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EFFECT OF INSTITUTIONAL QUALITY ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN NIGERIA

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Abstract

The *improvement of a company's financial capability mirrors how adequate management utilizes firm resources. This provides investors information about the company's general financial and economic condition. Using a sample of 20 companies from 2012 to 2023, this study assesses the association between institutional quality and the financial success of listed companies in Nigeria. The World Development Indicators' six governance metrics are used to evaluate the quality of institutions, especially those that deal with law enforcement and the reduction of official corruption. According to empirical findings from an Auto-Regressive Distributed Lag (ARDL) panel analysis, the financial performance of Nigerian companies is positively but marginally impacted by the composite institutional index. This subtle positive link extends to specific indicators such as voice and accountability, government effectiveness, the rule of law, regulatory quality, and control of corruption. Conversely, the study indicated that both political stability and the rule of law surprisingly exert a significant and negative influence on the financial health of these businesses. From the analyzed data, it can be deduced that Nigerian companies' financial performance is a reflection of the widespread problem of low institutional quality. As a result, it is advised that the Nigerian government step up its efforts to improve institutional quality nationwide*.

Key Words: Corruption, Government effectiveness, Political Stability, Rule of Law, Regulatory quality; Voice and Accountability; financial performance

Introduction

Several factors significantly contribute to creating the ideal atmosphere required for Nigerian businesses to grow and prosper over the long run, especially in terms of their financial performance Lehner et al. (2023). Exogenous variables like institutional efficacy and political stability have been shown to have strongly influence financial results. The efficacy of audit committees, board size and its composition, the educational attainment of directors, and instability can severely hinder investment growth, as countries with fragile institutions, poor governance, and ineffective regulatory frameworks often experience sluggish economic progress (Wanjiru & Prime, 2020; Ogbuabor et al., 2020).

The efficiency with which management utilizes corporate resources is often evident in a firm's financial growth (Muhammad et al., 2023). When a nation's overall financial performance improves, the

economy of that nation gains significant advantages (Naser & Mokhtar, 2018). As a result, an institutional

perspective can be used in analyzing the variations in business financial performance between nations. It is necessary to distinguish between nations with weak institutions and those with strong institutions. When comparing developed and developing nations, the institutional economics hypothesis explains that the former adopts and create institutional arrangements more robustly than the latter. Financial performance and government efficacy are significantly correlated. Financial performance can be positively impacted by an efficient government that streamlines processes, lowers costs, and improves service delivery. Better public investments and services are made possible by sound policies, which also improve financial stability. Accountability is encouraged by an efficient government, which results in sound financial management and heightened public trust.

This study adds to the expanding academic discourse that explores how institutional shifts influence financial outcomes at the firm level (Eldomiaty et al., 2023). While much of the existing literature on institutional quality in Nigeria focuses on its impact on macroeconomic factors like economic growth, foreign direct investment or poverty reduction, this study examines the firm-level financial performance of publicly listed companies. More precisely, the current investigation aims to ascertain the potential influence of institutional quality on the Return on Assets (ROA) achieved by companies publicly listed in Nigeria.

Literature Review

Financial performance

Financial performance describes how effectively a firm allocates and controls its financial resources to generate revenue and achieve strategic objectives (Jogaratnam et al., 2020). In the modern world, this idea is crucial for any organisation since it makes it easier to assess their capacity to achieve their objectives and gives them a better understanding of their financial goals. Crucial financial documents, including the income statement, balance sheet, and cash flow statement, function as essential instruments for assessing a company's financial well-being during a designated reporting cycle. (Performance Indicators, FasterCapital, 2024). According to Gitman and Zutter (2021), stakeholders can utilize these statements to evaluate the organization's financial status, identify opportunities for enhancement, and make knowledgeable financial choices.

Financial ratios, which examine several facets of the business's finances to ascertain

its profitability, liquidity, solvency, and efficiency, are a unique means for an organisation to assess its financial performance. When assessing financial performance, financial measures including debt-to-equity, net profit margin, return on investment (ROI), return on assets (ROA), and current ratio are essential (Hawawini et al., 2020). By providing information about an organization's profitability, efficiency, liquidity, and financial status, these indicators help pinpoint areas that require improvement and support the making of wise financial decisions.

