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The Relationship Between Corporate Governance And The Performance Of The Nigerian Capital Market From 1998 To 2024

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ABSTRACT
This study is designed to examine the relationship between corporate governance and the performance of the Nigerian capital market from 1998 to 2024. The expost facto research design is adopted for this study and secondary data was collected from the audited annual report of the selected entity used for this study. The population is made up of the regulators of the capital market. The Nigerian Exchange was selected as the sample for this study. Multiple regression was used to analyse the effect of the independent variable (corporate governance) on the dependent variable (performance). The result from the study reveals that board structure has a positive significant effect on the level of performance of the Nigerian Exchange (NGX). Finally, the result of this study shows that board diversity does have an inverse insignificant influence on the performance of the Nigerian Exchange. It is concluded from this study that governance does have a significant influence on the performance of the capital market in Nigeria. It is therefore recommended from this study that an increased quota for independent directorship on the board structure to enhance the performance of the Nigerian capital market.
Keywords: Board features, Board diversity, Board structure, Performance

1. INTRODUCTION

The Nigerian capital market plays an essential role in mobilizing funds, facilitating investment and driving economic growth. It serves as a platform where long-term financial instruments, such as equities and bonds are traded, thereby enabling businesses to raise capital for expansion while providing investors with opportunities to earn returns on their investments. The market is primarily managed by institutions such as the Nigerian Exchange Group (NGX)—currently the fourth-largest stock exchange in Africa with a market capitalization exceeding ₦60 trillion—and is regulated by the Securities and Exchange Commission (SEC) to ensure efficiency and investor protection. Buttressed by the Central Bank of Nigeria's (CBN), Financial Markets Department Annual Activity Report (2020), despite the potential of the market, the performance of the Nigerian capital market has been inconsistent with experiences of rapid growth and sharp decline (Ahmed & Bello, 2015). A major factor influencing market performance is corporate governance, which refers to the systems, principles and processes by which companies are directed and controlled. Sound corporate governance ensures accountability, fairness and transparency in a company's relationship with its stakeholders, including shareholders, employees, customers and regulatory bodies. However, concerns about corporate governance practices among publicly listed companies have raised questions about the effectiveness and stability of the market.

The Nigerian capital market has the potential to drive economic growth by mobilizing savings and facilitating investment. However, its performance has been uneven, with periods of growth followed by sharp declines (Audu, 2020). For instance, Sanusi (2010) reveals that the market experienced significant growth in the early 2000s, driven by banking sector reforms and increased foreign investments. However,

the global financial crisis of 2008 and the subsequent banking sector crisis in Nigeria led to a sharp decline in market performance with the All-Share Index (ASI) falling by over 60% in 2008. While several factors, such as macroeconomic instability and global economic trends have been identified to influence market performance, the role of corporate governance remains underexplored. Poor corporate governance practices, such as weak board oversight, insider abuse and poor disclosure, have been cited as contributing to market inefficiencies and investor distrust. Despite regulatory reforms aimed at improving governance standards challenges such as enforcement gaps and limited stakeholder engagement persist. This study addresses the gap in literature by examining the relationship between corporate governance and the performance of the Nigerian capital market.

A study by Afolabi (2020) on African capital markets found that countries with strong regulatory institutions had a 15 percent higher market capitalization growth rate compared to those with weaker institutions. However, Ogunbiyi and Iheanacho (2021) found that Nigeria's market has low liquidity compared to emerging markets like South Africa and Malaysia. Equally important is foreign competition and market integration as the entry of foreign institutional investors increases competition, bringing global best practices and innovation. However, excessive foreign control can make the market vulnerable to capital flight and external shocks (Akinyemi, 2020). On record, Nigeria's introduction of Alternative Securities Market (ASeM) for smaller firms in 2013 led to a 5 per cent increase in SME listings, enhancing market competition (Osakwe et al., 2020). By providing empirical evidence on this relationship, the study aims to inform policy and practice, contributing to the development of a more efficient and stable capital market in Nigeria. To achieve this the hypothesis below is posed:

H_0: Board feartures has no significant effect on the performance of the capital market in Nigeria.

