

Research Article

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Board Dynamics and Risk Management: Co-Option and Its Influence on Liquidity Risk in Africa

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ABSTRACT

This study investigated board-level dynamics, risk management, co-option, and their influence on liquidity risk in Africa. The research was inspired by a growing and worrying trend of governance weakness and liquidity volatility in emerging markets. The regression analysis used panel data from selected African financial institutions over 10 years. The fixed effects model results showed that board co-option positively influenced liquidity risk (0.276, $p < 0.01$), indicating that the more co-opted directors, the more vulnerable liquidity was. The relationship between board independence and liquidity risk was negative and significant ($\beta = -0.198$, $p < 0.05$), indicating that board independence better minimises liquidity risk. The model explained a substantial share of the variation in liquidity risk, with an R-squared of 0.64 and a significant F-statistic of 18.37 ($p < 0.01$). The researcher concluded that board co-option undermines monitoring effectiveness and exposes participants to greater financial risk, whereas stronger board independence ensures greater liquidity stability. In light of these results, the study suggested that regulatory bodies should strengthen board appointment practices and make governance structures less managerial to enhance financial stability.

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Introduction

Effective risk management and good corporate governance structures are fundamentally related to the stability of financial institutions. Liquidity risk is one of the most fundamental risks that banks and related financial institutions face, especially in emerging and developing economies such as those in Africa. Liquidity risk is the risk that a financial institution cannot fulfil its short-term liabilities without incurring severe losses. Financial crises and resulting banking failures worldwide have underscored the centrality of governance mechanisms in reducing such risks. In this framework, the dynamics of boards, namely the board structure, composition, and behavioural interactions, are critical determinants of risk outcomes.

Board co-option is one dimension of board dynamics that has not been studied as thoroughly. It occurs when new directors are recruited after a Chief Executive Officer (CEO) has been appointed to the board, and it tends to create a more management-aligned board. Available literature indicates that co-opted boards can also be less independent and exhibit poor monitoring performance, which could affect firms' risk-taking behaviour [1,2]. In banking institutions, where risk exposure is very high, these governance dynamics may play an important role in liquidity management and overall financial stability.

Empirical research is increasingly examining the connection between board co-option and various aspects of risk. For example,

evidence from Ur Rahman et al. shows that co-opted boards play an important role in liquidity risk within banking sectors in developed economies such as Australia and New Zealand. Equally important, Rahman et al. emphasise the role of co-opted directors in shaping solvency risk and indicate that governance mechanisms can directly influence a firm's resilience to financial shocks. However, a glaring gap remains in understanding how these dynamics operate in the African context, where institutional frameworks, regulatory environments, and corporate governance practices differ markedly from those in developed markets [3,4].

Africa is a unique environment for examining the relationship between board dynamics and risk management. Financial systems across the continent vary in regulatory enforcement, ownership concentration, political interference, and institutional development [5]. Also, the growing pressure to achieve financial inclusion, digital finance, and economic change has made risk environments more complex for financial institutions. These considerations necessitate exploring whether board co-option has the same or different impacts on liquidity risk in African economies as in other regions [6].

Moreover, broader governance characteristics such as board diversity, expertise, tenure, and independence have been shown to influence financial decision-making and risk outcomes [7-9]. Nevertheless, the interplay between these characteristics and co-option remains poorly studied. The interaction between co-option and these governance mechanisms may provide further insight into the role of boards in managing liquidity risks among African financial institutions.

Against this background, this research analyses how board co-option affects liquidity risk in African financial institutions. In particular, the research aims to contribute to the literature in three ways. First, it builds on research on board co-option by focusing on African economies, filling a major geographical gap in the literature. Second, it integrates knowledge of corporate governance and risk management to provide a more holistic view of how internal board dynamics affect liquidity outcomes. Third, the research has policy implications relevant to regulators, policymakers, and financial institutions seeking to improve governance structures and foster financial stability across the continent.

The rest of this study will be divided as follows. The following section gives background information on board dynamics and liquidity risk in Africa. A literature review on board co-option and risk management follows this. The methodology section presents the theoretical framework, model specification, and data sources used in the study. The results are then presented and discussed, and the study concludes with key findings and policy implications.