However, financial indicators like the price-to-earnings (P/E) ratio, earnings per share (EPS), and dividend payout ratio prove highly valuable in assessing financial performance and are crucial for assessing financial success (Besley & Brigham, 2020). Investors and other stakeholders can learn about the organization's financial stability, profitability, and prospects for the future from these indicators. In order to make informed financial decisions, pinpoint areas for development, and guarantee long-term financial stability and success, financial performance is a crucial idea in financial management. Many internal and external factors are impacted, including business strategy, industry trends, managerial choices, and economic situations. Organisations must thus regularly assess their financial performance and modify their strategy in order to preserve financial stability and achieve long-term success.

Rule of law and financial performance

As highlighted by Haggard et al. (2018), a robust rule of law is fundamental because it guarantees the safeguarding of property rights, secures commercial dealings, and underpins the financial resilience of businesses. These elements are, in turn, indispensable for cultivating a supportive and growth-oriented business climate. Vu et al. (2019) articulate that the concept of the rule of law is multifaceted, comprising several key components. These include the dependability of contract enforcement, the assurance of property rights, the effectiveness of law enforcement agencies, the functioning of the judicial system, and the general threat level posed by crime and violence. Regarding contract enforcement, Dixit and Pindyck (2022) show that a lack of effective enforcement affects investment in a number of ways, raising the degree of uncertainty and risk associated with commercial endeavors.

These legal and institutional shortcomings tend to elevate the cost of doing business, thereby negatively affecting a company’s financial performance (Jabr, 2023). Moreover, Roxas et al. (2021) emphasize that weak commitment to the rule of law

can hinder innovation and significantly reduce the financial viability of firms.

Voice and accountability and financial performance

Voice and accountability essentially describe the degree to which a populace can openly articulate their viewpoints and actively participate in the governance of their society (Iheonu, 2019). This includes activities such as voting, contesting elections, and contributing to public debates and political discussions. Voting, running for office, and participating in political discourse are all included. The freedom to voice one's thoughts without worrying about persecution, participation of community organizations and non governmental organizations (NGOs) in governance. This is significant because it fosters transparency and strengthens democratic governance, improves public services by fortifying the bond between the people and their government. Strong accountability and voice can improve public institutions' financial performance by guaranteeing that money are used efficiently and openly. The public is more inclined to support fiscal policies that improve financial stability when they believe that their leaders are accountable. To promote efficient governance and sustainable development, financial performance, voice, and accountability are all essential. Through their interaction, a more robust and adaptable socioeconomic environment is produced.

Political stability and financial performance

Businesses must have a secure environment free from political unrest in order to grow and achieve strong financial results. Political risk, according to Ha and McAleer (2020), is a non- business risk that is solely brought about by political forces. According to Meyer et al. (2021), political instability poses a serious threat to both the operations and financial stability of businesses. Because of political violence, the rise of extreme poverty, corruption, unstable governments, and wealth concentration, political risk is typically rather high in Africa. Therefore, political risk becomes an unavoidable factor when businesses expand their operations in developing regions like Africa. Terrorist activities can negatively affect a company’s profitability and overall financial performance, depending on their frequency and severity, which could also contribute to political instability (Simser, 2021). Larobina and Pate (2019), terrorism aims to disrupt and destroy enterprises. Therefore, in order to stabilise the world economy, governments must work to eradicate terrorism from the country. There is broad consensus that terrorism has a significant impact on travel demand.

Regulatory quality and financial performance

Government regulations are assessed based on several factors, including excessive bureaucracy, regulatory inefficiencies, the level and nature of taxation, as well as the presence of discriminatory tax policies (World Bank Report, 2019). Numerous studies have shown that bureaucratic shortcomings raise the needless expenses that businesses incur while doing business with the government. Governments in emerging economies have been shown to impose regulatory restrictions that have a significant effect on businesses, particularly those that use more energy and have delicate environmental effects. The influence of corporate taxes, which are governed by sovereign institutions significantly affect businesses and detrimental effect on financial performance (Nwezeaku et al, 2021).

Government effectiveness and financial performance

Numerous factors contribute to government efficacy, including infrastructure, primary education quality, bureaucratic quality, and system satisfaction (Husna & Satria, 2019). Government effectiveness is the degree to which the government creates and carries out good policies, the ability of the civil service, and the caliber of public services. It includes multiple dimensions. These include the effectiveness and dependability of services like infrastructure, healthcare, and education that are offered to the public; the capacity to create and implement appropriate policies that meet societal demands; and the professionalism and competence of public employees, all of which have an impact on how well government runs. Financial performance and government efficacy are both essential for public welfare and sustainable development. Because of their interconnection, good governance practices are essential for improving service delivery and financial health, which in turn promotes a more resilient society.

