

# Governance Practices and Bank Performance in Africa: A Panel Data Analysis of ESG Scores and Financial Outcomes

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## Abstract

Corporate governance remains a cornerstone of financial stability and strategic success within the banking sector. In the context of Africa's evolving capital markets, the influence of governance on financial performance is increasingly critical, yet underexplored using standardized ESG metrics. This study assessed the effect of governance practices on the financial performance of listed commercial banks in Africa, using Return on Assets (ROA) as the key performance indicator. The study employed panel data from 15 commercial banks across South Africa, Egypt, and Morocco over a ten-year period (2013–2022), utilizing governance scores from the LSEG ESG database. A fixed-effects regression model was applied to estimate the impact of governance on ROA. Descriptive statistics revealed a moderate average governance score of 45.58, with ROA averaging 0.03. Regression analysis showed that governance had a statistically significant positive effect on ROA ( $\beta = 0.000126$ ,  $p < 0.001$ ), accounting for 56.5% of its variation ( $R^2 = 0.5649$ ). The study concludes that governance reforms enhance profitability. It recommends that banks deepen governance transparency and align disclosures with investor expectations for long term profitability and sustainability

**Keywords:** *Governance, Financial Performance, ROA, ESG*

## 1.1 Background to the Study

Commercial banks are foundational to financial systems, contributing to economic stability through credit intermediation, liquidity provision, investment facilitation, and support to both private enterprises and public sectors (Batae et al, 2020; Kalpana & Rao, 2017). In predominantly agrarian African economies, these banks serve as critical conduits for agricultural financing, driving rural productivity and household income generation (Jadhav, 2020). The financial performance of commercial banks is thus tightly intertwined with macroeconomic health. The stability of a bank is fundamentally anchored in its consistent profitability, growth potential, and capacity to generate shareholder value. Maintaining this stability is essential for a resilient financial system (Financial Sector Regulators (2022).

The performance trajectory of banks globally and in Africa has been shaped by a succession of shocks and recoveries. Following the 2008 global financial crisis and the 2020 COVID-19 pandemic, banks demonstrated adaptive resilience, with profitability recovering notably between 2021 and 2022 (Global Banking Annual Review, 2023; McKinsey, 2022). Nonetheless, African banks, particularly in key markets like Kenya, experienced a persistent erosion in return on equity, which fell from 30% in 2012 to just 14% by 2020 (CBK, 2021). Despite this, return on assets remained relatively stable at around 5%, suggesting that the sector maintained operational efficiency amidst reduced shareholder value. These shifts in financial performance have refocused attention on internal mechanisms of resilience, particularly the quality of corporate governance.

Governance, as a core pillar of Environmental, Social, and Governance (ESG) frameworks, encapsulates the structures, responsibilities, and policies that guide leadership accountability, risk management, and strategic oversight in banks. Regulatory institutions in Africa have increasingly embedded governance expectations into supervisory frameworks. In Kenya, for instance, the Central Bank of Kenya (CBK) requires banks to publicly disclose governance and climate-risk-related information, while the Nairobi Securities Exchange (NSE) mandates ESG disclosures aligned with international standards (NSE, 2021). These shifts reflect broader trends under the African Union Agenda 2063 and the Sustainable Development Goals, which emphasize institutional accountability and climate-conscious financial governance (DeGhetto et al, 2016). In parallel, PwC (2022) projects that ESG-related compliance costs may exceed 21% of banks' capital investments by 2026, underscoring the strategic weight of governance in performance decisions.

Although many scholars have linked ESG practices with superior financial outcomes, the evidence particularly for the governance pillar remains inconclusive and context-sensitive. Studies by Buallay (2019), Cornett *et al.* (2016), and Shen *et al.* (2016) have shown that effective governance structures correlate positively with profitability and market valuation. Similarly, Kenyan and emerging market research (Kimilu, 2023; Naeem & Jan, 2021) supports the financial materiality of ESG-led reforms. In contrast, others such as El Khoury *et al.* (2023), Mathuva and Kiweu (2016), and Dragomir *et al.* (2022) report negative or insignificant effects, suggesting that governance quality alone may not guarantee improved performance without the right institutional context. Awuor's (2023) study in Uganda, for example, revealed marginal improvements in return on equity but weaker effects on asset-based returns. Such inconsistencies highlight the need for standardized metrics and regionally grounded evaluations.

According to agency theory, effective corporate governance is central to enhancing a firm's financial performance, as it mitigates conflicts of interest between managers and shareholders by aligning their objectives (Grove *et al.*, 2011). Key governance attributes such as board composition, director selection processes, tenure, board size, and the separation of CEO and Chairman roles are instrumental in ensuring this alignment (Youssef & Diab, 2021; Centobelli *et al.*, 2020; Elali, 2021). In the banking sector, where fiduciary responsibility and risk exposure are elevated, regulatory bodies play a pivotal role in mandating strong governance structures that ensure operational stability and sustainable performance (John *et al.*, 2016). Well-governed banks are perceived as credible and resilient institutions, thereby improving investor confidence and enhancing their competitive positioning in the market.