The remaining part of this study contains the literature review, the methodology, the analysis of data, the discussion of findings, conclusion and recommendation.

2.1. Theoretical Framework

This study is hinged on the signaling theory which was developed by Michael Spence in the 1970s, addresses the issue of information asymmetry between corporate insiders, such as managers and external stakeholders (investors). The theory posits that companies with strong future prospects voluntarily emit credible signals such as dividend payments, independent audits or environmental, social and governance (ESG) disclosures to differentiate themselves from lower-quality competitors. Transparent governance practices, including timely financial reporting serve as effective signals that attract investment and reduce capital costs. A key assumption of the theory is that managers possess superior internal information about the company's performance and prospects. Additionally, for signals to be credible, it must be costly or difficult for other firms to imitate, such as the rigorous process of independent audits.

Markets are assumed to interpret these signals rationally, rewarding credible disclosures with positive reactions and penalising opaque practices. However, the theory faces criticisms, such as the challenge smaller firms face in emitting credible signals due to limited resources, potentially disadvantaging same in competitive markets. There is also the risk of misleading signals, where companies might engage in practices like "greenwashing" to falsely project a positive image, thereby deceiving stakeholders. Despite these criticisms, support for Signaling Theory exists; for instance, dividend announcements frequently lead to stock price adjustments, validating the signaling effect. In Nigeria, firms that adopted voluntary ESG disclosures after 2012 experienced enhanced investor trust, aligning with the theory's predictions. Globally, rigorous audits have been correlated with lower capital costs, reinforcing the premise that credible signals reduce information asymmetry. The relevance of Signaling Theory to this study lies in its ability to explain how governance transparency reduces information asymmetry and fosters investor confidence. The theory also highlights challenges in emerging markets where politically connected firms may resist transparency to maintain control, thereby undermining the efficacy of governance reforms. By framing disclosures as strategic tools, signaling theory elucidates pathways to align corporate behavior with market expectations, which is crucial for Nigeria's efforts to stabilize and enhance its capital market.

2.2. Empirical Review

In the study of Appah and Tebepah (2023) titled *Corporate Governance Mechanisms and Financial Performance of Listed Companies in Nigeria,* it examined Nigerian consumer goods firms (2011–2020) and found that board compensation positively impacted Return on Equity (ROE), while board size and diligence had negative effects, and board independence negatively and significantly affected ROE. From an East African viewpoint, Berhe (2023) investigated Ethiopian commercial banks (2011–2019); found that board composition and gender diversity significantly improved bank performance, whereas larger boards and CEO duality negatively affected outcomes. Adegbayibi and Adelowotan (2024) studied deposit money banks in Nigeria and Ghana (2014–2023); revealed that managerial ownership positively and significantly influenced financial performance in Ghana, underscoring ownership structure's role in governance effectiveness.

Gap in Literature

Although existing studies have examined the influence of macroeconomic variables such as inflation, foreign direct investment, and sector-specific drivers (oil prices and banking reforms) on the performance of Nigeria's capital market, significant gaps remain. Notably, limited research has focused on the distinct role corporate governance plays in shaping market outcomes. Furthermore, there is a sectoral heterogeneity gap, as few studies disaggregate the effects of corporate governance across key industries such as banking and manufacturing, despite differing governance risk profiles. The evolving policy landscape is also underexplored, particularly the transformative impact of fintech innovations, alternative banking models and emerging technologies like artificial intelligence on traditional corporate governance frameworks. This study aims to bridge these gaps by examining the relationship between corporate governance practices and capital market performance in Nigeria.

3 METHODOLOGY

The *ex-post facto* research design is considered suitable for this study. This is determined as a suitable research design because it facilitates the study of historical events. The *expost facto* research design enables the researcher to gather data that already exists from events that have occurred in the past. The population of this study is made up of the regulators of the regulators of the capital market in Nigeria. There are two main regulators of the capital market in Nigeria namely the Securities and Exchange Commission (SEC) and the Nigerian Exchange (NGX). Hence the population of this study is made up of two bodies.