Control of corruption and financial performance

According to Calhoun (2019) corruption is often defined as the improper use of authority to further personal benefit. In the context of government governance, corruption is understood as the act of influencing government officials through illicit means to secure personal financial or non-financial benefits (Jensen et al., 2020). The widespread occurrence and observable link between corporate entities and governmental corruption in certain countries can often be attributed to a deficit in the transparency of public laws, regulations, and operational procedures (Eldomiaty et al., 2023).

Stated differently, companies operating in more corrupt contexts tend to adjust their liquidity management strategies by maintaining lower cash reserves and, consequently, increasing their reliance on debt for financing (Eldomiaty et al., 2023). Research has also shown that crime and corruption make businesses less competitive (Athanasouli et al., 2018.) Lui (2020), corruption enables businesses to overcome bureaucracy, rules, or unclear, complicated processes in order to accomplish their objectives. Thus, businesses will be able to "grease the wheels" or shorten the time required to complete tasks, which will boost business expansion and enhance financial performance (Kalyuzhnova & Belitski, 2019).

Empirical review

Eldomiaty et al. (2023) investigate how institutional quality affects firm-level financial performance from 2017 to 2020. Non-financial companies registered on stock markets in MENA and G8 nations are included in the statistics. There are 347 and 389 businesses in the G8 and MENA regions, respectively (Eldomiaty et al., 2023). The research reveals a significant and favorable connection between the robustness of institutions within G8 countries and critical financial metrics. This includes how effectively assets are utilized, the efficiency of cost management, the availability of liquid assets, and the reliance on debt for funding. Liquidity and profitability are strongly and favorably correlated with institutional quality in the MENA region, while asset efficiency, cost containment, and debt financing are negatively correlated.

Elvis et al. (2023) investigated the relationship between the standard of institutions and the differing levels of financial development observed across nations in Sub-Saharan Africa (SSA). To substantiate various correlations, the researchers employed the limited information maximum likelihood (LIML) estimation technique (Abaidoo & Agyapong, 2022). Results show that, when everything else is equal, institutional quality accelerates the subregion's financial development. A micro-level analysis of the individual elements comprising the institutional quality index reveals that effective governance, effective regulatory frameworks, the consistent application of the rule of law, and a strong sense of accountability all provide substantial backing for the expansion of the financial sector.

Abaidoo and Agyapong (2022) looked into how different Sub-Saharan African (SSA) economies' levels of financial development relate to the quality of their institutions. Many nexuses are checked empirically with

the limited information maximum likelihood (LIML) estimation technique (Abaidoo & Agyapong, 2022). The findings demonstrate that, under normal circumstances, the rate of financial maturity across the economies of the subregion is accelerated by institutional quality (Abaidoo & Agyapong, 2022). The findings of an additional micro-level analysis, which examines the different elements of the institutional quality index independently, show that regulatory quality, accountability, effective governance, and the rule of law all have a generally positive influence on the financial sector's progress (Basyariah et al., 2021).

Nguyen (2022) assessed the regional impacts of institutional quality on business success using data from Vietnam. The study employs the Spatial Durbin Model (SDM), which uses data from enterprise surveys carried out in the Vietnamese provinces between 2011 and 2018 to test hypotheses. The results of the study show that company performance in a community is directly impacted by the quality of its institutions, while firms in neighboring communities are indirectly impacted. Businesses in different areas often compete and work together in addition to their geographical interactions. The results also show that the overall factor productivity of Vietnamese enterprises is negatively impacted by informal charges, and that business profitability is positively impacted by the control of corruption.

Majdi and Rim (2021) explored whether the connection between firm performance (FP) and corporate social responsibility (CSR) is influenced by institutional quality. A sizable sample of 814 European businesses was used in the study, which covered the years between 2008 and 2017. Using the system generalised method of moments, endogeneity and heterogeneity concerns were addressed. Karmani and Boussaada (2021) conducted an assessment using an equally-weighted measure across four key areas of Corporate Social Responsibility (CSR). Their findings indicated that CSR's influence on financial performance (FP) was not only positive but also substantial, contributing significantly to a company's economic, social and overall success. Additionally, the study found that institutional quality played an important part, as corruption greatly reduced FP, whereas law, order and government stability had a positive impact (Haque, 2024). The findings indicated that the relationship between institutional quality and CSR was advantageous to FP (Majdi & Rim 2021).