Conversely, poor governance may be interpreted as a signal of managerial inefficiency or opacity, often deterring investor interest and undermining performance (Oino, 2019). Transparency and

disclosure, cornerstones of effective governance, require banks to adopt appropriate accounting standards and report material developments related to board structure, financial status, and operational shifts. The diversity of expertise within the boardroom also fosters more rigorous strategic decision-making, while frequent shareholder engagements and the involvement of external auditors promote accountability (Oino, 2019). In this study, governance is operationalized through the governance pillar score (GOV) sourced from the London Stock Exchange Group (LSEG), which captures key dimensions such as corporate structure, shareholder rights, and CSR strategy providing a standardized, cross-country basis for evaluating the relationship between governance and financial performance in African commercial banks.

## 1.2 Statement of the Problem

The stability and growth of national economies depend heavily on the financial soundness of the banking sector, which acts as a conduit for mobilizing savings, financing investments, and facilitating monetary stability (Abisola, 2021). At the heart of this stability lies the financial performance of banks, a key determinant of institutional resilience and sustainability (Maluki, 2021). Persistent underperformance not only increases the risk of regulatory sanctions or delisting (Kroes & Manikas, 2014) but also undermines long-term shareholder value a key consideration in banking performance assessments (Gitagia et al, 2020). In recent years, global and regional data reveal a marked decline in bank profitability. The average return on assets (ROA) for banks worldwide declined from 3.7 percent in 2013 to 1.36 percent in 2020, with only modest recovery from 2021 onwards (Global Finance, 2023). Similarly, banks in Africa's five largest financial markets, Egypt, Kenya, Morocco, Nigeria, and South Africa, recorded an average annual decline of two percentage points in ROA since 2016, driven by regulatory pressures, macroeconomic instability, and growing competition (McKinsey, 2022).

While banks are increasingly under pressure to implement Environmental, Social and Governance (ESG) frameworks as part of global financial reform agendas, corporate governance has emerged as a particularly strategic dimension due to its direct linkage with risk management, ethical leadership, accountability, and transparency. Poor governance in banks, evidenced by weak board oversight, inadequate disclosure practices, and misaligned executive incentives, can signal inefficiency and elevate investor risk perception, which negatively impacts financial performance (Oino, 2019). Conversely, effective governance mechanisms, including board independence, skill diversity, and robust shareholder rights, are often associated with improved profitability and long-term sustainability (Youssef & Diab, 2021; Centobelli *et al.*, 2020). Nonetheless, the relationship between governance practices and financial outcomes in the African banking sector remains underexplored and inconclusive, particularly when evaluated through globally recognized ESG metrics.

Existing studies in the African context have faced critical limitations in their approach to evaluating governance. Many have relied on fragmented or subjective proxies for ESG performance, often drawing from voluntary disclosures or self-reported financial statements. For example, Mumo (2022) assessed ESG disclosures using Capital Markets Authority reports, while Kimilu (2021) and Maana (2021) conducted content analyses of corporate filings to estimate ESG performance. Amadzie *et al.* (2022) similarly used audited statements from African banks, yet none of these studies isolated governance from the broader ESG framework or used standardized international data. As a result, the comparability and generalizability of findings have remained limited.

Further compounding this gap is the restricted availability of comprehensive governance data across the continent. Only fifteen banks in Africa, primarily based in South Africa, Egypt, and Morocco have consistently reported adequate governance disclosures to allow for standardized ESG scoring over a period of at least eight years (LSEG, 2023). Despite being among the continent's top five banking markets, Kenya and Nigeria have not yet achieved similar levels of disclosure maturity (Kenya Bankers Association, 2022). Nevertheless, a growing number of African countries are institutionalizing ESG mandates through regulatory frameworks and capital market reforms, signaling a new era of sustainability-led governance (African Bulletin, 2023).

To address these limitations, this study leverages data from the London Stock Exchange Group (LSEG), which provides globally recognized ESG scores for publicly listed entities. Notably, only 15 banks from Africa, based in South Africa, Egypt, and Morocco meet LSEG's governance disclosure thresholds for the 2013–2022 period. This limited representation underscores the uneven pace of ESG adoption across the continent, as evidenced by Kenya's exclusion from the LSEG dataset due to low compliance and reporting coverage (LSEG, 2023; Kenya Bankers Association, 2022). Nonetheless, prior global studies using LSEG scores including those by Dragomir *et al.* (2022), Elisa and Guido (2023), and Shakil *et al.* (2019) have successfully established methodological precedent for analyzing how governance practices, when standardized and enforced, can shape financial outcomes.

### **1.3 Objective of the Study**

To evaluate the effects of governance practices on the financial performance of listed commercial banks in Africa.

