

Corporate Board Interlocks and Financial Stability of Deposit Money Banks Listed on the NGX

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Abstract

This study examined the relationship between corporate board interlocks and the financial stability of Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX) for the period 2017–2024. The study specifically assessed the influence of Board Interlock Density, Board Busyness, Board Diligence, and Board Size on financial stability, measured by the Capital Adequacy Ratio (CAR). The research was anchored on Resource Dependence Theory, Agency Theory, and Stewardship Theory, emphasizing the role of inter-organizational links, board engagement, and oversight effectiveness in sustaining banking stability. The study adopted an ex-post facto research design using panel data extracted from the annual reports of ten (10) listed DMBs over eight years. Secondary data were analyzed using descriptive statistics, correlation analysis, and panel regression with the aid of SPSS (version 27). The results indicated that Board Diligence significantly enhanced financial stability, while Board Busyness had a positive but marginal effect. Conversely, Board Interlock Density and Board Size exhibited no significant influence on bank stability. It recommended that Nigerian banks should emphasize board attendance, engagement, and effective oversight to strengthen regulatory compliance and institutional stability. Furthermore, while interlocks can foster resource sharing, excessive cross-directorships should be managed to prevent over commitment and conflict of interest.

Keywords: Corporate Board Interlocks, Board Interlock Density, Board Busyness, Board Diligence, Financial Stability, Capital Adequacy Ratio, Deposit Money Banks

1. INTRODUCTION

Corporate governance has remained one of the most debated and researched themes in corporate finance and management, especially following several episodes of financial distress and systemic failures that have occurred across global and domestic financial systems. The Nigerian banking sector, being a highly regulated and systemically important segment of the economy, has attracted extensive scrutiny regarding the quality and structure of its corporate governance mechanisms. Within this governance structure, the board of directors occupies a central role as the apex organ responsible for strategic decision-making, oversight, and control. Over the years, scholarly attention has expanded from traditional board attributes such as board size, independence, gender diversity, and expertise to more network-oriented constructs such as corporate board interlocks, which capture how boards are connected through shared directors across firms (Okafor & Nnadi, 2024; Klein & Sautner, 2022).

A board interlock occurs when a director simultaneously serves on the boards of two or more firms. While such interlocking relationships can facilitate information flow, strategic coordination, and diffusion of governance best practices across firms, they can also introduce systemic vulnerabilities by transmitting shocks, poor governance practices, or risk-taking behaviors from one organization to another (Cai, Hillier, & Wang, 2021). In the Nigerian context, the phenomenon of board interlocks is not uncommon. Many directors of Deposit Money Banks (DMBs) hold multiple board memberships across different financial and non-financial institutions. The complexity of these overlapping networks has made it imperative to empirically understand how interlocking board structures affect the financial stability of listed banks, especially given Nigeria's history of financial fragility and regulatory reforms following crises such as the 2008–2009 global financial meltdown and the 2016 recession.

Financial stability reflects the ability of banks to maintain solvency, adequate capitalization, and resilience in the face of external shocks and operational risks. Indicators such as Capital Adequacy Ratio (CAR), liquidity ratios, non-performing loan ratios, and earnings stability have been used to measure the soundness of financial institutions (Osinubi & Okafor, 2023). The Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC), and the Financial Reporting Council of Nigeria (FRCN) have repeatedly emphasized the importance of effective governance in ensuring the sustainability of banking institutions. As banks operate within an interlinked corporate environment, understanding how their board networks interact and influence stability outcomes is crucial both for policy formulation and corporate governance reforms.

Corporate board interlocks can influence financial stability through various channels. On one hand, directors who sit on multiple boards may provide access to wider information networks, strategic insights, and valuable market intelligence that enhance decision-making and risk management (Adams & Ferreira, 2021). On the other hand, excessive board busyness may dilute directors' attention and commitment, thereby reducing board effectiveness and oversight capacity (Lai & Tam, 2023). Similarly, board diligence reflected in meeting frequency, attendance rates, and active engagement in oversight determines how effectively boards monitor management activities and ensure compliance with prudential regulations. The combination of interlock density, director busyness, and board diligence forms the governance network through which systemic risks and financial stability outcomes are shaped.

In emerging economies such as Nigeria, where ownership concentration and informal governance networks are prevalent, board interlocks may play a dual role. They can serve as conduits for trust, reputation, and collaboration among firms; yet, they can also foster collusive practices, conflicts of interest, and contagion risk when the same directors influence multiple competing firms. Empirical evidence remains mixed. While Adeyemi and Ajayi (2023) found that interlock density enhanced

risk-sharing and stability among Nigerian banks, Okafor and Nnadi (2024) reported that high interlock centrality increased systemic vulnerability, especially during periods of economic downturn. These conflicting findings underscore the need for a nuanced, data-driven analysis focused specifically on Nigerian Deposit Money Banks, where board networks are particularly dense and interconnected.

Recent studies have increasingly employed network theory and corporate interlock analysis to understand systemic risk propagation in the financial sector (Klein & Sautner, 2022; Chen, Li, & Sun, 2024). These approaches conceptualize the banking system as a web of connected boards where individual firms' governance practices can affect others through shared directors. Such interdependencies suggest that financial stability is not only an outcome of internal governance quality but also of network position, that is, how centrally or peripherally a firm is situated within the corporate governance network. Firms occupying central positions may have access to superior knowledge and strategic coordination, but they may also be more exposed to reputational and contagion risks if one of their interlocked peers experiences distress.

Between 2017 and 2024, the Nigerian banking industry experienced notable transformations, including increased regulatory oversight, digital banking innovations, and mergers and acquisitions that altered board compositions. These developments further underscore the need to re-examine the role of board interlocks in shaping financial outcomes. Despite several reforms introduced by regulatory authorities such as the CBN Code of Corporate Governance for Banks and Discount Houses (2023), incidences of governance failures and excessive risk exposure continue to persist within the banking sector. Existing studies in Nigeria have largely concentrated on traditional board attributes such as board size, independence, gender diversity, and expertise (Ugwoke & Chukwu, 2024; Enweremibe & Morah, 2025), with limited attention given to network-level governance characteristics such as interlock density, board busyness, and board diligence.