A study by Toluwa (2021) explored the influence of both institutional quality and economic freedom on the financial performance of banks across a selection of

African countries. This research utilized the System Generalized Method of Moments (GMM) for its estimations, drawing data from prominent sources such as the World Development Indicators, the Heritage Foundation, and the BankFocus database (Brimmo, 2024). The findings revealed a statistically significant and positive effect of economic freedom on the financial capacity of these banks, evidenced by a P-value of 0.005 and a coefficient of 0.0248672 (Toluwa, 2021). Likewise, institutional quality was found to exert a positive and significant impact, with a P-value of 0.006 and a coefficient of 0.4109569 (Toluwa, 2021). Ahmed et al. (2020) examined the moderating role that institutional quality plays within the relationship between environmental quality and financial development within South Asia. Their investigation analysed panel data collected from five South Asian nations, India, Bangladesh, Nepal, Sri Lanka, and Pakistan, covering the period from 1984 to 2018. Panel data from five South Asian nations—India, Bangladesh, Nepal, Sri Lanka, and Pakistan—spanning the years 1984–2018 were examined in the study. The results showed that the region's CO_2 emissions rose as a result of financial growth, indicating that South Asian nations had used financial development more for capitalisation than for advancements in manufacturing technologies. Additionally, the study found that the detrimental effects of economic development on environmental sustainability were mitigated by institutional quality. Based on these findings, the authors suggested that enhancing institutional quality could contribute to promoting sustainable development in South

Asia.Khan et al. (2020) looked into the link between financial development and institutional quality in developing and emerging nations. Stronger institutions are essential for financial growth, according to the study's experimental results, which are based on GMM. The study's global panel specifically concludes that financial development benefits from political stability, effective rules, and the prevention of corruption. The fact that financial growth is negatively affected by the rule of law demonstrates its weakness in the majority of nations worldwide. The financial growth of emerging and global panels is favourably influenced by the control of the corruption index, implying that most nations have eradicated corruption to a modest degree.

The effects of the company's audit committee (AC), management ownership (MO), percentage of independent commissioners (PoIC), board of directors (BoD), and board of commissioners (BoC) on the financial performance of manufacturing were assessed by Riyadh et

al. (2020). Riyadh et al. (2020) conducted a study across 189 nations, utilizing a panel data set and various linear methodologies including fixed effect, random effect, dynamic models, and generalized method of moments (GMM) estimators. Their findings indicated that while the audit committee and the proportion of independent commissioners showed no significant influence on a firm's financial achievements, the board of directors, the board of commissioners, and managerial ownership did indeed have a noticeable impact. Ojeka et al. (2019) investigated how 135 Nigerian listed businesses' performance was affected by perceptions of corruption and institutional quality between 2013 and 2017. Their analysis leveraged the Generalized Method of Moments (GMM), incorporating data from the Transparency International Corruption Perception Index and World Bank governance indicators (Gulamhussen et al., 2012). The outcomes of this research revealed that both the perceived levels of corruption and the quality of institutions had a detrimental effect on firms' market value (Tobin's Q) and their accounting performance (ROA). Further analysis revealed that non-financial institutions are more adversely impacted, likely due to less stringent regulatory oversight compared to financial institutions. The authors recommend implementing robust mechanisms to combat corruption and strengthen institutional frameworks in Nigeria.

Rippel and Valouch (2019) undertook an investigation into how corporate governance practices influenced the financial outcomes of companies based in the Czech Republic. The study's objective was to use Fixed Effects and Generalised Estimation Equation approaches to examine the connection in corporate governance and the financial success of Czech businesses (Jabr, 2023). The study discovered a statistically significant positive difference between financial performance and corporate governance, suggesting that businesses with strong corporate governance may do better financially in economies that are changing, such as the Czech Republic (Rippel and Valouch 2019).

Gabriela et al. (2019) employed a multiple regression analysis to explore the link between corporate governance practices and the financial achievements of state-owned enterprises in Romania. Their primary goal was to determine the extent to which corporate governance impacted the financial results of these Romanian entities. The research concluded that good corporate governance policies exert a positive and significant influence on financial success. This suggests that sound corporate governance can lead to tangible monetary

benefits for state-owned businesses in Romania (Gabriela et al., 2019).