Background / Overview of the Subject Matter

The links between corporate governance and risk management have become more central in academic literature and policymaking, especially in the banking industry. Governance mechanisms are crucial to achieving institutional stability in Africa, where financial systems are evolving and often structurally vulnerable. Among those mechanisms, board dynamics, in particular the composition and behavioural orientation of directors, have become a focus of interest as determinants of the effectiveness of financial institutions' liquidity risk management.

A mix of internal governance structures and external macroeconomic conditions influences the liquidity risk of African financial institutions. Many African economies are characterised by unpredictable capital flows, underdeveloped financial markets, and a lack of long-term funding, which adds liquidity strain. Moreover, there are systemic problems, including ineffective regulation, political interference, and information asymmetry, that complicate liquidity management. All of these require banks to have sound governance systems capable of forecasting and mitigating liquidity shocks.

The board of directors is the main control organ in this governance system, where it makes strategic decisions and monitors risks. Good boards are supposed to exercise independent judgment, hold management accountable, and ensure management activities align with stakeholder interests. Nonetheless, boards are effective not only because of their formal structure but also because of informal processes, such as power relations, loyalty patterns, and appointment practices. Board co-option is one such dynamic that has become a crucial factor affecting board behaviour and decision-making.

Board co-option usually occurs when directors are brought on board once the CEO takes office, which has generally led to boards becoming more executive-oriented. This alignment can undermine the board's monitoring role because co-opted directors may feel obligated to the CEO who helped them join the board. In these environments, the board may lose the capacity to question management decisions, especially those related to risk-taking. This has significant consequences for liquidity risk, as lax oversight may lead to aggressive asset-liability mismatches, overreliance on short-term financing, or insufficient liquidity buffers.

The consequences of board co-option can be even more dramatic in the African context, where institutional and governance limitations may be more pronounced. Ownership in most African companies is highly concentrated, usually controlled by families, states, or a few investors. This concentration can amplify co-option, since those who control the shares may manipulate board nomination processes to strengthen managerial control. Moreover, a lack of transparency and disclosure standards in certain jurisdictions may obscure the extent of co-option and its impact on risk management practices.

At the same time, Africa's financial environment is changing dramatically. The emergence of digital financial services, mobile banking, and fintech innovations is transforming how financial institutions operate and approach risk. Though these changes have enhanced financial inclusion, they have also introduced new types of liquidity risk, including rapid withdrawal trends and technological vulnerabilities. In this changing environment, the board's role is even more important in ensuring risk management structures align with innovation.

Other board characteristics, including diversity, expertise, tenure, and independence, also affect governance outcomes alongside co-option. To illustrate, board expertise has been found to positively affect financial control and decision quality, and board diversity can positively affect board deliberations and reduce groupthink. Nevertheless, co-opted directors can reduce their effectiveness, as their appointment process may undermine their independence. Similarly, longer tenure can be seen as either beneficial or detrimental to experience, or as an incentive to stay loyal to the company, depending on the governance environment.

The connection between governance and more general risk indicators (e.g., default risk, solvency, financial performance) is another significant dimension. Research has demonstrated that governance frameworks are associated with firms' exposure to financial distress and their resilience to economic shocks [10,11]. As a short-term survival measure, liquidity risk is closely related to these more general measures and is therefore a significant topic of interest among researchers and practitioners.

Nevertheless, empirical evidence on the correlation between board co-option and liquidity risk in Africa remains limited, despite growing awareness of these issues. Most existing literature focuses on developed economies, where the institutional environment differs greatly from that of African countries. This creates a knowledge gap in how contextual factors shape co-option outcomes in risk management, including regulatory quality, market development, and governance norms [12].

The researcher has set forth the following research objectives;

- to evaluate how governance frameworks are associated with firms' exposure to financial distress
- to understand the impact of board co-option on board performance
- The study also put forward the following research questions;
- what is the relationship between board characteristics and firms' capacity to manage cash holdings and liquidity risk?
- How does board co-option affect board performance

Literature Review

Concept of Board Co-option

Board co-option is the practice of recruiting directors after the Chief Executive Officer (CEO) takes office, often resulting in

management-aligned rather than fully independent boards. Hasan and Miah state that board co-option has been widely examined over the last 20 years, with growing evidence that it undermines the board's ability to perform its monitoring function. Co-opted directors may be loyal to, or feel obliged to, the CEO who helped secure their appointment, reducing their willingness to question managerial decisions.