Moreover, most prior studies focused on profitability and market performance indicators rather than systemic outcomes such as financial stability. Consequently, there remains insufficient empirical evidence regarding whether corporate board interlocks serve as stabilizing governance mechanisms that promote resilience or destabilizing forces that amplify contagion risk among banks. This study therefore seeks to bridge this gap by examining the nexus between corporate board interlocks and financial stability of Deposit Money Banks listed on the Nigerian Exchange (NGX) over the period 2017–2024.

The main objective of this study is to examine the nexus between corporate board interlocks and the financial stability of Deposit Money Banks listed on the NGX. Specifically, the study seeks to:

- i. determine the extent to which board interlock density affects the financial stability of Deposit Money Banks in Nigeria;
- ii. examine the relationship between board busyness and financial stability of Deposit Money Banks in Nigeria;
- iii. assess the impact of board diligence on the financial stability of Deposit Money Banks in Nigeria; and
- iv. evaluate the effect of board size on the financial stability of Deposit Money Banks in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

Corporate Board Interlocks

Corporate board interlocks represent a vital dimension of modern corporate governance research that transcends traditional structural attributes such as board size, independence, or gender diversity. The

concept refers to situations where a member of a company's board of directors simultaneously serves on the board of another company. This overlapping of directorships creates a network of inter-organizational linkages often referred to as interlocking directorates that connect firms through shared governance members (Cai, Hillier, & Wang, 2021). Board interlocks have become increasingly prevalent in the global corporate environment, serving as conduits for information flow, strategic coordination, and diffusion of governance practices across firms. In banking systems, particularly in emerging economies such as Nigeria, board interlocks significantly influence managerial behavior, corporate performance, and financial stability (Okafor & Nnadi, 2024; Adeyemi & Ajayi, 2023).

Historically, board interlocks were viewed as mechanisms for elite coordination and social capital formation among corporate elites (Mizruchi, 1982; Useem, 1984). Over time, scholarly attention shifted toward their economic and governance implications. Interlocking directors are believed to enhance governance quality by transferring knowledge, regulatory experience, and strategic insights across organizations (Scott, 2020). However, excessive interlocks may also weaken board independence, promote groupthink, and expose firms to systemic contagion risks, particularly in the banking industry where financial institutions are highly interconnected (Klein & Sautner, 2022).

This study conceptualizes corporate board interlocks through three major dimensions: board interlock density, board busyness, and board diligence.

- ***Board Interlock Density:***

Board interlock density represents the extent to which a company's board is connected to other firms through shared directorships. It reflects the degree of overlap or connectedness among boards within a corporate network and indicates how embedded a firm is within the broader governance environment (Okafor & Nnadi, 2024). High interlock density suggests that many directors simultaneously hold appointments in other companies, thereby creating networks of information and influence across firms.

From a governance standpoint, board interlock density has both beneficial and detrimental implications. On the positive side, interlocks facilitate the transfer of governance expertise, strategic information, and best practices across organizations (Krause & Luo, 2021). Directors who serve on multiple boards are exposed to diverse governance systems and operational experiences that may improve monitoring quality and strategic decision-making. Interlocks may also enhance corporate legitimacy and reputation by signaling strong governance connections to investors and regulators (Agyemang & Castellini, 2023).

Conversely, excessive interlock density may undermine board independence, encourage conflicts of interest, and increase systemic vulnerabilities (Klein & Sautner, 2022). In highly interconnected financial systems, governance failures or excessive risk-taking behavior in one institution may easily spread to other interlocked organizations through shared directors (Cai, Hillier, & Wang, 2021).

- ***Board Busyness:***

Board busyness refers to the number of outside directorships or board memberships held by individual directors. It captures the workload and time commitments associated with directors serving on multiple boards simultaneously (Lai & Tam, 2023). A busy board typically comprises directors with several external appointments.

The literature presents mixed arguments regarding board busyness. Proponents argue that busy directors contribute valuable expertise, broader professional networks, and enhanced reputational

capital capable of improving governance quality and organizational performance (Adams & Ferreira, 2021). Such directors may also facilitate access to strategic information and innovative governance practices (Afolabi & Olayemi, 2025).

However, critics maintain that excessive busyness weakens directors' monitoring effectiveness because multiple appointments reduce the time and attention devoted to oversight functions (Okafor & Nnadi, 2024). In the banking industry, where governance responsibilities involve extensive risk monitoring and regulatory compliance, excessive board busyness may undermine effective oversight and financial stability.

- ***Board Diligence:***

Board diligence refers to the level of effort, commitment, and active participation exhibited by directors in carrying out their oversight responsibilities. It is commonly measured through meeting frequency, attendance rates, and directors' involvement in strategic deliberations (Osinubi & Okafor, 2023). A diligent board is expected to effectively monitor management activities, evaluate risk exposures, and ensure compliance with prudential regulations.

Board diligence aligns closely with stewardship and agency perspectives, which emphasize the monitoring and strategic functions of boards in corporate governance. Frequent meetings provide directors with opportunities to assess operational performance, review risk reports, and strengthen internal controls. Conversely, poor diligence may encourage managerial opportunism and governance failures (Okoye & Ifeanyi, 2024).

Empirical evidence generally supports a positive relationship between board diligence and governance effectiveness. Agyemang and Castellini (2023) found that diligent boards significantly improved governance quality and risk management among emerging-market banks, while Okafor and Nnadi (2024) reported that increased meeting frequency enhanced oversight efficiency within Nigerian Deposit Money Banks.

Financial Stability

Financial stability represents a condition in which financial institutions individually and collectively can withstand internal and external shocks without disrupting the broader economy. It implies that banks are solvent, adequately capitalized, liquid, and capable of maintaining the confidence of depositors, investors, and regulators (Osinubi & Okafor, 2023). Financial stability ensures the continuous flow of funds within the economy and safeguards macroeconomic growth (Okoye & Ifeanyi, 2024).

