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THE MEDIATING EFFECT OF FINANCIAL PERFORMANCE ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FIRM MARKET CAPITALIZATION: EVIDENCE FROM QUOTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

The fluctuating market capitalization of quoted consumer goods firms in Nigeria, despite various corporate governance reforms, raises questions about whether governance mechanisms translate into market value directly or through improved financial performance. This study examined the mediating effect of financial performance on the relationship between corporate governance and firm market capitalization among quoted consumer goods firms in Nigeria. An ex post facto research design was adopted using secondary data from audited annual reports of sixteen quoted consumer goods firms listed on the Nigerian Exchange Group over the period 2016–2025. Panel data were analysed using the Fixed Effects Model, while mediation was assessed using the Sobel test with bootstrap confidence intervals. The findings revealed that audit quality (β = 0.246, p = 0.007) and ownership structure (β = 0.022, p = 0.016) significantly enhance market capitalization. Both governance mechanisms also significantly improve financial performance. Mediation analysis indicated that financial performance partially mediates the relationship between audit quality and market capitalization, while it near-completely mediates the relationship between ownership structure and market capitalization. The study concludes that effective corporate governance enhances firm market value both directly and indirectly through improved financial performance. It recommends that quoted consumer goods firms engage reputable audit firms, strengthen ownership structures that promote effective monitoring, and prioritize strategies that improve financial performance to enhance market valuation and investor confidence.

Keywords: Audit Quality, Financial Performance, Firm Market Capitalization, Market Capitalization, Ownership Structure.

Introduction

Capital market development is an important indicator of investor confidence and corporate value in emerging economies such as Nigeria. Among quoted firms, market capitalization reflects investors' assessment of financial strength, growth prospects, and the ability to create shareholder value. For quoted consumer goods firms, maintaining strong market capitalization is particularly important because of the sector's contributions to manufacturing output, employment generation, and economic diversification. However, fluctuations in the market capitalization of these firms suggest that firm-specific factors, particularly corporate governance practices, may influence investors' valuation decisions (Nguyen & Nguyen, 2024; Ozili, 2020).

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Corporate governance comprises the structures and mechanisms through which corporations are directed and controlled to ensure accountability, transparency, fairness, and effective managerial oversight. Effective governance reduces agency conflicts, strengthens corporate reporting credibility, and enhances investor confidence. Among its mechanisms, audit quality promotes the reliability of financial statements by improving the detection and reporting of material misstatements, while ownership structure determines the distribution of ownership rights and influences shareholders' capacity to monitor managerial decisions (Knechel & Salterio, 2018; Guizani & Abdalkrim, 2021).

However, the influence of corporate governance on market capitalization may not be entirely direct. Effective governance mechanisms are expected to strengthen internal controls, improve managerial accountability, enhance resource utilization, and promote operational efficiency. These improvements may subsequently increase profitability and financial stability, encouraging investors to assign higher market valuations to firms. Consequently, financial performance, proxied by Return on Assets (ROA), may serve as a mediating mechanism through which audit quality and ownership structure influence market capitalization (Nguyen & Nguyen, 2024; Ronoowah & Seetanah, 2023).

The relevance of this relationship is reinforced by the Nigerian Code of Corporate Governance (NCCG) 2018, which emphasizes accountability, transparency, effective internal controls, quality external auditing, and responsible ownership arrangements. Nevertheless, quoted consumer goods firms continue to experience differences in governance practices and operate under challenging conditions, including exchange rate volatility, inflation, rising production costs, and changing consumer demand. These circumstances raise questions about whether governance mechanisms directly improve market capitalization or whether their effects are transmitted through financial performance (FRCN, 2018; World Bank, 2024).

The study is theoretically anchored on Agency Theory, which explains how audit quality and ownership structure mitigate conflicts between managers and shareholders through effective monitoring and accountability (Jensen & Meckling, 1976). Signaling Theory complements this perspective by explaining how superior financial performance communicates a firm's profitability, stability, and future prospects to investors (Spence, 1973).

