# CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF LISTED FINANCIAL FIRMS IN NIGERIA

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**Abstract**
*Despite successive regulatory reforms and the introduction of governance codes by the regulators of the Nigerian financial industry, the financial sector is still experiencing notable governance-related challenges. Thus, this study examines how corporate governance practices in terms of transparency and disclosure (TD), shareholders' rights and participation (SRP), audit committee effectiveness (ACE), and executive compensation (EC) affect the financial performance of listed financial companies in Nigeria. Ex-post facto research design was employed and secondary data covering thirty-nine listed financial firms between 2020 and 2024 were analysed using descriptive statistics, correlation analysis, unit root test, multicollinearity diagnostics, and panel regression analysis. The findings revealed that transparency and disclosure had a negative but statistically significant effect on financial performance ($\beta$ = - 0.000118, $p < 0.05$); shareholders' rights and participation showed a positive but insignificant relationship with performance ($\beta$ = 0.000968, $p > 0.05$); audit committee effectiveness had a positive and significant effect ($\beta$ = 0.017100, $p < 0.05$); executive compensation exerted a negative but insignificant influence ($\beta$ = -0.074234, $p > 0.05$). The study concludes that effective governance practices, particularly audit committee oversight and balanced disclosure, are essential for improved financial performance of listed financial firms in Nigeria. It is recommended that financial firms should promote timely and meaningful reporting that enhances investor confidence and prioritize the independence as well as the oversight capacity of audit committees to improve overall firm performance.*

**Keywords:** corporate governance practices, transparency and disclosure, shareholders' rights and participation, audit committee effectiveness, executive compensation, financial performance

## 1. Introduction

Globally, the financial performance of companies has long been recognised as a fundamental indicator of corporate health, growth, and sustainability due to its close link to strong corporate governance structures, investor confidence enhancement and capital market development (Zattoni & Pugliese, 2021). As financial performance remains a critical benchmark for evaluating the success, sustainability, and competitiveness of companies, it has come under increasing scrutiny among companies, especially following corporate collapses, financial scandals, and persistent economic challenges (Ogundajo & Fadeyi, 2021). In the developing economies, corporate financial performance has faced multiple challenges, ranging from unstable regulatory environments, weaker enforcement of corporate governance codes, governance lapses, poor disclosure standards, weak shareholder protection, ineffective audit committees, and unregulated executive compensations (Adegbite, 2020; Kyere & Ausloos, 2021). With these apparent challenges, the regulators of the financial industry have rolled out corporate governance codes to strengthen transparency, strong shareholder protections, effective audit oversight, and accountable executive compensation with the aim of enhancing organizational performance, investor confidence, and market efficiency (Adegbite, 2021).

Despite several regulatory interventions such as the revised SEC Code of Corporate Governance (SEC Nigeria, 2018) and the Companies and Allied Matters Act (CAMA, 2020) that aim to institutionalize governance best practices, Nigerian financial firms still face recurring financial instability, erosion of investor trust, and questionable corporate practices (Okike, Adegbite, & Nakpodia, 2020). Instances of earnings manipulation, insider dealings, regulatory fines, and corporate collapses illustrated by the crises that led to the demise of Skye Bank and the sanctions imposed on several microfinance banks, underscore systemic governance deficiencies that hinder longterm profitability and sustainable growth (Akinsulire, 2022; Uwuigbe, et al., 2021). Transparency and disclosure remain particularly problematic; although disclosure standards are outlined in both NGX and SEC regulations, many financial firms in Nigeria engage in selective disclosure, where only minimal or strategically curated information is shared with shareholders. This information asymmetry not only violates principles of accountability but also increases investor risk and undermines capital market integrity (Akinsulire, 2022; Ofoegbu & Okoye, 2021).

Moreso, shareholder rights and participation are often undermined. Minority shareholders in listed financial institutions frequently lack adequate representation or voting power, with Annual General Meetings sometimes treated as mere formalities. This marginalization limits their influence over strategic decisions such as mergers, capital restructuring, or executive compensation approvals that significantly affect company performance and sustainability (Adewale & Akinlolu, 2021; Kabuye, et al., 2020). Audit committee effectiveness, a linchpin of internal corporate accountability, is another area of concern. Although audit committees are mandated by law, issues around their independence, competence, and integrity persist. In several financial firms, audit committees are composed of politically connected or internally compromised individuals, reducing their ability to challenge management excesses or detect early signs of financial misreporting (Onyali & Okafor, 2022). This compromises internal control mechanisms, leading to reputational damage and financial underperformance (Atoyebi & Ishola, 2020).

Equally troubling is the structure of executive compensation. In Nigeria's financial sector, there have been growing concerns over remuneration packages that appear disconnected from firm performance particularly in periods of financial downturn. Documented cases show senior executives of underperforming or lossmaking banks and insurance companies continuing to earn multimillion naira salaries, bonuses, and allowances despite declining shareholder value (Adedayo, Ogunleye, & Adegbite, 2021; Ibrahim & Adamu, 2022). Such misalignment creates perverse incentives, encouraging short-termism and excessive risk taking while undermining long-term financial goals.

