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EFFECTS OF CORPORATE GOVERNANCE MECHANISMS ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN NIGERIA: EVIDENCE FROM 2014-2025

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ABSTRACT

This study investigates the effect of corporate governance mechanisms on the financial performance of listed firms in Nigeria, using evidence from 2014–2025, amid declining corporate sector contributions and persistent governance concerns. Despite regulatory frameworks, poor board oversight, weak enforcement, and inadequate disclosure continue to undermine firm performance and investor confidence. The study examines governance variables such as board size, board independence, board meetings, institutional ownership, and audit committee characteristics, alongside firm-specific factors such as firm size, age, and growth. Using panel data and fixed-effects regression, the results reveal mixed, context-dependent effects of governance on performance. Board independence positively and significantly influences financial performance, highlighting its role in enhancing monitoring and decision-making. Conversely, board meetings and audit committee independence negatively affect financial performance, while board size and institutional ownership have an insignificant effect. Among firm-specific factors, firm size and age negatively affect performance, whereas firm growth has a strong positive effect, underscoring its key role in profitability. The study concludes that institutional quality and contextual factors, rather than theoretical expectations alone, shape the effectiveness of corporate governance in Nigeria. Based on the findings, the study recommends enhancing board effectiveness, strengthening regulatory enforcement, and promoting firm growth strategies to improve corporate performance in emerging markets.

Keywords: *Corporate governance, financial performance, board independence, institutional ownership, Nigeria, firm growth, panel data.*

JEL Classification: *G34, G32, L25, O16*

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1. INTRODUCTION

Corporate governance is a key aspect of corporate management, promoting accountability, transparency, effective decision-making, and improved financial performance. It refers to the structures, rules, and processes through which companies are directed and controlled to protect stakeholders' interests and ensure responsible management (Organisation for Economic Co-operation and Development [OECD], 2015). Globally, weaknesses in corporate governance have contributed to corporate failures, financial scandals, and economic crises, highlighting the need for effective governance mechanisms to address conflicts of interest between managers and shareholders (Claessens & Yurtoglu, 2013).

In Nigeria, corporate governance remains a major concern because of persistent institutional weaknesses, weak regulatory enforcement, and corporate mismanagement. Despite efforts to improve governance practices, some listed firms still face challenges related to inadequate disclosure, weak board oversight, and ineffective management monitoring (Adegbite, 2015; Sanusi, 2012). These challenges can undermine investor confidence, limit access to capital, and affect firms' ability to achieve sustainable financial performance. Given the importance of listed firms to capital market development, employment, investment, and economic growth, understanding the factors that influence their financial performance remains essential.

The financial performance of listed firms in Nigeria is influenced by both internal and external factors. Internal factors include corporate governance practices, ownership structure, management decisions, and firm-specific characteristics, while external factors include economic conditions, regulatory policies, inflation, and exchange rate fluctuations (Claessens & Yurtoglu, 2013; Dada & Ghazali, 2016). Corporate governance mechanisms such as board size, board independence, board meetings, institutional ownership, and audit committee characteristics are intended to strengthen oversight, promote accountability, and ensure that management decisions align with shareholders' interests (Fama & Jensen, 1983; Ayeni-Agbaje et al., 2024). However, empirical evidence from listed firms in Nigeria shows mixed results on the relationship between corporate governance and financial performance, suggesting that the effectiveness of these mechanisms may depend on specific governance arrangements and the context in which firms operate (Ajide et al., 2023; Babalola et al., 2024).

Theoretically, the relationship between corporate governance and financial performance is explained by agency theory, which focuses on conflicts of interest that may arise between managers (agents) and shareholders (principals) (Jensen & Meckling, 1976). Managers may pursue personal interests that do not necessarily align with shareholders' objectives. Effective corporate governance mechanisms can help

address these conflicts by strengthening supervision, improving transparency, and reducing agency costs. Board independence, appropriate board composition, effective audit committees, and institutional ownership are therefore considered important mechanisms for monitoring management and protecting shareholders' interests (Fama & Jensen, 1983; Bhagat & Bolton, 2008).

Empirical studies on the relationship between corporate governance and financial performance have produced mixed findings. While some studies report that effective governance mechanisms improve firm performance, others find negative or insignificant relationships between particular governance variables and financial outcomes (Ujunwa, 2012; Kajola, 2008). These differences suggest that the effectiveness of corporate governance may depend on firm characteristics, institutional conditions, and the quality of implementation. Firm-specific factors such as firm size, age, and growth may also influence financial performance and help explain why governance mechanisms produce different outcomes across firms.

