INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

Vol 15, Issue 3, (2025) E-ISSN: 2222-6990

Institutionalizing the Determinants of Corporate Governance of Deposit Money Banks in Nigeria: A Theoretical Framework

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To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v15-i3/25149 DOI:10.6007/IJARBSS/v15-i3/25149

Published Date: 27 March 2025

Abstract

Purpose The purpose of this study is to investigate the factors that influence deposit money banks' corporate governance in Nigeria. It is well known that several of the deposit money banks listed on the Nigerian Stock Exchange exhibit poor corporate governance over time, which has led to several unfavorable outcomes. **Design/methodology/approach** The paper is a conceptual paper that is based on literature review for the formulation of theoretical framework and hypotheses development. The paper reviews the persistent issues with the Deposit money banks in Nigeria pre and post bank consolidation in the year 2006. **Findings** Evidence from the literature suggests that the issues with the banks are institutional issues that comprise political and unethical business behavior, coupled with the inefficiency in part of the regulatory bodies. To address the research problem institutional theory is considered relevant. **Practical implications** The framework developed in line with institutional theory will be useful in addressing the persistent challenges with the banks, particularly the regulatory bodies. **Originality/value** The originality and value created by this study is exploration of the moderating role of regulatory coercive measures under the regulatory pillar of institutional theory. The second way the study adds to knowledge is by institutionalizing the factors that are thought to influence how banks in Nigeria are governed. In order to evaluate corporate governance determinants and dimensions from the perspective of a country's unique characteristics, this paper offers a crucial research context.

Keywords: Corporate Governance, Deposit Money Banks, Regulatory Bodies, Nigeria

Background of the Study

Corporate governance is a phenomenon that is based on numerous complex disciplines, including but not limited to legal, cultural, ownership, and other structural variables (Mallin,

2016) but it is undeniably fragile from the ground up (Tricker, 2012). The expansion, development, and growth of the economy, changes to the corporate structure, and the challenges these changes brought about all had an impact on corporate governance (Abid et al., 2015). The Cadbury Report defined it as "the full array of controls, both financial and otherwise, by which a corporation is directed and controlled" (1992). While some critics adopt a more thorough stakeholder/social approach, others argue that the purpose of governance should be to maximize shareholder value (Brickley & Zimmerman, 2010). Corporate management is "a collection of relationships between a company's board of directors, shareholders, and other stakeholders. It also provides the foundation for setting the company's goals, as well as strategies for reaching them and evaluating success " (Kirkpatrick, 2009). Due to the banks' crucial role in providing borrowers with loans, the role of the bank as an intermediary is required to stabilize the economy (Diamond & Rajan, 2005; Rashid et al., 2020). Due to issues with failures and potential bank crises brought on mostly by governance failure, the Nigerian banking industry has recently come under fire.

The banking system is the backbone of any modern economy, but it also promotes economic expansion and acts as a conduit for the dissemination of monetary policy (Marshal, 2017). This is because the government has a reason to regulate and oversee banks because they further goals of public policy. Another justification for the government's active oversight of banking activities is the risks and vulnerabilities that banks experience as a result of their basic structure and intended use. Oceanic Bank, Intercontinental Bank, Nitel, and Vodafone are just a few of the financial and non-financial businesses in Nigeria that have failed over the past 20 years as a result of poor corporate governance (Adegbite, 2012; Nakpodia et al., 2023; Nakpodia & Adegbite, 2018; Ozili, 2020). Interest in Nigerian corporate governance studies have increased as a result of Nigeria's corporate failures. What particularly makes the case for Nigeria compelling are the various corporate governance studies that have concentrated on the country as well as the range of corporate governance legislation inside the weak institutional structure plagued by corruption. Specific codes conflict in a number of places, which would have an impact on how Nigerian public firms adhere to regulatory standards.

Poor banking practices, weak legal and regulatory systems, and unpredictable accounting and auditing standards are a few of them. Ineffective corporate board oversight, weak and poorly regulated capital markets, and contempt for the rights of minority shareholders are other problems with corporate governance (Melyoki, 2005). Accordingly, in developing countries, weak legal and regulatory frameworks are frequently viewed as a problem. Less developed countries often have less effective legal and regulatory systems, whereas developed countries typically have more intricate and sophisticated regulatory frameworks (Lin, 2000). Another aspect that may be considered as primarily aggravating the problem in developing countries is the instability and absence of effective regulation of the stock exchange. This is a result of the sluggish rate of market development in these economies (Lin, 2000). According to Almashhadani and Almashhadani (2022), widespread corporate governance failure was one of the major causes of the financial and economic catastrophe. Therefore, financial institutions in Nigeria are therefore not exempt from these scholarly submissions. These issues are persisting, especially with Nigeria's deposit money banks.

Accordingly, the Nigerian Stock Exchange (NSE) has acknowledged these persistent issues, and as a means of encouraging the larger companies, it is putting good corporate governance along with capitalization and liquidity factors a requirement for listing on its upcoming Premium Board. Additionally, it is developed a tradable Corporate Governance Index, which should soon allow stakeholders to see more transparency into the governance standards of companies listed on the exchange (as well as a means of rewarding continuously complying corporations and penalizing persistently deviant ones).

Problem Statement

It is important to note that almost no economic sector has escaped the harmful effects of bad corporate governance procedures. The Nigerian deposit money banks are not exceptional because they have engaged in dishonest and unethical commercial practices (Ozili, 2020; Sanusi, 2010). . Despite the legal structure, there have been numerous corporate governance scandals, notably the banking crisis that led to the demise of many banks in Nigeria over time (Nakpodia et al., 2023; Tahir et al., 2017). Weak institutional frameworks (Nakpodia et al., 2018) and inadequate corporate regulation are frequently blamed for these difficulties (Adekoya, 2011; Nakpodia et al., 2023).The corporate governance failure with Deposit money banks in Nigeria has had a negative impact on the economy in a number of ways, including the liquidation of many banks, loss of funds by the government as a way to bailout the failing banks, an excessive debt portfolio, a loss of investor confidence, a negative impact on the capital market, and job losses, among other repercussions (Akande, 2016; Marshal, 2017; Ozili, 2020).

