

The Governance-Performance Nexus: Evidence from Commercial Banks in Emerging Economies

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Abstract

This study examines the link between Corporate Governance (CG) and Corporate Financial Performance (CFP) within commercial banks employing Structural Equation Modeling (SEM). It investigates five specific aspects of CG, including board structure, board capability, quality of senior management, risk management, internal control systems, and disclosure practices on the financial performance proxies – Return on Asset (ROA) and Return on Equity (ROE). Results demonstrate a strong positive association between CG and CFP (bootstrapped path coefficient 0.729; $p = 0.000$). The role of senior management, Transparency and disclosure, and Risk management and internal control systems were found to be the major drivers of financial return, emphasizing the value of good leadership and governance. The study contributes to empirical literature on the influence of CG on bank performance and offers implications for policymakers, investors, and management.

Keywords: *Corporate Governance, Corporate Financial Performance, Board Structure, Board Competence, Senior Management, Risk Management, Internal Controls, Transparency and Disclosure, Banking Sector, Structural Equation Modeling (SEM).*

1. Introduction

In today's competitive world, the CG is very important to achieve long-term success and financial performance of firms. CG is the mechanism of directing and controlling companies, giving emphasis to accountability, fairness, and transparency (Boubaker et al., 2021). An effective governance mechanism is essential to managing corporate operations as well as their general influence on the economy and society, with raised stakeholder demands from shareholders, employees, and the public (Hassan et al., 2020).

The association between CG and corporate financial performance (CFP) has been extensively investigated, but the mechanisms through which governance affects finances are intricate (González et al., 2019). Several elements interact to influence company behavior and

financial performance, which fall within the definition of CG. These features comprise board structure and composition, board capability, top management group, risk management process, internal control mechanism, and transparency and disclosure influence on sustained financial performance achievement (Lee & Lee, 2019).

Having the right mix and independence in a board's makeup is critical to governance. Good governance on the board leads to monitoring, leading towards lower agency costs and better financial performance. It has been found that the board's independence is positively associated with return on assets (ROA) and Return on Equity (ROE) (Choi et al., 2022; Al-Matari et al., 2021), suggesting its direct effect on financial performance. Similarly, the expertise and experience of board members are crucial to reach such an informed decision, which also serves the shareholder value. It is reported that a board with considerable competence is more inclined to take actions that build value and positively affect CFP (Mollah et al., 2020).

Effective senior leadership is a prime determinant of a company's success. Strong management leads to financial success with good plans and a good company culture. The literature agrees that strong leadership has a significant impact on firm financial performance, especially ROA and ROE (Anderson & Reeb, 2020).

The need for a proactive risk management approach to discover and address financial performance threats is critical. Evidence implies that firms with strong risk management mechanisms have superior financial performance since they become capable of managing the uncertainty and taking advantage of opportunities (Ahmed et al., 2021). Effective internal control systems safeguard the reliability of financial statements and the fairness of transactions, preventing fraud and waste. Internal controls that help prevent operational problems and protect resources lead to better financial performance (Johl et al., 2020).

High levels of transparency and disclosure enhance stakeholder trust in, and perceptions of the financial performance of, organizations. Studies show that corporations with high transparency receive more investments and have a better financial position (Pereira et al., 2021).

The purpose of this study is to investigate the relationship between CG and CFP by investigating how governance elements influence financial performance ratios, ROA, and ROE. The research aims to see through these mechanisms and provide recommendations on how to improve CG enactment for better organizational performance. Finally, the following specific objectives were considered after this study:

- To examine the Impact of Board Structure on CFP
- To evaluate the Role of Board Competence in Enhancing Financial Performance
- To assess the Contribution of Senior Management to Organizational Performance
- To investigate the impacts of RMICS on financial performance.
- To evaluate the effect of Transparency and Disclosure on Financial Performance

2. Review of Literature

2.1.Theoretical Frameworks

The linkage between corporate governance (CG) and corporate financial performance (CFP) is rooted in a number of critical theories, which provide distinct views as to how governance mechanism endowment and board practice shape financial results. Amongst other theories which are used to explain the mediation process of CG on financial performance in organizations, there are agency, resource dependency theory, stewardship theory, stakeholder, and institutional theories.