Despite existing research, the continuing concerns about corporate accountability, regulatory enforcement, and the financial performance of listed firms in Nigeria make further investigation necessary. It is important to establish whether corporate governance mechanisms contribute to improved financial performance and to determine how firm-specific characteristics relate to these outcomes. This study therefore examines the effect of corporate governance mechanisms on the financial performance of listed firms in Nigeria from 2014 to 2025. Specifically, it considers board size, board independence, board meetings, institutional ownership, and audit committee characteristics, alongside firm size, firm age, and firm growth. By examining these relationships over the study period, the research seeks to provide evidence that can inform corporate governance practices, regulatory decisions, and investment choices in Nigeria.

Research Questions

The study seeks to answer the following research questions:

a) What effect does board size have on the financial performance of listed firms in Nigeria?
b) What effect does board independence have on the financial performance of listed firms in Nigeria?
c) How do board meetings affect the financial performance of listed firms in Nigeria?
d) What effect does institutional ownership have on the financial performance of listed firms in Nigeria?
e) How do audit committee characteristics affect the financial performance of listed firms in Nigeria?

Research Objectives

The main objective of this study is to examine how corporate governance mechanisms affect the financial performance of listed firms in Nigeria from 2014 to 2025.
The specific objectives are to:

a) Examine the effect of board size on the financial performance of listed firms in Nigeria.
b) Determine the effect of board independence on the financial performance of listed firms in Nigeria.
c) Assess the effect of board meetings on the financial performance of listed firms in Nigeria.
d) Examine the effect of institutional ownership on the financial performance of listed firms in Nigeria.

e) Determine the effect of audit committee characteristics on the financial performance of listed firms in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Literature

Corporate Governance

Corporate governance refers to the structures, principles, and processes that direct, control, and hold companies accountable. It defines relationships among shareholders, boards of directors, management, and other stakeholders and establishes a framework for effective oversight, transparency, and responsible decision-making. According to the Organisation for Economic Co-operation and Development (OECD, 2023), corporate governance provides the basis for setting corporate objectives, determining strategic direction, and monitoring management performance. It is particularly important in listed companies, where the separation of ownership and control may create conflicts of interest between shareholders and managers. Effective governance mechanisms help address these conflicts by strengthening board oversight, protecting shareholders' interests, and promoting responsible corporate management.

Financial performance refers to a firm's ability to use its resources efficiently to generate returns and sustain its operations. It is commonly measured using accounting-based indicators, such as return on assets (ROA) and return on equity (ROE), as well as market-based indicators, such as Tobin's Q. These measures provide different perspectives on corporate performance: accounting measures assess the returns generated from a firm's resources and shareholders' equity, while market-based measures reflect investors' assessments of the firm's value and future prospects. Bhagat and Bolton (2008) examined the relationship between corporate governance and firm performance, highlighting the need to account for the interdependence between governance arrangements, ownership structure, and corporate outcomes. Therefore, empirical investigation should establish the relationship between corporate governance and financial performance, as the effects of individual governance mechanisms may differ across firms and institutional environments.

This study focuses on five corporate governance mechanisms: board size, board independence, board meetings, institutional ownership, and audit committee characteristics. These mechanisms are expected to influence financial performance by affecting managerial monitoring, strategic decision-making, financial reporting, and accountability. However, their effectiveness depends on how firms structure and implement them.

Board Size

Board size refers to the number of directors serving on a company's board. The board provides strategic direction, supervises management, evaluates corporate decisions, and protects shareholders' interests. A larger board may offer a wider range of professional expertise, experience, and business connections, which

can improve the quality of strategic decisions and strengthen oversight. However, an excessively large board may create coordination problems, increase decision-making costs, and make it harder to reach consensus. The effect of board size on financial performance may therefore depend on whether the benefits of additional expertise outweigh the challenges associated with managing a larger group.

Yermack (1996), in a study of 452 large US industrial corporations from 1984–1991, found an inverse relationship between board size and firm value, measured by Tobin's Q. This suggests that smaller boards may monitor management more effectively and make timely decisions. In contrast, Kajola (2008), examining 20 listed Nigerian firms between 2000 and 2006, reported a positive and statistically significant relationship between board size and return on equity. These differences suggest that board size does not have a uniform effect on financial performance and that its influence may depend on the institutional environment, the characteristics of the firms examined, and the performance measures used.