Eight out of 24 Nigerian banks were deemed distressed by the Central Bank of Nigeria, with a total of 32.8 percent in nonperforming loans (Alabede, 2012). Approximately $10 billion in hazardous assets were held by Nigerian banks (Alawiye-Adams & Afolabi, 2014). Due to corporate financial wrongdoing, the CBN dismissed the bank's CEOs and directors and allocated 4.1 billion in rescue funding for the impacted banks (Ezeoha, 2011). As a result of poor governance, excessive risk-taking, and corporate financial wrongdoing, the CBN dismissed business executives (Adegbite & Nakajima, 2011; Akande, 2016). The overall business issue was that poor corporate governance in banks made regulators' concerns about protecting banking customers' funds more important (Adegbite, 2012). Some corporate financial leaders' limited use of corporate governance measures to assure legal compliance and improve organizational financial performance was the specific business issue at hand (Akande, 2016). Additionally, the overall number of financial misconduct cases increased gradually from 3756 in 2013 to 26182 in 2017. Various forms of financial misconducts resulted in actual sustained losses of N5.757 billion, N6.193 billion, N3.173 billion, N2.446 billion, and N2.372 billion, respectively, according to the NDIC Annual Report, 2013-2017 (Omankhanlen et al., 2021).

According to some researchers, bad corporate governance is linked to weak internal controls, nondisclosure, dishonest risk management strategies that result in a significant amount of non-performing credits, particularly those connected to insider trading, non-compliance with internal control and operating procedure standards, and loan abuses. Financial malpractices, bank operating strength, and political influences may potentially have an impact on the strength of corporate governance in the nation, according to the nature and trend of corporate governance of deposit money banks in Nigeria and the corporate governance indicators proposed by scholars.

Conceptual Literature

Nigerian Context: Corporate Governance Reality, and Bank Failure

Academic literature has only recently begun to recognize corporate governance as a distinct and organized topic of study (Kumar & Zattoni, 2019). Microeconomics, organizational economics, organizational theory, information theory, law, accounting, finance, management, psychology, sociology, and politics are just a few of the numerous scientific fields that connect with this one (Pandey et al., 2023). A firm uses a system of procedures, customs, and laws known as corporate governance to guide and oversee its activities (Mallin, 2016; Monks & Minow, 2011). Organizational good governance is just as important as national good governance. The goal of corporate governance is to align the interests of individuals, society, and organizations as possible as closely (Gatamah, 2004; Hart & Zingales, 2022). Corporate governance is viewed as a meta-management tactic that links organizational, financial, legal, and ethical issues with the success of businesses. It is also seen as a system that integrates stakeholder relations. Corporate reputation, however, is viewed as a diverse phenomenon and distinctive strategic relational resource that could assist a business in achieving a range of objectives and cultivating the interactions with its numerous stakeholder groups that it prefers (Tomsic, 2013).

However, poor corporate governance has led to the demise of numerous financial and non-financial companies in Nigeria during the past 20 years, including Oceanic Bank, Intercontinental Bank, Nitel, and Vodafone (Ozili, 2020). Due to these firm failures in Nigeria, there are a rising amount of research on corporate governance. The numerous CG studies that have concentrated on Nigeria and the variety of corporate governance laws inside the frail institutional system plagued by corruption are what particularly make the argument for the country appealing. Nigeria already has institutions that control how businesses operate and behave, but these organizations have little to no enforcement power to hold lawbreakers accountable (Ahunwan, 2002; Ozili, 2020). Companies frequently disregard corporate governance principles, especially those whose boards of directors include prominent politicians (Nakpodia & Adegbite, 2018) Leaders of rule-breaking businesses also typically have political connections with high government officials, and they may pay their institutional regulator or supervisor to avoid penalty (Adegbite, 2012). In a similar vein, (Oyejide & Soyibo, 2001) evaluate the state of corporate governance in Nigeria and argue that despite having the institutions and legal framework necessary for good corporate governance, compliance and/or enforcement are either ineffective or nonexistent in Nigeria. Another issue is the multiple limitations that make it challenging for Nigeria's current corporate governance regulations to function, as well as the diverse interpretations of those codes (Osemeke & Adegbite, 2016). Since various actors, including managers, attorneys, and the courts, have varying interpretations that affect corporate governance standards in Nigeria, this has been an ongoing issue.

Adekoya (2011) demonstrate that entrenched corruption, political patronage, and a reluctance on the part of government organizations to enforce and monitor compliance are the main reasons of corporate governance failures in Nigeria. Corruption in the unfavorable business climate is another factor in the failure of corporate governance (Letza, 2017) This is consistent with the presentation by (L. S. Sanusi, 2010) that “What is certain is that among individuals who present themselves as role models in contemporary society are those who benefited from failing banks. owners and executives who go on to become governors and senators. Bad debtors are multibillionaires who took the money from those poor, deceased folks and never paid it back. According to (Marshal, 2017), the institutional, economic, and political factors were primarily to blame for Nigeria's repeated bank collapses. However, due to their relevance to the research topic and for the purposes of this study, institutional issues will be taken into account as a cause of bank failure. This is because the banks are primarily responsible for owning and managing these problems. However, institutional problems, such as inadequate corporate governance, insider loan abuses, and subpar asset risk management, can be connected to every bank failure in Nigeria.

On the role of the regulatory bodies, Marshal (2017) thoroughly analyzed the CBN's function as a prudential supervisor and regulator of the nation's banking system in relation to the waves of bank collapses. It was determined that the CBN should be held accountable for her regular obligations as the banking industry's watchdog and regulator. It was disturbing that the CBN, not only due to a lack of personnel but also of those who are trained and talented, was unable to detect the dishonest activity taking place at various banks operating in the country. Along with this challenge, the deregulation of the banking sector in the 1980s led to a significant number of banks finishing their accounting periods without being on-site examined by the CBN, even though in some cases the supervisor and regulator of the country's banking sector conducted on-site examinations every two to three years (Ogunleye, 2010). Because the problems with the banks were found far too late and led to their demise, this, of course, contributed to the recent bank failures the industry has seen.