The International Monetary Fund (IMF, 2023) defines a stable financial system as one capable of performing its core functions efficiently even under adverse economic conditions. Similarly, the Central Bank of Nigeria (CBN, 2023) measures banking sector stability through indicators such as capital adequacy, liquidity, and asset quality. Governance mechanisms, particularly board structures and interlocks, influence financial stability through their effects on transparency, risk management, and oversight effectiveness (Agyemang & Castellini, 2023).

- ***Capital Adequacy Ratio (CAR):***

Capital Adequacy Ratio (CAR) is a key prudential indicator used to measure the sufficiency of a bank's capital relative to its risk-weighted assets. The Basel Committee on Banking Supervision (BCBS, 2019) defines CAR as the ratio of total regulatory capital to risk-weighted assets, designed to ensure that banks maintain sufficient capital buffers to absorb potential losses.

The Central Bank of Nigeria prescribes a minimum CAR requirement of 15% for Nigerian Deposit

Money Banks to strengthen banking sector resilience and depositor confidence (CBN, 2023). A higher CAR indicates stronger financial resilience and greater capacity to absorb unexpected losses, while a lower CAR suggests increased vulnerability to financial distress.

Empirical studies have consistently validated CAR as a reliable measure of financial stability. Osinubi and Okafor (2023) found that banks with higher capital buffers exhibited stronger resilience during economic downturns, while Okafor and Nnadi (2024) reported that higher CAR levels reduced systemic risk among Nigerian banks.

2.2 Theoretical Framework

This study is underpinned by the Network and Resource Dependence Theory (RDT) propounded by Pfeffer and Salancik (1978). The theory explains that organizations are not self-sufficient but depend on external actors and networks for critical resources such as information, legitimacy, expertise, and capital. Consequently, firms establish interorganizational linkages including board interlocks to manage environmental uncertainties and secure strategic resources necessary for survival and stability.

The theory is particularly relevant to this study because corporate board interlocks create governance networks through which Deposit Money Banks gain access to valuable information, professional expertise, regulatory knowledge, and strategic collaborations. Directors who serve on multiple boards act as channels through which organizations acquire critical resources and improve governance effectiveness (Hillman, Withers, & Collins, 2009). Through interlocking directorates, banks may strengthen risk management practices, improve regulatory compliance, and enhance financial resilience.

Several scholars have adopted Resource Dependence Theory to explain issues related to board interlocks and financial stability. Adams and Ferreira (2021) used the theory to explain how strategic interlocks improve governance quality and organizational resilience among U.S. financial institutions. Similarly, Agyemang and Castellini (2023) found that interlock centrality enhanced financial soundness among Sub-Saharan African banks through improved information dissemination and governance cooperation. Okafor and Nnadi (2024) also applied the theory within the Nigerian banking sector and observed that interlocked banks enjoyed stronger stakeholder relationships and improved solvency outcomes. Likewise, Hillman, Withers, and Collins (2021) argued that board interlocks facilitate access to strategic partnerships and funding opportunities capable of enhancing institutional stability.

Despite its relevance, the theory has attracted several criticisms. One major criticism is that Resource Dependence Theory overemphasizes the benefits of interorganizational networks while underestimating the risks associated with excessive interlocks such as conflicts of interest, collusion, and systemic contagion. Critics also argue that the theory assumes directors will always utilize their networks for organizational benefit, whereas interlocks may sometimes serve personal, political, or prestige-related interests rather than strategic objectives (Klein & Sautner, 2022). Furthermore, the theory pays limited attention to internal governance conflicts and agency problems that may arise when directors hold excessive multiple appointments. Another limitation is that the theory does not adequately explain situations where highly connected boards fail to improve organizational outcomes due to weak regulatory enforcement or ineffective monitoring structures.

Notwithstanding these criticisms, Network and Resource Dependence Theory remains the most suitable framework for this study because it provides a comprehensive explanation of how corporate board interlocks function as governance networks capable of influencing the financial stability of Deposit Money Banks in Nigeria through access to strategic resources, information sharing, and collaborative oversight mechanisms.

2.3 Empirical Review

Rahman, Ali, and Chowdhury (2025) conducted a research titled “Corporate Board Interlocks, Risk Governance, and Financial Stability: Evidence from South Asian Banks” explored how board interlocks shape systemic risk and resilience among 38 listed banks across Bangladesh, India, and Pakistan. The study used a panel quantitative design with secondary data from the World Bank Financial Soundness Database and annual corporate governance disclosures (2014–2023). Employing Panel-Corrected Standard Error (PCSE) regression, the study tested the relationship between interlock density, network size, and financial soundness indicators (Z-score, CAR, and NPL ratio). Results demonstrated that moderate interlock density strengthened stability by improving compliance and cross-institutional collaboration, but highly concentrated interlocks weakened independence and risk oversight. The authors recommended that regulatory authorities develop board-network monitoring frameworks to prevent “governance cartels” that reduce accountability.

Saeed and Wiredu (2025) examined the “Optimizing Business Strategy for Sustainability: Probing the Effects of CEO Features and Corporate Reputation in Driving ESG Outcomes”. Though centered on sustainability and governance, the study incorporated board interlocks as a moderating governance variable. Using a quantitative research design, the authors analyzed data from 72 publicly listed firms in Asia and the Middle East from 2015–2023. Data on director interlocks, board education level, and firm reputation were obtained from corporate filings and Bloomberg ESG datasets. Employing Panel Structural Equation Modeling (SEM), the study found that board interlocks positively influenced sustainability performance and stakeholder confidence when interlocks were diverse and non-redundant. However, firms with dense, closed interlock networks exhibited slower decision-making and weaker environmental disclosures. The study concluded that interlocks enhance corporate adaptability when strategically diversified.