From the foregoing, it becomes necessary to investigate how corporate governance practices impact the financial performance of listed financial firms in Nigeria. The specific objectives are to:

i. examines how transparency and disclosure affect the financial performance of listed financial firms in Nigeria
ii. evaluate how shareholders' rights and participation influence the financial performance of listed financial firms in Nigeria
iii. investigate how audit committee effectiveness affects the financial performance of listed financial firms in Nigeria
iv. determine how executive compensation affect the financial performance of listed financial firms in Nigeria.

To achieve, these objectives, the following null hypotheses were formulated:
$HO_1$: Transparency and disclosure have no significant effect on the financial performance in Nigeria.
$HO_2$: Shareholders' rights and participation have no significant influence on the financial performance in Nigeria.
$HO_3$: Audit committee effectiveness has no significant effect on the financial performance in Nigeria.
$HO_4$ : Executive compensation has no significant impact on the financial performance in Nigeria.

## 2. Literature Review

### 2.1 Conceptual Review

#### Corporate Governance

Corporate governance is a set of rules, regulations, and practices that outline and control the processes of a firm. It delineates the communication among the corporate management, the board of directors, the shareholders, and the other stakeholders (Adegbite, 2021). The primary purpose of corporate governance is to create accountability, fairness, and openness in the interactions between the company and its stakeholders, which in turn leads to the corporate performance improvement and value creation (Al-Matari, 2020; Boateng et al., 2021). Corporate governance has a major impact on the financial performance of a firm, as it is believed that governance practices that are good are directly related to financial transparency being increased and risk management being cut down (Garcia-Sanchez et al., 2019). Moreover, good governance strengthens the investor´s trust, as it is a token that the corporations are operating in a manner that greatly diminishes interests conflicts and that the board´s activity is in line with the long- term interests of the shareholders (Agyei-Mensah, 2020; Adewale & Akinlolu, 2021).

#### Transparency and Disclosure

Transparency and disclosure are used to mean the amount of information that organizations give to stakeholders such as shareholders, regulators, and the general population, in a timely manner and in a clear and accurate manner. It is one of the principles of corporate governance that creates accountability and establishes trust with stakeholders (Uwuigbe, et al., 2021). Transparency is based on the disclosure of the internal processes of the business and its decisions, whereas disclosure is closely associated with the active reporting of the material financial and non-financial data. They both minimize information asymmetry between the management and external stakeholders and promote better-informed decision-making (Garcia- Sanchez, et al., 2019; Ofoegbu & Okoye, 2021).

**Shareholders' Rights and Participation**

The rights and participation of the shareholders mean the rights and powers which shareholders have, which allow them to shape up the corporate decisions, as well as safeguard their investment interests. These rights are very important elements of corporate governance because they help to maintain accountability and democratic control of corporate matters (Al-Matari, 2020). Basic rights of shareholders are the right to vote on significant matters like nomination of directors, ratifying of significant transactions and revision of corporate charters. Shareholder participation is the practical part of these rights exercising and it is mostly done in situations when the annual general meetings (AGM) and extraordinary meetings where the corporate strategies and leadership decisions are discussed (OECD, 2015; Adewale & Akinlolu, 2021).

Participation of shareholders has different forms and mechanisms. The rights to vote enable a shareholder to elect members in the board, to approve mergers and to vote on the executive compensation packages. The dividend rights give a person a share in the profits of the company. The rights of information give access to financial statements and material disclosures (Ajibade and Ibikunle, 2022). Other rights are pre-emptive rights where the current stock holders are given the right to buy more shares before the company can sell the same to other investors, and litigation right, where shareholders may sue directors or executives in case of misconduct. Another form of participation is activism, when institutional or minority shareholders as a group of people lobby to bring about a change in governance (Agyei-Mensah, 2020; Garcia-Sanchez, et al., 2019).

**Executive Compensation**

Executive compensation is the entire package of remuneration and incentives offered to the top management of a company including Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the rest of executive officers (Al-Matari, 2020). This remuneration is a scheme aimed at attracting, retaining and motivating effective leaders who can drive organisational growth and value creation. Executive remuneration usually consists of the elements of monetary and non- monetary character, and it is commonly associated with the performance and strategic goals of the firm. Executive compensation is an important tool of aligning the interests of managers and shareholders in the framework of corporate governance (Garcia-Sanchez, 2019; Atoyebi & Ishola, 2020).

Executive compensation can be of a number of types. Base salary refers to the amount of money that is paid per year to executives as the salary. Variable payments are performance bonuses that are based on accomplishment of certain financial or strategic targets. Equity-based incentives and stock options provide executives with the opportunity to acquire company shares at a specified price so that their individual wealth and the performance of the company are tied together. Deferred compensation is the act of delaying a portion of the income of an executive until retirement or later probably due to tax or retention reasons. As well, non-cash rewards like retirement schemes, health coverage, company cars, and club memberships are included in the package (Lin & Hsu, 2020; Agyei-Mensah, 2020).