For listed firms in Nigeria, board size is an important governance consideration because directors must balance effective monitoring with the need for diverse expertise and sound strategic judgement. A board that is too small may lack the skills required to address complex business challenges, while an excessively large board may struggle with coordination and accountability. Therefore, it is necessary to examine empirically whether board size improves or constrains the financial performance of listed firms in Nigeria.

Board Independence

Board independence refers to the extent to which directors can exercise objective judgement without undue influence from executive management or other interested parties. Independent directors are expected to monitor management decisions, challenge actions that may conflict with shareholders' interests, and promote transparency and accountability. The OECD (2023) emphasises the importance of boards exercising objective, independent judgement in carrying out their responsibilities.

Bhagat and Bolton (2008) examined the relationship between corporate governance and firm performance while accounting for the potential endogeneity of governance arrangements and corporate outcomes. Their work highlights the importance of considering the governance mechanisms adopted and the performance measures used when assessing this relationship. In the Nigerian context, Sanda, Mikailu, and Garba examined corporate governance and firm performance using Nigerian Stock Exchange data from 1996–2004, against the backdrop of ownership concentration and boardroom relationships. Their work provides a basis for considering how board composition and Nigerian firms' institutional characteristics may influence governance effectiveness.

Board independence can improve financial performance by strengthening management oversight, reducing conflicts of interest, and encouraging decisions that protect shareholders' interests. However, independent directors do not necessarily guarantee effective monitoring. Their contribution depends on their professional competence, freedom from undue influence, access to relevant information, and willingness to challenge management when necessary. Consequently, the relationship between board independence and financial performance should be assessed using evidence from listed firms rather than assuming that greater independence always produces better outcomes.

Board Meetings

Board meetings provide a formal setting for directors to review corporate activities, assess risks, evaluate management decisions, and set strategic priorities. Regular meetings can improve communication between directors and management, facilitate information exchange, and enable boards to respond to emerging business challenges. However, meeting frequency alone does not show whether directors are exercising effective oversight. The quality of discussions, the relevance of issues considered, the level of participation, and the implementation of decisions are equally important.

Vafeas (1999), in a study of 307 firms from 1990–1994, found an inverse relationship between board meeting frequency and firm value. The study also reported improvements in operating performance following years of unusually high board activity, particularly among firms that had performed poorly in the preceding period. These findings suggest that frequent meetings may sometimes respond to existing performance problems rather than reflect effective governance. Consequently, the relationship between board meetings and financial performance may reflect both directors' monitoring activities and the circumstances that lead boards to meet more frequently.

In listed firms in Nigeria, board meetings provide opportunities to review financial results, evaluate investment decisions, monitor management, and address operational and financial risks. Nevertheless, frequent meetings may not improve performance if discussions are unproductive or decisions are poorly implemented. Conversely, inadequate meetings may limit directors' ability to identify problems and respond promptly to changing business conditions. Therefore, the effect of board meeting frequency on financial performance requires empirical investigation.

Institutional Ownership

Institutional ownership refers to the proportion of a company's outstanding shares held by institutional investors, including pension funds, insurance companies, investment firms, and other financial institutions. Institutional investors may influence corporate governance through their voting rights, participation in shareholder meetings, monitoring of management, and demands for transparent financial reporting. Their financial resources and professional expertise may also let them influence corporate decisions more than individual shareholders with relatively small holdings.

Shleifer and Vishny (1986) argued that large shareholders can help address the free-rider problem associated with monitoring management in companies with dispersed ownership. Because substantial shareholders have a greater financial interest in corporate outcomes, they may have stronger incentives to monitor management and influence decisions that affect firm value. This provides a theoretical basis for the expectation that institutional ownership can strengthen corporate oversight and improve financial performance.

In Nigeria, Uwuigbe and Olusanmi (2012) examined listed financial-sector firms using data from 2006–2010 and reported a significant positive relationship between institutional ownership and firm performance. Their findings suggest that institutional investors may improve corporate outcomes through monitoring and

shareholder participation. However, institutional ownership's influence depends on investors' objectives, investment horizons, and willingness to engage with management. Some institutional investors may actively monitor corporate decisions, while others may remain largely passive. Institutional ownership may therefore have positive, negative, or statistically insignificant effects on financial performance, depending on the characteristics of the investors and the firms in which they invest.

For listed firms in Nigeria, institutional ownership is relevant because institutional investors can influence management decisions and demand greater accountability. However, the extent to which their involvement improves financial performance remains an empirical question.

