank Plc
4. First Bank of Nigeria Holdings Plc
5. First City Monument Bank Plc
6. Guaranty Trust Holding Company Plc
7. Stanbic IBTC Bank Plc
8. Sterling Bank Plc
9. United Bank for Africa Plc
10. Wema Bank Plc
11. Zenith Bank Plc
12. Jaiz Bank Plc
13. Unity Bank Plc

**Source:** Nigerian Exchange Group (2024)

The study sample comprised twelve (12) listed deposit money banks in Nigeria. Unity Bank Plc was excluded because it had not published its 2024 annual report as of the time this study was being reported. The inclusion of the other twelve banks was based on the availability of complete data for the study period (2015–2024).

The study utilized secondary data extracted from the audited annual reports and financial statements of the selected banks covering the period 2015 to 2024. The data included information on board meetings, non-performing loan ratios, and total assets. Board diligence was measured by the number of board meetings held per year, asset quality was measured by the ratio of non-performing loans to total loans, while bank size (control variable) was measured as the natural logarithm of total assets. Using secondary data ensures reliability, accuracy, and consistency because the figures are verified and approved by statutory audit and regulatory bodies such as the Central Bank of Nigeria and the Nigerian Exchange Group. The study considered three main variables: one independent variable (board diligence), one dependent variable (asset quality), and one control variable (bank size).

**Table 3.2: Measurement of Variables**

Variable	Type	Measurement
Board Diligence	Independent	Number of board meetings held per year
Asset Quality	Dependent	Non-performing loan ratio (NPL/Total Loans)
Bank Size	Control	Natural logarithm of total assets

**Source:** Researcher’s Compilation (2025)

The study specified an econometric model to examine the effect of board diligence on asset quality, controlling for bank size. The functional relationship is expressed as:

$$AQ = f(BDIL, BSZ) \dots\dots\dots (eq. 1)$$

Where:

AQ = Asset Quality (Non-performing loan ratio)

BDIL = Board Diligence (Number of board meetings)

BSZ = Bank Size (Natural logarithm of total assets)

The econometric form of the model is specified as:

$$AQ_{it} = \alpha + \beta_1 BDIL_{it} + \beta_2 BSZ_{it} + \varepsilon_{it} \dots\dots\dots (eq. 2)$$

Where:

$AQ_{it}$  = Asset Quality of bank  $i$  at time  $t$

$\alpha$  = Constant term

$\beta_1, \beta_2$  = Coefficients of the explanatory variables

$\varepsilon_{it}$  = Error term

$i$  = Cross-sectional dimension (individual banks)

$t$  = Time period (2015–2024)

The data were analyzed using Panel EGLS (Period SUR) regression technique. This method was employed to correct for both panel heteroskedasticity and cross-sectional dependence, which are common issues in banking data due to variations in bank size and operational differences. The analysis was conducted using EViews 10 statistical software. Descriptive Statistics was used to summarize the data, showing the mean, maximum, minimum, and standard deviation of each variable. Panel EGLS (Period SUR) was used to test the hypotheses and estimate the effect of board diligence on asset quality while controlling for bank size. This technique provides efficient estimates even when cross-sectional and time-series errors are correlated. In testing the hypotheses, a 1% level of significance ( $p < 0.01$ ) was adopted. The null hypothesis will be rejected if the p-value is less than 0.05, indicating a statistically significant relationship between board diligence and asset quality. If the p-value is greater than or equal to 0.05, the null hypothesis will not be rejected, implying that board diligence has no significant effect on asset quality among listed deposit money banks in Nigeria.

## Data Analysis

### Descriptive Analysis

**Table 4.1 Descriptive Statistics**

	AQ (proxy by NPLR)	BDIL	BSZ
Mean	0.071630	6.608333	9.441270
Median	0.049000	6.000000	9.470900
Maximum	0.694474	16.00000	10.63651
Minimum	0.010000	3.000000	7.721310
Std. Dev.	0.092016	2.474393	0.556160
Skewness	4.652300	1.216684	-0.597528
Kurtosis	27.24331	4.240699	3.776993
Jarque-Bera	3371.569	37.30305	10.15939
Probability	0.000000	0.000000	0.006222
Sum	8.595632	793.0000	1132.952

Sum Sq. Dev.	1.007557	728.5917	36.80839
Observations	120	120	120

Source: Eviews 10 Output (2025)