### **1.4 Scope of the Study**

This study was focused on examining the effect of corporate governance practices on the financial performance of listed commercial banks in Africa. It specifically investigated how governance-related structures, policies, and oversight mechanisms influenced financial outcomes within the banking sector. The governance construct was measured using the Governance (GOV) pillar scores from the London Stock Exchange Group (LSEG), which captured board composition, shareholder rights, executive oversight, and CSR strategies. Financial performance was assessed through the Return on Assets (ROA).

The study analyzed fifteen listed commercial banks in South Africa, Egypt, and Morocco from 2013–2022, excluding Kenya and Nigeria due to incomplete ESG data. It focused on governance-performance linkages using LSEG secondary data within advanced African banking systems. Panel regression models (fixed and random effects) were applied, with ROA as the dependent variable, governance scores as independent, and COVID-19 dummy as a control. The findings aimed to inform policymakers, regulators, and managers on governance-led performance in Africa's banking sector.

## **2.0 Literature Review**

The literature on governance and financial performance has expanded significantly in recent years, particularly within the context of ESG integration in banking. This section critically examines theoretical foundations and empirical findings that link governance practices to financial outcomes among African commercial banks.

## 2.1 Theoretical Literature Review

This study was anchored on Agency Theory, a foundational concept in corporate governance research that explains the relationship between principals (owners or shareholders) and agents (executives or managers) within an organization. Originally proposed by Jensen and Meckling (1976), the theory posits that agents may not always act in the best interest of principals, especially when asymmetries of information and divergent objectives exist. To mitigate these agency problems, firms develop governance structures that provide oversight, transparency, and accountability mechanisms designed to align managerial behavior with shareholder interests. In the banking sector—where stakeholders are particularly sensitive to risk, trust, and financial soundness—agency conflicts can be even more pronounced, hence the critical role of governance frameworks in maintaining institutional integrity and performance.

Agency Theory is particularly relevant to commercial banks in Africa, where governance challenges such as weak disclosure systems, concentrated ownership structures, and board inefficiencies persist. According to Grove *et al.* (2011), financial institutions with effective governance structures characterized by well-composed boards, clear role separation between Chairperson and CEO, and rigorous oversight tend to perform better financially. These structures reduce opportunistic behavior by management and promote decisions that enhance long-term shareholder value. Centobelli *et al.* (2020) and Youssef and Diab (2021) further emphasize that board diversity, independence, and tenure are critical attributes that influence governance quality and strategic performance outcomes. Thus, within the agency framework, governance is not just a compliance mechanism but a strategic driver of financial performance.

In the African context, the theory remains salient due to the dual pressures faced by banks: the need to deliver returns in volatile markets and the growing demand to adopt ESG practices in line with global standards. Poor governance evidenced by weak reporting, limited shareholder rights, and ineffective CSR strategies can increase agency costs and reduce investor confidence (Oino, 2019). On the other hand, effective governance practices create value by ensuring managerial accountability, enhancing risk oversight, and facilitating better strategic alignment. This is particularly important for African banks operating in jurisdictions where regulatory capacity varies and capital markets are still developing.

In this study, corporate governance was measured using the Governance (GOV) pillar score from the London Stock Exchange Group (LSEG), which encapsulates structural attributes such as board effectiveness, shareholder rights, executive compensation, and CSR strategy. Financial performance was assessed using Return on Assets (ROA). The application of Agency Theory provided a robust analytical lens through which the study examined how variations in governance quality influenced these performance indicators. By grounding the research in this theory, the study was able to contextualize governance not merely as a formal structure but as a mechanism that can reduce agency conflict and enhance sustainable performance in African commercial banks.

## 2.2 Empirical Review

The relationship between governance practices and financial performance has long been explained through the lens of agency theory, which posits that the separation of ownership and control in modern corporations creates potential conflicts of interest between shareholders (principals) and managers (agents) (Ramic, 2019). Effective governance mechanisms are designed to align the objectives of management with those of shareholders, thereby reducing agency costs and enhancing overall performance. Strong governance structures characterized by board oversight,

transparency, accountability, and clearly defined shareholder rights are often linked to higher profitability, reduced risk exposure, and greater operational efficiency. In the banking sector, these mechanisms are particularly vital due to the sector's systemic importance and exposure to regulatory scrutiny.

Empirical studies from various African contexts provide evidence supporting the theoretical claims. Baidoo *et al.* (2023) examined board diversity, size, and ownership structure in Ghanaian commercial banks over a decade and found a generally positive association between robust governance features and financial performance. Their use of fixed and random effects models reinforced the view that board composition plays a critical role in determining outcomes like return on assets. However, the study's reliance on secondary data from financial statements and voluntary disclosures without standardized ESG metrics limited the comparability of governance quality across banks.