Empirical Literature and Gaps from Literature Review

In the area of corporate governance, there is a wealth of literature. However, discussing factors that affect corporate governance strength remains of interest because these factors are highly influenced by the nature of the firms, the country or environment, societal norms, and the researcher's area of interest. Therefore, a consensus on the factors that constitute corporate governance strength could not be reached.

In a multi-country study, Arantes et al. (2020) examined the cultural factors that influence corporate governance in the context of companies that were listed in Brazil, Mexico, Argentina, Colombia, Peru, Chile, and the United States in 2016. In this study, regression analysis was performed to connect the firm's EM practices to several components of culture. The results showed that EM and both power distance and uncertainty avoidance had a positive association. A conflict between EM and personality as well as between EM and long-term orientation was however shown by the data. Overall, our data suggest that culture has an impact on how businesses manage their profits. In their study Qintharah and Utami (2023) used integrated corporate governance as a moderator to examine the factors that influence environmental disclosure. A non-probabilistic sampling technique is combined with purposeful sampling. Use a sample criterion company acceptable for the sector and publish a report on any prospective financial resources accessed between 2018 and 2021 to independently analyze this. The results of the test show that worldwide environmental certification has no effect on environmental disclosure, industry sensitivity positively affects it, and international corporate governance can improve the relationship between environmental costs and environmental disclosure. industry sensitive to revelations regarding the environment.

In an emerging economy, Arslan and Alqatan (2020) analyzed the function of institutions in the system of corporate governance. This study, which draws on the theoretical underpinnings of institutional theory, theorizes corporate governance practices and structures as institutionally resolved and directed, and investigates the major institutional determinants of excellent corporate governance practices in a developing economy. Using a qualitative technique, the study identifies eight crucial antecedents of effective corporate governance practices in weak institutional contexts (Pakistan). The study focuses on the impact of many underlying formal and informal institutional variables on corporate governance, including auditing, political, legal, board, shareholder awareness, voting, culture, and values. This paper makes the case that each of these predecessors must be openly expressed, implicitly communicated, and connected in order to handle certain corporate governance issues. However, this study had the fortunate circumstance of qualitatively identifying the pertinent and environmental difficulties with the existing reality of businesses' corporate governance in this period. However, the results lack empirical support.

The Determinants of Good Corporate Governance of Companies Listed on the IDX were investigated by Praditha et al. (2022) The nature of this investigation is quantitative. The 51 samples for the study were collected utilizing the Purposive Sampling approach following three years of observation from 17 of the 45 companies that are indexed LQ45 on the Indonesia Stock Exchange. The results show that ownership concentration, company size, and leverage all have significant effects. The test results show a favorable and significant influence on the application of corporate governance, partially for each variable and simultaneously for all aspects. According to the study's findings, the corporation focuses on examining the factors that influence the enhancement of its implementation because adopting corporate governance is crucial for raising the value of the company. Also, Mumtaz (2021) conducted research on the effects of firms' life cycles and Shriah compliance status as predictors of corporate governance of firms in Pakistan. The research was quantitatively conducted utilizing secondary data obtained from the companies. Regression analysis with panel data was used to analyze the data. Based on 84 companies that were listed at the Pakistan Stock Exchange between 2015 and 2019, the results. This study used panel data analysis to look at the relationship between the dependent and independent variables. The results of this study demonstrate that neither the stage of a company's lifecycle nor its affiliation with the Islamic faith significantly and favorably affect corporate governance. The study's findings support managers, investors, managers, and regulators in their knowledge of the effects of shariah compliance and firm life stages on corporate governance.

None the less, Khanchel (2007) investigated the conditions that resulted in efficient governance in US corporations. 624 publicly traded, non-financial US companies were used as a sample for the research, which covered the years 1994 to 2003. To indicate the governance quality, four indices were created: one for the board of directors, another for the board committees, a third for the audit committee, and a fourth indicating the overall or total index. The study uses a number of regression analysis to pinpoint the elements that go towards good governance. The empirical results show that each governance indicator (aside from the board index), firm size, investment prospects, intangible assets, and ownership of directors and officers have statistically significant and positive associations. Each governance parameter taken into consideration has a positive correlation with institutional ownership and the need for outside finance. However, the amount of governance is not greatly influenced by growth prospects or performance.

Therefore, individual studies have highlighted the potential impact of internal control system, risk management, loan abuses, and financial disclosure on the corporate governance of the banks in relation to the ongoing concerns with the corporate governance of the deposit money banks in Nigeria. However, the influence of politics on the corporate governance of Nigeria's deposit money banks was only briefly mentioned, with no clear explanation of how this relates to the corporate governance features of the banks. The problem of unethical behavior coupled with financial malpractices, which is virtually becoming the standard in Nigeria, has also had an impact on the corporate governance of Nigerian banks. This hasn't, however, been verified as proof of its rationale. Additionally, there is a dearth of research on the effectiveness of the CBN's segmentation of Nigeria's deposit money banks into international, national, and regional banks in terms of the banks' corporate governance. Capitalization was designed to fortify financial institutions (i.e., banks) in their pursuit of good governance in the fields in which they are proficient.

Finally, scholars have also noted the shortcomings and weaknesses of the regulatory organizations with reference to the difficulties and conundrums facing Nigeria's deposit money institutions. Each sectoral regulator is allowed to apply appropriate sanctions for Code violations based on sectoral or industry laws and regulations. However, the corporate governance literature generally do not mention the moderating role of regulatory coercive measures on the strength of firms corporate governance.