Table 4.1 presents the descriptive statistics of the variables used in the study, including Asset Quality (AQ), Board Diligence (BDIL), and Bank Size (BSZ), based on 120 observations. For Asset Quality, measured by the Non-Performing Loan Ratio (NPLR), the mean value of 0.0716 indicates that, on average, about 7.16% of the total loans in the sampled banks were classified as non-performing during the study period. The minimum value of 0.01 suggests that some banks maintained very low levels of bad loans, while the maximum value of 0.6945 shows that others faced significant loan quality problems, with nearly 70% of loans becoming non-performing. The standard deviation of 0.0920 reveals a considerable level of variability in asset quality among the banks, suggesting differences in credit risk management practices. The skewness value of 4.6523 indicates that the distribution of non-performing loans is highly positively skewed, meaning that most banks recorded low NPL ratios while a few experienced extremely high ratios. The kurtosis value of 27.2433 shows a leptokurtic distribution, implying the presence of outliers with unusually high NPL ratios. The Jarque-Bera probability of 0.0000 confirms that the distribution of asset quality deviates significantly from normality.

For Board Diligence, the mean value of 6.61 in Table 4.1 shows that, on average, the boards of the sampled banks held approximately seven meetings per year between 2015 and 2024. The minimum value of 3.00 and the maximum value of 16.00 indicate that while some boards met only three times in a year, others met as many as sixteen times, reflecting wide differences in board activity levels across banks. The standard deviation of 2.4744 suggests a moderate level of dispersion around the mean, meaning that while some banks had very active boards, others were less engaged. The skewness value of 1.2167 indicates that the distribution of board meetings is positively skewed, showing that most banks held fewer board meetings while only a few had very high meeting frequencies. The kurtosis value of 4.2407 suggests a leptokurtic distribution, implying that the data are peaked with more frequent extreme observations. The Jarque-Bera probability of 0.0000 shows that the variable is not normally distributed, which may be attributed to the variation in governance practices among banks.

Regarding Bank Size, Table 4.1 shows that the mean value of 9.4413 (measured as the natural logarithm of total assets) reflects the relatively large size of the listed deposit money banks in Nigeria. The minimum value of 7.7213 and the maximum of 10.6365 indicate that the sample includes both smaller and very large banks, capturing a wide range of institutional sizes within the industry. The standard deviation of 0.5562 suggests that there is relatively low variability in bank size compared to other variables, meaning that most banks fall within a similar asset range. The negative skewness value of -0.5975 indicates that the distribution is slightly left-skewed, meaning that more banks have total assets above the average size. The kurtosis value of 3.7770 shows that the distribution is slightly leptokurtic, implying a concentration of bank sizes around the mean with few extreme values. The Jarque-Bera probability of 0.0062 confirms that the distribution of bank size is not perfectly normal, although the deviation is not as extreme as that observed in asset quality and board diligence.

**Table 4.2 Multicollinearity Test**

Variance Inflation Factors			
Date: 10/15/25 Time: 02:26			
Sample: 1 120			
Included observations: 120			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
BDIL	1.08E-05	9.183605	1.120975
BSZ	0.000214	326.8759	1.120975
C	0.017614	301.1460	NA

Source: Eviews 10 Output (2025)

Table 4.2 presents the results of the multicollinearity test conducted using the Variance Inflation Factor (VIF). The essence of this test is to check whether the independent variables in the model, Board Diligence (BDIL) and Bank Size (BSZ), are highly correlated with each other, which could distort the accuracy of the regression estimates. The results show that both BDIL and BSZ have a VIF value of 1.120975, which is well below the common threshold of 10, and even lower than the more conservative threshold of 5. This indicates that there is no evidence of multicollinearity among the explanatory variables. Therefore, the variables used in the model are independent of one another, and the regression estimates are not likely to be biased due to linear relationships between them.

**Table 4.3 Model Diagnostics**

Test	Statistic / Value	Probability
Residual Cross-Section Dependence Test (Pesaran CD)	7.429880	0.0000
Panel Cross-section Heteroskedasticity LR Test (Likelihood Ratio)	250.5641	0.0000

Source: Eviews 10 Output (2025)

Table 4.3 shows the results of the model diagnostic tests, specifically the Residual Cross-Section Dependence Test and the Panel Cross-Section Heteroskedasticity Likelihood Ratio (LR) Test. The purpose of the Residual Cross-Section Dependence Test (Pesaran CD) is to determine whether the residuals (errors) across the cross-sectional units, in this case, the sampled banks, are correlated. The test statistic of 7.429880 with a probability value of 0.0000 indicates significant cross-sectional dependence, suggesting that the residuals are not independent across banks. This implies that changes in one bank’s performance could be associated with changes in others, possibly due to shared economic or regulatory factors. Similarly, the Panel Cross-Section Heteroskedasticity LR Test checks whether the variance of the residuals is constant across all observations. The likelihood ratio value of 250.5641 with a probability of 0.0000 shows the presence of heteroskedasticity, meaning that the variance of the residuals differs among banks. These results justify the use of the Panel EGLS (Period Seemingly Unrelated Regression) estimation method, which corrects for both cross-sectional dependence and heteroskedasticity to ensure reliable and efficient results.