Jensen and Meckling (1976) introduced the Agency Theory, which attempts to write down the conflict of interest between principals, representing shareholders who cannot monitor or control the daily and continual activities of agents like managers. An agency problem where managers may pursue their self-interest, not the shareholders', may result in inefficiency and corporate fraud (Al-Matari et al., 2021). Agency problems are mitigated by the alignment of the Managers' and Shareholders' interests through CG mechanisms such as independent boards and internal controls. There is a direct link between independent boards and management monitoring, such that the relationship between shareholders' expectations on decision alignment of the board and financial performance can be positive (Choi et al., 2022). Effective governance mechanisms enhance production performance and financial success by reducing agency costs (Boubaker et al., 2021). Agency Theory, therefore, suggests that strong monitoring devices can also lead to better performance if restricting agency costs and aligning between managers' and shareholders' interests are the subject matter (Dimitropoulos, 2020).

Unlike Agency Theory, Stewardship Theory, presented by Donaldson and Davis (1991), believes that managers are naturally predisposed to act in the best interests of shareholders and the firm. In this view, managers are conceived as stewards whose goal is to maximize shareholder wealth even at the expense of their personal well-being (Anderson & Reeb, 2020). Understand governance principles in this context, which emphasize the autonomy of managers to act for the company. Asset and Stewardship Theory will also be good general fits for entities with strong leadership stability and a leadership approach that would regularly, in theory, support a long-term horizon. It indicates that a supportive and effective board and management team, to both empower and manage areas where they are incompetent, predicts enhanced financial performance (Mollah et al., 2020). Contrary to Agency Theory that prioritizes the control of self-interests, Stewardship theory highlights the trust and teamwork among managers and the board, which may lead to organizational success and better financial performance (Boubaker et al., 2021).

Resource Dependence Theory (Pfeffer and Salancik, 1978) focuses on the influence of external resources on a firm's strategy and financial performance. There are things that firms depend on from their external environment, such as capital, information, and human resources. The existence of the organization is entitled to by relationship with shareholders, suppliers, customers, or government (Khan et al., 2020). Boards are important in managing such external

relationships and resource acquisition. An effective and well-connected board can assist a firm in obtaining new capital, creating strategic alliances, learning industry knowledge, and achieving more successful financial performance (Lee & Lee, 2019). Resource Dependence Theory emphasizes the role of board composition and networks in obtaining vital resources, which entitle firms to achieve better financial performance (González et al., 2019).

According to Freeman (1984), Stakeholder Theory, organizations not only should be interested in the maximization of shareholder wealth, but they also need to care about the interests of all stakeholders, such as employees, customers, and suppliers, and the general environmental condition as well (González et al., 2019). This paradigm argues that CG processes that cater to the interests of multiple stakeholders help in building trust and commitment, thereby enhancing a firm's financial performance in the long run (Mollah et al., 2020). Firms that are embracing a stakeholder focus strategy establish better relationships with their stakeholders, leading to reputation and efficiency gains that translate into increased financial performance (Hassan et al., 2020). Open and honest communication and disclosure build trust with investors, which attracts investment, generates positive market responses, while effective risk management maintains the operational soundness of the company, which in turn enhances financial performance (Pereira et al., 2021).

Institutional Theory, first formulated by DiMaggio and Powell (1983), seeks to understand how external pressures affect organizational behavior and governance practices. Firms usually implement structures and practices that legitimize themselves and meet societal expectations (González et al., 2019). In CG, companies tend to comply with regulatory standards or accommodate external stakeholders' demands by implementing governance structures (e.g., an independent board). According to the Institutional Theory, firms operating in similar sectors or regions adopt similar governance practices that may have an impact on their financial performance (Hassan et al., 2020). Companies that meet the corporate governance standards and industry best practices are predominantly preferred by investors, which is considered beneficial for their financial position (Hassan et al., 2020).

In sum, these theories cover a rich picture of how the CG mechanism, including board structure, senior management quality, risk management, and transparency, affects financial performance. Empirical research examining these theories provides a convenient way to access the best models of governance relevant for achieving financial success, emphasizing the need for effective, competent, and transparent governance institutions in order to achieve positive financial performance.

2.2. Empirical Review and Hypotheses Development

2.2.1. The Effects of Corporate Governance on Corporate Financial Performance

There have been some recent empirical studies on CG and CFP in the banking sector of different countries with different results. For example, Ganapathy (2024) in a research of 50 quoted banks in the UK established that strong CG mechanisms such as board size, CEO

duality, and gender diversity had robust effects on financial performance; particularly, board size was significant with return on equity (ROE) and return on assets (ROA). However, CEO duality hurt those two metrics, and gender diversity had a weaker but positive influence. In contrast, Bansal et al. (2023) investigated commercial banks in Kuwait and reported that while CG factors such as the board size and CEO duality were insignificantly associated with ROA, bank size was significantly associated with the firm's performance, suggesting a role for economies of scale. In Ghana, Eklemet et al. (2023) identified that bank performance, especially NIM, was positively affected by the independence of the audit committee, though board size did not matter, which speaks to the relevance of board composition. In like manner, in Nigeria, Abiola and Adegbe (2022) found that board structure and governance transparency had a positive impact on the financial performance, pointing out the importance of governance in enhancing shareholder value in developing economies. These studies indicate the global dimension and regional specificity of the CG–CFP nexus, which suggests that governance arrangements may vary in terms of effectiveness according to context-specific social, institutional, and economic factors.