Audit Committee Characteristics

Audit committee characteristics refer to the features of the committee responsible for overseeing financial reporting, internal controls, and the external audit process. These characteristics may include committee size, independence, members' financial expertise, and meeting frequency. An effective audit committee strengthens the reliability of financial statements, improves compliance with reporting requirements, and reduces the risk of financial misstatements. However, its effectiveness depends on the competence and independence of its members and their commitment to carrying out their responsibilities.

Evidence from Nigerian firms indicates that the relationship between audit committee characteristics and financial performance varies across studies and individual committee attributes. Okeke (2021), examining 15 listed Nigerian manufacturing firms from 2012–2019, reported positive associations between audit committee size and meeting frequency and firm performance, while audit committee independence was negatively associated with performance. Since the study used correlation analysis, these findings indicate associations rather than establishing that the audit committee characteristics caused the observed performance outcomes.

Similarly, Abu (2024), in a study of 13 listed industrial goods firms in Nigeria covering 2013–2022, found that audit committee independence had a significant negative relationship with return on assets, while audit committee meeting frequency had a significant positive relationship with return on assets. Audit committee size had a positive but statistically insignificant relationship with financial performance. Adebayo and Olatunji (2025), examining audit committee attributes and the financial performance of listed Nigerian manufacturing firms, reported that audit committee size had a negative but statistically insignificant relationship with return on equity using a fixed-effects model.

These findings suggest that audit committee characteristics do not necessarily influence financial performance in the same way. Differences in the attributes examined, firm characteristics, sample periods, and performance measures may help explain the mixed results. Furthermore, a negative relationship does not automatically mean that an audit committee characteristic is undesirable, as the result may reflect differences in firm circumstances or the way governance arrangements operate in practice.

For listed firms in Nigeria, audit committees remain important for ensuring the credibility of financial reporting and strengthening accountability. However, their contribution to financial performance depends

on the effectiveness of their oversight responsibilities and the specific characteristics being examined. Accordingly, the present study should clearly identify the audit committee measure included in its empirical model. If the study focuses on audit committee independence, the analysis should focus on committee members' independence rather than treating committee size, meeting frequency, and independence as interchangeable measures.

2.2 Theoretical Framework

This study is anchored on three complementary theories that collectively explain the relationship between corporate governance mechanisms and firm performance. They are Agency Theory, Stewardship Theory, and Resource Dependency Theory. Agency theory posits that conflicts of interest arise between managers (agents) and shareholders (principals) due to the separation of ownership and control (Jensen & Meckling, 1976). To mitigate these conflicts, firms adopt governance mechanisms that reduce agency costs, enhance monitoring, and improve organizational efficiency (Fama & Jensen, 1983).

The study is further informed by Stewardship Theory, which offers a contrasting perspective by assuming managers are inherently trustworthy and motivated to act in shareholders' best interests when given adequate autonomy and empowerment. Rather than emphasizing strict monitoring, this theory highlights trust, collaboration, and managerial discretion as pathways to improved organizational performance (Donaldson & Davis, 1991).

In addition, Resource Dependence Theory adds a strategic dimension to corporate governance by emphasizing the board's role in securing external resources essential to a firm's survival and growth. Boards contribute to organizational performance by facilitating access to critical resources such as financial capital, expertise, information, and strategic networks, thereby enhancing the firm’s capacity to respond to environmental uncertainties (Pfeffer & Salancik, 1978).

Collectively, these three theories provide a robust framework for analyzing how corporate governance mechanisms, through monitoring, empowerment, and resource facilitation, impact the financial performance of listed manufacturing firms in Nigeria. They also inform the selection of governance variables and firm-specific factors considered in this study, including board size, board independence, board meetings, audit committee characteristics, institutional ownership, firm size, firm age, and firm growth.

2.3 Empirical literature review

This subsection reviews previous empirical studies on the influence of corporate governance mechanisms on firm performance in emerging economies and Nigeria in particular. For instance, Akpen, Gambo, and Maital (2026) examined the relationship between governance characteristics and firm profitability in listed insurance firms in Nigeria over the period 2020–2024. Using a sample of 17 firms, the study found that board gender diversity and audit committee independence significantly enhanced firm profitability, measured by return on assets (ROA). However, board independence and board size were not statistically significant determinants of performance. These findings suggest that specific elements of board

composition, particularly diversity and effective oversight, are critical for improving financial outcomes. In contrast, using panel least squares estimation, Korolo (2026) examined the impact of corporate governance on manufacturing sector performance using 20 listed firms from 2020 to 2024. The study found that board size and board diversity had a negative, statistically significant effect on financial performance. This result contradicts the conventional expectation that larger and more diverse boards enhance monitoring, instead pointing to coordination challenges and inefficiencies associated with board expansion.