Chun and Kim (2024) conducted a study titled “Substantive Board Independence and Board Interlocks on ESG Performance: The Role of CEO Power. The researchers examined how board independence and interlock density jointly affect ESG and governance outcomes in 150 South Korean conglomerates (chaebols) between 2013 and 2022. The study adopted a causal-correlational design using secondary data from the Korean Exchange (KRX) corporate filings and sustainability reports. Using Hierarchical Multiple Regression and 2SLS estimation to correct for endogeneity, findings revealed that substantive independence (measured by the ratio of outside directors) improved governance only when board interlock density remained moderate. When interlock levels exceeded 0.4 on the network scale, CEO power dominance reduced the benefits of independence, leading to symbolic rather than effective governance. The study concluded that interlocks must be balanced with independence to sustain ESG performance and corporate resilience. However, the results may be less generalizable to small or non-family-owned firms. Seo and Kim (2024) examined “Board Interlocks and Financial Performance: Evidence from East Asian Financial Institutions” in the *Journal of Corporate Finance Studies*. The study employed a longitudinal panel design covering 120 banks across South Korea, Japan, and Singapore between 2011 and 2022. Using secondary data from Bloomberg Governance and the Asian Financial Stability Board, the authors applied Dynamic System GMM estimation to address endogeneity and autocorrelation. Board interlock centrality and director network diversity were the main predictors, while Z-score and CAR served as measures of bank stability. The findings indicated that interlock centrality improved stability through information access and strategic coordination, yet excessive interlock density created systemic contagion risks. The authors concluded that interlocks have a “threshold effect,” yielding positive outcomes when limited to two or three network connections per director.

Osinubi and Ojo (2024) examined how board expertise and interlock networks influence financial

reporting integrity and bank stability in Nigeria. Using a causal-comparative design, the researchers analyzed 12 listed banks from 2015–2023. Data were extracted from annual governance reports, focusing on directors' accounting or finance qualifications and the number of shared directorships. Financial stability indicators such as CAR and liquidity ratios were sourced from NDIC and CBN bulletins. The study employed panel least squares (PLS) regression. Results indicated that expertise diversity among interlocked directors enhanced capital adequacy and reduced the likelihood of misreporting. Conversely, homogenous interlocks (where directors shared similar institutional backgrounds) weakened transparency. The study concluded that regulatory frameworks should promote interlock diversity to strengthen governance effectiveness.

Adeleke and Ojo (2024) analyzed corporate governance disclosure and financial soundness among Nigerian DMBs using content analysis and multiple regression techniques. The study covered 12 banks from 2016–2023, relying on annual reports for governance data and NDIC reports for CAR values. Findings demonstrated a significant positive relationship between transparent disclosure of board interlocks and financial stability. Disclosure enabled investors and regulators to monitor potential conflicts of interest, improving stakeholder confidence. However, the authors cautioned that mere disclosure without enforcement might be insufficient, recommending proactive regulatory sanctions for non-compliance with interlock disclosure codes.

Agyemang and Castellini (2023) employed a Dynamic Generalized Method of Moments (GMM) estimator to assess the relationship between board interlocks and bank stability in 45 banks across Sub-Saharan Africa (2013–2022). Data were collected from audited reports and World Bank databases. The results showed that interlock centrality enhanced financial soundness through improved information dissemination and governance cooperation among banks. However, beyond an optimal threshold, interlocks led to risk contagion. The study concluded that interlocks strengthen institutional resilience when balanced with independence. A major contribution was its regional perspective, although cross-country heterogeneity limited comparability due to differing regulatory standards.

Okoye and Ifeanyi (2023) assessed the impact of corporate governance characteristics on financial stability among Nigerian DMBs from 2015–2022. Using a panel regression model, data were obtained from banks' annual reports and NDIC publications. Independent variables included board independence, interlock density, and audit quality, while CAR and liquidity ratios were proxies for stability. Findings indicated that board independence and moderate interlock density positively affected stability, but excessive interlocks led to diminished diligence. The authors concluded that governance reforms emphasizing quality over quantity of interlocks would enhance solvency. They also suggested longitudinal monitoring of director workloads.

Olaoye and Olowookere (2023) investigated director busyness and oversight effectiveness using data from 10 Nigerian banks (2014–2021). The study applied OLS regression to examine the link between director workload (number of external boards) and bank soundness (measured by CAR and liquidity). Findings indicated that directors with more than three concurrent appointments were associated with declining oversight effectiveness and increased operational risk. The study concluded that workload management is critical to maintaining diligence. However, the authors noted a limitation: the study did not differentiate between industry-related and unrelated appointments, potentially overlooking positive spillover effects of sector-specific expertise.

Cai, Hillier, and Wang (2023) evaluated interlock centrality and risk exposure in 120 banks across 20 countries from 2010–2020. The researchers used structural equation modeling (SEM) to capture the mediating effects of regulatory quality and institutional ownership. The study found that network centrality

enhanced risk awareness and reduced default probability through improved information sharing. However, when interlock networks were excessively concentrated among few individuals, the risk of systemic collapse increased. The authors proposed developing Interlock Risk Indices to monitor cross-directorship concentration in financial systems.

Agu and Ugwoke (2022) examined the impact of corporate governance mechanisms on the financial soundness of Nigerian Deposit Money Banks (DMBs). The study adopted a panel research design, relying exclusively on secondary data obtained from the annual reports of 15 listed banks and the NDIC financial stability publications spanning 2010–2020. The population included all DMBs listed on the Nigerian Exchange Group (NGX), while a purposive sampling method selected banks with consistent governance disclosure. Using panel least squares regression with random effects, the authors analyzed the relationship between board expertise, diligence, and interlock transparency with capital adequacy and liquidity ratios. Findings showed that board diligence (frequency of meetings and attendance) and expertise had significant positive effects on CAR, while poor interlock disclosure reduced transparency and masked potential conflicts of interest. The study concluded that governance transparency strengthens financial stability.

Klein and Sautner (2022) investigated the relationship between interlocked boards and systemic resilience in European banking institutions. Employing a causal comparative research design based on secondary panel data from 2011–2020, the study examined 30 large systemic banks across the Eurozone. Data on board structure, interlock density, and risk indicators were collected from annual corporate governance reports and the European Banking Authority database. The researchers applied a Panel Vector Auto-Regression (VAR) model to capture the dynamic relationship between interlock density and stability metrics, including Z-score and CAR. Findings revealed that moderate interlock density enhanced financial resilience through improved knowledge transfer and governance diffusion, but excessive interlocking created correlated vulnerabilities across institutions. The study concluded that while interlocks facilitate coordination and crisis recovery, regulatory ceilings should be imposed to curb systemic contagion. However, the study did not account for country-specific governance codes, limiting generalizability across diverse regulatory environments.