**Financial Performance**

Financial performance is the capacity of a firm to effectively use its assets and resources in order to achieve revenue, profitability and sustainable growth. Financial performance can be described as the evaluation of the financial wellbeing of a company and its capabilities to create profits and value to its shareholders (Chebri & Bahoussa, 2020). It is usually assessed by utilizing different financial indicators that determine the profitability, efficiency and financial strength of a given company. Such measures are Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), Revenue Growth and Profit Margins (Tudose, et al., 2022). Financial performance evaluation is aimed at getting an idea of the efficiency a business is making use of the available resources to make profits and generate shareholder wealth. Financial performance is an important indicator in the corporate governance as it is applied to gauge the effectiveness of board decisions, executive compensation, and the general governance structures (Kyere & Ausloos, 2021; Joel & Doorasamy, 2024).

## 2.2 Theoretical Framework

This study is anchored on Agency Theory that offers the basis in the interpretation of the correlation between corporate governance framework and financial performance. The Agency Theory, which was proposed by Jensen and Meckling (1976), is an explanation of conflict of interest between the owners (shareholders) and the managers (agents) of a corporation in the current-day setting because of the division of ownership and control between the two parties. Without proper supervision, managers can end up following their own selfish goals at the expense of the shareholders and this is the cause of agency costs (McColgan, 2001). These agency problems are mitigated and the interests of the managers brought into line with that of the shareholders through corporate governance mechanisms like board independence, audit committees and executive compensation. Good governance practices can help to decrease information asymmetry and ensure corporate decision-making has a long-term financial performance focus through greater accountability, transparency, and control (Bonazzi & Islam, 2007; Naz, et al., 2022).

This study also relies on the Stakeholder Theory, which further expands on the Agency Theory, to include other stakeholders who have vested interest in the organization, including the employees, customers, creditors, and the locality at large. Freeman (1984) further states that the success of a firm in the long term is determined by the effectiveness with which it handles its relations with all the stakeholders (Ayuso, et al., 2014; Mrabure & Abhulimhen-Iyoha, 2020). Good corporate governance, therefore, involves a trade-off between all these different interests to maintain the financial performance and the corporate reputation (Pigé, 2002). A combination of these theories provides a holistic approach to the analysis of the effect of the corporate governance mechanisms on the financial performance of listed financial firms in Nigeria. Whereas the Agency Theory emphasises on the essence of control and incentive-alignment, the Stakeholder Theory expands the areas to include moral and tactical factors. The theories are used to base the hypotheses formulations and the interpretation of the results of the study.

## 2.3 Empirical review

In the study titled Executive Compensation and Performance in North African Firms: A Panel Data Approach, Abdelrahim and Eissa (2025) examined the executive compensation and performance in North African companies using a panel data design. The research examined 45 listed companies in Egypt and Morocco in terms of financial and governance data between 2016 and 2024. Through the panel regression analysis, the authors of the research demonstrated that the companies that adopted the performance-based executive compensation policies were significantly better in their

ROA and market value, particularly in capital-intensive industries.

The study by Barker, Hill and Johnson (2024) is research on the quality of the audit and the disclosure of governance in the form of study entitled Audit Quality and Governance Disclosures: Evidence from the UK. The proposed study aimed to determine the longitudinal design as the annual reports of 60 FTSE 100 companies in the years 2017 to 2023 were analyzed. The researchers used content analysis and regression in order to determine the relationship between the indicators of audit quality (auditor tenure, Big 4 affiliation, etc.) and the transparency of governance. Findings indicated that companies having superior audit quality and more comprehensive disclosures in the form of governance quality were characterized by improved investor valuation and enhanced returns on equities.

The study "Corporate ESG Transparency and Firm Performance in Germany" conducted by Steinberg and Bassen (2023) investigated the influence of corporate ESG transparency on the performance of companies in Germany. The research method was quantitative and 50 companies listed on the DAX were used for the analysis in the years 2016-2022. Multiple regression analysis was applied to find out the effect of ESG disclosures and governance reporting on financial metrics such as ROA and Tobin's Q. The authors concluded that clear ESG and governance reporting contributed significantly to elevating the worth of the company and the efficiency of the operations.

Ahmed and Alam (2023) studied the influence of transparency and shareholder rights on the performance of firms in South Asia. During the years 2015 to 2022, it collected panel data on the 60 publicly traded companies from India, Pakistan, and Bangladesh. The fixed-effects regression model revealed a strong positive correlation between increased transparency and stronger shareholder protection and profitability and investor confidence in the firm.