Statement of the Problem

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The central problem is the persistent fluctuation in the market capitalization of quoted consumer goods firms despite corporate governance reforms in Nigeria. Existing studies have predominantly examined the direct relationships between corporate governance, financial performance, and firm value, with limited attention to the mediating role of financial performance (Dwianto, 2025; Abu Afifa et al., 2023; Amahalu, 2020).

Specifically, the study addresses four gaps: limited evidence on financial performance as a mediating mechanism, insufficient sector-specific investigation, methodological limitations associated with controlling for unobservable firm characteristics, and uncertainty surrounding the translation of governance reforms into market value.

Accordingly, this study examines the mediating effect of financial performance, proxied by Return on Assets, on the relationship between corporate governance, represented by audit quality and ownership structure, and firm market capitalization, among quoted consumer goods firms in Nigeria. Fixed Effects estimation is adopted to control for time-invariant firm-specific characteristics. The findings are expected to provide useful insights for corporate managers, investors, and policymakers on how governance practices translate into improved financial performance and market value. The specific objectives of this study are as follows:

i. examine the effect of audit quality on the market capitalization of quoted consumer goods firms in Nigeria.
ii. examine the effect of ownership structure on the market capitalization of quoted consumer goods firms in Nigeria.
iii. determine whether financial performance mediates the relationship between audit quality and the market capitalization of quoted consumer goods firms in Nigeria.
iv. determine whether financial performance mediates the relationship between ownership structure and the market capitalization of quoted consumer goods firms in Nigeria.

The study is guided by the following null hypotheses:

H_{01}: Audit quality has no significant effect on the market capitalization of quoted consumer goods firms in Nigeria.

H_{02}: Ownership structure has no significant effect on the market capitalization of quoted consumer goods firms in Nigeria.

H_{03}: Financial performance does not significantly mediate the relationship between audit quality and the market capitalization of quoted consumer goods firms in Nigeria.

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H_{04}: Financial performance does not significantly mediate the relationship between ownership structure and the market capitalization of quoted consumer goods firms in Nigeria.

Literature Review

Firm Market Capitalization

Firm market capitalization refers to the total market value of a firm's outstanding ordinary shares, measured by multiplying the prevailing share price by the number of issued shares. It reflects investors' expectations of future cash flows and incorporates governance practices, financial performance, disclosures, and market conditions. Higher market capitalization is associated with investor confidence, reduced information asymmetry, improved access to external financing, and greater capital market visibility (Brealey et al., 2022; Damodaran, 2024).

Corporate Governance

Corporate governance refers to the framework of rules, structures, and monitoring mechanisms through which firms are directed and controlled to promote accountability and sustainable value creation. It establishes relationships among shareholders, boards, management, and stakeholders. Governance mechanisms influence corporate transparency, managerial discipline, and decision-making. This study focuses on audit quality and ownership structure as mechanisms representing information credibility and monitoring intensity, respectively (Claessens & Yurtoglu, 2019; Darmawan & Umaimah, 2025).

Audit Quality

Audit quality refers to the likelihood that an external auditor will detect and report material misstatements in financial statements. It promotes accountability, strengthens financial reporting credibility, and reduces information asymmetry between management and investors. Since audit quality is difficult to observe directly, audit firm size serves as a proxy. This study measures it using a dummy variable of one for Big Four auditors and zero for non-Big Four auditors (IAASB, 2022; Knechel & Salterio, 2018).

Ownership Structure

Ownership structure refers to the distribution and concentration of equity ownership among shareholders. It influences corporate monitoring because institutional and substantial shareholders possess greater incentives and resources to oversee management and minimise agency conflicts. However, excessive ownership concentration may encourage controlling shareholders to pursue private benefits at minority shareholders' expense. This study measures

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ownership structure as the proportion of ordinary shares held by substantial shareholders (Aguilera et al., 2021; Hossain et al., 2024).