Lai and Tam (2022) explored board independence, busyness, and financial stability across Asian banking institutions using a cross-sectional research design. The study analyzed secondary data obtained from 60 listed banks in six Asian economies between 2012 and 2020. The population included all publicly traded financial institutions, and samples were chosen based on data completeness and continuous disclosure of board characteristics. The authors employed multiple regression analysis to determine the effects of board independence, director busyness, and firm size on Z-score stability indicators. Findings revealed that independent but moderately busy directors positively influenced firm stability through knowledge transfer and effective oversight, while excessive busyness hindered monitoring quality and regulatory compliance. The study concluded that the relationship between director busyness and financial stability is non-linear, supporting a “U-shaped” hypothesis.

Adams and Ferreira (2021) revisited the impact of interlock centrality on firm value and stability using panel longitudinal data from 120 U.S. financial sector firms between 2010 and 2018. The study employed a quantitative research design and sourced secondary data from Compustat and BoardEx databases. Using a two-step System Generalized Method of Moments (GMM) estimation approach, the study addressed potential endogeneity between interlock formation and firm performance. Findings indicated that strategic interlocks—driven by experience and expertise—enhanced risk governance and long-term solvency, while socially motivated interlocks (based on prestige or personal relationships) undermined financial stability. The authors concluded that well-structured board interlocks can improve access to strategic information and reduce systemic vulnerabilities.

Hillman, Withers, and Collins (2021) conducted an empirical analysis on network governance and resource dependence within 50 North American banks to understand how interlocks influence stability and resilience. The study adopted a descriptive-explanatory research design utilizing secondary panel data covering 2010–2019. Data were gathered from governance disclosures, central bank bulletins, and social network databases to compute network density and interlock centrality. The researchers employed network analysis techniques and ordinary least squares regression to analyze the relationship between interlocks and resource access. Results showed that interlocks improved financial stability by facilitating external partnerships and access to funding sources, supporting the Resource Dependence Theory. However, homogenous network clusters among large banks heightened exposure to correlated risks. The study concluded that network diversity enhances systemic resilience.

Okonkwo and Nwosu (2021) analyzed corporate governance structures and bank stability in Nigeria using a panel fixed effects design. The population comprised 24 Deposit Money Banks, while a sample of 12 listed DMBs was selected based on data availability between 2008 and 2019. The study employed secondary data from annual reports, NDIC bulletins, and CBN's Financial Stability Reports. Board size, interlock count, and audit committee effectiveness were modeled as independent variables, while CAR and liquidity ratio served as proxies for financial stability. Data were analyzed using fixed effects regression, which controlled for unobservable bank-specific factors. The study found that moderate interlocks improved stability and investor confidence, but high interlock density weakened board independence and oversight efficiency. The authors concluded that interlocks should be managed through regulatory scrutiny to prevent collusion and reputational contagion. However, they acknowledged that governance culture differences across banks may affect the observed relationships.

Donaldson and Davis (2020) conducted a qualitative comparative study exploring how stewardship-oriented interlocks influence long-term stability in multinational banks. Using a case study research design, the study analyzed 30 global banks operating across North America, Europe, and Asia between 2010 and 2018. Data were drawn from governance reports, director biographies, and World Bank financial resilience indicators. The authors employed Qualitative Comparative Analysis (QCA) to identify governance configurations associated with sustainable performance. Findings revealed that interlocks fostered mutual learning, strategic cooperation, and long-term stability when embedded in ethical stewardship frameworks. However, interlocks formed for political or social prestige were negatively associated with institutional integrity. The study concluded that stewardship culture mediates the effect of interlocks on governance outcomes.

Nwankwo and Ibrahim (2020) investigated corporate governance disclosure and financial soundness among Nigerian banks using a longitudinal research design. The population comprised all 15 listed DMBs, while 10 banks were purposively selected based on consistent data disclosure between 2009 and 2018. The study relied on secondary data from annual governance reports and NDIC publications. Using Ordinary Least Squares (OLS) regression, the authors analyzed the impact of interlock disclosure, board independence, and gender diversity on CAR and liquidity ratio. Findings revealed that full disclosure of directors' external board appointments improved financial soundness and market confidence, whereas limited disclosure correlated with reduced transparency and weaker stability. The study concluded that interlock disclosure enhances regulatory trust. However, it noted that mere compliance with disclosure rules may not ensure substantive oversight improvement unless coupled with enforcement mechanisms.

Adebayo and Odubiyi (2020) explored interlock networks and systemic risk contagion across African banking systems. The research adopted a quantitative network-based design, analyzing data from 25 regional banks spanning 2010–2018. The study sourced secondary data from African Stock Exchange filings, Basel financial soundness indicators, and inter-firm directorship records. Using social network

analytics and Granger causality tests, the authors modeled the propagation of systemic risk through interlock connections. Results showed that highly interconnected boards increased contagion vulnerability during financial crises but facilitated faster post-crisis recovery through rapid information flow. The study concluded that interlocks act as both stabilizers and transmitters of systemic shocks depending on the regulatory environment. The authors recommended the introduction of “Interlock Stress Tests” in financial stability monitoring.

Numerous studies across Nigeria, Africa, and Asia (e.g., Ogbeide et al., 2021; Rahman et al., 2025; Seo & Kim, 2024) reveal a dual impact of board interlocks and size on stability. The review also revealed a persistent research gap most prior studies focus on firm performance rather than financial stability, and few explicitly investigate the mediating or moderating role of board structure in this relationship within Nigerian DMBs. Hence, this study extends existing scholarship by empirically examining the combined effects of board interlocks, diligence, and size on financial stability, using updated secondary data (2017–2024) from listed DMBs. Based on these, the following null hypotheses (H_0) are formulated to guide the study:

H_{01} : Board interlock density has no significant effect on the financial stability of Deposit Money Banks listed on the NGX.

H_{02} : Board busyness has no significant relationship with the financial stability of Deposit Money Banks in Nigeria.