In a separate but related study, Abdulhamid et al. (2019) investigated the relationship between corporate governance and the financial performance of companies listed on the Nigerian stock exchange. They utilized a fixed-effect panel regression model for their analysis. The core objective of their study was to examine this specific connection within the context of Nigerian publicly traded firms (Niazi et al., 2021). The findings of their research indicated that corporate governance has a substantial and beneficial effect on financial performance. This implies that adopting and adhering to strong corporate governance principles could indeed bolster the financial standing of Nigerian listed companies (Abdulhamid et al., 2019).

Ogechukwu et al. (2019) conducted research focusing on the connection between corporate governance practices in Nigeria and the financial outcomes of the nation's listed banks. Their primary aim was to use multiple regression analysis to understand this relationship. The study's conclusions indicated that sound corporate governance significantly and positively impacts financial success. This suggests that Nigerian banks listed on the stock exchange could enhance their financial performance by consistently adhering to robust corporate governance principles.

Methodology

This study analyses existing data in order to investigate the correlations between variables using an ex-post facto research design. The study is guided by the following hypotheses:

H_0 : Institutional quality has no significant positive influence on the financial performance of listed companies in Nigeria.

H_1 : Institutional quality has a significant positive influence on the financial performance of listed companies in Nigeria As of December 31, 2023, the Nigerian Exchange Group recorded a total of 169 companies whose shares were publicly traded. Time series data from 20 of these companies a 12-year period (2012–2023) was used. Secondary data was obtained from the CBN statistical bulletin. To guarantee that the results were reliable, only businesses having at least fifteen years of data were included; businesses that lacked any of the characteristics required for the study were also excluded. The data underwent analysis using a range of statistical approaches. These included multiple regressions, performed with the E-Views econometrics software package, alongside correlation analysis, descriptive statistics, and the Augmented Dickey-Fuller (ADF) test

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List of Sample Size (Quoted firms)

Abbey Mortgage	Guinness Nig Plc.	Nascon Allied Industries Plc.	Presco Plc
Cadbury	Honeywell Flour Mill	Nestle Nigeria	Union Dicon Salt
Champion	Juliusberger Plc	Nigerian Brew.	Unilever Nigeria
Dangote Sugar	Livestock Feeds	Oando Plc	UH Real Estate Investment Trust
E-Tranzact International	Mcnichols Plc.	Okomu Oil Palm	UPDC Real Estate

Author's compilation, 2024.

List of Variables of Measurement

Variables	Acrimo	Measurement	Source
Financial Performance			
Return on Asset	ROA	Return on Asset for the firms sampled is calculated by dividing Profit after Taxation by Total assets of the firm	Annual Report
Political Instability and Violence	POL	Political Instability and Violence Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe	World Bank
Government Effectiveness	GOV	Government Effectiveness Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe delinquent.	World Bank
Regulatory Quality	RQ	Rule Quality Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe problematic.	World Bank
Rule of Law	RL	Rule of Law Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe delinquent.	World Bank
Voice and Accountability	VAC	Voice and Accountability Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe problematic	World Bank
Control of Corruption	COC	Control of Corruption Index ranging from -2.5 to 2.5. For Robustness, we reverse the index ranging 0–10 with higher value depicting severe Problematic	World Bank

Source: Authors' compilation, 2024

Model Specification

This study adapted the work of Abdulhamid et al. (2019). Therefore, the functional model which directly captures the objectives of this study is structured as

$ROA = f(COC, GOV, POL, RL, RQ, VAC)$

Where *COC* represents Control of Corruption, GOV represents government effectiveness, *POL* is Political Stability, *RL* is Rule of Law, RQ is regulatory quality and *VAC* represents Voice and Accountability and making ROA (Return on Assets) as proxy of financial performance.

Thus, the model is specified in parametric econometric model as

$ROAit = \beta 0 + \beta 1COCit + \beta 2GOVit + \beta 3POLit + \beta 4RLit + \beta 5RQit + \beta 6VACit + \varepsilon it$

Where:

ROA = Return on Asset.