Theoretical Literature

Institutional Theory

Institutional theory has typically focused on how various groups and organizations can better secure their positions and legitimacy by adhering to the laws and standards of the institutional environment (Bruton et al., 2010; Meyer & Rowan, 1977; Scott, 2008). Generally speaking, the term "institution" refers to the formal rule sets (North, 2019), ex ante agreements (Bruton et al., 2010), less formal shared interaction sequences (Jepperson, 1991), and taken-for-granted assumptions (Meyer & Rowan, 1977) that organizations and individuals are expected to abide by. These are obtained from laws, regulations, governmental agencies, court orders, professions, scripts, and other societal and cultural norms that put pressure on people to conform. Powell and DiMaggio (2012), Meyer and Rowan (1977), Brignall and Modell (2000), Hussain and Hoque (2002) and Khadaroo (2005) stated that he framework provided by institutional theory is helpful for comprehending the socioeconomic and legal impacts on nations and organizations, as well as those influences' strategic reactions. Institutions cover a variety of organizational systems that collaborate to achieve a common objective, such as supporting good corporate governance practices or developing and enforcing accounting standards, in addition to the structures, rules, and procedures that are exclusive to one firm (Khadaroo & Shaikh, 2007). Busenitz et al. (2000) provided a three-dimensional measure of country institutional profiles that takes into account the normative, cognitive, and regulatory components that are anticipated to have an impact on levels of entrepreneurship across national boundaries and cultural boundaries. The clear acknowledgment that country differences go beyond the cognitive aspect of cultural norms is one benefit of this strategy. The study approach avoids the generality that has restricted the prescriptive benefits that may be obtained from Hofstede (2001) dimensions by creating a measure that focuses primarily on larger institutional issues impacting entrepreneurship.

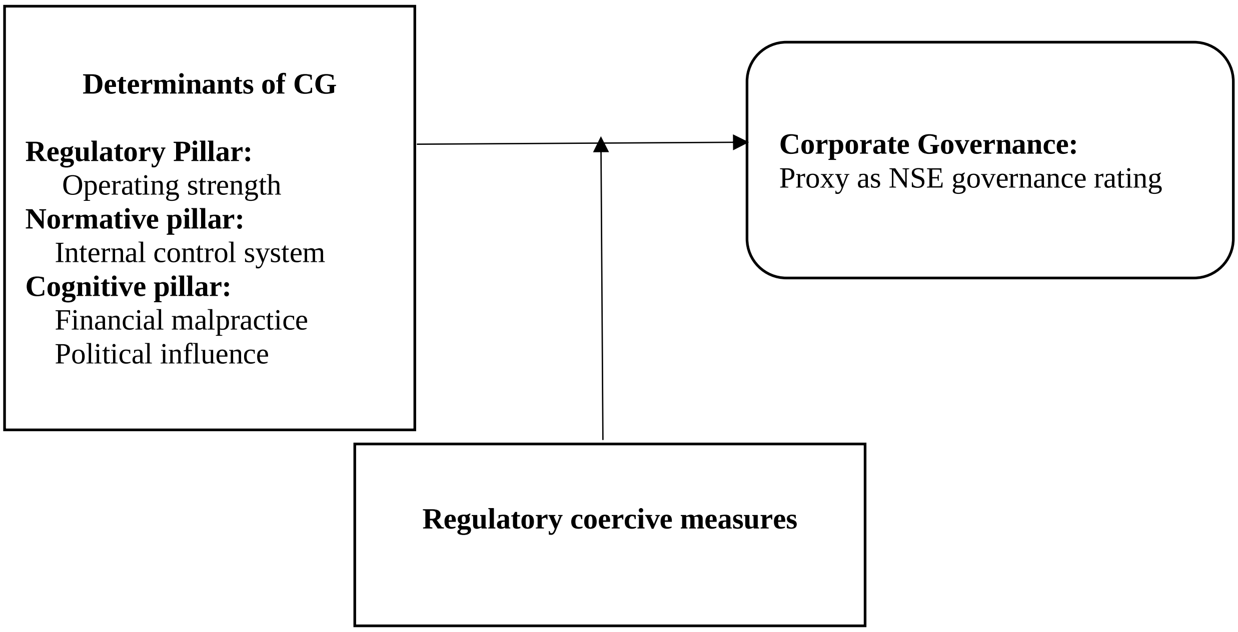
Theoretical Framework

The evidence and gaps from the literature suggest that the corporate governance of the deposit money banks in Nigeria could be determined by the internal control system in place, assets risk management, financial malpractice, political influence, and operating strength of the banks as dictated by the law. These are, however, not without the appropriate sanctions, supervision and surveillance in place to caution the law and corporate violators. Institutional theory provides a counterbalance to analyses based on objectivist ontology, which frequently results in a mathematical study of objectivated results, by paying attention to the social embeddedness of action (Lawson, 2013; Willmott, 2015). Further, Willmott (2015) stated that Institutional theory emphasizes that knowing, configured in complexes of meaning, plays a crucial role in forming the social environment.

To understand organizations in emerging nations, the three institutional pillars which are regulatory, normative and cognitive institutional pillars, are each regarded to be particularly significant and have an impact on business legitimacy (Bruton et al., 2010; Peng & Zhou, 2005). The rules, regulations, and their enforcement make up the regulatory institutional pillars (Scott, 2008). The operating strengths of the banks which are based on the CBN laws and regulations pertaining to the banks capitalization strength to qualify as being international, national and regional banks falls under regulatory pillar of institutional theory. The normative pillar stands for the behaviors that companies and people should exhibit; normative pillars are the expected norms of conduct and business customs of many occupations, professions, and organizational domains (Suchman, 1995). Accordingly, since every establishment develops their internal control systems as parts of their norms of conduct, these are within the coverage of normative pillar of the theory. The scripts, schemas, and taken-for-granted aspects that have an impact on people in a specific sociocultural setting are included in the cognitive institutional pillar. A cognitive assessment of legitimacy looks at how well an organization fits into its cultural context (Meyer & Scott, 1983). Therefore, the financial malpractices that is almost becoming a norm in the Nigerian society and the political influence can be accounted for by cognitive pillar.