H_{03} : Board diligence has no significant impact on the financial stability of Deposit Money Banks in Nigeria.

H_{04} : Board size does not significantly influence the financial stability of Deposit Money Banks in Nigeria.

3. METHODOLOGY

Research Design

This study adopted an ex post facto research design in examining the nexus between corporate board interlocks and financial stability of Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX). The design was considered appropriate because the variables under investigation; board interlock density, board busyness, board diligence, board size, and financial stability already existed in the annual reports and financial statements of the sampled banks, making manipulation by the researcher impossible. The ex post facto design enabled the study to establish cause-and-effect relationships using historical and secondary data obtained from audited financial reports and governance disclosures (Osinubi & Ojo, 2024). The design also enhanced objectivity, reliability, and replicability of findings since the data were sourced from publicly verifiable records.

Population, Sample and Data Collection

The population of the study comprised the fourteen (14) Deposit Money Banks listed on the Nigerian Exchange Group (NGX) as at 2024. These banks included Access Bank Plc, Ecobank Plc, FCMB Bank Plc, Fidelity Bank Plc, First Bank Plc, Guaranty Trust Bank Plc, Sterling Bank Plc, Union Bank Plc, United Bank for Africa Plc, Wema Bank Plc, Zenith Bank Plc, Unity Bank Plc, Stanbic IBTC Plc, and Jaiz Bank Plc, as recognized by the Central Bank of Nigeria (CBN, 2024).

The study adopted purposive or judgmental sampling technique in selecting the sample because only banks with complete and accessible corporate governance and financial stability information were included in the analysis. The selection criteria required that the banks must be listed on the NGX, disclose corporate governance and board-related information, publish corporate social responsibility reports, and possess

complete financial data for the study period. Based on these criteria, ten Deposit Money Banks were selected, representing 71.4% of the total population. The sampled banks include Access Holdings Plc, Zenith Bank Plc, Guaranty Trust Holding Company Plc, First Bank Plc, United Bank for Africa Plc, Fidelity Bank Plc, Sterling Bank Plc, Union Bank Plc, FCMB Group Plc, and Ecobank Nigeria Plc.

The study relied solely on secondary data obtained from annual reports, corporate governance disclosures, audited financial statements, NDIC annual reports, and the Central Bank of Nigeria (CBN) Financial Stability Reports covering the period 2017–2024. Data relating to board interlock density, board busyness, board diligence, and board size were extracted from governance reports and directors' profiles, while data on Capital Adequacy Ratio (CAR) were obtained from financial statements and regulatory publications. A structured data extraction template was employed to ensure consistency and accuracy in data coding and compilation. The below table provides the details of the variables used in the study.

Table 1: Measurement of Variables

Variable	Variable Type	Measurement	Source
Capital Adequacy Ratio (CAR)	Dependent Variable	Total Capital ÷ Risk-Weighted Assets	Adeyemi & Ajayi (2024); Rahman et al. (2025)
Board Interlock Density (BDINT)	Independent Variable	No. of Directors with Multiple Board Memberships ÷ Total Board Size	Ogbeide et al. (2021); Seo & Kim (2024)
Board Busyness (BDBUS)	Independent Variable	Average No. of Other Directorships per Director	Enweremibe & Morah (2025)
Board Diligence (BDDIL)	Independent Variable	Meeting Attendance Rate (No. of Directors in attendance ÷ Total Board Size)	Okafor & Nnadi (2024)
Board Size (BSZ)	Independent Variable	Total Number of Board Members	Uwuigbe et al. (2023); Seo & Kim (2024)

Source: Author's compilation (2025).

Technique of Data Analysis

The study employed descriptive and inferential statistical techniques in analyzing the data. Descriptive statistics such as mean, standard deviation, skewness, and kurtosis were used to evaluate the distribution and normality of the variables. Correlation analysis was also conducted to determine the degree of association among the dependent and independent variables and to test for possible multicollinearity.

To examine the relationship between corporate board interlocks and financial stability, Ordinary Least Squares (OLS) regression technique for panel data analysis was employed. The OLS technique was considered appropriate because it provides Best Linear Unbiased Estimates (BLUE) and enables the estimation of the magnitude and direction of relationships among variables. The coefficient of determination (R^2) was used to assess the explanatory power of the model, while the F-statistic and probability values were used to test the overall significance of the regression model. The analysis was conducted using SPSS version 23 software.

Model Specification

This study adopts and modifies the model of Ogbeide, Adesuyi, and Ogeh (2021), who examined the

impact of interlocking board membership and corporate governance structure on the financial performance of listed firms in Nigeria. Their model was expressed as:

$$ROA_{it} = \alpha_0 + \alpha_1 BINT_{it} + \alpha_2 BMEET_{it} + \alpha_3 BIND_{it} + \alpha_4 BSIZE_{it} + \epsilon_{it} \dots \dots \dots (i)$$

Where:

ROA_{it} = Return on Assets of firm i in year t (Financial Performance)

$BINT_{it}$ = Board Interlock (measured as number of directors holding multiple board memberships);

$BMEET_{it}$ = Number of Board Meetings (proxy for board diligence)

$BIND_{it}$ = Board Independence ratio;

$BSIZE_{it}$ = Total number of board members (Board Size)

α = Constant term;

ϵ_{it} = Error term

The modified model of the study is specified as:

$$CAR_{it} = \beta + \beta_1 BDINT_{it} + \beta_2 BDBUS_{it} + \beta_3 BDDIL_{it} + \beta_4 BSZ_{it} + \mu_{it}$$

Where:

CAR = Capital Adequacy Ratio (Financial Stability of bank i at time t)

$BDINT$ = Board Interlock Density

$BDBUS$ = Board Busyness (average number of other directorships held by directors)

$BDDIL$ = Board Diligence (measured by average attendance rate of board meetings per year)

BSZ = Board Size (number of board members)

β = Constant term

$\beta_1 \dots \beta_4$ = Coefficients of explanatory variables

μ = Error term

Expected Signs: $\beta_1, \beta_3, \beta_4 > 0$ (positive relationship expected with stability), β_2 could be $\pm$ depending on busyness threshold (non-linear effect).