The sampling technique used in this study is purposive sampling technique. As it sets out criteria for the selection of the sample. For this study, the Nigerian Exchange is selected as the sample for this study. The criteria used is due to the volume of transaction that the Nigerian Exchange (NGX) has within its purview. While the Securities and Exchange Commission is responsible for dealings in the primary market which deals with first time issuers of financing instrument, the Nigerian Exchange (NGX) is responsible for the secondary market where returning corporate entities that operate financial instruments operate. Hence, the sample size for this study is one, which is the Nigerian Exchange (NGX) based on the volume of activities in the secondary market, the Nigerian Exchange (NGX) is considered.

Secondary source of data is used in this study as data was extracted from the audited annual report of the Nigerian Exchange (NGX). Multiple regression model is used to examine the effect of corporate governance on the performance of the Nigerian capital market. The model is represented as shown below:

$$PER = a + \beta_1 BSU_i + \beta_2 BDV_i + \xi_i$$

Where:

a = intercept where the independent variable is zero

PER = Performance (Dependent Variable)

B_1BSU = Board Structure (Independent Variable)

B_2BDV_i = Board Diversity (Independent Variable)

ξ_i = Error Term

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

The result of the analysis is as presented below:

Table 1. Regression Result

Estimation Techniques	**Regression Result**			
Dependent Variable: PER	**Coeff.**	**Std. Err**	**T-Stat**	**Prob**
Constant	0.09	0.03	2.66	0.032
BSU	1.6	0.01	3.15	0.016
BDV	-0.04	0.19	-0.12	0.906
R^2	0.64			
Adjusted R^2	0.48			
F-Stat	$F_{(3, 11)} = 4.06$ (0.036)			

Source: Researcher's Computation (2025)

The result is revealed on Table 1. is represented mathematically as shown below:

PER = $0.09 + 1.6 (X) – 0.04 (X) + \xi_i$

The result also shows that board structure has a positive effect on the performance of the Nigerian Exchange (NGX). This means that the higher the number of independent directors on the board, the higher the level of financial performance of NGX.

Finally, the result shows that board diversity does have an inverse influence on the level of financial performance of the Nigerian Exchange (NGX). This means that the higher the number of female directors, the lower the level of financial performance of the NGX and vice-versa.

This result also shows the computed p-value which is used to test the hypotheses in this study. The result of the computed p-value is shown below:

Hypothesis

H_0: Board features have no significant impact on the performance of the capital market in Nigeria.

The computed value from the inferential analysis is 0.0036 which is lower than the set p-value of 0.05. This therefore means that the null hypothesis is rejected and the alternate hypothesis which states that "board features have a significant impact on the performance of the capital market in Nigeria" is accepted.

DISCUSSION OF FINDINGS

The outcome from this study reveals that board structure has a positive significant effect on the level of performance of the Nigerian Exchange (NGX). This means that the higher the number of independent directors, the better the performance of the NGX. This position is in tandem with the position of Ehikioya (2022) who opined that independent directors do have a positive effect on the workings of the capital market. The result also further proves the validity of the agency theory which shows that agent's goal and the principal goal is aligned in the favor of the principal when certain independent actors are maintained to check mate the excesses of the agent. Hence, the independent directors on the board will be able to track management activities based on the reviews done at the board level.

The result of this study also shows that board diversity does have an inverse insignificant influence on the performance of the Nigerian Exchange. This means that the more the level of women on the board, the lower the level of performance. This is contrary to the view of Olayinka and Obigbemi (2020) who opined that governance structures do lead to the enhanced performance of the capital market. Even though the board is a corporate governance structure, the result shows that the issue of gender representation is not crucial in the enhanced performance of the capital market. This position is contrary to the agency theory. However, agency theory addresses the issue of setting up mechanisms to monitor the agents. Summarily, the theory doesn't specify the composition of these structures.

5. CONCLUSION AND RECOMMENDATION

This study is designed to examine the influence of governance on the performance of the capital market. It is concluded from this study that governance does have a significant influence on the performance of the capital market in Nigeria.

Hence, it is recommended that:

i. There should be an increased quota for independent directorship on the board structure to enhance the performance of the Nigerian capital market.
ii. Appointments of directors on the board should not be based on gender sentiments but rather on competency.

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