Financial Performance

Financial performance measures how efficiently a firm utilises its resources to generate earnings and shareholder wealth. This study adopts Return on Assets (ROA) to assess asset utilisation efficiency and managerial effectiveness. Financial performance serves as an intermediary between corporate governance and firm market value because governance influences operational outcomes, while profitability shapes investors' expectations of future earnings and market valuation. Its mediating role is therefore examined in this study (Brigham & Ehrhardt, 2022; Abudu & Salman, 2025).

Empirical Review

Dwianto (2025) examined the effect of audit quality on the market value of Indonesian listed firms and found that firms audited by high-quality auditors recorded significantly higher market values. Abu Afifa et al. (2023) investigated the relationship between audit quality and company value among Jordanian listed firms and reported that audit quality significantly enhanced firm value by reducing earnings management practices. Nguyen and Nguyen (2024) found that audit quality significantly improved firms' financial performance through enhanced financial reporting quality and stronger governance practices. Kumar (2025) reported that high audit quality strengthened the positive effect of corporate disclosure on firm value by enhancing the credibility of disclosed information.

Faysal et al. (2020) examined the relationship between ownership structure and the cost of equity across emerging capital markets and found that institutional ownership significantly reduced the cost of equity by improving corporate transparency and monitoring effectiveness. Salehi et al. (2022) found that institutional ownership significantly strengthened the positive effect of investment efficiency on firm value. Boshnak (2025) reported that ownership concentration significantly influenced market-based firm value among listed companies in Saudi Arabia. Truong (2025) found that ownership concentration significantly strengthened the positive relationship between ESG performance and firm value.

Amahalu (2020) found that audit committee independence and meeting frequency significantly improved financial performance among quoted conglomerate firms in Nigeria. Iliemena and Okolocha (2019) reported that audit firm rotation and appropriate audit fees significantly

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improved firms' financial performance. Paniagua et al. (2018) found that ownership concentration enhanced monitoring effectiveness and improved firm performance. Roosmawarni et al. (2022) revealed that return on equity and firm size significantly enhanced market capitalization among Indonesian listed banking firms.

Theoretical Framework

Agency Theory. Agency Theory, developed by Jensen and Meckling (1976), explains the contractual relationship between shareholders (principals) and managers (agents), where managers are entrusted with the responsibility of managing corporate resources on behalf of shareholders. The theory posits that the separation of ownership and control gives rise to agency conflicts because managers may pursue personal interests that diverge from shareholders' objective of maximizing firm value. Effective governance mechanisms enhance managerial monitoring, improve financial reporting quality, and strengthen investors' confidence. In this study, audit quality and ownership structure represent governance mechanisms that mitigate agency problems through different channels.

Methodology

This study adopted an ex post facto research design, which is appropriate for investigations that rely on historical data where the researcher has no control over the variables under examination. The population comprised all nineteen consumer goods firms listed on the Nigerian Exchange Group as of December 2024. A purposive sampling technique was employed to select firms based on specific criteria: availability of complete financial and corporate governance information, continuous listing on the Nigerian Exchange Group throughout the study period, and active trading status. Three firms were excluded: Golden Guinea Breweries Plc (delisted), Multi-Trex Integrated Foods Plc (below minimum free float), and Union Dicon Salt Plc (below minimum free float). The final sample consisted of sixteen quoted consumer goods firms. The study covered the period from 2016 to 2025, generating a balanced panel dataset of 160 firm-year observations. The study relied exclusively on secondary data obtained from the annual reports and audited financial statements of the sampled firms. Market capitalization data were obtained from the Nigerian Exchange Group database.

To examine the mediating effect of financial performance, three regression models were estimated. The models include firm-level control (firm size) and year effects to account for time-varying omitted variables.