Sources of coercive pressures include governments, consumers, and parent companies (Hartley et al., 2022). (Willmott, 2015) argued further that Institutionalization is not primarily a result of dominance or a medium of it, according to institutional theorists. It only qualifies as a product of power insofar as it is the outcome of coercive isomorphism, such as rules and regulations that are supported by tangible and symbolic punishments for violations. The rules, regulations, and their enforcement make up the regulatory institutional pillars. These institutions control individual and organizational behavior through sanctions, legislation, and political power (Scott, 2008). This implies that appropriate sanction could be administered within the fold of regulatory pillar. The need for the moderating role of regulatory coercive measures is vital. Finally, This study will adopt the NSE governance rating for banks as the measure of corporate governance. This will be in line with the measure of corporate governance using scores or indices as deviced by Brown and Caylor (2006); Bebchuk et al. (2009) and Tipurić et al. (2014).

Therefore, suggested theoretical framework is as presented below:



Hypotheses Development

In line with institutional theory, proposed research hypotheses are presented in five main sub-headings which include the hypotheses on each determinants of CG (such as operating strength, inetrnal control system, financial malpractices and political influence); and and the moderating variable regulatory coercive measures.

Operating Strength and Corporate Governance

The term "operating strength" in institutional theory describes a company's capacity to function well within its operational context, including elements like financial performance, operational effectiveness, and strategic efficacy (Narkhede, 2017; Wu et al., 2021). A company's ability to comply with institutional norms and expectations is shaped by its operating strength, which has a substantial impact on corporate governance (Witt et al., 2022). According to institutional theory, companies with strong operational skills are more likely to include governance practices that comply with social norms and legal requirements because their market position and financial stability enable them to make investments in strong governance frameworks (Campbell, 2007; Fuenfschilling & Truffer, 2014).

Operationally strong businesses are seen as well-managed and able to carry out their institutional responsibilities (Sharma et al., 2023). In general, companies with strong operational performance receive higher governance ratings. Efficiency and effectiveness are viewed as signs of excellent governance (Boulhaga et al., 2023). A company with high operating strength can better project legitimacy and success by showcasing its value-adding capabilities (Rainamo, 2022; Steger & Amann, 2008). It is consistent with the institutional expectation that businesses operate profitably and productively. The firm's entire governance profile is improved by a strong reputation and high legitimacy that come from operational strength. Businesses that exhibit resilience are better able to manage operational difficulties and financial uncertainty (Bryce et al., 2022). This is known as their high operating strength. Higher governance scores are probably bestowed upon companies that have excellent operational and risk management capabilities (Larcker et al., 2007). Higher governance scores are frequently attained by companies that show they can adjust to changing conditions and match their strategy with institutional expectations (Ntim & Soobaroyen, 2013).

In summary, operating strength supports strategic alignment and adaptation, influences risk management and resilience, enhances legitimacy and reputation, and aligns with institutional expectations, all of which have a significant impact on a firm's governance rating, according to institutional theory. High operational spread and effective coverage are indicators of a company's capacity to manage risks, function efficiently across multiple locations and aspects, and maintain transparency. These characteristics have a beneficial effect on the company's governance profile and are consistent with institutional standards.. Therefore, the hypothesis is stated thus:
H1: *Operating strength has a positive effect on corporate governance of deposit money banks in Nigeria..*

Internal Control System and Governance Governance
Internal control systems are essential to corporate governance because they make sure that organizational operations are in line with rules, policies, and strategic objectives. This promotes accountability, transparency, and risk management (Efunniyi et al., 2024; Mahadeen et al., 2016). According to institutional theory, these systems aid in establishing customs and norms inside a company, affecting how people act both individually and collectively to meet institutional standards. In the view of stakeholders, the organization's legitimacy and stability are strengthened by effective internal controls, which demonstrate a dedication to ethical behavior and regulatory compliance (Arjaliès & Mundy, 2013). By encouraging businesses to embrace practices that meet wider social norms, this institutional pressure enhances governance frameworks and long-term viability (Harasheh & Provasi, 2023). Since it guarantees that the business's operations are carried out with honesty, openness, and responsibility, an efficient internal control system is essential to upholding good corporate governance standards.

By proving that the business follows best practices and conforms with legal and regulatory standards, a robust internal control system builds trust among stakeholders (Chang et al., 2014). A company's corporate governance rating will be downgraded if internal controls are inadequate or malfunction, as this raises concerns about the company's dedication to governance (Solomon, 2020).

On the other hand, a strong internal control system improves oversight and makes it possible to take prompt remedial action when problems occur, strengthening the governance structure (Harasheh & Provasi, 2023; Mallin, 2019). It lowers the possibility of mistakes, helps create distinct lines of power, and guarantees that policies are applied uniformly throughout the company. On the other hand, inadequate internal controls, as seen in many well-known business scandals, lead to governance failures that can seriously harm a company's financial stability and reputation, resulting in a sharp decline in its governance rating (Abid & Ahmed, 2014).

Because it guarantees the accuracy of financial reporting and protects against fraud and poor management, the internal control system is a key factor in evaluating the corporate governance rating of Nigerian banks (Adegbie & Fofah, 2016). The collapse or near-collapse of many institutions was caused by weaknesses in internal controls, such as those observed during the 2009 Nigerian banking crisis, when banks with insufficient supervision engaged in reckless lending and financial misreporting. As a result, the corporate governance ratings of the impacted institutions were downgraded, undermining stakeholder confidence and prompting regulatory actions (Amupitan Moses Dare, 2015; Ayorinde et al., 2013). On the other side, a robust internal control system helps reduce risks by guaranteeing openness and regulatory compliance, which raises a bank's governance rating and promotes confidence in its business practices (Amanamakh, 2024). Therefore, the proposed research hypothesis is as stated below

H2: *Internal control system positively affect the corporate governance of deposit money banks in Nigeria.*