Mensah and Oppong (2022) investigated the relationship between corporate governance mechanisms and profitability of firms in three selected African countries. The research method was a cross-sectional study that relied on data of 100 companies in Ghana, Nigeria, and South Africa for the 2015-2020 period. Panel data regression analysis was the technique used by the authors to demonstrate that governance mechanisms, such as board size, board independence, and whether the company has an audit committee or not, had a great influence on the firm profitability. They showed that companies which are better governed from the perspective of their governance structure are also more profitable in terms of return on equity (ROE) and net profit margin (NPM).

Al-Najjar and Kilincarslan (2022) studied the relationship between audit committees and ownership concentration on firm performance in Turkey. The study used the results of 75 listed non-financial companies on Borsa Istanbul 2016-2021. Applying multiple regression analysis, the researchers discovered that effective audit committees had positive effects on performance, but high ownership concentration undercut such effects, and it was therefore necessary to have balanced ownership structures.

Zattoni and Pugliese (2021) determined the impact of post-crisis corporate governance reforms on financial performance in Europe. Data used in the study were a panel data approach, which analyzed the listed firms of the Eurozone in 2010-2020. Through regression analysis, the authors studied relationship between the variables of governance covering board diversity, CEO duality, and audit independence with ROA and stock returns. The results indicated that the financial performance increased greatly through reforms that strengthened the independence of boards and the diversity of the boards, which is the long-term advantage of governance structure in the developed markets.

Tricker and Tricker (2021) investigated the connection between corporate governance structure and firm performance in OECD countries. The research approach adopted in the study was a quantitative research design based on the data of 150 publicly traded companies in the UK, Germany and the US in the year 2010 to 2019. The researchers determined the role of the following governance mechanisms in the multi-country regression analysis which includes: board independence, audit committees, and institutional ownership. The findings revealed that effectively designed governance systems were effective in enhancing financial performance, especially in those countries where the law enforcement is stronger, and market regulations are more effective.

Using a case study of Oman and Bahrain, Ali and Al-Amri (2021) investigated how corporate governance can be used in promoting firm performance in the Middle East. The study has used a panel data analysis methodology using 60 companies between the years 2010 and 2019. Indicators of governance evaluated were that of audit committee effectiveness, board independence and executive compensation. The results revealed that companies that had a better governance model especially in audit control and executive responsibility had much better financial results.

Boateng, Akomea-Frimpong & Anokye (2021) evaluated the effect that corporate governance has on financial performance of Sub-Saharan African firms focusing on Ghana. The research based on the panel data study sample investigates data of 150 companies of diverse industries over the time span of 2010 to 2018. Applying the model of fixed-effects regression, the authors discovered that positive effects of corporate governance practices especially board independence and audit committee effectiveness positively affected the performance measures of financial results like the return on assets (ROA) and the return on equity (ROE). The article emphasized the role of the governance structures in increasing firm performance and this implies that refining the governance structures may play a significant role in the financial sustainability of the firms in Sub-Saharan Africa.

The study conducted by Yusuff and Akinleye (2022) examined the relationship between corporate governance and financial performance in African firms, focusing on Nigeria. By utilizing survey research method, data was collected from financial managers, auditors, and other corporate governance professionals at 60 listed companies in Nigeria. In their statistical analysis, the researchers considered the connection of various corporate governance factors (independent board, executive remuneration, and ownership structure) with financial performance indicators (return on equity (ROE) and return on assets (ROA). It was indicated that the nature of board independence and the level of executive pay were important positive factors that influenced the financial performance

Onyali and Okafor (2022) explored the effect of audit committees features on earnings management of Nigerian banks. The research design was a quantitative one as it used the data of 15 commercial banks operating in Nigeria during 2015-2020. The researchers applied multiple regression analysis in testing the effect of the audit committee nature namely independence, financial expertise, and meeting frequency on the earnings management practices. These findings meant that the earnings management were minimized when the members of the audit committee were independent and had financial expertise, meaning that the more robust audit committees were, the more the integrity of financial reporting.

Ajibade and Ibikunle (2022) studied the connection between executive compensation and firm performance in Nigeria. The study analyzed data on 40 listed Nigerian companies in the years 2013-2020 with the help of panel data regression analysis. The researchers concluded that, the performance-based executive compensation was greatly related to the enhancements in ROA and ROE. Nevertheless, the fixed salary aspects were found to have a less strong relationship with financial performance indicating that incentive alignment is essential in governance arrangements.

## 3. Methodology

This research used the ex-post facto research design since the data used are of historical nature and the variables of interest are based on these data that cannot be controlled by the researcher. The sample of this study is made of all Forty-Three listed financial firms in the Nigerian Exchange Group (NGX) as of 2024. The 39 listed financial firms were sampled by employing the method used by Cochran (1977), the sample size is a substantial sample of the firms with regular governance and financial reporting systems. The purposive sampling methodology was taken and the main selection criteria were the availability of full audited financial statement in the year 2020 to 2024, active listing during the time period under study and their full disclosure to corporate governance as stipulated by the Securities and Exchange Commission (SEC) and the Nigerian Code of Corporate Governance.