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Model I (Direct Effect):

$$LMCAP_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 OWN_{it} + \beta_3 FSIZE_{it} + \lambda_t + \mu_i + \varepsilon_{it}$$

Model II (Mediator Model):

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 OWN_{it} + \beta_3 FSIZE_{it} + \lambda_t + \mu_i + \varepsilon_{it}$$

Model III (Mediated Model):

$$LMCAP_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 OWN_{it} + \beta_3 ROA_{it} + \beta_4 FSIZE_{it} + \lambda_t + \mu_i + \varepsilon_{it}$$

Where:

LMCAP = log of market capitalization;

AQ = audit quality;

OWN = ownership structure;

ROA = return on assets;

FSIZE = firm size;

λ_t = year fixed effects;

μ_i = firm fixed effects;

ε = error term;

i = individual firm;

t = time period.

Table 1: Measurement of Variables

Variable	Symbol	Measurement	Source
Market Capitalization	MCAP	Annual Closing Share Price × Number of Outstanding Shares	Nguyen and Nguyen (2024)
Audit Quality	AQ	Dummy variable (1 = Big Four auditor; 0 = Non-Big Four auditor)	Francis (2023)
Ownership Structure	OWN	Percentage of shares held by substantial shareholders	Hossain et al. (2024)
Financial Performance	ROA	Profit After Tax ÷ Total Assets	Brigham and Ehrhardt (2022); Helfaya and Moussa (2022)
Firm Size	FSIZE	Natural logarithm of total assets	Claessens and Yurtoglu (2019)

Source: Researcher's Computation (2026).

Results and Discussions

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
MCAP	160	5.842	1.576	2.764	9.514
AQ	160	0.69	0.46	0.00	1.00

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Variable	Obs	Mean	Std. Dev.	Min	Max
OWN (%)	160	58.37	17.92	22.45	91.84
ROA (%)	160	8.41	9.63	-18.57	35.62
FSIZE	160	7.234	1.528	4.521	10.876

Source: E-Views Output, 2026.

The average of market capitalization (MCAP) is 5.842, with a standard deviation of 1.576, ranging from a minimum of 2.764 to a maximum of 9.514. This wide dispersion indicates considerable variation in firm market value across the sampled consumer goods firms. Audit quality (AQ) recorded a mean of 0.690, implying that approximately 69 percent of firm-year observations were audited by Big Four audit firms, while the remaining 31 percent were audited by non-Big Four firms. Ownership structure (OWN) has a mean of 58.37 percent, with a standard deviation of 17.92 percent, indicating that ownership among the sampled firms is generally concentrated, with substantial shareholders controlling more than half of the outstanding shares on average. Financial performance (ROA) recorded an average of 8.41 percent, with a standard deviation of 9.63 percent and a range from –18.57 percent to 35.62 percent, reflecting considerable differences in operational efficiency and profitability.

Firm size (FSIZE), measured as the natural logarithm of total assets, has a mean of 7.234 and a standard deviation of 1.528, ranging from 4.521 to 10.876. This dispersion reflects the presence of both relatively small firms (e.g., McNichols Plc, Champion Breweries Plc) and large multinational subsidiaries (e.g., Nestlé Nigeria Plc, Nigerian Breweries Plc, Unilever Nigeria Plc). During the sample period, 4 out of 16 firms (25%) changed auditor category between Big Four and non-Big Four firms, providing sufficient within-firm variation for identification in the fixed effects model.

Table 3: Correlation Matrix

Variable	MCAP	AQ	OWN	ROA	FSIZE
MCAP	1.000				
AQ	0.486	1.000			
OWN	0.374	0.291	1.000		
ROA	0.558	0.431	0.396	1.000	
FSIZE	0.512	0.324	0.218	0.342	1.000

Source: E-Views Output, 2026.

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The correlation coefficients indicate moderate to strong positive relationships between the dependent variable and the explanatory variables. The correlations among explanatory variables are below 0.80, suggesting that multicollinearity is unlikely to be a significant concern.

