

Governance Mechanism, Financial Reporting Quality and Value of Listed Non-Finance Firms in Nigeria

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Abstract

The study examined the impact of governance mechanisms namely board independence, board gender diversity, board executive compensation, and financial reporting quality on firm value of listed non-finance firms in Nigeria. Data covering a period of 10 years (2015 to 2024) from 75 non-finance listed firms formed the sample of the study. Panel data regression analysis was used for estimation. Findings show that board gender diversity, board executive compensation, and financial reporting quality were significantly related to earnings yield as a proxy for firm value. Also, board independence showed a positive but not significant relationship with earnings yield. It was recommended that managers of firms should put in effort in ensuring fair representation of facts in the financial reports as these directly influence managerial capabilities for investment as reflected in earnings yield. The study also has implications for board executive compensation as this relates positively with earnings yield.

Key words: Earnings yield, Board Independence, Executive Compensation, Board Gender Diversity, Firm value

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I. Introduction

Competition has increased in today's globalised market, due to the lowering of trade barriers, proliferation of technology, and the decline in the cost of communication and transportation. The complexity of company's governance in relation to maximizing the value of the firm and by extension the wealth of its shareholders has been the subject of debates in light of changes in the global market (Otuya et al, 2023). Improving the value of the firm is crucial because shareholders' wealth in the firm increases when the value of the firm increase. This is what attracts investors to invest in a company. The firm value is not created automatically by itself but through management's efforts. To ensure that management fulfils its responsibilities, a good governance mechanism is needed to regulate the relationship between its boards. Implementing corporate governance will encourage organizations to manage resources so that they are reflected in the performance and value of the firm.

According to Omesi and Appoah (2021), varying attributes of corporate board interact to influence financial performance and by extension the value of firms. Previous literature identifies a number of relationships binding corporate governance and firm value (Ahmad et al., 2021; Akporien et al. 2022). The assertion is grounded in the foundational idea that corporate governance has the potential to deter opportunistic conduct and undue risk-taking by managerial personnel. The board of directors, entrusted with resource allocation, performance enhancement, and shareholder wealth augmentation, plays a pivotal role in determining the approach to corporate financial management. Hence, entities characterized by distinct governance frameworks may adopt varied approaches to financial management.

Additionally, this association persists even with the incorporation of corporate governance metrics, which are anticipated to temper the potential consequences of information asymmetry between shareholders and management in finance related matters. Abu (2022) asserts that a robust corporate governance mechanism can mitigate agency issues linked to corporate planning by minimizing the information gap between management and shareholders.

The quality of financial reporting is another factor that is considered very crucial to every management since the only means by which outside shareholders and investors keep themselves informed about the level of the firm is through the disclosure of the reports (Olumide et al., 2015). Despite the benefits of financial reporting, there are different reasons which have been advanced for the presentation of misleading financial statements which may range from the demand for higher returns by shareholders, and the quest to maintain a giant corporate status in

the eye of the business community or sporadic changes in competition, and the need to satisfy the greed of company's insiders (Shehu, 2013). Egbunike and Okerekeoti (2018) posited that financial reporting quality is one of the characteristics which have significant role in explaining firm level earnings quality because they are variables that affect the firm's decision both internally and externally.

The research gap in this study is the inconsistency of the previous research. Various studies show that corporate governance's influence can increase the firm value (Adeleke & Okere, 2024; Imang et al., 2024; Otuya & Ikhu-Omoregbe, 2024; Setiawanta, 2019). In contrast, study by Segoro and Mutakin (2017) revealed that corporate governance, represented by institutional ownership, does not significantly impact the firm value. Meanwhile, a number of studies on the relationship between financial reporting quality and firm value have produced mixed results too. Abd-Elnaby et al. (2021) revealed that financial reporting quality has a significant positive impact on ROE, while it has a significant negative impact on EPS. On the other hand, some studies such as Ngunjiri (2017) and Lopes et al. (2011) found that there is a negative relationship between financial reporting quality and corporate financial performance. The conflicting results therefore stand as a motivating factor to conduct this research and fill the gap and thus contribute to literature.

The remainder of the paper is organised as follows: Section two focuses on the literature review and hypotheses development. Section three addresses the methodology with emphasis on model specification. Section four presents the estimation result and discussion of findings. Section five concludes.