Bulten also states that the CEO's tenure significantly affects the degree of board co-option, with longer-tenured CEOs exerting greater influence over board appointments. This dynamic may undermine effective leadership and governance. In this environment, co-opted boards are less likely to exercise independent judgment, which heightens the potential for opportunistic managers.

In addition, empirical evidence indicates that co-option influences strategic decisions beyond monitoring. Campa and Ginesti conclude that executive-level co-option, especially with Chief Financial Officers (CFOs), affects financial policies, including dividend policies. Similarly, Yang et al. emphasise that directors may be ineffective, even with expertise, because co-option undermines independence [13,14].

Liquidity Risk in Financial Institutions

Liquidity risk refers to a financial institution's inability to fulfil its short-term financial commitments without significant losses. It is among the most serious risks encountered by banks because of their involvement in maturity transformation, borrowing short-term funds and lending long-term. As Rahman et al. note, liquidity risk management is key to banking system stability, as inadequate liquidity control can trigger a systemic crisis.

The literature identifies several determinants of liquidity risk, including asset-liability mismatches, funding structures, and market conditions. Nadarajah et al. demonstrate that broader institutional and cultural factors can also affect financial risk, including liquidity-related vulnerabilities. The weak financial infrastructure and regulatory issues in emerging markets tend to compound these risks.

Moreover, liquidity risk is closely linked to other types of financial risk, e.g., solvency and default risk. Rahman et al. show that governance mechanisms, such as board composition, have pronounced effects on solvency risk directly related to liquidity positions. Poor governance can lead to inefficient risk-taking, inadequate liquidity buffers, and poor capital allocation.

Liquidity risk is extreme in the African context due to limited access to deep capital markets and reliance on volatile sources of finance. This highlights the role of effective governance structures in ensuring sound liquidity management. Good boards should manage liquidity policies, implement risk measures, and meet regulatory standards.

Therefore, liquidity risk remains a focal issue for financial institutions, and internal governance frameworks, such as board dynamics, strongly condition its management.

Board Dynamics and Risk-Taking Behaviour

Board dynamics involve the interactions, structure, and behavioural patterns of directors within a firm's governance structure. These dynamics matter for corporate decision-making and risk-taking behaviour. Tunyi emphasises that board age, experience, and tenure affect strategic outcomes, including environmental and

financial decisions. Likewise, do highlights how diversity can boost board performance and make boards more sensitive to performance [15].

Board dynamics and their relationship to risk-taking are not new to the literature. Bulten concludes that boards affected by long-term CEOs and co-option are more likely to endorse increased risk-taking. This is because these boards may prioritise managers' interests over shareholders', leading to less strict supervision.

Additionally, Rahman et al. find that board dynamics significantly affect liquidity risk, particularly in banking institutions. Their results suggest that less independent boards are less effective at monitoring risk exposure, making them more susceptible to liquidity shocks.

Risk management also depends on the board's expertise. Yang et al. claim that directors with specialised knowledge may improve decision-making quality, but their effectiveness depends on their independence. If such directors are co-opted, they may have little power to influence outcomes.

Co-option and Financial Risk (Liquidity and Solvency Risk)

Board co-option and financial risk have become the focus of an increasing number of studies. Rahman et al. present empirical evidence showing that co-opted boards play a major role in determining liquidity risk among banks, especially in developed economies such as Australia and New Zealand. Using their results, they show that co-option increases liquidity risk when boards are less effective at enforcing sound risk management practices.

Similarly, Rahman et al. analyse how co-option affects solvency risk and conclude that co-opted directors reduce financial resilience. This implies that co-option affects not only short-term liquidity but also long-term financial stability. The reduced autonomy of co-opted boards limits their ability to question risky actions, increasing their vulnerability to financial distress.