Corporate governance (CG) matters for corporate financial performance (CFP), as it shapes decision-making, risk profile, and strategic monitoring of firms with a view to delivering lasting consolidated financial prosperity. This study examines the effect of five primary CG components – board structure (CG1), board competence (CG2), senior management (CG3), risk management/internal control, and disclosure/transparency (CG5) – on firm performance.

2.2.2. Board Structure and CFP

The structure of a firm's board is financially determinative. The composition of the board is composed of independence, size, and structure. Independent directors provide better monitoring, alleviate ownership-control conflicts, and help management to act in the interest of shareholders. Altuwaijri & Kalyanarama (2016) also find that a greater proportion of independent directors has a significant positive relationship with firm performance for Saudi Arabian non-financial firms, but that too much independence reaches the point of diminishing returns. In a related study, Kwasi Owusu & Kwashie Garr (2024) reported that independent boards, committee effectiveness, and board diversity enhance performance measures such as return on assets and equity in banks of Ghana. In addition, board size is also a factor in performance as smaller boards are generally better than larger ones because of faster decision-making (Alexakis et al., 2022). Smaller boards facilitate communication and align the interests of management and owners, leading to higher profits (Fariha et al., 2022).

2.2.3. Board Competence and CFP

The skills, knowledge, and expertise of directors are an important element in reaching well-informed decisions. Heterogeneity of expertise on the board (such as expertise in finance, law, and industry) enhances problem-solving abilities and financial performance (Aboud & Yang, 2020; Mollah & Zaman, 2020). Board effectiveness, particularly in the complex industry of banking, facilitates investment evaluations, financial risk management, and monitors reliable

reporting (Lee et al., 2024). Financial literacy and board skills are especially significant for regulatory-intensive industries. The diversity of the board also enhances a company's flexibility and innovation in turbulent markets (Makkonen, 2020). Long-term strategy and boards of directors that are more dynamic also contribute to the greater potential for firm growth and innovation (Herrera-Echeverri et al., 2020).

2.2.4. Senior Management and CFP

Upper management is often an important source of influence on a firm's strategy and operational performance. It has been found in the literature that firms led by experienced and visionary leadership can outperform those with weak management (Mukherjee & Sen, 2022). Top management qualities, including experience in accounting and finance, have been associated with better performance (Al-Matari et al., 2023). Effective leadership teams execute plans that enable profitability and innovation. Research by Gayle et al. (2018) and Inam Bhutta et al. (2021) finds evidence that performance-based executive compensation reflects managers' effort and helps to enhance the firms' performance. The performance of management to cope with market competition and regulatory change is also a key factor that determines financial outcomes (Mahmoud & Afaneh, 2020).

2.2.5. Risk Management and Internal Control and CFP

Good risk management and internal controls are essential to maintaining financial well-being. Risk management entails identifying risks and managing them, while internal controls help in terms of compliance as well as operational efficiencies (Soliman & Adam). Enterprises with effective risk management methods are better prepared to face economic crises and market fluctuations, which contribute positively to the financial performance level (Gyamerah et al., 2024). Internal controls also inhibit financial misreporting and fraud, which facilitates the investment process and decreases the cost of capital (Zhang et al., 2020).

2.2.6. Transparency and Disclosure and CFP

Transparency and disclosure are the essence of conveying truth to stockholders, investors, and authorities. Transparency and timeliness of disclosures help to build trust, the basis for accountability that underpins a firm's reputation and access to capital (Li & Chen, 2020; Boubakri et al., 2021). Companies with both financial and strategic information have strong financial performance because investor confidence increases, while the firm is perceived to be of lower risk (Amoako et al., 2022; Kwasi Owusu & Kwashie Garr, 2024). In developing countries, strategic transparency alleviates information asymmetry and perceived risks, strongly promoting investment (Gerged, 2021). Firms with good transparency practices also have strong investor relations and positive market positions (Lavin & Montecinos-Pearce, 2021).

Finally, solid corporate governance aspects like board structure, the expertise of the board, senior management, management of risk, and transparency are important for improving the

financial performance of companies. They drive decision-making, operational excellence, risk management, and investor confidence, which in turn contributes to more financial success.