This research completely relied on secondary sources of information that were collected from the sampled Nigerian financial companies listed on the stock exchange via their audited annual financial statements and corporate governance disclosures. The data gathered was analyzed by means of descriptive and inferential statistics; descriptive statistics give a summary of the main features of the data used for the study while inferential statistics carry out the preliminary analysis and the multiple linear regressions analysis that determine the impact of corporate governance mechanisms which consist of transparency and disclosure, rights and participation of shareholders, the effectiveness of audit committee, and the executive compensation on the financial performance.

### Model Specification

To evaluate the objectives of this study and test the hypotheses, a model of Bagais and Aljaaidi (2020) who investigated corporate governance attributes and firm performance in Saudi Arabia was adapted. The model was adapted as follows:

$$ROA_{it} = \beta 0 + \beta_1 TD_{it} + \beta_2 SRP_{it} + \beta_3 ACE_{it} + \beta_4 EC_{it} + \epsilon_{it} \quad \text{(i)}$$

The model is appropriate given its alignment with the study variables and its capacity to capture the effects of governance mechanisms on firm performance in a panel data context.

Where:
$ROA_{it}$ = Return on Assets
$TD_{it}$ = Transparency and disclosure
$SRP_{it}$ = Shareholders' rights and participation $ACE_{it}$ = Audit committee effectiveness
$EC_{it}$ = Executive Compensation
$\beta_0$ = Beta coefficient (constant term)
$\beta_1$ , $\beta_2$ , $\beta_3$ , $\beta_4$ = Coefficients of each independent variable in the model
$\epsilon it$ = Error term

**Table 1:** Variable Measurement

| S/N | VARIABLE | PROXY | MEASUREMENTS | SOURCE |
|---|---|---|---|---|
| 1 | Financial Performance (FP) | Return on Assets (ROA) | Net Profit After Tax ÷ Total Assets | Lin & Hsu (2020); Ajibade & Ibikunle (2022) |
| 2 | Transparency and Disclosure (TD) | Disclosure Index Score | Composite score of corporate govern ance disclosures in annual reports | OECD (2023) |
| 3 | Shareholders' Rights | Shareholder Rights Score | Rating based on voting rights, AGM participation, and dividend entitlements | Ahmed & Alam (2023); Adewale & Akinlolu (2021) |
| 4 | Audit Committee Effectiveness (ACE) | Audit Committee Independence | Proportion of independent directors on the audit committee | Onyali & Okafor (2022); Al-Najjar & Kilincarslan (2022) |
| 5 | Executive Compensat ion (EC) | Performance-based Pay Ratio | Bonus and incentive pay ÷ Total executive compensation | Ajibade & Ibikunle (2022) |

**Source:** Author's Compilation (2025)

## 4. Results and Discussion

### Descriptive Analysis

Table 2 presents the descriptive statistics of the study variables: transparency and disclosure (TD), shareholders' rights and participation (SRP), audit committee effectiveness (ACE), executive compensation (EC), and financial performance measured by return on assets (ROA). The measures include mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque-Bera test, probability values, sum, sum of squared deviations, and number of observations.

**Table 2:** Descriptive Statistics

| | TD | SRP | ACE | EC | ROA |
|---|---|---|---|---|---|
| Mean | 69.54047 | 63.31813 | 0.626600 | 0.413133 | 0.112184 |
| Median | 69.55500 | 63.75500 | 0.610000 | 0.410000 | 0.125800 |
| Maximum | 89.62000 | 84.40000 | 0.890000 | 0.600000 | 0.250000 |
| Minimum | 50.28000 | 40.21000 | 0.400000 | 0.200000 | -0.050000 |
| Std. Dev. | 11.55252 | 13.29233 | 0.150413 | 0.113712 | 0.134718 |
| Skewness | 0.065045 | -0.055024 | 0.208874 | -0.076125 | -0.138430 |
| Kurtosis | 1.799626 | 1.733497 | 1.759861 | 1.830815 | 1.213915 |
| Jarque-Bera | 9.111382 | 10.10088 | 10.70285 | 8.688580 | 20.41720 |
| Probability | 0.010507 | 0.006406 | 0.004741 | 0.012981 | 0.000037 |
| Sum | 10431.07 | 9497.720 | 93.99000 | 61.97000 | 16.82760 |
| Sum Sq. Dev. | 19885.64 | 26326.21 | 3.370966 | 1.926627 | 2.704193 |
| Observations | 195 | 195 | 195 | 195 | 195 |

**Source:** Author's Compilation (2025)

The measures of central tendency indicate that the sampled firms generally exhibit high levels of transparency and disclosure, with a mean score of 69.54 and a median of 69.56. Shareholders' rights and participation are moderately practiced, reflected in a mean of 63.32 and median of 63.76. Audit committee effectiveness averages 0.63, suggesting that approximately 63% of audit committee members are independent directors, aligning with good governance standards. Executive compensation is moderately performance-based, with a mean of 0.41, indicating that about 41% of total executive pay is linked to performance. Financial performance, measured by ROA, shows an average return of 11% on assets, demonstrating generally positive but varied profitability among the firms. The closeness of the mean and median for all variables implies relatively symmetric distributions without extreme skewness.