Campa and Ginesti further develop this discussion and demonstrate that co-option affects financial decision-making beyond risk management, including dividend policies. According to their findings, co-opted executives might favour short-term financial performance over long-term stability, putting the company at greater risk.

Hasan and Miah offer an in-depth review of co-option research, noting that it has consistently been associated with weaker governance and greater risk-taking. They claim that co-option undermines the board's monitoring role, rendering it ineffective in regulating managerial behaviour.

Governance, Institutional Context, and Risk in Emerging Markets
The institutional environment in which firms operate strongly affects the effectiveness of corporate governance mechanisms, such as board dynamics. Weak regulatory regimes, low transparency, and concentrated ownership are among the challenges that governance structures face in emerging markets. Nadarajah et al. emphasise that cultural and institutional factors significantly shape firms' risk profiles, including default risk.

Tunyi et al. also stress that additional environmental and strategic factors shape governance practices, including ESG factors and market discipline. Such dynamics are especially relevant in emerging markets, where external pressures and institutional

constraints shape corporate behaviour [16].

According to Hasan and Miah board co-option may be even stronger in these contexts because enforcement mechanisms are inefficient. Co-opted boards can act with little accountability in settings with limited regulatory oversight, heightening the risk of poor decision-making.

Furthermore, Do proposes that governance qualities such as diversity and independence may contribute to more effective boards, but their impact varies across institutional frameworks. These qualities may not reduce the adverse consequences of co-option under weak governance conditions.

Theoretical Review

The work is based on Agency Theory, originally developed by Michael C. Jensen and William H. Meckling in 1976. Agency theory describes the relationship between principals, such as shareholders, and agents, such as managers, and conflict of interest arises from differences in information and interests [17]. The theory presupposes that managers are self-seeking and may seek personal advantage at the expense of shareholders unless they are carefully controlled [18]. In this context, the board of directors should act as a monitoring mechanism that minimises agency costs by overseeing management and making independent decisions. However, in board co-option, this monitoring role is diluted, as directors elected based on management control may be less inclined to question risky decisions. This is particularly relevant to liquidity risk, where inadequate oversight may lead to excessive risk-taking and weak liquidity positions. Although agency theory provides a useful foundation for understanding governance failures, critics argue that it places too much emphasis on self-interest rather than trust and cooperation [19]. Nonetheless, its strength lies in clearly explaining the need for board independence and accountability. However, it is weak because of its limited behavioural assumptions. Against this background, agency theory is embraced because it directly addresses how board co-option may compromise governance and increase the liquidity risk of African financial institutions.

Empirical Review

Getuma investigated the impact of board and firm characteristics on the cash conversion cycle in Kenyan non-financial listed firms, with a particular focus on inflation's mediating effect [20]. The primary aim was to identify the effects of board characteristics, including independence, size, and diversity, on firms' liquidity positions, as measured by the cash conversion cycle. The analysis was conducted in Kenya, covering all non-financial firms listed on the Nairobi Securities Exchange, with a sample of 48 firms from 2012-2021. The study used audited annual reports and financial statements as secondary data sources. The research also used panel data analysis with fixed-effects and random-effects regression models, and applied the Hausman test to determine the most suitable model. Statistical analysis was done in STATA. The results indicated that the cash conversion cycle was significantly and negatively related to board independence at the 5 per cent level, meaning that higher independence is associated with greater liquidity efficiency. Board size had a positive but weak relationship, and the moderating effects were positive but insignificant. The research reported an adjusted R-squared of 0.61, indicating that the model explained a substantial portion of the variation in liquidity management. Accordingly, the study found that governance structures are critical to managing liquidity-related outcomes. It suggested strengthening board independence and improving governance structures to enhance financial efficiency,

consistent with the scope of the present study on board dynamics and liquidity risk.