Boachie (2023) extended this analysis by investigating the mediating effect of ownership structure on the governance-performance relationship in Ghanaian banks. Using multiple regression on an eighteen-year dataset, the study demonstrated that governance quality and bank size positively influenced financial outcomes. Boachie's findings affirmed that governance not only enhances performance metrics but also improves stakeholder trust and strategic clarity. This underscores the importance of governance as both a compliance tool and a performance driver in banking institutions. Importantly, the study called for the institutionalization of governance practices through national and regional frameworks to ensure uniform application and long-term effectiveness.

Herbert and Agwor (2021) explored the effect of corporate governance disclosure (CGD) on the financial performance of commercial banks quoted on the Nigeria Stock Exchange. The study was based on the Code of Corporate Governance for Public Companies in Nigeria. The sample comprised of 13 Nigerian commercial banks and covered the period from 2011 to 2016. The study applied content analysis and used a checklist of mandatory disclosures to obtain information on corporate governance. The results of the hypothesized relationships showed a positive and significant association between CGD and the banks' financial performance. The study did not however use internationally benchmarked metrics for measuring governance scores.

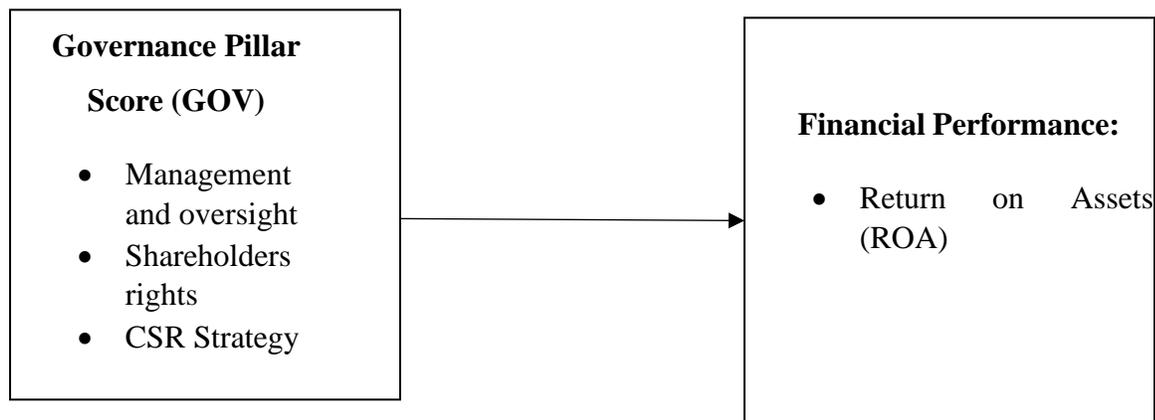
The Kenyan context further enriches this discourse. Kamau *et al.* (2018) analyzed data from 108 financial institutions and found a significant positive relationship between governance practices and financial performance. Their results highlighted that board competence and strategic decision-making contributed to financial resilience. However, they cautioned against governance over-engineering, noting that excessive board committees could dilute efficiency and responsiveness. Ongore and Obonyo (2011) similarly observed that board composition, ownership structure, and managerial characteristics had a direct impact on firm performance, including ROA and ROE. Their stepwise regression analysis offered strong statistical support for the notion that well-governed companies outperformed their less-governed peers, particularly in emerging markets where institutional frameworks may be less mature.

Broader regional perspectives further validate these trends. Basuony *et al.* (2014) examined governance practices in the Arabian Peninsula and found strong associations between board activism, external director participation, and financial performance. Using OLS regression, their study confirmed that governance variables influenced both accounting-based measures like ROA and market-based measures like Tobin's Q. Nonetheless, the narrow two-year scope of the study

(2010–2011) limited its ability to capture long-term governance effects. Despite this limitation, their findings resonate with those from African markets, suggesting that the positive relationship between governance and performance may be generalizable across similar banking environments. Collectively, these studies affirm the relevance of agency theory in explaining how governance influences bank performance and underscore the need for harmonized, internationally recognized governance metrics to enable deeper cross-border comparisons.

### 2.3 Conceptual Framework

The conceptual framework illustrates the hypothesized relationship between governance practices and financial performance among listed commercial banks in Africa.



**Figure 1: Conceptual Framework**

Governance is measured through the Governance Pillar Score (GOV), which includes key dimensions such as management and oversight, shareholder rights, and corporate social responsibility (CSR) strategy. These components are viewed as critical mechanisms that promote transparency, accountability, and strategic alignment within banking institutions. Financial performance, the dependent variable, is assessed using the Return on Assets (ROA). The framework posits a direct effect of governance on financial outcomes, aligning with agency theory, which suggests that effective governance mitigates agency conflicts and enhances both operational performance and investor confidence. This model guided the study’s empirical investigation and analytical focus.

### 3.0 Research Methodology

This study adopted a positivist research philosophy, which posits that reality is objective and can be observed, measured, and analyzed through empirical data. The positivist paradigm was appropriate given the study’s aim to test the relationship between governance practices and financial performance using statistical techniques. Previous research in the ESG-finance domain (e.g., Gitagia *et al.*, 2020; Kimilu, 2021) also demonstrated the effectiveness of this approach in evaluating causal relationships across time and institutions.