Based on the above empirical reviews and the theoretical framework of this study, the following set of hypotheses was formulated:

H1: Corporate governance significantly influences corporate financial performance.

H1a: Board structure has a significant effect on the financial performance of commercial banks.

H1b: Board competence significantly influences financial performance.

H1c: Effective senior management has a significant impact on bank performance.

H1d: Strong risk management and internal control systems are significantly related to CFP.

H1e: Transparency and disclosure practices significantly enhance the CFP of banks.

3. Methodology of the Study

For this study, a hypothetical approach was employed and achieved through an explanatory research design and positivist epistemological paradigm. The data were collected by means of a questionnaire with a 1 to 7 Likert scale. The included CG constructs are board structure, board competence, top management team, risk management, internal control, and transparency and disclosure. CFP is also proxied via two measures, i.e., ROA and ROE. The research was conducted in Sidama Regional State, and purposively, 17 commercial banks and 184 branches were selected. Two managers from each branch were taken through the purposive sampling, according to their managerial position, a total of 368 questionnaires were distributed, and 347 questionnaires were returned (95.11%). Statistical software employed is SPSS 30 and SmartPLS 4.1.0.8, with CB-SEM.

The sample adequacy was verified using the Kaiser-Meyer-Olkin (KMO) measures, recorded 0.877, and Bartlett's Test of Sphericity, chi-square value, ascertained at 1445.181 with df 21 and $p < .001$, which signified that the sample was suitable for factor analysis (Hair et al., 2017).

4. Measurement model evaluation

The measurement model of Corporate Financial Performance (CFP) and Corporate Governance (CG) suggests reliable and valid measures, which means CFP and CG constructs do fit their indicators. The standardized factor loadings of all CFP and CG indicators exceed the cutoff value of 0.7, thus indicating that each indicator works well to measure its underlying construct. In particular, for CFP, the indicators of CFP1 (0.772) and CFP2 (0.828) were representative of the phenomenon, with CFP2 being a stronger indicator. In the case of CG, all five indicators (CG1, CG2, CG3, CG4, and CG5) exhibit high loadings, whereby the most consistent measure of corporate governance is observed for CG3 (0.849). These results are consistent with Hair et al. (2019), who contend that loadings higher than 0.7 are adequate to guarantee strong relationships between the indicators and the latent variables.

Table 1: Factor Loading Matrix

Constructs	CFP	CG
CFP1	0.772	
CFP2	0.828	
CG1		0.756
CG2		0.777
CG3		0.849
CG4		0.819
CG5		0.822

Source: CB-SEM Smart PLS 4.1.0.8/2025

The composite reliability scores for the constructs contribute to the internal consistency of the model as well. CFP has a composite reliability of 0.780, whereas CG reaches an extraordinarily high value of 0.902, which demonstrates good internal consistency for CG, as once suggested by Henseler et al. (2019). These same results also coincide with Cronbach's alpha, where CFP obtained 0.780 and CG 0.902, which is above the recommended value of 0.70 set by Nunnally & Bernstein (1994). Additionally, supported by the bias-corrected CI values for composite reliability and Cronbach's alpha (CFP: 0.708–0.828, CG: 0.882–0.918), also suggests the stability and robustness of these measures.

Table 2: Cronbach Alpha, Composite Reliability, and AVE

	Cronbach's alpha (standardized)	Cronbach's alpha (unstandardized)	Composite reliability (rho_c)	Average variance extracted (AVE)
CFP	0.780	0.779	0.780	0.641
CG	0.902	0.902	0.902	0.648

Source: CB-SEM Smart PLS 4.1.0.8/2025

For convergent validity, the Average Variance Extracted (AVE) of CFP (0.641) and CG (0.648) is greater than the 0.5 threshold, which indicates that a large amount of variance has been explained by the latent variables in the indicator items. This is evidence of the good convergent validity and shows that the indicators are reflecting appropriately the underlying constructs (Almeida et al., 2018).

Table 3: Discriminant Validity Assessment

Construct	AVE	Square root of AVE	Correlation with other constructs	Correlation coefficient	comparison	Decision
CG	0.648	0.805	CG → CFP	0.729	0.805 > 0.729	Valid
CFP	0.641	0.801	CFP → CG	0.729	0.801 > 0.729	Valid

Source: CB-SEM Smart PLS 4.1.0.8/2025

Discriminant validity indicates the separate nature of constructs within a model and that they are not unduly related, a key requirement for maintaining construct integrity of a structural model. One of the most common techniques to test discriminant validity is to compare the square roots of AVE (average variance extracted) for a construct and its correlation with other constructs. The discriminant validity is established when the square root of AVE is greater than the construct's correlations (Henseler et al., 2020; Hair et al., 2019).