Guizani explored the combined impact of board composition and board leadership on cash management practices of Malaysian corporations. The research aim was to evaluate the relationship between board characteristics and firms' capacity to manage cash holdings, which is directly linked to liquidity risk. The analysis was conducted in Malaysia and focused on publicly listed companies; the sample comprised 320 companies, observed from 2010 to 2022. The study used companies' annual reports and financial databases to collect data. The research employed a quantitative design and used panel regression methods, such as the generalised method of moments, to address endogeneity. The statistical analysis was conducted using EViews. The results revealed that cash management practices were better among firms with more independent directors and a separation of the CEO and board chair positions, with coefficients significant at the 1 per cent level. In contrast, boards composed mostly of insiders were associated with inefficient cash holdings and greater vulnerability to liquidity constraints. The researchers also discovered that board leadership structure moderately influenced the connection between board composition and cash management. The general model was highly explanatory, with a high F-statistic. Therefore, the research concluded that good board governance increases liquidity and reduces financial risk. It suggested policies that encourage board independence and separation of leadership. This suggests that poor board design, e.g., co-option, may adversely affect liquidity, supporting the current study's assumption.

Liu and Sun examined how independent directors' financial expertise influences the use of private information in determining bank CEOs' bonuses, and the implications for governance and risk management. The study aimed to determine whether board oversight by financially skilled independent directors leads to less opportunistic managerial behaviour. The research focused on the U.S. banking industry, with a sample of 210 banks from 2005 to 2018. The researchers used regulatory filings, executive compensation reports, and financial disclosures to gather the data. The researchers used a panel data regression model, employing fixed effects and instrumental variables methods to address endogeneity. The statistical tests were performed using robust standard errors to ensure reliability. The results indicated that independent directors with financial expertise greatly reduced the use of private information in CEOs' compensation decisions, and the results were significant at the 1 percent level. This portended greater surveillance and higher-quality governance. The authors stated that banks with more financially literate boards took less risk and showed greater financial discipline. Building on this, the research found that board expertise strengthens governance systems and improves risk management. The study suggests increasing the Ratio of independent directors with financial skills on boards. Thus, the results imply that when board independence and expertise erode, as in co-opted boards, risk management quality can decline, potentially increasing liquidity risk, which is the focus of the current study.

Methodology

To test the effects of board dynamics and co-option on liquidity risk, this study specifies a panel regression model relating liquidity risk to governance variables and firm-level controls. Liquidity risk was proxied by the Ratio of liquid assets to total assets, a measure widely used in banking research to assess a firm's ability to settle short-term liabilities. We calculated board co-option as the percentage of directors appointed since the CEO took office,

using standard methods from the governance literature. We also considered other control governance variables, such as board independence and board size, as part of board dynamics because they affect risk oversight.

The Functional Relationship was stated as:

$$LR_{it} = \beta_0 + \beta_1 COOPT_{it} + \beta_2 BIND_{it} + \beta_3 BSIZE_{it} + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

LR is liquidity risk, COOPT is board co-option, BSIZE is board size, FSIZE is firm size, LEV is leverage, and ε_{it} is an error term. We expected that higher co-option would increase liquidity risk because of laxer monitoring.

The analysis used panel data estimation methods because the dataset combined cross-sectional and time-series data. In particular, fixed-effects and random-effects regression models were estimated to account for unobserved heterogeneity across firms. The Hausman test was used to select the most suitable model by assessing whether the individual effects are correlated with the explanatory variables [21].

The study also used generalised method of moments estimation to address potential endogeneity from reverse causality and omitted variable bias, thereby enhancing robustness. This approach is common in corporate governance studies, where board characteristics can be jointly determined with firm outcomes. To assess the validity of the results, the study conducted diagnostic tests for multicollinearity, heteroskedasticity, and serial correlation. The researcher conducted the statistical analysis using STATA.

This research used secondary data gathered from the annual reports and financial statements of the sampled financial institutions in African countries.

S/N	Region	Number of Annual Reports Examined	Time line
1	West Africa	Seven (7)	2014 - 2023
2	North Africa	Six (6)	2014 - 2023
3	East Africa	Seven (7)	2014 – 2023
4	Central Africa	Five (5)	2014 - 2023
5	Southern Africa	Six (6)	2014 -2023

The researcher obtained additional information from financial databases, including Bloomberg and BankScope, to ensure completeness and reliability. The sample comprised banks in the selected African economies, chosen for data availability and temporal consistency.

The research covered 10 years (2014-23), including both steady and fluctuating economic conditions. This period was appropriate because it spanned financial reforms and digital transformation in Africa, which also has ramifications for liquidity risk.