An explanatory non-experimental research design was employed to examine the direct effect of governance practices on the financial performance of listed commercial banks in Africa. This design allowed the study to analyze historical data without manipulating variables, enabling causal inferences from naturally occurring patterns. The target population included 145 banks listed

across 22 African securities exchanges. However, using purposive sampling, the study focused on 15 banks from South Africa, Egypt, and Morocco that provided complete and consistent governance and financial performance data from 2013 to 2022, as reported in the London Stock Exchange Group (LSEG) database.

Governance practices were operationalized using the governance pillar score (GOV), a composite index comprising measures of board structure, shareholder rights, and audit oversight. Financial performance was assessed using Return on Assets (ROA). The study employed panel data regression models, which enabled the examination of both cross-sectional and longitudinal variation. To ensure model appropriateness, the Hausman specification test was used to determine whether a fixed or random effects model would be more suitable for estimating the relationship.

The empirical models controlled for the potential confounding effect of the COVID-19 pandemic by including a dummy variable for the years 2020 and 2021. To validate the robustness of the findings, the study conducted extensive diagnostic tests, including tests for normality (Shapiro-Wilk), multicollinearity (VIF), heteroscedasticity (Breusch-Pagan), autocorrelation (Breusch-Godfrey), endogeneity (Durbin-Wu-Hausman), and stationarity (ADF). All data used were secondary and publicly available. The model was specified as follows;

$$ROA_{it} = \beta_0 + \beta_1 GOV_{it-1} + \beta_2 Covid19_t + \epsilon_{it} \dots \dots \dots (i)$$

- ROA<sub>it</sub>: Return on Assets of bank *i* at time *t*
- GOV<sub>it-1</sub>: Lagged Governance Pillar Score of banks *i* at time *t-1*
- Covid19: Dummy variable for COVID-19 period (1 if year is 2020 or 2021; 0 otherwise)
- $\epsilon_{it}$ : Error term
- $\beta_1$ : Coefficient measuring the direct effect of governance on financial performance

#### 4.0 Findings

This section presents the analysis of data collected from listed commercial banks in Africa to examine the effect of governance practices on financial performance. The results are organized around descriptive statistics, trend and regression analyses aligned with the study objectives.

#### 4.1 Descriptive Results

The governance score captures the robustness of internal governance frameworks among listed commercial banks in Africa, focusing on dimensions such as board independence, shareholder rights, audit structures, and executive accountability. The average governance score of 45.58 suggests a moderate level of adherence to sound governance principles across the sample as shown in Table 1;

**Table 1: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Governance Score	150	45.58	22.09	3.94	90.98
ROA	150	0.03	0.02	-0.04	0.09

Nonetheless, the relatively high standard deviation of 22.09, coupled with the wide score range from 3.94 to 90.98, reflects significant disparities in governance practices among the banks. This

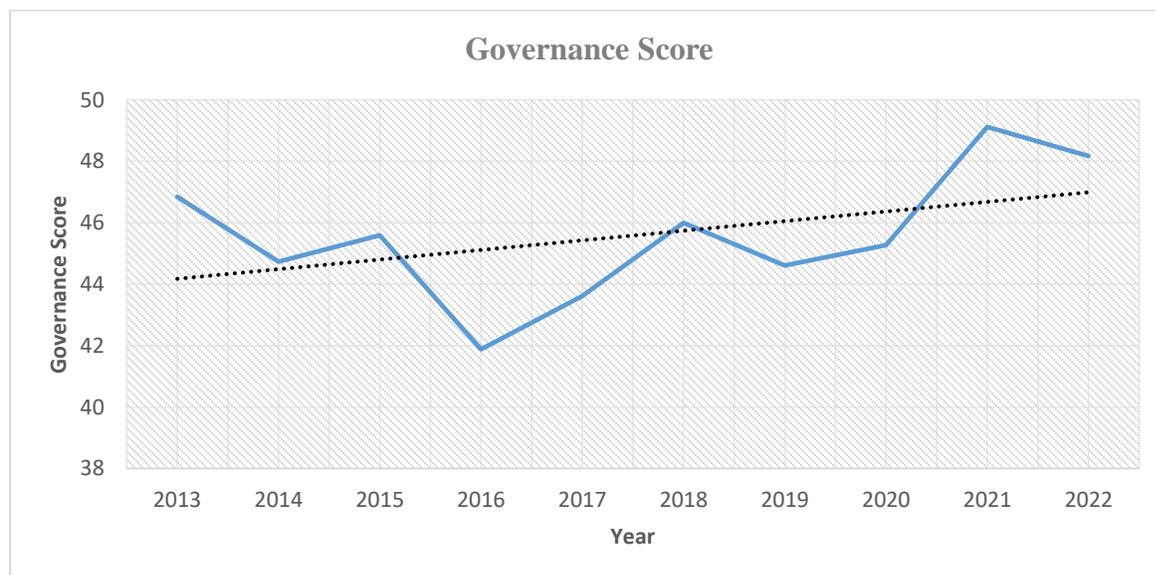
dispersion implies that while some banks have institutionalized high-quality governance systems, such as diversified boards, transparent reporting, and shareholder-friendly mechanisms, others continue to grapple with weak oversight and accountability frameworks.