Omeihu and Nwafor (2025) conducted a multi-country study involving 1,604 firms across 41 economies, applying the System GMM technique to assess the moderating role of governance quality. Their findings revealed that board size and board independence positively influence firm performance, measured by return on equity (ROE) and Tobin's Q. However, these relationships weaken in countries with stronger governance systems, highlighting the moderating role of national institutional quality. Similarly, Akinbode et al. (2025), using a sample of 50 publicly listed firms between 2018 and 2023, reported mixed results. The study found that board size had a negative or context-dependent effect on performance, while board independence and financial expertise were significant positive drivers of firm performance.

Evidence from developed economies also provides useful insights. Hillman et al. (2009) examined U.S. firms from 1990 to 2006 and found that board diversity enhances firm performance by improving access to critical external resources such as capital, specialized knowledge, and legitimacy. Similarly, Bhagat and Bolton (2008) reported a strong positive relationship between corporate governance quality and accounting-based performance measures, although the relationship with market-based indicators was weaker. Furthermore, Cornett, Marcus, and Tehranian (2007) analyzed U.S. commercial banks between 1994 and 2005 and found that institutional ownership improves monitoring, reduces managerial opportunism, and significantly enhances financial performance.

Despite the growing body of empirical literature on corporate governance and firm performance, several gaps remain. First, existing studies provide mixed and inconclusive evidence, particularly regarding key governance variables such as board size and board independence, suggesting that their effects are highly context-specific. Second, many Nigerian studies have focused on earlier periods or specific sectors such as banking and insurance, with limited attention to the manufacturing sector, which plays a crucial role in Nigeria's industrial development.

Furthermore, most previous studies emphasize governance variables but do not adequately integrate firm-specific factors such as firm size, age, and growth, which may significantly influence financial performance. This study addresses these gaps by examining how corporate governance mechanisms affect the financial performance of listed manufacturing firms in Nigeria from 2014–2025. By integrating key governance variables with firm-specific factors and applying panel data estimation techniques, the study provides more comprehensive and up-to-date evidence. It also contributes to the literature by offering sector-specific insights and highlighting how institutional and contextual factors shape the governance–performance relationship in an emerging economy.

3. METHODOLOGY

Research Design

This study adopts an ex-post facto research design combined with a panel data approach to investigate the effects of corporate governance on the financial performance of listed firms in Nigeria. The ex-post facto design is appropriate because it relies on historical data from publicly available financial reports without manipulating variables.

Population, Sample, and Data Sources

The study population comprises all firms listed on the Nigerian Exchange Group (NGX). From this population, a sample of 22 firms (see Appendix for sampled firms) was selected, consisting of manufacturing, financial and services firms. The study employed purposive sampling based on data availability, continuous listing status, and consistent financial reporting over the study period. The study utilized secondary data sourced from published annual reports, NGX records, and company disclosures. The sample period spans from 2014 to 2025, providing a balanced panel suitable for robust econometric analysis.

Model Specification

The empirical model of this study is adapted from agency theory and corporate governance literature, which posits that governance mechanisms influence firm performance (Fama & Jensen, 1983). Following this theoretical framework, firm performance is expressed as a function of corporate governance mechanisms:

$$FP = f(CG). \quad (1)$$

The studyadopts net profit margin (NPM) as a measure of firm performamce in line with previous studies. Key governance and firm-specific variables are incorporated into the the Equation (1) resulting in the functional form as follows:

$$NPM = f(BS, BI, BM, IO, AC, ACI, FZ, FA, FG) \quad (2)$$

From Equation (2), we specify the econometric form of the equation as follows:

$$NPM_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 IO_{it} + \beta_5 AC_{it} + \beta_6 ACI_{it} + \beta_7 FZ_{it} + \beta_8 FA_{it} + \beta_8 FG_{it} + \mu_{it} \quad (3)$$

Where: NPM = Net profit margin, BS = Board Size, BI = Board Independence, BM = Board Meeting, IO = Institutional Ownership, AC = Audit Committee, ACI = Audit Committee Independence, FZ = Firm Size, FA = Firm Age, FG = Firm Growth, i = firm index, t = period, μ = error term capturing unobserved factors.