Variables were well defined and measured in line with previous studies. Liquidity risk was quantified using liquidity ratios; board co-option was measured as a proportion; and firm-specific controls included size and leverage to account for structural differences across institutions. According to this strategy, the sample was a balanced panel appropriate for studying the correlation between board dynamics and liquidity risk in the African context [22-24].

Results and Discussion

Descriptive Statistics

The descriptive statistics provided an overview of the key variables used in the study. These included liquidity risk, board co-option, board independence, board size, firm size, and leverage.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev	Minimum	Maximum
LR (Liquidity Risk)	0.32	0.15	0.08	0.71
COOPT (Board Co-option)	0.47	0.21	0.10	0.89
BIND (Board Independence)	0.56	0.18	0.20	0.90
BSIZE (Board Size)	9.12	2.34	5.00	15.00
FSIZE (Firm Size)	15.87	1.45	12.30	18.92
LEV (Leverage)	0.68	0.12	0.40	0.89

The findings revealed an average liquidity Ratio of 0.32, indicating moderate liquidity among African financial institutions. Board co-option averaged 0.47, indicating that almost half of board members were recruited after the CEO's appointment. This raised concerns about possible governance deficiencies. The average board independence was 0.56, indicating a relatively balanced structure, though differences existed across companies.

Correlation Analysis

The correlation matrix examined relationships among variables and assessed multicollinearity.

Table 2: Correlation Matrix

Variable	LR	COOPT	BIND	BSIZE	FSIZE	LEV
LR	1.00					
COOPT	0.42	1.00				
BIND	-0.36	-0.28	1.00			
BSIZE	0.15	0.12	0.10	1.00		
FSIZE	-0.18	-0.05	0.22	0.30	1.00	
LEV	0.33	0.20	-0.25	0.18	0.40	1.00

The findings reported a positive relationship between board co-option and liquidity risk, with a correlation of 0.42, indicating a stronger association as co-option increases. Board independence was negatively correlated with liquidity risk, which may reflect the view that independent boards improve risk management. High multicollinearity was not evident, as none of the correlation coefficients exceeded 0.80.

Regression Results

The regression analysis examined the effect of board co-option and other governance variables on liquidity risk.

Table 3: Panel Regression Results (Fixed Effects Model)

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	0.512	0.104	4.92	0.000
COOPT	0.276	0.065	4.25	0.000
BIND	-0.198	0.072	-2.75	0.007
BSIZE	0.041	0.019	2.16	0.032
FSIZE	-0.063	0.028	-2.25	0.026
LEV	0.221	0.081	2.73	0.008
R ²	0.64			
F-Statistic	18.37			0.000

The regression findings indicated that board co-option had a positive and significant effect on liquidity risk at the 1 per cent level. This meant that the higher the percentage of co-opted directors, the greater the liquidity risk. This was consistent with Ur Rahman et al. who reported that co-opted boards undermined monitoring and augmented financial risk.

Board independence was negatively and significantly related to liquidity risk, indicating that independent directors enhance transparency and minimise the exposure to liquidity issues. This was consistent with Liu and Sun, who found that independent directors contribute to governance quality.

Board size was positively and significantly associated with effectiveness, suggesting that larger boards may face coordination issues that reduce decision-making effectiveness. Firm size was negatively correlated; larger firms were better able to address liquidity because they had access to resources. Leverage showed a positive effect, indicating that highly leveraged companies were more vulnerable to liquidity pressures.

Discussion of Findings

The current research findings indicated that board co-option positively and significantly influenced liquidity risk, suggesting that companies with a higher percentage of co-opted directors were more exposed to liquidity problems. This observation concurs with Rahman et al. who found that co-opted boards in Australian and New Zealand banks were associated with increased liquidity risk due to weakened monitoring capacity. Similarly, Rahman et al. claim that co-opted directors undermine the board's capacity to implement sound financial practices, thereby increasing liquidity and solvency risks. Accordingly, oversight is undermined, and risk exposure increases when directors are closely associated with management.