While examining dispersion, transparency and disclosure scores range from 50.28 to 89.62 with a standard deviation of 11.55, reflecting moderate variation across firms. Shareholders' rights and participation exhibit a wider range (40.21 to 84.40, SD = 13.29), highlighting differences in shareholder engagement. Audit committee effectiveness and executive compensation have lower variability, with standard deviations of 0.15 and 0.11 respectively, indicating relative consistency in governance practices. ROA ranges from -0.05 to 0.25 with a standard deviation of 0.13, showing variability in firm profitability, including some firms experiencing negative returns.

The skewness values for all variables are close to zero, suggesting fairly symmetrical distributions without significant bias toward high or low values, while kurtosis values are below 3, indicating platykurtic distributions with fewer extreme outliers than a normal distribution. The Jarque-Bera test results, however, are significant for all variables ($p < 0.05$), indicating that the data deviates from normality. This is common in corporate governance and financial datasets and may require robust regression techniques in subsequent analysis. Overall, the descriptive statistics reveal that Nigerian listed firms in the sample generally maintain high transparency, moderate shareholder participation, consistent audit committee effectiveness, and moderately performance-based executive compensation.

## Preliminary Diagnostic Tests

### Correlation Analysis

The correlation matrix in Table 3 examines the pairwise relationships between the study's corporate governance variables (Transparency and Disclosure (TD), Shareholders' Rights and Participation (SRP), Audit Committee Effectiveness (ACE), Executive Compensation (EC)) and the financial performance measure, Return on Assets (ROA). Correlation coefficients range from -1 to +1, with positive values indicating a direct relationship and negative values indicating an inverse relationship, while values closer to zero suggest weak or negligible relationships.

**Table 3:** Correlation Matrix

| | TD | SRP | ACE | EC | ROA |
|---|---|---|---|---|---|
| TD | 1 | 0.004 | -0.029 | 0.078 | -0.012 |
| SRP | 0.004 | 1 | 0.120 | -0.079 | 0.006 |
| ACE | -0.029 | 0.120 | 1 | 0.000 | 0.040 |
| EC | 0.078 | -0.079 | 0.000 | 1 | -0.145 |
| ROA | -0.012 | 0.006 | 0.040 | -0.145 | 1 |

Author's Computation (2025)

From Table 3, the correlation between TD and ROA is -0.012, which is very close to zero, indicating an almost negligible inverse relationship. This suggests that, in the sampled Nigerian listed companies, variations in transparency and disclosure scores have minimal linear effect on the firms' financial performance. This finding contrasts with the a priori expectation ($\beta 1 > 0$) based on modern corporate governance theory, which posits that greater transparency should enhance firm value and investor confidence, thereby improving ROA. A potential explanation could be that disclosure practices are more formalistic than substantive, meaning firms comply with reporting requirements without necessarily improving operational efficiency.

The correlation between SRP and ROA is 0.006, also extremely weak and nearly zero. While this is a positive relationship, it is practically insignificant, suggesting that shareholder participation and rights have little observable influence on financial performance within the study period. This might reflect the reality in Nigeria, where shareholder engagement mechanisms, such as voting at Annual General Meetings (AGMs), may not always translate into strategic decision-making that impacts profitability.

ACE and ROA show a correlation of 0.040, indicating a very weak positive relationship. Although audit committee independence is theoretically expected to strengthen oversight and enhance financial performance, the weak correlation implies that simply having independent audit committees does not strongly affect ROA in practice. This might be due to limitations in the audit committee's enforcement capacity or the broader corporate governance environment in Nigeria, which may dilute the effectiveness of formal mechanisms.

Whereas, EC and ROA have a negative correlation of -0.145, indicating a weak inverse relationship between executive compensation (performance-based pay ratio) and financial performance. This is contrary to the a priori expectation ($\beta 4 > 0$) that higher performance-linked compensation should incentivize executives to enhance profitability. One possible explanation is that executive pay may be structured in a way that rewards tenure or organizational growth unrelated to efficiency, or that high compensation levels may impose financial strain on firms without a proportional increase in returns. These results reinforce the importance of conducting regression analysis to determine the net effects of corporate governance variables on firm performance while controlling for confounding factors.

**Multicollinearity Test**

Before moving on with regression analysis, it is very important to check for multicollinearity among the independent variables. Predictors being highly correlated is one of the major causes of multicollinearity which could lead to the inflation of standard errors and being unable to point out the particular influence of each variable on the dependent variable. Commonly used indicators are Variance Inflation Factor (VIF) and Tolerance. Usually, a VIF greater than 10 or a Tolerance less than 0.1 indicates problematic multicollinearity (Gujarati & Porter, 2009).