This panel data model captures both governance and firm-specific determinants of performance, controlling for within-firm variation over time and unobserved heterogeneity. The inclusion of both governance and firm-specific factors acknowledges that financial performance is shaped not only by structural governance

mechanisms but also by internal firm dynamics and growth opportunities, offering a comprehensive framework for examing firm profitability in the Nigerian context.

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 Results

Table 4.1: Descriptive Statistics Test Result

Variable	Obs.	Mean	Std. Dev.	Min	Max
NPM	264	18.61	15.39	-65.3	60.2
BS	264	11.44	2.2	7	17
BI	264	24.77	11.75	0	58
BM	264	5.5	1.15	4	10
IO	264	68.25	19.48	9.1	100
AC	264	5.91	0.4	3	6
ACI	264	66.42	14.19	25	83
FZ	264	858.01	2034.97	0.94	11420
FA	264	35.5	27.28	4	131
FG	264	26.6	34.9	-55.4	240.1

Note: NPM = Net Profit Margin; BS = Board Size; BI = Board Independence;
BM = Board Meetings; FZ = Firm Size; FA = Firm Age; FG = Firm Growth.

Source: Authors' Computation using Stata 15, 2026

Table 4.1 presents the descriptive statistics for the variables used in the study, covering corporate governance mechanisms and firm-specific characteristics across 264 observations. From the result, the net profit margin (NPM) has a mean value of approximately 19% with a standard deviation of 15.39, indicating that, on average, firms are profitable. However, the result shows that the some firms are experiencing losses while others achieve high returns as revealed by the minimum and maximum values of -65.3% and 60.2% respectively. Also, for corporate governance variables, the average board size (BS) is 11.44 members, with a relatively low standard deviation of 2.2, suggesting moderately large and fairly uniform boards across firms. On the contrary, board independence (BI) has a high standard deviation of 11.75 and a range from 0 to 58, highlighting considerable differences in the proportion of independent directors among firms. Board meetings (BM) occur on average 5.5 times per year, with minimal variability, suggesting similar meeting practices across firms. Institutional ownership (IO) with a high mean value of 68%, reflects significant institutional shareholding and diverse ownership structures. Audit committee size (AC) and audit committee independence (ACI) shows that the firms are stable, but with differences in committee composition and governance practices. Among firm-specific variables, firm size (FZ) exhibits substantial dispersion, and a wide range from 0.94 to 11,420, indicating the presence of both small and very large firms. Similarly, firm age (FA) varies from 4 to 131 years showing a mix of young and mature firms. Finally, firm growth (FG) has a high variability (SD = 34.9) reflecting differences in expansion and contraction across firms.

Overall, the descriptive statistics indicate substantial heterogeneity in firm performance, governance practices, and firm characteristics, justifying the use of panel data regression techniques to account for within-firm variation over time.

Table 4.2: Correlation Matrix Result

Var	NPM	BS	BI	BM	IO	AC	ACI	FZ	FA	FG
NPM	1									
BS	-0.058	1								
BI	0.02	0.310***	1							
BM	-0.118*	0.253***	0.714***	1						
IO	-0.096	-0.076	0.092	-0.017	1					
AC	0.128**	0.154**	0.038	0.069	-0.209***	1				
ACI	0.019	0.176***	0.752***	0.638***	-0.033	0.213***	1			
FZ	-0.158**	0.162***	0.320***	0.168***	0.223***	-0.553***	0.036	1		
FA	-0.139**	0.086	0.056	0.041	-0.145**	0.139**	0.221***	-0.225***	1	
FG	0.171***	-0.014	0.235***	0.279***	-0.103*	0.065	0.390***	-0.048	0.044	1

Note: *** p < 0.01, ** p < 0.05, * p < 0.10

Source: Authors' Computation using Stata 15, 2026

Table 4.2 presents the pairwise relationships between financial performance, corporate governance variables, and firm-specific characteristics. The results indicate that net profit margin (NPM) has a positive and statistically significant relationship with firm growth (r = 0.171), suggesting that firms experiencing higher growth tend to achieve improved financial performance. Conversely, NPM is negatively and significantly associated with firm size (r = -0.158) and firm age (r = -0.139), implying that larger and older firms may face efficiency challenges that reduce profitability.

Among the governance variables, board size shows a weak and insignificant relationship with financial performance, indicating that board size alone may not directly influence profitability at the bivariate level. On the contrary, board meetings exhibit a weak negative relationship with performance, suggesting that frequent meetings may reflect reactive governance rather than effective oversight. While, audit committee size shows a positive and significant relationship with financial performance (r = 0.128), indicating that stronger audit structures may enhance monitoring and financial outcomes. However, institutional ownership and audit committee independence show no significant direct relationship with performance.