Financial Malpractices and Governance Governance

Ravidasan, (2023) and Arina, (2023) argued that due to the fact that financial malpractices are against the law and social norms, they can damage corporate governance by undermining confidence in the company and casting doubt on the validity of its activities. Institutional theory states that when companies engage in such behaviors, stakeholders and regulatory agencies demand stronger governance standards (Baah et al., 2021), which forces them to implement more stringent control measures in an effort to regain credibility and conform to institutional norms (Struckell et al., 2022). In an attempt to preserve credibility and evade institutional penalties, financial malpractices have the potential to eventually drive the entire sector or industry toward stricter governance standards (Ekundayo et al., 2024). By eroding the confidence and integrity that stakeholders, investors, and regulatory agencies have in a company's operations, financial malpractices can negatively affect a company's corporate governance rating (Upadhyay, 2022). The discovery of financial wrongdoing, such as fraud, misreporting, or financial statement manipulation, indicates a lack of transparency and inadequate internal controls (Mandal, 2025). As a result, the company's brand is damaged, and people lose faith in its leadership and decision-making procedures two essential elements of sound governance. Furthermore, these activities will result in fines, penalties, or even legal action, which would further harm the company's reputation (Aye, 2023). A corporation engaged in such actions frequently has its corporate governance rating downgraded by regulatory organizations because it shows a disregard for compliance norms and ethical business practices (Ekundayo et al., 2024).

Accordingly, the Nigerian banks' corporate governance ratings were directly impacted by financial malpractices, such as the 2009 banking crisis, which saw some banks engage in fraudulent activities and poor management (Nakpodia et al., 2020; Nworji et al., 2011). Investor trust was damaged and governance standards were viewed as having deteriorated as a result of these malpractices, which exposed serious deficiencies in internal controls, transparency, and regulatory compliance (Nakpodia et al., 2023). Strong governance frameworks are crucial, as demonstrated by the Central Bank of Nigeria's action, which included the dismissal of bank executives and the restructuring of problematic institutions (Adegbite & Okike, 2012; Tahir et al., 2017). These occurrences led to a drop in governance ratings because they showed that banks were unable to properly manage risks and adhere to ethical norms, which made it more difficult for them to draw in capital and maintain stakeholder trust. Hence, the proposed hypothesis is as stated:

H3: *Financial malpractices have negative effect on the corporate governance of the deposit money banks in Nigeria*

Politcal Influence and Corporate Governance

Corporate governance can be greatly influenced by politics by guiding businesses to implement governance procedures that suit the goals and demands of political players, such as powerful political leaders or government organizations (Mallin, 2019; Solomon, 2020). According to institutional theory, in order to obtain legitimacy, obtain advantageous policies, or stay out of political hot water, businesses frequently give in to external pressure and comply with political norms and rules (Brammer et al., 2012). The allocation of resources and decision-making processes within businesses can be influenced by political influence, which can lead to governance systems that put political ties or compliance ahead of market-driven considerations (Khan et al., 2015). The institutionalization of these politically influenced governance methods over time can reinforce behavioral patterns that reflect the current political climate and the need for ongoing access to political capital (Abou Ltaif & Mihai-Yiannaki, 2024). Accordingly, by generating conflicts of interest and undermining the independence of a company's decision-making procedures, political influence can have a detrimental impact on corporate governance ratings (Olawale & Obinna, 2023; Roe, 2003). Moreover, political interference can expose a company to regulatory uncertainty and risk, especially in environments where government policies may change abruptly or be swayed by political interests (John & Lawton, 2018). This can create an unpredictable operating environment, where business decisions are driven by external political pressures rather than sound governance practices. As a result, stakeholders may lose confidence in the company's leadership, leading to a downgrade in its corporate governance rating.

In light of these, as seen by instances when politically connected people or government officials own large holdings in financial institutions, political interference has frequently weakened the corporate governance ratings of Nigerian banks, resulting in conflicts of interest and subpar decision-making (Adegbite et al., 2013; Fayemi, 2023). One prominent example is the financial crisis of 2009, when certain banks employed CEOs or board members with political connections (Adegbite & Okike, 2012), which led to poor management and dangerous lending practices. Strong corporate governance standards require openness, independence, and accountability, all of which are undermined by such political meddling in banking operations (Ordu, 2023). These actions consequently result in a drop in corporate governance ratings, regulatory scrutiny, and a loss of investor trust. Therefore, the proposed research hypothesis is as presented below:

H4: *Political influence has negative effect of the corporate governance of the deposit money banks in Nigeria.*

Regulatory Coercive Measure, CG Determinants and Corporate Governance

According to Alexander (2006) and Mülbert (2009), corporate governance of banks and other financial institutions is a major area of financial regulation because of the overall hazards that banking activities provide for the economy and society as a whole. These dangers are widespread, not only in Nigeria. Corporate governance has seen a rise in insider abuse, frequent boardroom arguments, fraud and forgeries, and poor or insufficient internal control systems (Adeyemi, 2010). The CBN, as the industry's watchdog and regulator, should be held accountable for her everyday duties (Marshal, 2017). Political, social, and legal macroinstitutions have an impact on the governance frameworks that exist across all nations since they are ingrained in their economies (Armitage et al., 2017). Corporate governance rules must be enforced on both an internal and external level in order to promote accountable, transparent, and responsible behavior and decrease conflicts and business failures (Agbonifoh, 2010; Maier, 2005).

By requiring adherence to formal governance norms, regulatory coercive measures serve as a moderating force that affects how corporate governance is shaped by elements like political influence, internal control systems, financial malpractices, and company operating strength (Luo, 2005; Moore, 2001).. Regardless of their internal strengths or external influences, these regulatory pressures force businesses to align their governance procedures with legal and public standards, which is consistent with institutional theory (Del Carmen Briano-Turrent & Rodríguez-Ariza, 2016). Strong operational capabilities, for example, may encourage companies to undertake governance improvements more quickly, but regulatory measures make sure that these practices adhere to the bare minimum of legal standards.