This may also stem from CEOs' influence over board appointments. Bulten found that extended CEO tenure typically leads to greater board co-option, which in turn promotes risk-taking behaviour. This could be even stronger in the African setting, where governance frameworks may already be biased by concentrated ownership and weaker enforcement by regulatory bodies. Hasan and Miah supported this, observing that co-option

undermines board independence and reduces directors' likelihood of questioning management decisions.

Meanwhile, the research also found that board independence reduced liquidity risk, underscoring the importance of well-built governance frameworks. This aligns with Yahaya who demonstrated that independent boards enhance monitoring effectiveness and financial performance. However, co-option can call into question the real independence of such boards. A board might appear independent but may not be effective if managerial influence shaped its appointments.

The results also showed that board size was positively related to liquidity risk, suggesting that larger boards may struggle to coordinate and make effective decisions. Although larger boards can bring different perspectives, they can also create inefficiencies, particularly when used with co-option. This relates to Do who stressed that diversity can enhance results only if governance frameworks allow real involvement and autonomy. Similarly, Yang et al. suggested that director expertise positively influences decision-making, but this effect is less pronounced when directors are co-opted and not independent.

The second valuable lesson concerns the broader governance and risk environment. Tunyi et al. pointed out that the governance system determines firms' responsiveness to external forces such as market discipline and ESG. In this research, the positive correlation between leverage and liquidity risk further supports the view that more financially strained firms face liquidity shocks, especially when governance is weak. Nadarajah et al. also found that institutional and cultural factors influence firm risk, suggesting that governance issues in African economies may have an even greater impact.

Moreover, Campa and Ginesti presented evidence that co-option affects financial decision-making beyond risk management, such as dividend policy. This justifies the assumption that co-option can significantly influence financial behaviour, which in turn can indirectly affect liquidity positions. Therefore, the results of the present work can be applied to the current literature as they demonstrate that co-option influences not only the strategic choices but also directly contributes to the development of liquidity risk.

Conclusion and Policy Implications

This study explored how board dynamics relate to liquidity risk, with particular interest in the impact of board co-option in African financial institutions. The results indicated that board co-option had a positive and significant impact on liquidity risk, suggesting that the greater the share of co-opted directors on a board, the higher the likelihood of facing liquidity challenges. This conclusion echoes the notion that directors appointed with management influence have limited capacity to deliver effective oversight. Consequently, boards may fail to implement sound liquidity management procedures, increasing financial vulnerability.

Meanwhile, the research also discovered that board independence was critical in mitigating liquidity risk. This implies that independent directors increase monitoring and improve governance outcomes. Nevertheless, the findings also indicated that independence itself might be ineffective if the appointment process is undermined. In cases of co-optation of independent directors, their independence can be undermined despite their official positions. This points to a more fundamental governance problem: the board structure might be fine; however, the underlying dynamics might undermine its performance.

The findings also indicated other factors, such as board size, firm size, and leverage. The association of higher liquidity risk with larger boards may reflect that larger boards are harder to coordinate. In contrast, larger firms are more likely to manage liquidity effectively because they have greater access to resources. Liquidity pressures were more pronounced among highly leveraged firms, underscoring the importance of good governance in financial risk management.

Policy-wise, the research indicates that reforms should enhance board independence and reduce managerial influence over director appointments. Regulatory bodies in African countries should establish stricter rules for board nomination processes to ensure transparency and fairness. It should also advocate for a balance among independence, expertise, and diversity in board composition, as each contributes to better decision-making and risk oversight.

Moreover, financial institutions need internal governance policies that curb overbearing CEOs and promote proactive board involvement. Directors' training programmes may also strengthen the capacity to manage liquidity risk. Therefore, under this interpretation, liquidity risk will not merely be minimised by improving governance structures but will also positively affect the financial system's overall stability in Africa.

Research Limitations

This research draws on existing scientific literature and published reports from banks across Africa rather than direct evidence from board members through interviews and surveys to capture primary data in corporate organisations across Africa. Another setback is language barriers across the diverse evidence gathered, which became a hindrance (English, French, Arabic, Portuguese).

Variations and divergences in board structures across the regions. The level of disclosures required by the different regulators across the jurisdiction is not the same. However, the researcher grouped the data and conducted the required analyses for this research.

Declarations

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