The matrix also reveals strong interrelationships among governance variables. Board independence is highly correlated with board meetings (r = 0.714) and audit committee independence (r = 0.752), while audit committee independence is also strongly related to board meetings (r = 0.638). These high correlations suggest structural overlap in governance mechanisms within firms. Firm size shows a strong negative

relationship with audit committee size (r = -0.553), indicating that larger firms may adopt relatively smaller audit committees, while maintaining higher institutional ownership.

None of the correlation coefficients exceed the critical threshold of 0.80, indicating no severe multicollinearity. Although some variables show relatively high correlations, they remain within acceptable limits and do not threaten regression estimation.

Table 4.3: Fixed Effects Regression Result

Variables	Coef.	Std. Error	t-Statistic	Prob.
BS	-0.048	0.472	-0.1	0.919
BI	0.398***	0.153	2.61	0.01
BM	-4.822***	1.363	-3.54	0
IO	-0.073	0.048	-1.51	0.133
AC	2.458	2.939	0.84	0.404
ACI	-0.311*	0.177	-1.76	0.08
FZ	-0.002**	0.001	-2.48	0.014
FA	-0.107***	0.035	-3.01	0.003
FG	0.099***	0.032	3.09	0.002
Constant	49.364**	19.852	2.49	0.014
No of Obs.: 264				
No of Groups: 12				
R^2 (within): 0.166				
R^2 (Overall): 0.108				
F Stat.: 5.360	Prob > F: 0.000			

Note: DV is Net Profit Margin (NPM). *, **, *** denote significance at 10%, 5%, and 1% levels, respectively.

Source: Authors' Computation using Stata 15, 2026

Table 4.3 presents the results of the fixed effects regression analysis examining the impact of corporate governance mechanisms and firm-specific characteristics on financial performance, measured by net profit margin. The overall model is statistically significant ($F = 5.36$, $p < 0.01$), indicating that the explanatory variables jointly influence financial performance. The within R^2 of 0.166 suggests that approximately 17% of the variation in financial performance is explained by changes within firms over time.

With respect to corporate governance variables, board size exhibits a negative but statistically insignificant effect on financial performance, implying that variations in board size do not significantly influence profitability. This suggests that increasing the number of board members alone does not necessarily enhance firm performance. In contrast, board independence shows a positive and statistically significant effect ($\beta = 0.398$, $p < 0.05$), indicating that a higher proportion of independent directors improves firm profitability. This finding supports the view that independent directors strengthen monitoring and help mitigate agency problems.

However, board meetings have a strong negative and statistically significant effect ($\beta = -4.822$, $p < 0.01$), suggesting that frequent meetings are associated with lower financial performance. This may reflect

inefficiencies, excessive administrative costs, or reactive governance practices rather than proactive strategic decision-making. On the other institutional ownership is negatively related to performance but remains statistically insignificant, indicating that the presence of institutional investors does not exert a meaningful influence on firm profitability within the study period. Similarly, audit committee size has a positive but insignificant effect, suggesting that committee size alone is insufficient to improve financial outcomes. Conversely, audit committee independence shows a negative effect that is weakly significant ($\beta = -0.311$, $p < 0.10$), implying that higher independence may not always translate into better performance, possibly due to limited firm-specific knowledge or coordination challenges.

Among the firm-specific variables, firm size has a negative and statistically significant effect on financial performance, indicating that larger firms may experience inefficiencies that reduce profitability. Likewise, firm age is negatively and significantly related to performance, suggesting that older firms may face structural rigidities and reduced adaptability. On the contrary, firm growth demonstrates a positive and highly significant effect ($\beta = 0.099$, $p < 0.01$), highlighting growth as a key driver of financial performance. Expanding firms are more likely to achieve higher profitability, reflecting improved market opportunities and operational expansion. Finally, the rho value indicates that only a small proportion of the total variance is attributable to unobserved firm-specific effects. Nevertheless, the fixed effects model remains appropriate, as it effectively controls for time-invariant heterogeneity across firms.