Table 4: Factor Covariance

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CG -> CFP	0.322	0.321	0.039	8.260	0.000

Source: CB-SEM Smart PLS 4.1.0.8/2025

In summary, the measurement model for CG and CFP is reliable, valid, and well-specified. Findings support strong convergent, acceptable discriminant, and good internal consistency for both constructs in the study. It is concluded that the relationships between corporate governance and financial performance are strong enough to successfully base a more structural model on. These results are in line with recent studies and underscore the significance of proper measurement practices in SEM.

5. Evaluation of the Structural Model:

Results of the structural equation model (SEM), including path estimates, R-squared values, and fit indices, were used for assessing the model. These factors are indispensable in examining the goodness of fit of the structural model, determining to what extent the empirical model accounts for the relationships between sub-constructs CG and CFP, and how good the overall fit is as well (Hair et al., 2017).

Table 5: Path Coefficient

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CG -> CFP	0.729	0.729	0.041	17.716	0.000

Source: CB-SEM Smart PLS 4.1.0.8/2025

The results of the structural model show that there is a positive and significant relationship between Corporate Governance (CG) and Corporate Financial Performance (CFP). The path coefficient from CG to CFP is 0.729, and the corresponding T-statistic of it (17.716) is highly

significant, supporting a strong positive association. However, the bootstrapped value for path coefficient (0.718) with 95% confidence interval between lower and upper values as estimated against a p-value of 0.912 provides some variations in the estimate due to sampling variability.

The R-square value is 0.531 for CFP, which suggests that CG could explain 53.1% of the variance in CFP, which is a moderate but meaningful. The T-statistic for R^2 is also significantly (8.915) with a P-value of 0.000, as depicted in the table below.

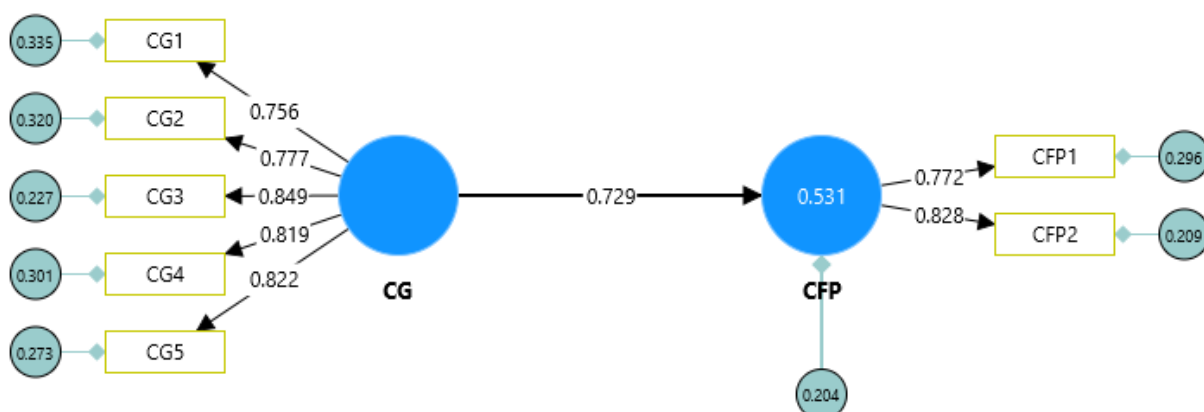
Table 6: R-Square

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CFP	0.531	0.533	0.060	8.915	0.000

Source: CB-SEM Smart PLS 4.1.0.8/2025

The model fit indices suggest that the model generally fits the data. While some indices such as Chi-square/df (7.706) and RMSEA (0.139) indicate possible problem with the fit of the hypothetic model as is typical with large sample sizes and a small df (Hair et al., 2019), other indices like GFI (0.912), AGFI (0.810), SRMR (0.044), CFI (0.940), TLI (0.902) and NFI= 1- (overall misfit)/ perfectionism support good model fit. The general model explains in a trustworthy manner the CG and CFP relationship, which is consistent with recent studies about corporate governance and financial performance.

After it has been confirmed that the measurement model fits well, the researcher then designs a structural model consistent with the conceptual framework of the study. The structural models formulated in this study aim to determine the relationship between the dependent construct and the independent constructs as suggested by hypothesized facts.