Such variation in governance quality may stem from factors such as differences in regulatory environments, institutional maturity, and stakeholder pressures across jurisdictions. Strong governance structures often translate into improved risk management, enhanced strategic alignment, and better investor confidence, all of which are critical drivers of financial performance. Conversely, low-scoring banks may be more vulnerable to agency conflicts, regulatory lapses, or reputational risks, potentially undermining their financial stability and long-term viability in an increasingly ESG-conscious global market.

The return on assets (ROA) provides a lens into the operational efficiency of listed commercial banks in Africa, specifically, how effectively these institutions convert their asset base into net earnings. The average ROA of 0.03 indicates relatively modest profitability, consistent with the historically conservative asset deployment strategies observed in many African banking institutions. Nonetheless, the standard deviation of 0.02 and the full range from -0.04 to 0.09 suggest the presence of both underperforming and outperforming banks within the sample. The existence of banks with negative ROA values reveals operational or credit risk inefficiencies that may be tied to poor asset quality, governance lapses, or weak internal controls. Conversely, those achieving up to 0.09 in ROA likely benefit from more robust governance structures, strategic discipline, or a more optimal capital allocation process. As such, ROA serves not only as a financial metric but as a reflection of managerial effectiveness and institutional resilience.

#### 4.2 Trend Analysis

The trend analysis of governance score among listed commercial banks in Africa, as presented in Figure 2, reveals fluctuations over the period from 2013 to 2022. The average governance score demonstrates variability, starting at approximately 46.84 in 2013, experiencing fluctuations, and ending at around 48.17 by 2022.



## Figure 2: Governance Score Trendline

**Source: Study data (2024)**

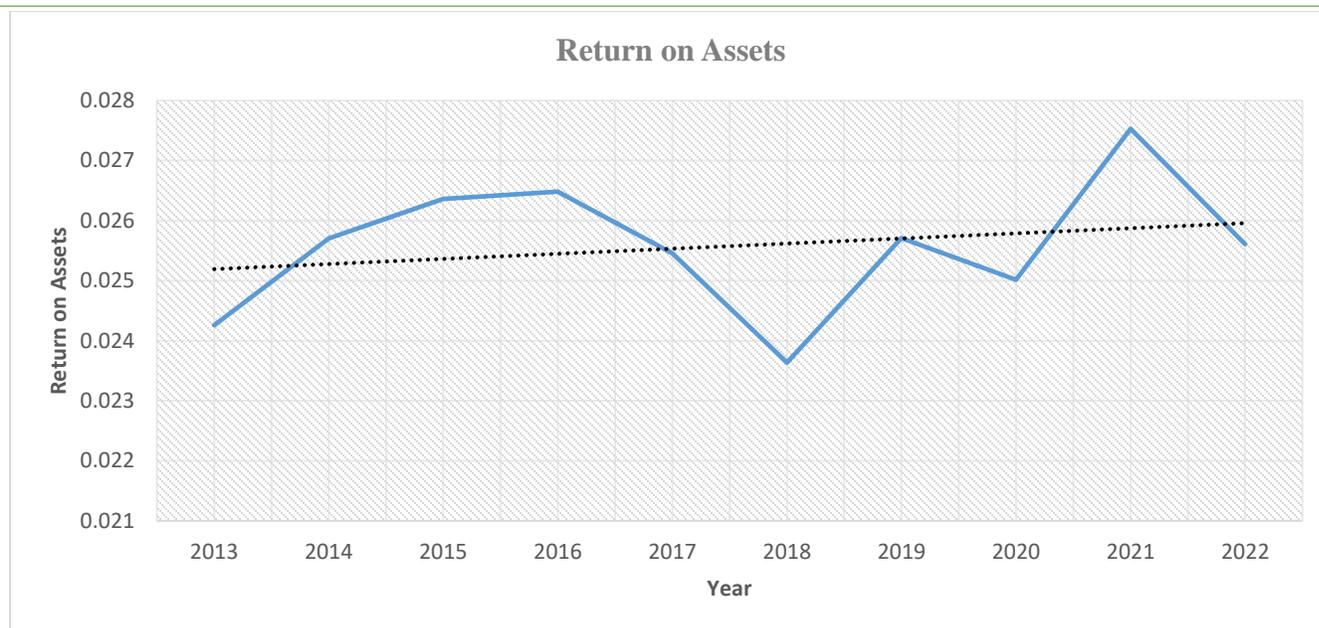
This trend suggests a mixed performance in governance practices among listed commercial banks in Africa over the analyzed period. The directional bias indicates oscillations in governance standards, with notable peaks and troughs. The fluctuations in governance score may reflect changes in regulatory environments, corporate governance frameworks and internal governance structures within banks.