II. Literature Review and Hypothesis Development

Firm value

Firm value is a benchmark for a company's value that measures shareholder wealth. The wealth of shareholders increases as the company's value rises and it is calculated as the difference between assets and liabilities (Wolfe & Sauaia, 2003). The value of a company is crucial because it indicates greater shareholder wealth and higher stock prices, both of which increase the value of the company. Growing the business value is what shareholders want because it indicates greater wealth for the shareholders. The stock price represents the wealth of the company and its shareholders as a function of finance, asset management, and investment decisions. The company's long-term goal is to increase the firm value. The owners' level of wealth serves as a proxy for the high business value. The firm's value itself provides insight into the level of prosperity enjoyed by investors and shareholders. This implies that the company's finance manager's success is measured by the firm value. From the investors' perspective, a higher stock price will result in a greater firm value as well because firm value is typically correlated with stock price. Maximizing assets or business value is one of the company's primary objectives. Earnings yield reflects the ability to reliably predict a firm's earning capacity. In this study earnings yield serves as proxy for firm value.

Governance Mechanism and Firm Value

Corporate governance mechanism includes all attributes of a board that contribute to the discharge of its fiduciary responsibilities of directing the firm towards generating value for all stakeholders. Existing literature reveals that several characteristics of the board have been studied in relation to firm value and other aspects of performance. For example, board size, board independence, board expertise, board composition and board diversity have been studied along with various aspects of performance or firm value (Karim et al., 2022; Amaqtari et al., 2022; Thomas, 2016). Previous studies provide evidence of some relationships between board characteristics and firm value. Generally, while providing support to existing theories, studies also produce conflicting evidence.

Board Independence and Firm Value

Board independence refers to the extent to which members of a company's board of directors are free from conflicts of interest, personal relationships, or other influences that could compromise their ability to make objective decisions in the best interest of the company and its shareholders. Benefits of board independence includes improved oversight, better decision making, and can enhance the company's credibility with investors, customers, and other stakeholders. The relationship between board independence and firm value have produced mixed findings in the literature. For example, studies suggest that board independence has a positive impact on firm value. An empirical analysis by Otuya et al. (2019) found a positive connection between board independence and firm financial performance, indicating that companies with more independent boards tend report better return on equity which, in turn, can contribute to improved firm value. However, study by Amrinder (2017) found an inverse relationship between board independence and firm value of group-affiliated firms in India which contend that effective monitoring by outside directors is largely influenced by the institutional

setting and ownership structure. Salem et al. (2019) also revealed that board independence, and gender diversity to be positively and significantly related to firm value in a comparative study of the USA and Egypt. In view of the foregoing, we postulate our first hypothesis thus:

Board independence does not have a significant relationship with firm value

Executive Board Remuneration and firm value

The pay and benefits that top-level executives, including CEOs and other board members, get in exchange for their services to a firm are referred to as executive board remuneration. Basic wages, incentives, stock options, and grants or awards that vest over time, such performance shares or restricted stock units, are just a few examples of the components that may be included in this compensation package. Empirical researchers have frequently employed principal agent theory to explain how the compensation of the agent (director) and the benefit of the principal (shareholders) relate to the success of the company. The relationship between executive board compensation and corporate value has been the subject of conflicting research. For example, Kutum (2015) found nonsignificant relationship exists between CEO remuneration and bank performance in Canadian Banks. Also, Ming and Hooy (2009) examined a sample of government-linked companies (GLCs) from 2001-2006 and found a negative relationship between directors' remuneration and company performance (measured by lagged return on equity). Jaafar et al. (2012) discovered a favorable correlation between firm performance and the compensation of directors. According to Jaakko et al. (2024), the possibility of establishing an internal audit role is increased when board members receive high salary. Considering the aforementioned, we offer our second hypothesis as follows:

Executive board remuneration has a significant relationship with firm value

Board Gender Diversity and Firm Value

Gender diversity is part of the broader concept of board diversity. The concept of board diversity suggests that boards should reflect the structure of the society and appropriately represent the gender, ethnicity and professional backgrounds. Boards are concerned with having right composition to provide diverse perspectives (Milliken & Martins, 2016). The link between board gender diversity and firm value has been a subject of intense research. For instance, Sahu et al. (2025), using generalized least squares (GLS) estimation, found that greater representation of women on corporate boards positively influences firm performance, leading to enhanced firm value. Additionally, Ashikul et al. (2023) discovered that masculinity and high power distance lessen the effect of board gender diversity on company success. The power distance index moderates the statistically significant detrimental impact of the gender-diverse board on return on equity (ROE) and return on asset (ROA). In light of this, we propose the following as our third hypothesis:

There is a significant relationship between board gender diversity and firm value