Source: CB-SEM Smart PLS 4.1.0.8/2025

Fig 1: Structural Model

6. Testing Hypotheses

The bootstrapped path coefficients, factor loadings, and significance levels resulting from the SEM estimation constitute a robust basis upon which to test the hypotheses relating Corporate Governance (CG) to Corporate Financial Performance (CFP) in commercial banks. The evidence indicates that there is a statistically significant association between measures of corporate governance (including board composition, board expertise, and risk oversight) and firm performance. The following is a critical examination of each hypothesis.

Table 7: Path Coefficient from CG to CFP to Test Major Hypothesis

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CG -> CFP	0.729	0.729	0.041	17.716	0.000

Source: CB-SEM Smart PLS 4.1.0.8/2025

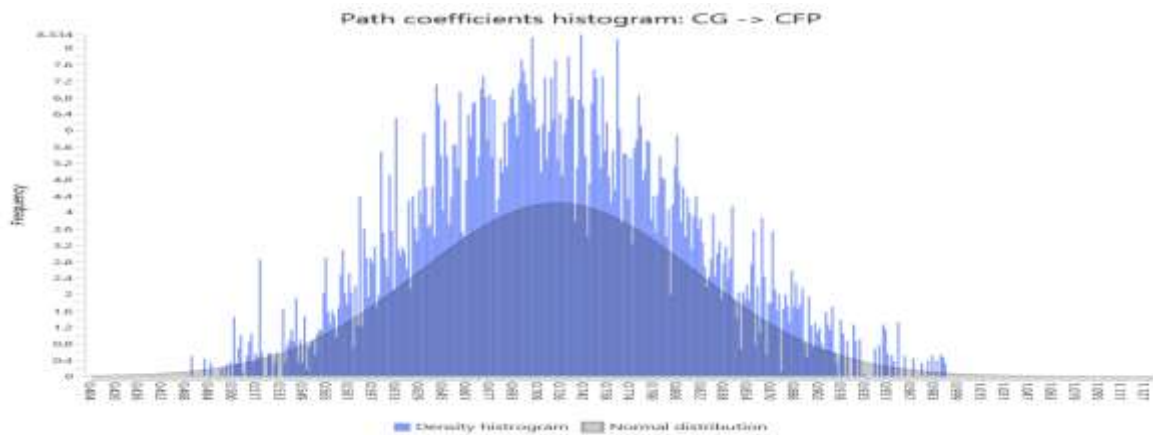
H1: Corporate Governance Significantly Influences Corporate Financial Performance

The strong bootstrapped path coefficient of 0.729, with a t-value of 17.716, and a P-value of 0.000, highlights the substantial positive effect of CG on CFP. This result is in line with recent studies that underscore the importance of CG in improving bank efficiency. For instance, Sadiq et al. (2021) reported that good CG practices can enhance the financial performance of public firms. Similarly, Henseler et al. (2019) argued that successful CG mechanisms lower agency costs and induce managerial decisions that are consistent with shareholder incentives, leading to a higher financial performance. Moreover, Farooq et al. (2022) found that good CG practices, especially in informational disclosure and transparency, reportedly lead companies to better financial performance, thereby reinforcing the idea that effective CG systems lead to better finances.

The path coefficient histogram also supports this conclusion. As indicated below, the figure, path coefficients are centered on 0.74–0.76 and closely correspond to the reported original coefficient of 0.729 with a maximum around 0.75. The spread of the values is 0.65–0.90, which shows moderate diversity, and most of the coefficients lie in the range of 0.70–0.82. Thin tails between 0.55 and 1.05 also indicate outliers, but not any large (extreme) values. The distribution results in a normal curve, which indicates that CG and CFP have a symmetric stable relation (Henseler et al., 2020; Hair et al., 2019).

Positive path coefficients are obtained for the great majority of bootstrapped samples, supporting the conclusion that corporate governance is one of the most important predictor variables with consistently strong positive effects on financial performance in commercial banks. This confirms the results of prior research, in which governance practices were also

investigated for their potential contribution toward improving financial performance (Henseler et al., 2020; Sadiq et al., 2021).



Source: CB-SEM Smart PLS 4.1.0.8/2025

Fig 2: Path Coefficient Histogram

The subsequent five sub-hypotheses that predict the effects of corporate governance mechanisms on firm financial performance were also tested, with the accompanying factor loading values. T-statistics and P-value show the significance of the effect of each mechanism of corporate governance on corporate financial performance.

