Table of Contents

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Corporate Governance Mechanisms and the Financial Performance of Nigerian Companies

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Abstract

All business organizations have vision, mission and organisational objectives. Which is geared towards improved performance and survival thus forming the driving force behind the decisions made by its management team. The organizational objectives of the company is what deterimnes the type of structure the company puts in place in an attempt to achieve the set objectives. Corporate governance has been acliamed to be a major tool for enhancing corporate image, reduce missapropriation of fund, attract investors as well as improve the performance of the company. This study however examines the role of corporate governance mechanisms on the financial performance of listed companies in Nigeria. Using return on asset (ROA) as a proxy for financial performance, the weighted fixed effect regression method of analysis was used to determine the type of relationship that exists between the corporate governance variables and financial performance of Nigerian companies. The study found that there is a significant positive relationship between board composition and management ownership with financial performance of Nigerian companies. There is a significant negative relationship between audit committee size, block ownership and duality of chairman and ceo position with financial performance of Nigerian companies. This study therefore recommends that regulators of business entities in Nigeria should consider the corporate governance variables and their impact on the financial performance of listed companies in Nigeria as the businesses are major instruments for improving economic development and attracting foreign investment.

Keywords: Financial Performance, Corporate Governance Mechanisms, Nigerian Companies

Introduction

The various financial scandals around the world and the collapse of major companies shook investors' faith in the capital markets and the effectiveness of existing corporate governance practices in promoting transparency and accountability in companies (Kajola, 2008), the question on how good corporate governance can be entrenched into corporations across the globe has lingered on, as well as questions relating to the effect of corporate governance on firm performance.

Principal objective of most profit oriented private business entities is profit maximization, (Oyejide & Soyibo, 2001) while the investment objective of any investor is maximization of returns on investment, which can only be achieved when the company invested in makes enough profit, thus maximizing the assets employed through returns on assets. To achieve the objective of profit maximization, several factors must be put in place, with high emphasis on the quality of the