The decline observed from 2013 to 2016 suggests challenges or lapses in governance practices among banks during this period. This could be attributed to various factors, including regulatory reforms, leadership transitions or governance-related scandals within the banking sector. However, the subsequent increase from 2016 to 2022 indicates efforts by banks to strengthen governance practices and enhance transparency, accountability and risk management frameworks. This upward trend may reflect improvements in governance structures, board oversight mechanisms, and compliance with regulatory requirements.

The implications of this trend are significant for banks, regulators and investors. For banks, maintaining robust governance practices is essential for ensuring sound risk management, preserving financial stability and safeguarding stakeholders' interests. Effective governance enhances trust and confidence in the banking sector, contributing to its long-term resilience and sustainability. From a regulatory perspective, monitoring governance trends among listed commercial banks is crucial for identifying areas of weakness and implementing appropriate regulatory interventions to enhance governance standards and promote market integrity.

For investors, governance considerations are paramount in assessing investment risks and opportunities. Banks with strong governance practices are perceived as more trustworthy and are likely to attract investor interest, leading to increased market capitalization and shareholder value. Overall, the trend in governance score among listed commercial banks in Africa underscores the importance of governance excellence in driving organizational performance, regulatory compliance and stakeholder confidence. It highlights the ongoing efforts by banks to adapt to evolving governance requirements and demonstrates the critical role of effective governance in fostering trust and stability in the banking sector.

The trend analysis of return on assets (ROA) among listed commercial banks in Africa, as shown in Figure 3 below, spanning from 2013 to 2022, reveals a varied performance marked by fluctuations. Beginning at approximately 0.024 in 2013, the average ROA experienced oscillations, reaching its lowest point at around 0.023 in 2018, before showing signs of recovery and peaking at approximately 0.028 in 2021.



**Figure 3: Return on Assets Trends**

**Source: Study data (2024)**

These fluctuations indicate a dynamic landscape influenced by factors such as market conditions, economic cycles and internal bank operations. The declining trend observed until 2018 suggests challenges in profitability, possibly stemming from heightened competition, interest rate volatility and regulatory shifts. However, the subsequent uptrend highlights efforts by banks to enhance efficiency, optimize asset utilization and adapt to changing market dynamics, leading to improved profitability and a positive outlook for the banking sector.

This trend in ROA underscores the critical importance of prudent management strategies, robust risk management practices and adaptive business models in navigating challenges and seizing opportunities in the evolving banking landscape. For banks, maintaining or enhancing ROA is essential not only for sustaining profitability but also for attracting investors and ensuring long-term viability. The observed fluctuations in ROA emphasize the need for agility and resilience in responding to market shifts and regulatory changes. From an investor perspective, ROA serves as a key indicator of banks' financial health and investment attractiveness, with higher ROA signaling greater efficiency and resilience. Likewise, for regulators, monitoring ROA trends provides valuable insights into banks' financial soundness and systemic stability, informing regulatory interventions aimed at promoting financial stability and market integrity.

### 4.3 Inferential Analysis

Inferential analysis involves hypothesis testing and estimation to make comparisons and predictions and draw conclusions that will serve populations based on sample data.

#### 4.3.1 Correlation Analysis

Correlation analysis was employed to explore the relationships between ESG practices and financial performance metrics of African commercial banks. This analysis revealed insights into how environmental, social, and governance factors might influence bank profitability and stability.

The findings offer a clearer understanding of the potential impact of ESG practices on overall bank success.

The correlation summary results are shown in Table 2 below.

**Table 2: Correlation Analysis**

	<b>ROA</b>
Governance score	0.748*
	0.0000

The correlation analysis presented in Table 2 indicates a strong and statistically significant positive relationship between governance score and return on assets (ROA), with a correlation coefficient of 0.748 and a p-value of 0.000. This finding suggests that improvements in governance practices are closely associated with enhanced profitability among listed commercial banks in Africa. The strength of this relationship implies that banks with more robust governance frameworks characterized by effective board oversight, clear shareholder rights, and transparent CSR strategies tend to achieve better asset utilization and earnings efficiency. This is consistent with the conclusions of Ongore and Obonyo (2011), who observed a strong positive link between governance structures and profitability. Similarly, Kamau et al (2018) found that board skills and independence significantly contributed to performance outcomes in Kenya’s financial institutions, underscoring the value of governance as a performance lever.

#### **4.3.2 Regression Analysis**

The research employed the use of fixed effect regression model to determine how ESG practices impact on the financial performance of listed commercial banks in Africa. All hypothesis testing was conducted at the 0.05 level of significance, which adds statistical strength and credibility to the research. A regression analysis was conducted to estimate the direct effect. Based on the results of the Hausman Test, the choice of model was the fixed effect model for the ESG and ROA equation.. The results are shown below.