Table 8: Factor Loadings

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CFP1 <- CFP	0.772	0.771	0.040	19.061	0.000
CFP2 <- CFP	0.828	0.827	0.036	22.706	0.000
CG1 <- CG	0.756	0.755	0.036	20.968	0.000
CG2 <- CG	0.777	0.776	0.028	27.658	0.000
CG3 <- CG	0.849	0.849	0.028	30.697	0.000
CG4 <- CG	0.819	0.818	0.030	27.224	0.000
CG5 <- CG	0.822	0.822	0.028	29.117	0.000

Source: CB-SEM Smart PLS 4.1.0.8/2025

H1a: Board Structure Has a Significant Effect on the CFP of Banks

The first sub-hypothesis (H1a) posits that board structure has a significant effect on the financial performance of commercial banks, with a factor loading of 0.756 implies a higher contribution to the overall CG construct. A high absolute value of the T-statistic (20.968) and a low p-value (0.000) indicate that board structure is one such indicator increasing bank

performance. Empirical studies corroborate this relationship. Gul et al. (2020) also revealed that larger and more independent boards are related to better financial performance in banks. Similarly, Topçu (2020) found that board size and the ratio of independent directors have a positive effect on bank performance in Turkey. In addition, Magadi (2021) stressed that adherence to board structure and senior management oversight recommendations is a strong predictor for the financial performance of commercial banks in Kenya, underscoring the role played by board composition in corporate governance.

H1b: Board Competence Significantly Influences Financial Performance

The second sub-hypothesis (H1b), which indicates that the effectiveness of the board has a significant impact on financial performance, is very strongly supported by the loading factor value of 0.777; t-statistic value of 27.658; and P-value of 0.000, demonstrating that board competence and financial performance are positively related to one another from a statistically significant perspective. This result is congruent with recent evidence, such as Apergis (2020), that also highlighted the significance of financial talent in board positions to boost UK banks' profitability. Additionally, Georgiana Noja et al. (2021) found that board competence, independence, and diversity play an important role in the financial risk management and performance of European banks. Similarly, Alireza et al. (2022) confirmed that the mechanism of corporate governance, more specifically, the effectiveness of the board on profitability and shareholders in banking.

H1c: Effective Senior Management Has a Significant Impact on Bank Performance

The third sub-hypothesis (H1c) is that good senior management contributes significantly to bank performance. The loading factor of 0.849 with t-statistic of 30.697 and P-value of 0.000, confirmed this assumption. The high t-statistic indicates that senior management is an important determinant of firm performance, and the low p-value confirms that there is significance in the relationship. This is supported by empirical research, such as Georgiana Noja et al. (2021), who discovered a positive association between effective top management and enhanced performance in European banks. According to Pathan and Faff (2021), high-level management's strategic direction also shapes bank profitability and stability. Similarly, Oludayo et al. (2022) proved that sound senior management practices lead to good performance in Nigerian banks. These findings support the importance of senior management in influencing lending and performance outcomes in banking.

H1d: Risk Management and Internal Control Systems Significantly Related to CFP

The fourth sub-hypothesis (H1d) assumes that risk management and internal control systems contribute statistically significantly to CFP, also supported by the factor loadings of 0.819, t value of 27.224, and P-value of 0.000, confirming the positive and significant effect they have on CFP. Similarly, the available evidence also supports this association. Zhou et al. (2020) indicated that strong risk management systems lead to improved financial performance in banks, writing about the impact of risk management on banks. Wanyiri (2021) highlighted the

role of internal controls on the financial performance of commercial banks in Kenya. Similarly, Magadi (2021) found that the extent of adherence to internal control regulations significantly influences the financial performance of commercial banks in Kenya, posting a need for increased levels of risk management and internal controls.

H1e: Transparency and Disclosure Practices Significantly Enhance the CFP of Banks

The final sub-hypothesis (H1e), which asserts that there is a significant impact of Transparency and Disclosure on the financial performance of banks, was significantly supported as evident in its factor loading of 0.822, t-value of 29.117, and P-value of 0.000, respectively signifying a relatively strong relationship between transparency and financial performance. There is also recent empirical work to corroborate this inference. According to Oino (2019), transparency and disclosure had a significant effect on financial performance in the banking industry, including loan portfolio quality and profitability. Longo (2025) underlined that mandatory disclosures have led to good performance as transparency has been enhanced and the uncertainty reduced, especially in the period post-2007–2008 financial crisis. Furthermore, Fiador and Sarpong-Kumankoma (2020) confirmed the role of transparent governance processes in enhancing quality loan portfolios in Sub-Saharan Africa, which led to better financial performance.

Based on the comprehensive empirical and theoretical analysis conducted, H1 and its associated sub-hypotheses were thoroughly examined and addressed. This involved evaluating the statistical evidence and aligning it with the underlying theoretical frameworks to assess the validity and implications of the hypothesis in the context of the study. The hypotheses were accepted according to the available evidence as follows.