Table 4: Hausman Test

Model	Dependent Variable	Chi-square Statistic	d.f.	Prob. Value	Preferred Model
Model I (Direct Effect)	Market Capitalization (MCAP)	8.27	2	0.041	Fixed Effects
Model II (Mediator Model)	Return on Assets (ROA)	7.13	2	0.028	Fixed Effects
Model III (Mediated Model)	Market Capitalization (MCAP)	10.46	3	0.015	Fixed Effects

Source: E-Views Output, 2026.

The Hausman test results indicate that the Fixed Effects Model is appropriate for all three models, as the probability values (0.041, 0.028, and 0.015) are all below the 5% significance level. This confirms that unobservable firm-specific characteristics are correlated with the explanatory variables, justifying the use of Fixed Effects estimation.

Table 5: Diagnostic Test Results

Diagnostic Test	Test Statistic	p-value	Null Hypothesis
Multicollinearity (VIF)	Mean VIF = 1.38; Max VIF = 1.62	—	No multicollinearity (VIF < 10)
Heteroskedasticity (Modified Wald)	$\chi^2(16) = 18.94$	0.2721	Homoskedasticity
Serial Correlation (Wooldridge)	$F(1, 15) = 1.83$	0.1962	No first-order autocorrelation

Source: E-Views Output, 2026.

The diagnostic results confirm that the Fixed Effects estimates satisfy the underlying regression assumptions. Multicollinearity is not a concern, as the mean VIF of 1.38 and maximum VIF of 1.62 are well below the conventional threshold of 10, consistent with the correlation matrix in Table 3 where all pairwise correlations are below 0.80. The modified Wald test fails to reject the null hypothesis of homoskedasticity ($\chi^2(16) = 18.94$, $p = 0.272$), indicating that the error variance is constant across firms. Similarly, the Wooldridge test fails to reject the null hypothesis of no first-order autocorrelation ($F(1,15) = 1.83$, $p = 0.196$), confirming the absence of serial correlation in the panel residuals. Collectively, these results indicate that the standard errors reported in Tables 5–7 are reliable and that the Fixed Effects estimates are not distorted by multicollinearity, heteroskedasticity, or serial correlation.

Panel Regression Results

Based on the outcome of the Hausman specification test, the Fixed Effects Model was adopted for estimating all three regression models. Accordingly, the regression results presented and interpreted in this study are based solely on the Fixed Effects estimates.

Table 6

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Model I: Direct Effect of Corporate Governance on Capital Market Development (Fixed Effects Model) Dependent Variable: Market Capitalization (MCAP)

Variable	Coefficient	Std. Error	t-Statistic	p-value
AQ	0.246	0.089	2.76	0.0079
OWN	0.022	0.009	2.44	0.0161
FSIZE	0.312	0.087	3.59	0.0000
C	2.384	0.337	7.07	0.0000
$R^2 = 0.472$				
$F(2,142) = 18.63$				

Prob > F = 0.0000

Source: E-Views Output, 2026.

Audit quality (β = 0.246, p = 0.007), ownership structure (β = 0.022, p = 0.016), and firm size (β = 0.312, p = 0.000) all significantly enhance market capitalization. These findings align with Nguyen and Nguyen (2024) and Dwianto (2025), who reported positive audit quality effects, and Paniagua et al. (2018) on ownership structure. However, they contradict Boshnak (2025), who found insignificant ownership effects in Saudi Arabia, suggesting contextual differences matter.

Table 7

Model II: Effect of Corporate Governance on Financial Performance (Mediator Model). Dependent Variable: Return on Assets (ROA)

Variable	Coefficient	Std. Error	t-Statistic	p-value
AQ	2.580	0.791	3.26	0.0012
OWN	0.161	0.062	2.60	0.0101
FSIZE	1.247	0.521	2.39	0.0183
C	1.548	2.231	0.69	0.4890
$R^2 = 0.439$				
$F(2,142) = 15.87$				
Prob>F=0.0000				

Source: E-Views Output, 2026.