In a similar vein, regulatory inspection strengthens internal control mechanisms, lowering the possibility of financial malpractices and guaranteeing improved adherence to governance standards (I. Brown & Marsden, 2023; Momen, 2021). When it comes to political influence, regulatory actions reduce excessive political pressure and force businesses to put conventional governance procedures ahead of personal ties. In the end, regulatory coercion guarantees that all businesses adhere to a common set of governance standards that foster stability and accountability, regardless of their internal dynamics or external forces (Momen, 2021).

In this regards, the subhypothes are formulated in three headings based on the proposed moderations of the effect of operating strength, internal control system, financial malpractices and political influence on corpoarte governance by the regulatory coercive measures. These are as presented in the subsequent subheadings.

Regulatory Coercive Measures, Operating Strenth and Corporate Governance
Regulators guarantee that companies follow best practices and operational metrics transparency by enforcing penalties for inadequacies in these domains (Moore, 2001). When companies are able to maintain their integrity and legitimacy through enforcement, their corporate governance ratings improve. By imposing penalties, organizations are under pressure to conform their operational procedures to regulatory standards (Gray & Silbey, 2014). The threat of penalties increases the likelihood of regulatory scrutiny over an organization’s operational metrics. This heightened oversight ensures that organizations are more diligent in managing and reporting their operating strength, spread, and coverage (Yue et al., 2023). Enhanced operational practices resulting from this scrutiny contribute to higher governance ratings. The fear of facing penalties motivates firms to adopt best practices and improve their operations to meet regulatory standards. Improved operational practices driven by this incentive positively affect corporate governance ratings (Almagtome et al., 2020; Alodat et al., 2022). The public's opinion of an organization's dedication to efficient and open operations can be improved by the imposition of penalties and the ensuing enhancements in operational procedures (O’Regan et al., 2022). In reaction to regulatory pressure, organizations that rectify weaknesses and enhance their operational measures are

perceived as more dependable and well-managed, which can enhance their governance ratings (Solana-González et al., 2021).

Therefore, fines reduce the impact of operating strength on corporate governance ratings by affecting organizational behavior, creating coercive limitations, enforcing adherence to operational norms, and aligning with cultural and social expectations (Nakpodia et al., 2018). Regulatory penalties incentivize organizations to maintain stringent standards and enhance their operational metrics in order to avoid problems (Ryan et al., 2010). Consequently, operational processes, organizational credibility, and governance scores all improve. Penalties are therefore crucial to ensuring that companies successfully track and report on their operational strength while adhering to governance standards. Therefore, the research hypothesis is as follows:
H5a: *Regulatory coercive measures positively moderate the effect of firms operating strength on the corporate governance of the deposit money banks in Nigeria*

Regulatory Coercive Measures, Internal Control System and Governance Governance
By imposing mandatory criteria for risk management, compliance, and internal audits, regulatory coercive measures can assist mitigate the impact of internal control systems on commercial banks' governance ratings (Adegbite, 2012). The Central Bank of Nigeria (CBN) and other regulatory agencies have the authority to mandate that banks set up strong internal control systems that are routinely reviewed and audited (Nakpodia et al., 2020). Regulators guarantee that banks have the systems in place to identify and stop financial mismanagement or fraud by establishing clear criteria for operational controls and holding them responsible for any shortcomings in these systems (Lamido, 2012). This preserves the banks' governance ratings. Additionally, banks are encouraged to prioritize sound governance procedures by the implementation of penalties or sanctions for failure to maintain efficient internal control systems (Adegbie & Fofah, 2016; Nakpodia et al., 2023). It is also more difficult for banks to hide flaws in their internal controls when regulations require frequent reporting and openness (Sanusi, 2011). By ensuring that internal control measures are not only put into place but also continuously updated, this external oversight helps commercial banks maintain their governance ratings and improve their entire governance structure.

This implies that by requiring rigorous adherence to regulatory guidelines on risk management and internal audits, regulatory coercive measures especially those implemented by the Central Bank of Nigeria (CBN) and other financial regulatory bodies can mitigate the impact of internal control systems on the governance ratings of commercial banks in Nigeria. These steps guarantee that any flaws or failures in control systems are found and fixed by mandating that banks establish thorough internal control frameworks, carry out frequent audits, and notify regulators of compliance. Furthermore, banks are encouraged to fortify their internal systems by fines for non-compliance or failure to maintain effective controls, which enhances governance procedures and maintains high governance ratings (Kaawaase et al., 2021; Marshal, 2017). Therefore, the research hypothesis is as follows:
H5b: *Regulatory coercive measures positively moderate the effect of internal control system on the corporate governance of the deposit money banks in Nigeria*

Regulatory Coercive Measures, Financial Malpractices and Governance Governance

The impact of financial malpractices on commercial banks' governance ratings can be considerably mitigated by regulatory coercive measures, such as strict compliance requirements, fines, and supervisory procedures (Farah et al., 2021; Ryan et al., 2010). Regulators can discourage banks from participating in dishonest or immoral activities by enforcing stringent standards and levying hefty fines or sanctions for non-compliance (Manchanda, 2024). By fostering an atmosphere of accountability, these actions lessen the possibility of wrongdoing that will otherwise have a detrimental effect on banks' governance ratings (May & Winter, 2011; Ristaniemi, 2020).

Consistent oversight and regulation can also encourage ethical behavior and transparency in banks (Milstein et al., 2002). Financial malpractices are identified and promptly rectified when regulatory agencies enforce strict reporting guidelines and carry out regular audits (Ryan et al., 2010). This contributes to preserving excellent governance ratings, enhancing public perception, and preserving investor confidence. These regulations have the overarching goal of promoting ethical behavior and deterring financial wrongdoing that can jeopardize a bank's status in terms of governance and reputation (Aragòn-Correa et al., 2020).