4. RESULTS AND DISCUSSION

Descriptive Statistics

Table 4.1 presents the descriptive statistics for all variables used in the study, including the mean, standard deviation, minimum value, maximum value, skewness, and kurtosis.

Table 4.1: Descriptive Statistics for the Selected Banks

Variables	N	Mean	Std. Deviation	Min	Max	Skewness	Kurtosis
CAR	80	0.1696	0.05191	0.08	0.34	0.518	0.229
BDINT	80	0.0672	0.07094	0.00	0.33	1.175	1.472
BDBUS	80	0.2721	0.11549	0.12	0.58	1.417	1.274
BDDIL	80	0.0633	0.04239	0.00	0.18	0.841	0.529
BSZ	80	13.6125	2.49807	9.00	19.00	-0.024	-0.663

Source: SPSS Output (2025).

The descriptive results in table 4.1 show that the mean for Capital Adequacy Ratio (CAR) is 0.1696 (16.96%), indicating that on average, the Nigerian DMBs maintain adequate capital buffers above the regulatory threshold. The average board size (BSZ) of 13.61 directors suggests that Nigerian banks generally adhere to the corporate governance codes recommending moderately sized boards. The mean Board Interlock Density (BDINT) is 0.0672, implying that approximately 6.7% of directors hold interlocking directorships across multiple boards. The skewness and kurtosis statistics indicate that all variables are approximately normally distributed, as their values fall within the acceptable range of ± 2 . This suggests that the data meet normality assumptions required for regression analysis.

Correlation Analysis

Table 4.2 presents the Pearson correlation coefficients showing the direction and strength of the relationships between CAR and the independent variables (BDINT, BDBUS, BDDIL, and BSZ).

Table 4.2: Correlation Matrix

Variables	CAR	BDINT	BDBUS	BDDIL	BSZ
CAR	1	-0.143	0.226	-0.324	-0.037
BDINT	-0.143	1	-0.062	0.149	0.292
BDBUS	0.226	-0.062	1	-0.056	-0.024
BDDIL	0.324	0.149	-0.056	1	0.041
BSZ	-0.037	0.292	-0.024	0.041	1

Source: SPSS Output (2026).

The correlation results in table 4.2 indicate that Board Diligence ($r = 0.324$) has a positive and moderately strong correlation with Capital Adequacy Ratio (CAR), suggesting that higher attendance rates at board meetings are associated with improved financial stability among listed Deposit Money Banks. This supports the view that more engaged and participative boards are more effective at monitoring management actions and mitigating financial risk. Similarly, Board Busyness ($r = 0.226$) shows a positive relationship with CAR, implying that directors with moderate external board experience contribute positively to governance effectiveness. In contrast, Board Interlock Density ($r = -0.143$) exhibits a weak negative relationship, implying that interlocked directors might not significantly enhance stability, possibly due to divided attention or regulatory constraints. Board Size ($r = -0.037$) has a negligible correlation, suggesting that board size alone is not a determinant of bank stability.

Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) was employed to determine the overall significance and fitness of the regression model. ANOVA assesses whether the independent variables jointly explain a significant proportion of variations in the dependent variable.

Table 4.3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.033	4	0.008	3.456	0.012
Residual	0.180	75	0.002		
Total	0.213	79			

Dependent Variable: CAR; Predictors: BDINT, BDBUS, BDDIL, BSZ.

Source: SPSS Output (2026).

The ANOVA result in table 4.3 shows an F-statistic of 3.456 and a p-value of 0.012, which is significant at the 5% level. This confirms that the independent variables jointly exert a statistically significant effect on the financial stability (CAR) of listed DMBs in Nigeria. Hence, the model is a good fit.

Regression Analysis and Hypotheses Testing

Table 4.4 presents the regression results showing the combined model summary and regression coefficients for the effect of board interlock density, board busyness, board diligence, and board size on the financial stability of listed Deposit Money Banks (DMBs) in Nigeria.

Table 4.5: Regression Result

Variable	B (Unstd.)	Std. Error	Beta (Std.)	t	Sig.
Constant	0.171	0.035	—	4.938	0.000
BDINT	-0.063	0.082	-0.087	-0.772	0.442
BDBUS	0.092	0.048	0.204	1.915	0.059
BDDIL	0.368	0.132	0.300	2.795	0.007
BSZ	0.000	0.002	0.005	0.047	0.963
Model Summary:					
Number of Obs.	80				
R	0.394				
R Square (R ²)	0.156				
Adjusted R Square	0.111				
Std. Error of Estimate	0.04896				
Durbin-Watson	0.685				

Dependent Variable: CAR.

Source: SPSS Output (2026).

The regression result in Table 4.4 shows that the model is statistically significant. The R² value of 0.156 implies that board interlock density, board busyness, board diligence, and board size jointly explain about 15.6% of the variations in the financial stability of listed Deposit Money Banks in Nigeria, while the remaining 84.4% is explained by other factors outside the model. The Durbin-Watson statistic of 0.685 indicates mild positive autocorrelation in the model.

Among the explanatory variables, Board Diligence (BDDIL) has a positive and statistically significant effect on financial stability ($\beta = 0.368$; $p = 0.007$), indicating that higher attendance at board meetings improves banks' capital adequacy and oversight effectiveness. Board Busyness (BDBUS) also shows a positive and marginally significant relationship ($\beta = 0.092$; $p = 0.059$), suggesting that directors with moderate external board experience contribute positively to governance quality and financial stability. Conversely, Board Interlock Density (BDINT) has a negative but insignificant effect ($\beta = -0.063$; $p = 0.442$), while Board Size (BSZ) remains positive but statistically insignificant ($\beta = 0.000$; $p = 0.963$). Overall, the findings suggest that behavioural and engagement-related board attributes have stronger implications for financial stability than structural board characteristics.

Hypotheses Decisions

Hypothesis One (H_{01}): Board Interlock Density has no significant effect on the financial stability of listed DMBs in Nigeria. The regression result shows that Board Interlock Density has an insignificant negative effect on financial stability ($\beta = -0.063$; $p = 0.442$). Therefore, the null hypothesis is accepted. This implies that board interlocks do not significantly influence the capital adequacy and stability of Nigerian Deposit Money Banks.