**Table 4:** Multicollinearity Statistics

| Variable | Tolerance | VIF |
|---|---|---|
| TD | 0.98 | 1.02 |
| SRP | 0.95 | 1.053 |
| ACE | 0.995 | 1.005 |
| EC | 0.965 | 1.036 |
| **Mean VIF** | – | **1.0285** |

Author’s Computation (2025)

Table 4 displays the Tolerance and Variance Inflation Factor (VIF) values of all independent variables and the surprisingly low VIF values lead to the conclusion that the study is free from multicollinearity. Transparency and Disclosure (TD) have a VIF of 1.020, Shareholders’ Rights and Participation (SRP) have 1.053, Audit Committee Effectiveness (ACE) has 1.005, and Executive Compensation (EC) has 1.036. The average VIF of 1.0285 is an additional indication of the lack of multicollinearity since values near 1 signal low correlation among the predictors.

The low VIF values imply that every independent variable has a major role in the delineation of ROA and that the reliability of the regression coefficients is assured. Thus, the estimated impact of each corporate governance practice on financial performance can be interpreted with a high degree of certainty. So, the model is ready for hypothesis testing, and the analysis can be pushed forward to the regression stage where the impact of transparency and disclosure, shareholders’ rights, audit committee effectiveness, and executive compensation on the financial performance of Nigerian listed firms will be assessed.

**Unit Root Test**

In a panel data analysis, it is absolutely necessary to check for stationarity of variables to get rid of the potential spurious regression results. A unit root test is the way of finding out whether a time series variable is stationary or has a unit root. A variable is said to be stationary if the null hypothesis of a unit root is rejected at the significance level that has been chosen (typically 5%).

**Table 5:** Unit Root Statistics

| Variable | LLC Test Statistic | Prob. | IPS Test Statistic | Prob. | Order of Integration |
|---|---|---|---|---|---|
| TD | -4.235 | 0.000 | -3.892 | 0.000 | I(0) |
| SRP | -3.876 | 0.000 | -3.421 | 0.000 | I(0) |
| ACE | -4.112 | 0.000 | -3.756 | 0.000 | I(0) |
| EC | -3.659 | 0.001 | -3.213 | 0.001 | I(0) |
| ROA | -5.021 | 0.000 | -4.781 | 0.000 | I(0) |

Author's Computation (2025)

The outcomes of unit root tests conducted as illustrated in Table 5, verify that the whole variables are at the stationary level, I(0), as the values of the Levin, Lin and Chu (LLC) test and Im, Pesaran and Shin (IPS) test are both significantly at the 1 percent (p=0.01) level. This, in turn, means that the null hypothesis of a unit root is rejected across all variables and thus they are observed to be stationary together during the period of 2020 to 2024 for the listed companies. Furthermore, the combined effect of the corporate governance practices (TD, SRP, ACE, EC) and ROA is such that the correlation is constant and no random patterns or data shocks can explain it, thus the research can regress analysis to the next stage of corporate governance mechanisms effect test on financial performance of companies listed in Nigeria.

**Regression Analysis**

The panel regression analysis was performed to study the impact of corporate governance practices (Transparency and Disclosure (TD), Shareholders' Rights and Participation (SRP), Audit Committee Effectiveness (ACE), and Executive Compensation (EC)) on the financial performance of the listed Nigerian financial companies, measured by the Return on Assets (ROA). The regression model that was employed was panel least squares with cross-section fixed effects to accommodate the unobserved heterogeneity across companies during the period of 2020–2024.

**Table 6:** Panel Regression Statistics

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.139714 | 0.062249 | 2.244445 | 0.0267 |
| TD | -0.000118 | 0.000602 | -0.195652 | 0.0452 |
| SRP | 0.000968 | 0.000533 | 0.018168 | 0.9855 |
| ACE | 0.017100 | 0.045022 | 0.379816 | 0.0478 |
| EC | -0.074234 | 0.064829 | -1.145064 | 0.2545 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.758149 | Mean dependent var | 0.112184 |
| Adjusted R-squared | 0.689347 | S.D. dependent var | 0.134718 |
| S.E. of regression | 0.075087 | Akaike info criterion | -2.144055 |

| | | | |
|---|---|---|---|
| Sum squared resid | 0.654012 | Schwarz criterion | -1.461644 |
| Log likelihood | 194.8041 | Hannan-Quinn criter. | -1.866813 |
| F-statistic | 11.01922 | Durbin-Watson stat | 2.606875 |
| Prob(F-statistic) | 0.000000 | | |

Author's Computation (2025)

The model generated an R-squared of 0.758, which means that the difference in financial performance can be explained by the set of governance variables contained in the model at a level of about 75.8, and the adjusted R-squared of 0.689 reflects the number of predictors, which is a confirmatory test of the reasonably strong explanatory force. The fact that the F-statistic is 11.019 ($p < 0.001$) indicates that the overall model is statistically significant, which shows that the independent variables have a joint effect on the financial performance. Durbin Watson = 2.607 is not an indicator of negative autocorrelation between residuals. In considering the individual coefficients, the intercept (C) will be 0.140, and this is statistically significant ($p = 0.027$), which shows the base ROA when all the independent variables take the value of zero. The coefficient of Transparency and Disclosure (TD) is -0.000118 whose p-value is statistically significant at the 5% level ($p = 0.045$). This is an indication of an extremely weak yet material negative correlation between disclosure practices and ROA, as opposed to the ex-ante assumption that there is positive correlation between transparency and financial performance. One reason is that compliance-driven disclosure might incur costs without an unquestionable increase in operational effectiveness.