In Nigeria, the impact of financial malpractices on commercial banks' governance ratings can be mitigated in large part by regulatory coercive measures, such as those implemented by the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) (Nakpodia et al., 2020; Ozili, 2020). These regulatory agencies aid in discouraging unethical behavior by enforcing stringent compliance rules, penalizing violations, and carrying out frequent audits, all of which foster accountability and openness (Adegbie & Fofah, 2016; Kaawaase et al., 2021). Fast execution of penalties, such as fines or limits, in cases of financial malfeasance guarantees that banks are held responsible, preserving their governance ratings (Ristaniemi, 2020). To increase public trust in the system and strengthen the integrity of Nigeria's banking industry, this regulatory structure is crucial (Marshal, 2017). Therefore, the research hypothesis is as follows:

H5c: *Regulatory coercive measures positively moderate the effect of financial malpratices on corporate governance of the deposit money banks in Nigeria*

Regulatory Coercive Measures, Political Influence and Governance Governance

By enforcing stringent regulations that prohibit excessive political meddling in banking operations, regulatory coercive measures can assist mitigate the impact of political influence on commercial banks' governance ratings (Brown & Marsden, 2023; Luo, 2005; Moore, 2001).. Board members, managers, and important decision-makers can be appointed transparently by regulatory authorities like the Central Bank of Nigeria (CBN), guaranteeing that these roles are filled on the basis of qualifications rather than political ties (Marshal, 2017; Sanusi, 2012). Regulations can also penalize banks for politically driven lending or corruption, which lessens the possibility that political influence could skew good governance procedures and have a negative impact on governance ratings (Griffith, 2015). Additionally, Nakpodia et al., (2023) argued that effective regulatory supervision can also encourage autonomous decision-making in banks, protecting them from political pressure that might jeopardize their governance or financial integrity. Regulators can identify and resolve conflicts of interest that may result from political influence by keeping an eye on transactions and closely examining the political affiliations of important people. By doing this, commercial banks are guaranteed to stay focused on ethical business operations, which raises their governance ratings and builds confidence among stakeholders, including customers and investors.

Regulatory coercive measures, like those implemented by the Central Bank of Nigeria (CBN), might assist reduce the impact of political influence on commercial banks' governance ratings in Nigeria by guaranteeing rigorous adherence to merit-based hiring and decision-making standards (Nakpodia & Adegbite, 2018; Ozili, 2020). The CBN can enforce regulations that forbid excessive political meddling in bank operations and demand openness in governance procedures (Akande, 2016; Nakpodia et al., 2023; Nakpodia & Adegbite, 2018). Therefore, form the scholary arguments and submissions, it implies that, by keeping an eye on financial transactions and carefully examining any conflicts of interest, regulatory agencies can discourage corrupt or politically influenced loans. By focusing on solid financial management, these approaches help banks improve their governance ratings and preserve public confidence in the banking system's integrity. Hence, the research hypothesis is as follows:
H5d: *Regulatory coercive measures positively moderate the effect of political influence on the corporate governance of the deposit money banks in Nigeria*

Contribution of the Study

This study adds novelty and value by investigating the potential moderating effects of regulatory coercive measures within the framework of institutional theory under regulatory pillar. Further, the study theoretically contributes to knowledge by institutionalizing the potential determinants of corporate governance of banks in Nigeria in accordance with the normative, cognitive, and regulatory pillars of institutional theory. In order to address local corporate governance challenges, the study also shows how bank issues may be evaluated in light of pertinent institutional peculiarities. By considering the social and political impact of the nation as well as the legal options for resolving the ongoing issues with Nigeria's deposit money institutions, this study adds to the institutional theory of effective corporate governance. By include the operational strength of the banks in the variables, the study advances institutional theorizing because the operational strength is legally established by the regulatory benchmarking used to categorize the banks as regional, national, and international. According to the corporate governance rules for Nigerian banks, these divisions are based on the banks' level of capitalization. The study advances our understanding by examining the different aspects that will contribute to the explanation of corporate governance practices, their causes, and the regulatory body's possible role in guaranteeing the stability of the banks. As a result, the study also offers comprehensive theoretical perspectives.

Lastly, a number of studies on the corporate governance of Nigerian financial institutions have revealed lapses in the regulatory laws and policies as well as the corporate governance shortcomings of the banks. The outcome of this activity will significantly increase corporate governance by addressing the issues with the banks that have been recognized through the regulatory strategies that have been established. The regulatory agencies will have a new perspective on how to address the long-standing issues with the banks as a result. In order to ascertain the strengths and shortcomings of the current regulations and penalties in addressing the governance difficulties and challenges of banks, this would help the regulatory authorities evaluate their effectiveness.

Motivation of the Study

Sound corporate governance standards are becoming increasingly important in the financial industry, particularly for deposit money banks, which is why this study is undertaken. Promoting openness, accountability, and stability in the financial system which is vital to Nigeria's economic growth requires effective corporate governance. Understanding the fundamental factors that influence governance in this industry is crucial because of the important role banks play in financial intermediation and the effect they have on investor confidence both domestically and internationally. The body of research on the entire institutional framework that regulates corporate governance standards, particularly in Nigerian banks, is lacking, nevertheless.

This research is driven by the need to create a theoretical framework that recognizes, institutionalizes, and examines the major factors influencing corporate governance in deposit money institutions in Nigeria. This kind of study will give regulators, policymakers, and financial institutions a solid basis on which to improve governance frameworks, reduce risks, and promote long-term growth in the banking industry. The research seeks to advance the body of knowledge on corporate governance in Nigeria by developing a clear theoretical framework and providing insights for reform and improved regulatory oversight, both of which will eventually fortify the nation's financial system and improve economic stability.

Conclusion

The purpose of this article is to institutionalize the determinants of corporate governance of deposit money banks in Nigeria. This article outlines and presents the determinants and the possible moderators of corporate governance of deposit money banks in Nigeria. Based on the literature review, a theoretical framework has been developed and presented. To test, validate, and improve the model, more research will be done in a subsequent article, and the results will be provided.

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