Financial Reporting Quality and Firm Value

Financial reporting quality refers to the accuracy, completeness, transparency, and reliability of a company's financial reports, such as balance sheets, income statements, and cash flow statements. High-quality financial reporting provides stakeholders with a clear and accurate picture of a company's financial position, performance, and prospects. Financial information issued by a company has become an essential resource for any market participant since it provides a reduced amount of information asymmetries between managers, investors, regulatory agencies, society and other stakeholders. Therefore, the question arises, the impact of financial reporting quality on firm performance. Rathnayake et al. (2021) examine the impact of financial reporting quality on firm performance in listed companies in Sri Lanka and found an overall significant relationship for the tested three models where return of assets, return on equity, and market to book ratio were regressed against financial reporting quality. Lopes (2012), also found an inverse relationship between financial reporting quality and financial performance in European countries. Return of Assets (ROA) and Return of Equity (ROE) increased when positive Abnormal Accruals (AA) increased and decreased when negative AA became more negative. Moshi (2016) showed that return on asset has an insignificant positive association with earning management measured by discretionary accruals in manufacturing companies listed at the Dar-es-salaam stock exchange market under correlation and regression analysis. Against the foregoing background, we postulate a fourth hypothesis:

There is a significant association between financial reporting quality and firm value.

III. Methodology

Design, Sampling and Data

The study adopted the panel data research design since it utilized the combination of cross-sectional and longitudinal data. The study's population consists of all publicly listed non-finance companies in Nigeria as at 31 December 2024. The data extracted covers the period 2015 – 2024 from 75 non-finance firms giving a total of 750 firm observations for the panel. Given the nature of this research work, various statistical methods were employed to analyze the data. Preliminary analyses were conducted using the descriptive and correlation and VIF tests. Before proceeding with the regression analysis, a series of residual diagnostics tests were conducted to ensure the validity of the regression assumptions. The null forms of the hypotheses were rejected where the probability values exceed the benchmark of $P = 0.05$.

Theoretical Framework and Model Specification

This study is anchored on the stakeholder's theory. The stakeholder theory has its roots in the 1960s, when scholars and business leaders began to recognize the importance of considering the interests of groups beyond just shareholders. One of the earliest and most influential proponents of stakeholder theory was Stanford Research Institute (SRI) researcher Robert K. Stewart. In the 1960s, SRI conducted research on corporate planning and strategy, which led to the development of the stakeholder concept. The modern stakeholder theory gained significant traction with the publication of R. Edward Freeman's 1984 book, "Strategic Management: A Stakeholder Approach." Freeman (1984) recognized that companies were not just accountable to shareholders, but also to other groups that had a stake in the organization's success. Freeman defined stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives." He argued that companies should prioritize stakeholder interests and engage with them in a proactive and transparent manner.

The theory posits that a company's success and sustainability depend on its ability to manage the interests and needs of various groups and individuals who can affect or be affected by its operations

The theory is considered suitable for this study because it has had a significant impact on business and management practices. It has influenced the development of corporate social responsibility (CSR), sustainability reporting, and stakeholder engagement practices. The theory is closely related to corporate governance, as it emphasizes the importance of considering the interests of all stakeholders in decision-making processes.

Against the backdrop of the above theoretical framework, we express a functional relationship as:

$$FMV = f(BIN, EXE, BGD, FRQ) \text{ ----- (i)}$$

Expressing equation (i) in econometric form and considering the panel nature of the regression data, equation (ii) is transformed as:

$$FMV_{it} = \beta_0 + \beta_1 BIN_{it} + \beta_2 EXE_{it} + \beta_3 BDG_{it} + \beta_4 FRQ_{it} + \mu_{it} \text{ ----- (ii)}$$

Measurement of Variables

Table 1: Operationalisation of Variables

Variables	Code	Measurement	Source
		Dependent variable	
Firm Value	FMV	PAT Market Capitalisation	Akporien et al. (2022)
		Independent Variables	
Board Independence	BIN	No of independent directors	Otuya et al. (2019)
Executive Compensation	EXE	Board size	Amrinder (2017)
		Total emoluments to Executive Directors	Jaakko et al. (2024)
Board Gender Diversity	BGD	Total Administrative Expenses No of Female Directors Board Size	Ashikul et al. (2023) Otuya (2024)
Financial Reporting Quality	FRQ	Discretionary Accruals	Moshi (2016)

Source: Researcher's Compilation (2025)

IV. Results and Discussion

This section provides results from analysis of data collected as well as discussion of the results.