Table 3 presents the regression results on the direct effect of ESG on Return on Assets.

**Table 3: Regression Results with ROA**

Variable	Coef.	Std. Err.	t	P> t	[95% Conf. Interval] Lower	[95% Conf. Interval] Upper
Governance Score						
GOV	0.000126	1.68E-05	7.5	0	9.26E-05	0.000159
Dummy variable						
Covid	-0.00016	0.000821	-0.19	0.846	-0.00178	0.001465
_cons	0.018498	0.001472	12.57	0	0.015586	0.02141

Statistic Value

R-squared (within) 0.3646

R-squared (between) 0.63

R-squared (overall) 0.5649

F-statistic 18.8

Prob > F 0.000

The regression results presented in Table 3 affirm a significant and positive relationship between governance practices and the financial performance of listed commercial banks in Africa, as measured by return on assets (ROA). The governance score (GOV) yielded a coefficient of 0.000126, with a robust t-value of 7.5 and a p-value below 0.001. This statistically significant effect underscores the critical role of corporate governance mechanisms in driving profitability. Banks that exhibit stronger governance characterized by independent and skilled boards, shareholder protections, and adherence to ethical corporate conduct tend to achieve superior asset efficiency. This finding aligns with the theoretical expectations of agency theory, which emphasizes that well-structured governance reduces managerial opportunism and agency costs, thereby improving firm performance (Grove *et al.*, 2011; Youssef & Diab, 2021).

Empirically, this result is consistent with previous studies across African and global banking sectors. For instance, Kamau *et al* (2018) observed that governance quality significantly influenced profitability in Kenyan financial institutions, while Boachie (2023) reported similar outcomes in Ghana, noting that governance effectiveness particularly in terms of board oversight and ownership structure enhanced ROA over a prolonged period. Likewise, Ongore and Obonyo (2011) demonstrated that robust governance mechanisms positively influenced performance metrics such as ROA, ROE, and Dividend Yield in listed Kenyan firms. These converging findings reinforce the argument that governance is not merely a regulatory requirement but a strategic asset in performance optimization.

Additionally, the inclusion of a COVID-19 dummy variable was intended to control for external macroeconomic shocks during 2020 and 2021. The variable returned a coefficient of -0.00016 with a p-value of 0.846, indicating no statistically significant effect on ROA. This suggests that, for the sample of banks studied, the pandemic's economic disruptions did not exert a measurable influence on asset profitability. One plausible explanation is that the selected banks, predominantly large institutions operating in South Africa, Egypt, and Morocco were resilient enough to absorb or mitigate the financial shocks of the pandemic through regulatory forbearance, digital

adaptability, or capital buffers. The insignificance of this control variable reinforces the robustness of the governance coefficient, confirming that the observed performance effects are indeed attributable to internal governance strength rather than external crisis-related distortions.

The dummy variable for Covid-19 adds further insight, with a significant negative coefficient of 0.4993 ( $p = 0.017$ ), indicating that market valuations of banks dropped considerably during the pandemic. This result captures the heightened uncertainty, depressed investor sentiment, and liquidity pressures that characterized capital markets in 2020 and 2021.

## **5.0 Discussion**

The regression results depict a significant and positive relationship between governance practices and the financial performance of listed commercial banks in Africa, as measured by return on assets (ROA). This statistically significant effect underscores the critical role of corporate governance mechanisms in driving profitability. Banks that exhibit stronger governance characterized by independent and skilled boards, shareholder protections, and adherence to ethical corporate conduct tend to achieve superior asset efficiency. The pandemic's economic disruptions did not exert a measurable influence on asset profitability indicating no statistically significant effect on ROA

## **6.0 Conclusion**

The findings of this study underscore the significance of governance practices in shaping the financial performance of listed commercial banks in Africa. The regression results revealed a statistically significant and positive relationship between governance scores and Return on Assets (ROA), indicating that banks with more robust governance structures, characterized by board accountability, shareholder rights, and CSR strategies, achieve higher profitability. This aligns with agency theory, which posits that sound governance mitigates managerial opportunism and aligns executive actions with shareholder interests. Correlation analysis further supported this association, showing a strong positive link between governance and ROA. These results affirm that internal governance reforms are instrumental in enhancing operational efficiency and profitability in the African banking sector.

## **7.0 Recommendation**

Based on the study's findings, it is recommended that listed commercial banks in Africa prioritize the strengthening of their governance frameworks, particularly through board independence, shareholder rights protection, transparent disclosures, and robust CSR strategies, as these have been shown to enhance internal financial performance as measured by ROA. Regulatory bodies and stock exchanges across the continent should consider harmonizing ESG reporting standards and educating investors on the long-term value of strong governance, thereby bridging the gap between internal governance reforms and external market perceptions. In addition, policies supporting the adoption of good governance practices should be explored, including setting benchmarks for board membership qualifications and promoting diversity and gender equity in boards.

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