**Test of Hypothesis**

H<sub>0</sub>: Board diligence has no significant effect on the asset quality of listed deposit money banks in Nigeria.

**Table 4.4 Test of Hypothesis**

Dependent Variable: AQ				
Method: Panel EGLS (Period SUR)				
Date: 10/15/25 Time: 02:09				
Sample: 2015 2024				
Periods included: 10				
Cross-sections included: 12				
Total panel (balanced) observations: 120				
Linear estimation after one-step weighting matrix				
Period SUR (PCSE) standard errors & covariance (d.f. corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDIL	0.005603	0.000518	10.81106	0.0000
BSZ	-0.073231	0.004334	-16.89599	0.0000
C	0.724488	0.043049	16.82931	0.0000
Weighted Statistics				
R-squared	0.818846	Mean dependent var		0.908720
Adjusted R-squared	0.815750	S.D. dependent var		2.891289
S.E. of regression	1.002706	Sum squared resid		117.6341

F-statistic	264.4305	Durbin-Watson stat	1.967769
Prob(F-statistic)	0.000000		

Source: Source: Eviews 10 Output (2025)

Table 4.4 presents the results of the test of hypothesis using the Panel EGLS (Period Seemingly Unrelated Regression) estimation technique, which corrects for both heteroskedasticity and cross-sectional dependence. The Adjusted R-squared value of 0.8158 indicates that about 81.6% of the variations in asset quality among the listed deposit money banks are explained by board diligence and bank size. This shows that the model provides a strong fit to the data and that the explanatory variables collectively account for a substantial proportion of the changes in asset quality across banks and over time. The probability of the F-statistic (0.0000) is significant at the 1% level, confirming that the overall model is statistically reliable and that the independent variables jointly have a meaningful effect on asset quality. The Durbin–Watson statistic (1.9678) is approximately equal to 2, suggesting that there is no evidence of serial correlation in the residuals, thereby confirming that the model’s estimates are dependable.

The constant term (C) has a coefficient of 0.7245, which is statistically significant at the 1% level ( $p = 0.0000$ ). This means that when board diligence and bank size are held constant, the average level of non-performing loans would be approximately 0.7245. The significance of the constant indicates that other factors not captured in the model, such as credit policies, management efficiency, or macroeconomic conditions, may also influence asset quality.

For board diligence (BDIL), the coefficient is 0.0056, and it is statistically significant at the 1% level ( $p = 0.0000$ ). This positive coefficient means that an increase in board diligence, measured by the number of board meetings, leads to an increase in the non-performing loan ratio. Since higher non-performing loans represent poorer asset quality, this result implies that greater board diligence has a negative effect on asset quality. The marginal effect shows that for every additional board meeting held, the non-performing loan ratio increases by about 0.56%, suggesting a deterioration in asset quality. The significant effect at 1% implies that board diligence exerts a strong influence on the asset quality of banks. This finding may indicate that frequent board meetings are often reactive rather than preventive—boards may convene more often when banks face loan recovery challenges or rising credit risks. Therefore, the null hypothesis that board diligence has no significant effect on the asset quality of listed deposit money banks in Nigeria is rejected at the 1% significance level.

For bank size (BSZ), the coefficient is -0.0732, with a probability value of 0.0000, showing a negative and significant effect at the 1% level. This implies that as bank size increases, the non-performing loan ratio decreases, reflecting better asset quality. In marginal terms, a 1% increase in bank size leads to a 7.32% decline in non-performing loans, holding other factors constant. This result suggests that larger banks tend to manage credit risk more effectively due to stronger internal controls, diversified portfolios, and more experienced management teams.

## DISCUSSION OF FINDING

The finding that more frequent board meetings are associated with higher non-performing loan ratios can be understood as reflecting how boards respond to problems rather than prevent them; boards often convene more often when loan performance deteriorates, when regulatory pressure mounts, or when management signals trouble, so meeting frequency in practice may be a marker of stress rather than effective oversight. This pattern aligns with Ahmad et al. (2024), who report a positive link between meeting frequency and NPLs in Pakistani banks, and with Mwambuli and Mbuya (2022), who observed that frequent meetings can coincide with poorer loan performance in Tanzanian banks, suggesting that meetings alone do not guarantee better credit outcomes. Other studies offer contrasting evidence, however: Adegboye et al. (2020) and Islam (2020) find that active boards or frequent committee meetings are linked to lower NPLs, implying that when meetings are focused, well-informed, and followed by decisive action they can strengthen credit monitoring and reduce defaults. Mixed results elsewhere, such as Ojeka et al. (2021) who report an insignificant negative association, Abdulazeez et al. (2019) who find no significant board-asset quality link, and Muhammad et al. (2023) who show that board