Table 2: Descriptive statistics of variables

Variable	Obs	Mean	Std. Dev	Min	Max
FMV	750	1.069	0.502	0	3.514
BIN	746	67.144	14.846	16.6	94.44
EXE	748	1.278	3.488	0	57.66
BGD	748	1.940	0.095	0	48.56
FRQ	750	0.038	0.044	0	0.477

Source: Researcher's Compilation (2025)

Table 2 presents a descriptive summary of the sampled firms. Firm value had a mean of 1.069 with a standard deviation of 0.502 and ranges between 0 and 3.514. Board independence and executive board compensation had means of 8.973, and 1,278 respectively. Furthermore, board independence had a standard deviation of 14.846 and the range of 16.666 and 94.444 as minimum and maximum values. Board compensation had a standard deviation of 3.488 and its minimum and maximum values lie between 0 and 57.667. Board gender diversity is seen to have a mean of 1.94 with a standard deviation of 0.095 indicating no significant variation. Financial reporting quality had a mean of 0.038 and a standard deviation of 0.044 with minimum and maximum values ranging between 0 and 0.477.

Table 3: Test for multicollinearity using variance inflation factor

Variables	VIF	Tolerance (1/VIF)
BIN	1.81	0.553
EXE	1.08	0.924
BGD	1.43	0.748
FRQ	1.02	0.977
Mean VIF	1.34	

Source: Researcher's Compilation (2025)

The above results indicate the absence of multicollinearity among the independent variables.

Table 4: Hausman Specification Test

H0: difference in coefficient not systematic	
Ch ² (1)	Model
prob> Ch ²	26.77
	0.005
Panel regression based on the fixed effect model	
<i>Source:</i> Researcher's Compilation (2025)	

The result for the Hausman test clearly favoured the fixed effects model. The model is then tested for heteroskedasticity and auto correlation. The results show the presence of both problems in the model. The panel models are then rectified of autocorrelation and heteroskedasticity problems using the robust standard error estimates.

Regression Results and Discussion

Table 5: Panel Regression results based on Fixed Effects model

Variable	Coefficient	Std. error	T	Sig.
Constant	1.400	0.664	2.11	0.035*
BIN	0.002	0.001	1.81	0.071
EXE	0.017	0.005	3.35	0.001**
BDG	0.245	0.067	2.183	0.034
FRQ	0.813	0.387	2.1	0.036*
R ²			0.0334	
F (74,659)			5.68	0.000*
Dependent variable: firm value (earnings yield) significant at *p<0.05, **p<0.10				
<i>Source:</i> Researcher's Compilation (2025)				

Table 5 shows that the R² for fixed effects regression for the Model to be 3.34%. The results show the variation in firm value that is explained by the independent variables. This indicates that 96.59% of possible variations in firm value are not explained by the model and are due to other factors. The *F*-ratio is significant (*F* (74, 659) = 5.68, *P*<0.001) indicating the model fits the data and the independent variables reliably predict firm value. The results of the model estimates are discussed in the following sub sections.

First, board independence, had a non-significant relationship (*p*>0.05) with earnings yield, while board executive compensation and board gender diversity had a significant relationship with earnings yield. This could be the result of the connection between executive compensation and performance as seen in most organizations. Prior studies have reported similar results and others conflicting results see Rodriguez_Fernandez et al. (2014), Amaqtari et al. (2022), and Karim et al. (2022).

As regards financial reporting quality, the results indicated that financial reporting quality had a positive and significant relationship with earnings yield (*p* = 0.036) which is less than the benchmark of 0.05. This shows that as financial reporting quality increases, earnings yield increases. The result showed that there is a positive relationship between financial reporting quality and firm value. Similar results were reported by Osuji and Okwuagwu (2022) who found a positive relationship between the quality of financial reports and firm value. In a related study, Ali (2014) found a positive and significant relationship between financial reporting quality and firm value.

V. Conclusion and Recommendations

The study examined the effect of corporate governance mechanism and financial reporting quality on firm value of listed non-finance firms in Nigeria. Results from the analysis show that study's proxies for governance characteristics were significantly related to earnings yield except for board independence. Also, financial reporting quality shows a positive and significant relationship with firm value (earnings yield). In view of the findings of this study, the study recommends that managers of firms should put in effort in ensuring fair representation of facts in the reported financial reports as these directly influence managerial capabilities for investment as reflected in earnings yield. The study also has implications for board remuneration as this relates positively with earnings yield.

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