Hypothesis Two (H_{02}): Board Busyness has no significant effect on the financial stability of listed DMBs in Nigeria. The result indicates that Board Busyness has a positive and marginally significant effect on financial stability ($\beta = 0.092$; $p = 0.059$). Therefore, the null hypothesis is rejected at the 10% significance level. This suggests that directors with moderate external board experience contribute positively to financial stability through enhanced governance expertise and knowledge transfer.

Hypothesis Three (H_{03}): Board Diligence has no significant effect on the financial stability of listed DMBs in Nigeria. The regression result reveals that Board Diligence has a positive and statistically significant effect on financial stability ($\beta = 0.368$; $p = 0.007$). Therefore, the null hypothesis is rejected. The finding implies that active participation and attendance at board meetings significantly enhance oversight efficiency and improve the stability of Nigerian banks.

Hypothesis Four (H_{04}): Board Size has no significant effect on the financial stability of listed DMBs in Nigeria. The result shows that Board Size has a positive but statistically insignificant effect on financial stability ($\beta = 0.000$; $p = 0.963$). Therefore, the null hypothesis is accepted. This confirms that board size alone does not significantly determine the financial stability of listed Deposit Money Banks in Nigeria.

Discussion of Findings

With respect to Board Interlock Density, the result shows a negative and statistically insignificant relationship with the financial stability of listed Deposit Money Banks in Nigeria ($\beta = -0.063$; $p = 0.442$). The finding implies that interlocking directorships do not significantly improve capital adequacy or financial resilience among Nigerian banks. This result agrees with Ogbeide, Adesuyi, and Ogeh (2021), who found that board interlocks had no significant effect on the financial performance of Nigerian listed firms. The finding also supports Hamid and Rahman (2025), who argued that excessive interlocks may weaken board independence and monitoring effectiveness. However, the finding contrasts with Seo and Kim (2024), who reported that moderate interlocking relationships improve financial resilience through organizational learning and strategic linkages. The insignificant relationship may be attributed to the strict regulatory framework imposed by the Central Bank of Nigeria on multiple directorships within the banking sector.

The result for Board Busyness indicates a positive and marginally significant relationship with financial stability ($\beta = 0.092$; $p = 0.059$). This finding suggests that directors with moderate external board engagements contribute positively to governance quality and bank stability through exposure to broader managerial experience and strategic networks. The finding agrees with Alderson and Bethel (2022), who found that directors with diversified board experience improve governance effectiveness and organizational reputation. Similarly, Bansal and Sharma (2023) reported that moderately busy directors contribute positively to strategic decision-making and financial resilience. However, the result differs from Yahaya (2025), who argued that excessive board busyness may reduce directors' commitment and monitoring efficiency. The implication is that moderate busyness enhances governance effectiveness, while excessive external commitments may become counterproductive.

Board Diligence recorded a positive and statistically significant effect on financial stability ($\beta = 0.368$; $p =$

0.007). The finding indicates that active participation and regular attendance at board meetings improve monitoring efficiency, accountability, and risk management practices among Nigerian Deposit Money Banks. This result agrees with Bozec and Dia (2024), who found that board meeting attendance significantly improves financial soundness in banks. Similarly, Oke and Fagbemi (2022) reported that diligent boards enhance transparency, strengthen internal controls, and reduce agency problems in Nigerian financial institutions. The finding also supports Stewardship Theory, which views directors as committed stewards who actively safeguard shareholders' and depositors' interests through effective oversight and engagement.

The result for Board Size reveals a positive but statistically insignificant relationship with financial stability ($\beta = 0.000$; $p = 0.963$). This finding suggests that increasing board membership does not necessarily improve the financial stability of Nigerian Deposit Money Banks. The result supports Oke and Fagbemi (2022), who found that board size has no significant effect on financial sustainability among Nigerian banks. Similarly, Coleman and Osei (2022) argued that excessively large boards may create coordination problems and weaken decision-making efficiency. Although Resource Dependence Theory suggests that larger boards provide access to diverse expertise and strategic resources, Agency Theory argues that large boards may suffer from communication inefficiencies and reduced accountability. Therefore, the study concludes that board effectiveness depends more on directors' quality, diligence, and expertise than on numerical size alone.

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the relationship between corporate board interlocks and the financial stability of listed Deposit Money Banks in Nigeria from 2017 to 2024. The study specifically investigated the effects of Board Interlock Density, Board Busyness, Board Diligence, and Board Size on Capital Adequacy Ratio as a proxy for financial stability. The findings revealed that Board Diligence has a positive and statistically significant effect on financial stability, while Board Busyness exerts a positive and marginally significant influence. Conversely, Board Interlock Density and Board Size were found to have insignificant effects on financial stability.

The study therefore concludes that behavioral and experiential board characteristics such as diligence, active participation, and moderate external experience contribute more significantly to the financial stability of Nigerian banks than structural characteristics such as board size and interlocking directorships. Effective corporate governance in Nigerian DMBs depends largely on the commitment, competence, and engagement of directors rather than merely the composition or connectivity of the board.

Recommendations

Based on the findings of the study, the following recommendations are made:

- i. Nigerian Deposit Money Banks should strengthen board diligence by institutionalizing attendance monitoring mechanisms and integrating meeting participation into annual director evaluation systems.
- ii. Regulatory authorities such as the Central Bank of Nigeria and the Securities and Exchange Commission should establish clear limits on external directorships to prevent excessive board busyness and director overcommitment.
- iii. Banks should ensure that interlocked directors are appointed based on competence, expertise, and strategic relevance rather than personal or political affiliations.
- iv. Deposit Money Banks should maintain moderate board sizes that balance diversity, expertise, and

effective decision-making while avoiding excessively large boards that may hinder coordination and accountability.

- v. Continuous governance and regulatory training programmes should be organized for directors to strengthen financial literacy, risk oversight capacity, and compliance with evolving corporate governance standards.

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