Table 9: Summary of Hypotheses Testing

Path	Path Coeffic/ Factor loadings	t-Value	p-Value	Decision
CG1 → CFP	0.729*	17.716	0.000	H1 → Supported
CG1 → CFP	0.756**	20.968	0.000	H1a → Supported
CG2 → CFP	0.777**	27.658	0.000	H1b → Supported
CG3 → CFP	0.849**	30.697	0.000	H1c → Supported
CG4 → CFP	0.819**	27.224	0.000	H1d → Supported
CG5 → CFP	0.822**	29.117	0.000	H1e → Supported

*Path coefficient ** Loading Factors

Source: CB-SEM Smart PLS 4.1.0.8/2025

Finally, the findings of the SEM analysis, combined with recent research, highlight the importance of different corporate governance components—board composition and size, board capability level, senior management, risk control, internal control, and transparency—on commercial banks' financial performance. This study's results support prior theory 'Agency Theory, Stewardship Theory, and Resource Dependence Theory' that identifies governance

mechanisms as important levers to improve firm performance. The robustness of these results across different studies and industries confirms the pivotal role of successful corporate governance in realizing better financial performance in the banking industry.

7. Conclusion

The study establishes that Corporate Governance has a significant influence on Corporate Financial Performance in commercial banks. The findings are consistent with the proposition that good governance mechanisms, in terms of board composition, banks' knowledge, quality of management team, and risk management practices, as well as transparency, play an important role in improving bank performance.

The results of the analysis are consistent with agency theory, where good governance mechanisms harmonize both the interests of management and shareholders, as well as Stewardship Theory, with substantial emphasis on trust and co-operation between boards and managers. Beyond theoretical implications about resource dependence theory, the results highlight once again how diversified resources in terms of experiential knowledge and social capital can become important antecedents to better performance at the board level.

This study offers policy implications for executives and regulators of banks, as well as advice to investors and bank managers who are in charge of determining needs for the promotion of appropriate governance forms aimed at improved financial performance. More studies are therefore needed to understand the long-run effect of such governance practices and address limitations identified in this study.

8. Suggestions

- Banks should improve their governance systems, especially in the board's selection function and its independence, together with the ability of its members, while narrowing any gap between management preferences and shareholder goals – all of which lead to better financial results.
- The banks have to attract board members who create diversity in expertise and experience so that the institutions are run by those considered suitable to chart a course through complicated financial and strategic waters - an imperative for profit-making over time.
- Commercial banks should be looking to invest in leadership development programs and tactics that build solid, visionary senior management teams capable of making successful strategic decisions that lead to performance.
- Banks should establish and enhance comprehensive risk management mechanisms and internal control systems in order to secure their financial soundness and prevent risks that may affect their performance.
- The transparency of operations and financial disclosures is necessary for investors to trust stakeholders, improve confidence, and achieve better market performance.

9. Implications

The results of this study, which show the existence of a strong positive relationship between CG and CFP, have important implications for theory and practice. This study theoretically enriches the research literature by reiterating the importance of good governance in enhancing Financial Performance, especially in banking institutions.

Practically, the findings imply that banks should give due regard to governance practices irrespective of the institutional environment in which they operate, particularly on board structure, management capability, and effective risk management. Policy makers and regulators can take these findings into account to promote the implementation of regulatory changes that stimulate good governance, which results in better financial performance and stability in the banking industry. For bank managers, investors, and society more broadly, the results present practical understandings to evaluate and adjust governance mechanisms in order to enhance performance outcomes and mitigate risk.

Overall, this study demonstrates the importance of corporate governance in enhancing bank financial performance and institutional survival. Finally, the study brings out how corporate governance is vital for enhancing financial performance and institutional structure within the banking industry.

10. Limitations

This research contributes to the understanding of corporate governance and financial performance in emerging markets; however, there are some limitations. First, by concentrating on commercial banks in emerging markets, it may not be extended to developed countries with well- established governance structures and is therefore the results of the study could be generalization limiting. Second, the cross-sectional nature of the methodology can record a static moment of corporate governance and economic performance without permitting it to change over time. A longitudinal design could uncover patterns and cause-effect relationships. Furthermore, the research separates corporate governance from other parameters as market condition and regulatory change or macroeconomic effect that could influence financial performance. Finally, the study high-lights financial performance only and disregards non-financial indicators such as customer satisfaction, employee wellness or social responsibility, all relevant aspects for the long-term success of a company. Future studies may investigate the relationship between governance and financial and non-financial performance measures in order to provide a more holistic understanding of corporate success.

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