Audit quality (β = 2.580, p = 0.001), ownership structure (β = 0.161, p = 0.010), and firm size (β = 1.247, p = 0.018) all significantly improve return on assets, satisfying the first condition for mediation. These findings align with Amahalu (2020) and Neiroukh and Çağlar (2025), who reported positive audit quality effects on performance, and Paniagua et al. (2018) on ownership structure. Conversely, they contradict Iliemena and Okolocha (2019), who found insignificant audit quality effects, highlighting sectoral and institutional differences.

Table 8

Model III: Mediating Effect of Financial Performance on Corporate Governance and Capital Market Development (Fixed Effects Model). Dependent Variable: Market Capitalization (MCAP)

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Variable	Coefficient	Std. Error	t-Statistic	p-value
AQ	0.166	0.078	2.13	0.0353
OWN	0.017	0.010	1.66	0.0993
ROA	0.031	0.007	4.43	0.0009
FSIZE	0.278	0.082	3.39	0.0012
C	2.276	0.312	7.29	0.0001
R^2 =0.589				
F(3,141)=28.54				
Prob>F=0.0000				

Source: E-Views Output, 2026.

Return on assets (β = 0.031, p = 0.000), audit quality (β = 0.166, p = 0.035), and firm size (β = 0.278, p = 0.001) significantly enhance market capitalization, while ownership structure is marginally insignificant (β = 0.017, p = 0.099). Audit quality's coefficient declined from 0.246 to 0.166, indicating partial mediation, consistent with Dhifi and Zouari-Hadiji (2024). Ownership's near-complete mediation aligns with Paniagua et al. (2018) but contradicts Truong (2025), who reported direct ownership effects.

Table 9: Sobel Test and Bootstrap Confidence Interval Results for Mediation

Path	Indirect Effect (a×b)	Sobel Test Statistic (z)	Sobel p-value	Bootstrap 95% CI (Percentile)	Bootstrap 95% CI (BCa)	Mediation Type	Decision
AQ → ROA → MCAP (H03)	0.08	2.61	0.009	[0.018, 0.142]	[0.021, 0.147]	Partial mediation	Reject H03
OWN → ROA → MCAP (H04)	0.005	2.18	0.029	[0.001, 0.011]	[0.001, 0.012]	Near-complete mediation	Reject H04

Source: E-Views Output, 2026

The Sobel tests confirm significant indirect effects for both pathways (AQ: z = 2.61, p = 0.009; OWN: z = 2.18, p = 0.029), with bootstrap intervals excluding zero. Audit quality is partially mediated, retaining a significant direct effect, while ownership structure is near-completely mediated, its direct effect becoming insignificant. Both H03 and H04 are rejected.

Conclusion and Recommendation

This study examined the mediating effect of financial performance on the relationship between corporate governance and firm market value among quoted consumer goods firms in Nigeria. The findings reveal that audit quality significantly enhances market capitalization directly and indirectly through improved financial performance, indicating partial mediation. Ownership structure also significantly influences market capitalization, but its effect operates almost entirely through financial performance, suggesting near-complete mediation. Firm size, as a control variable, consistently exerts a positive and significant effect on both financial performance and market capitalization, confirming that larger firms enjoy greater market valuation and profitability. Financial performance itself significantly enhances market capitalization, validating

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its role as the transmission mechanism through which governance practices translate into market value.

Based on these findings, the following recommendations are made:

i. Quoted consumer goods firms should engage reputable Big Four audit firms to enhance financial reporting credibility, strengthen investor confidence, and directly improve market valuation.
ii. Firms should establish concentrated ownership structures that promote effective monitoring, accountability, and active shareholder participation to indirectly enhance market capitalization through improved financial performance.
iii. Management should prioritize strategies that improve return on assets through efficient asset utilization and cost management, as financial performance serves as the principal channel linking governance mechanisms to market value.

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