4.2 Discussion of Findings

The empirical results of this study provide compelling evidence that corporate governance mechanisms exert mixed and context-dependent effects on the financial performance of listed firms in Nigeria. This implies that governance structures do not operate in a uniform or predictable manner; rather, their effectiveness depends on their interaction with firm-specific characteristics and the broader institutional environment. Specifically, the findings reveal that board independence has a positive and statistically significant effect on financial performance. This suggests that independent directors enhance monitoring, reduce managerial opportunism, and improve decision-making processes. This result is consistent with the findings of Omeihu and Nwafor (2025) and Bhagat and Bolton (2008), who reported a positive relationship between board independence and firm performance. However, it contrasts with Akpen et al. (2026), who found board independence to be insignificant in the Nigerian insurance sector, indicating sectoral differences in governance effectiveness. In contrast, board meetings exhibit a negative and significant relationship with performance, suggesting that frequent meetings may reflect reactive governance rather than strategic oversight. This aligns with Korolo (2026), who also reported negative governance-performance linkages in the manufacturing sector, possibly due to inefficiencies and coordination challenges.

Similarly, audit committee independence shows a negative effect on performance, implying that independence alone may not guarantee effectiveness, especially where members lack firm-specific expertise. This finding deviates from Akpen et al. (2026), who found a positive impact, highlighting the importance of contextual and firm-level dynamics in shaping outcomes.

Furthermore, board size and institutional ownership are found to be statistically insignificant. This supports the findings of Akinbode et al. (2025), who reported that board size has a context-dependent or insignificant

effect, but contradicts Cornett et al. (2007), who found that institutional ownership enhances monitoring and performance in developed economies. These results strongly support the argument of Adegbite (2015) that corporate governance effectiveness in Nigeria is largely influenced by institutional quality, regulatory enforcement, and contextual realities rather than theoretical expectations alone. In weak institutional environments, governance structures may exist formally but lack practical effectiveness. The findings also align with Hillman et al. (2009), emphasizing that governance mechanisms operate within a broader organizational and environmental context. This suggests that firm performance is shaped not only by governance structures but also by industry dynamics, managerial behavior, and macroeconomic conditions.

Importantly, the study reveals that firm-specific characteristics, particularly firm growth, play a more dominant role in determining financial performance than governance variables alone. The positive and significant effect of firm growth supports Akinbode et al. (2025) and other recent studies, which highlight growth as a key driver of profitability. In contrast, firm size and firm age negatively affect performance, suggesting that larger and older firms may suffer from inefficiencies, bureaucratic rigidities, and reduced adaptability. The findings underscore the need to move beyond a purely structural view of corporate governance and adopt a more context-sensitive and performance-oriented approach, particularly in emerging economies such as Nigeria

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study examined the effect of corporate governance mechanisms on the financial performance of listed firms in Nigeria: Evidence from 2014 to 2025 using panel data analysis. The findings revealed mixed effects: board independence had a positive and significant effect on financial performance, while board meetings and audit committee independence had negative effects. Board size and institutional ownership had no statistically significant effects. Among the firm-specific factors, firm size and age had negative effects, whereas firm growth had a strong positive effect. The study concludes that corporate governance effectiveness depends on implementation quality and firm-specific conditions, while sustainable growth remains important for improving financial performance.

5.2 Recommendations

Based on these findings, listed firms should strengthen board independence by appointing competent directors who can provide objective oversight. Board meetings should focus on the quality of deliberations and decision implementation rather than frequency alone. Firms should also enhance audit committee effectiveness and strengthen internal monitoring and financial reporting practices. Regulatory authorities should improve the enforcement of corporate governance requirements to promote accountability and transparency. Given the positive effect of firm growth, firms should prioritise innovation, market expansion, and operational efficiency. Future research should incorporate primary data and alternative performance measures to provide further insight into the relationship between corporate governance and firm performance.

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APPENDIX

List of firms used for the study (in no particular order) are:

MTN Nigeria Communications Plc (MTN), BUA Foods Plc (BUAF), Dangote Cement Plc (DANGOC), Airtel Africa Plc (AIRTELA), BUA Cement Plc (BUAC), Aradel Holdings Plc (ARADELH), Zenith Bank Plc (ZENITH), Guaranty Trust Holding Company Plc (GTHCO), Seplat Energy Plc (SEPLATE), Lafarge Africa Plc (LAFARGE), Geregu Power Plc (GEREGUP), Nestlé Nigeria Plc (NESTLE), United Bank for Africa Plc (UBA), FBN Holdings Plc (FBN), Stanbic IBTC Holdings Plc (STANBIC), Nigerian Breweries Plc (NBL), Transnational Corporation Plc (TRANSCP), Presco Plc (PRESCO), Dangote Sugar Refinery Plc (DANGOS), Access Holdings Plc (ACCESSH), Okomu Oil Palm Company Plc (OKUMUO), and International Breweries Plc (IBL).