structures and committee arrangements can mitigate credit risk, point to heterogeneity in how boards operate: the content of meetings, the expertise of directors, the timeliness of decisions, and the capacity to translate oversight into managerial change appear to determine whether meeting frequency helps or hinders asset quality. In this study, the positive coefficient on board diligence likely reflects reactive convening and weak follow-through in the sampled Nigerian banks, compounded by possible reverse causality where worsening loan portfolios prompt more meetings, and by governance variations across banks that make meeting count an imperfect measure of effective oversight.

## CONCLUSION AND RECOMMENDATION

The finding that greater board diligence, measured by the number of board meetings, is associated with higher non-performing loan ratios among listed deposit money banks in Nigeria highlights a deeper governance dynamic within the banking sector. This outcome suggests that frequent board meetings may not necessarily translate into improved asset quality, but may instead be a response to worsening loan conditions. Boards may become more active and hold more meetings when faced with rising credit risks, loan defaults, or regulatory pressures. Such behavior reflects a reactive rather than proactive governance pattern, where meetings are convened to address existing challenges instead of preventing them. The result also indicates possible inefficiencies in board oversight, as frequent deliberations may not always lead to effective monitoring, sound lending policies, or prudent risk management decisions. It raises questions about the quality of discussions held, the expertise of board members, and the timeliness of interventions in loan management processes. Additionally, the finding highlights the complexity of board diligence as a governance measure: showing that the number of meetings alone does not guarantee effective oversight. This relationship also points to potential challenges in aligning board responsibilities with managerial actions, suggesting that while boards may meet often, decision implementation or enforcement may lag behind. In a broader sense, this outcome reveals that institutional governance structures may still struggle to translate diligence into tangible improvements in loan performance and financial stability. It reflects a structural gap between corporate governance activities and operational effectiveness in credit risk management. The evidence from this study therefore deepens the understanding that board diligence, when not matched with quality decisions, strategic foresight, and effective execution, may fail to improve asset quality and could even coincide with periods of financial distress in the banking sector.

It is recommended that the boards of listed deposit money banks in Nigeria improve the effectiveness and quality of their meetings by ensuring that each session focuses on strategic oversight, timely risk assessment, and practical credit management decisions rather than frequent routine deliberations. Board members should be provided with adequate information and analysis before meetings to enable data-driven discussions that directly address emerging loan quality issues. The Central Bank of Nigeria should also strengthen its corporate governance supervision by requiring banks to demonstrate how the outcomes of board meetings translate into measurable actions that enhance asset quality, ensuring that board diligence results in meaningful performance improvements rather than increased administrative activity.

### Contribution to Knowledge

This study contributes to the existing body of knowledge by providing fresh evidence on how board diligence influences asset quality among listed deposit money banks in Nigeria. Unlike earlier research by Ahmad et al. (2024), Sylvanus et al. (2024), Muhammad et al. (2023), Mwambuli and Mbuya (2022), Ojeka et al. (2021), Adegboye et al. (2020), Islam (2020), and Abdulazeez et al. (2019), which focused mainly on board structure, gender diversity, and committee activities, this study specifically examined board diligence using the number of board meetings as a measure. It also covered a longer and more recent period from 2015 to 2024, providing updated findings that reflect the current realities of the Nigerian banking sector. By employing the Panel EGLS technique to address issues of heteroskedasticity and cross-sectional dependence, the study offers a more robust estimation of the relationship between board diligence and asset quality, thereby enriching the literature on corporate governance and risk management in emerging economies.

### Limitations of the Study and Suggestion for Further Studies

One limitation of this study is that it relied entirely on secondary data from the annual reports of the banks, which

may not capture all aspects of board diligence or asset quality. Some qualitative factors, such as the quality of discussions during board meetings or the decision-making style of board members, could not be measured. Additionally, the study focused only on listed deposit money banks in Nigeria, which limits the ability to generalize the findings to other banks or financial institutions. The exclusion of Unity Bank due to missing data also slightly reduced the sample size.

Future research could expand the study to include both listed and non-listed banks to provide a broader view of how board diligence affects asset quality. Researchers could also use interviews or surveys to capture qualitative aspects of board engagement, such as decision-making processes and monitoring effectiveness. Examining other governance variables, such as board independence or expertise, and their combined effect on asset quality could provide more detailed hints. Studies could also explore longer periods or different countries to compare results across banking systems.

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