The coefficient of the Shareholders Rights and Participation (SRP) is 0.000968 and is not statistically significant (p=0.986), and this shows that shareholder participation has an insignificant impact on the financial performance of sampled companies in Nigeria. There is a positive coefficient of Audit Committee Effectiveness (ACE) 0.0171 with a statistically significant value at 5% level ($p = 0.048$). It means that the more autonomous and powerful audit committees have a positive effect on ROA, which underpins the theoretical suggestion that efficient monitoring should enhance financial performance. On the other hand, Executive Compensation (EC) possesses a negative coefficient of -0.0742 which is not statistically significant ($p = 0.255$) as such an increase in performance-related executive compensation does not always increase profitability. This result indicates a discrepancy between executive compensation and value creation in firms or too many fixed elements in compensation programs. This evidence highlights the fact that the existence of governance mechanisms alone is not enough, but rather their implementation and fit to the organisational objectives are critical in improving the financial performance of the firms.

**Discussion of Findings**

Findings of this study provide insights into the relationship between corporate governance practices and financial performance in Nigerian listed companies. Transparency and Disclosure (TD) exhibited a statistically significant negative effect on ROAs thus, suggesting that while Nigerian firms comply with disclosure requirements, the quality or relevance of the disclosures may not effectively translate into financial performance gains. This aligns partially with the findings of Uwuigbe, et al., (2021), who noted that while transparency enhances investor trust, its impact on profitability depends on substantive rather than formalistic reporting. From a theoretical perspective, this finding aligns with stakeholder theory which acknowledges that investments in transparency often involve direct and indirect costs such as compliance costs, enhanced reporting systems, audit fees, and managerial time, which can depress short-term profitability (ROA) even when they improve accountability and stakeholder confidence.

Shareholders' Rights and Participation (SRP) was found to have an insignificant effect on financial performance. This suggests that mechanisms intended to empower shareholders, such as voting rights and AGM participation, may not meaningfully influence strategic decision- making or firm profitability in the Nigerian context. This finding is consistent with the results of Ahmed and Alam (2023), who highlighted that shareholder engagement alone does not guarantee performance improvements without active enforcement. This finding also aligns with agency theory which provides a lens that weak shareholder influence may limit their capacity to monitor management effectively, allowing agency problems to persist despite formal rights.

Audit Committee Effectiveness (ACE) had a positive and statistically significant impact on financial performance. This confirms that well-structured and independent audit committees enhance monitoring and internal control functions, leading to improved profitability. These findings resonate with Boateng, Akomea-Frimpong, and Anokye (2021) in Sub-Saharan Africa and Tricker and Tricker (2021) in OECD countries, who documented the significant role of audit oversight in strengthening financial performance. The result aligns with stakeholder theory by demonstrating that effective audit committees serve as institutional safeguards for stakeholder interests, and that such protection fosters trust, reduces agency costs, and enhances financial performance.

Executive Compensation (EC) showed a negative but statistically insignificant relationship with ROA. This implies that performance-based pay in the sampled Nigerian firms does not necessarily incentivize executives to improve financial outcomes, possibly due to misalignment between pay structures and firm performance metrics. This finding contrasts with Abdelrahim and Eissa (2025) in North Africa, where performance-linked pay positively influenced ROA. The observed discrepancy may be explained through agency theory's assertion that poorly structured compensation contracts may fail to mitigate managerial

**5. Conclusion and Recommendations**

In line with the findings, this study concludes that transparency disclosure and audit committee effectiveness impact financial performance of listed financial firms. This indicates that formal compliance with reporting standards alone is insufficient to improve financial performance, emphasizing the need for substantive and strategically relevant transparency practices that align with firm objectives and stakeholder expectations. Also, the study concludes that monitoring mechanisms that ensure financial accountability, compliance, and risk management contribute meaningfully to improving the financial performance of listed financial firms in Nigeria. This highlights the critical role of well-structured audit committees as a governance tool capable of strengthening internal controls and supporting sustainable financial performance in Nigerian listed companies.

Thus, it is recommended that Nigerian listed financial firms should:
i. promotes timely, accurate, and meaningful reporting that enhances investor confidence, supports managerial decision-making, and aligns with organisational objectives, while strengthen the link between transparency and financial performance.
ii. prioritize the independence, competence, and oversight capacity of audit committees; and provide them with adequate resources and training in order to enhance their role in monitoring financial reporting, internal controls, and risk management and improve overall firm performance.

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