$\beta 0$ = constant

β1-6 = the parameters representing the marginal effect of each independent variable

ε = the error term

it = the present time

i = the subscript

Presentation and Analysis Results

	ROA	COC	GOV	POL	RL	RQ	VAC
Mean	0.0066	2.766667	2.916667	1.116667	3.083333	3.216667	3.983333
Median	0.0525	2.800000	3.000000	1.200000	3.200000	3.200000	3.900000
Maximum	6.1743	3.000000	3.400000	1.400000	3.400000	3.600000	4.400000
Minimum	-19.6435	2.400000	2.600000	0.800000	2.800000	2.600000	3.600000
Std. Dev.	1.3944	0.160195	0.207932	0.223451	0.191157	0.251633	0.276963
Skewness	-11.2205	-0.670872	0.448766	-0.209616	-0.337477	-0.662554	0.149550
Kurtosis	167.7851	3.260870	3.395338	1.687494	1.925587	4.005919	1.636562
Jarque-Bera	276577.2	18.6833	9.6186	18.9842	16.0991	27.6778	19.4842
Probability	0.0000	0.0001	0.0082	0.0001	0.0003	0.0000	0.0001
Sum	1.578861	664.0000	700.0000	268.0000	740.0000	772.0000	956.0000
Sum Sq. Dev.	464.6809	6.1333	10.3333	11.9333	8.7333	15.1333	18.3333
Observations	240	240	240	240	240	240	240

Source: Authors' Computation (2024)

From the presented table, Voice and Accountability (VAC) exhibits the highest mean value, followed in descending order by Regulatory Quality (RQ), Rule of Law (RL), Government Effectiveness (GOV), Control of Corruption (COC), Political Stability (POL), and finally, Return on Assets (ROA). Interestingly, six of these variables, all except Government Effectiveness (GOV) and Voice and Accountability (VAC), display negative skewness, indicating a longer tail extending towards the left of their distributions. Skewness, in essence, quantifies the asymmetry of the data's spread around its average. The standard deviation, on the other hand, illustrates the degree of volatility within the dataset.

Regarding Kurtosis, which measures the "tailedness" of the distribution relative to a normal distribution, the results show that three variables are platykurtic (values less than three, implying flatter distributions), while five variables are leptokurtic (values greater than three, indicating more peaked distributions with fatter tails). The low Jarque-Bera probability, being less than 0.05%, leads to the rejection of the null hypothesis that the variables are normally distributed. This suggests that the distributions of these variables deviate significantly from a normal bell curve.

Correlation Matrix

	ROA	COC	GOV	POL	RL	RQ	VAC
ROA	1						
COC	0.0174	1					
GOV	0.0437	0.4187	1				
POL	0.0986	0.6701	0.4263	1			
RL	-0.0039	0.6376	0.0912	0.5551	1		
RQ	-0.0105	-0.4844	-0.0373	-0.6300	-0.7249	1	
VAC	-0.0382	0.5910	-0.1405	0.0856	0.3425	-0.2361	1

Source: Authors' Computation (2024)

The correlation matrix show correlation between the variables. RL, RQ and VAC show a negative relationship with ROA. COC, RL and VAC show a negative relationship with ROE. On the same table, other variables show positive relationship with ROA. they all show weak

relationship with the dependent variables ROA.

Unit Root- Levin, Lin & Chut Test

VARIABLE	Levin, Lin & Chu t/Statistics	Probability	Remark
At Level			
ROA	7.09032	0.0000	I(0)
COC	-6.32691	0.0000	I(0)
POL	-5.26904	0.0000	I(0))
RL	-5.14908	0.0000	I(0)
RQ	-14.0098	0.0000	I(0)
GOV	2.09358	0.9819	I(0))
VAC	1.53301	0.9374	I(0)
At First Difference			
GOV	-10.6531	0.0000	I(1)
VAC	-6.86930	0.0000	I(1)

Source: Authors' Computation (2024)

Unit Root - Im, Pesaran and Shin W-stat Test

VARIABLE	Statistics	Probability @level	Statistics	Probability @ 1st	Remark
ROA	-3.55695	0.0002			1(0)
COC	-1.04799	0.1473	-8.39971	0.0000	1(1)
GOV	2.03445	0.9790	-2.59175	0.0043	1(1)
POL	-2.73515	0.0031			1(0)
RL	-0.50566	0.3065	-2.07176	0.0191	1(1)
RQ	-12.4664	0.0000			1(0)
VAC	-4.79403	0.0000			1(0)

Source: Authors' Computation (2024)

Unit Root - ADF Test

Variable	Statistics	Probability @	Statistics	Probability	Remark
ROA	84.7829	0.0000			1(0)
COC	38.2164	0.5507	151.775	0.0000	1(1)
GOV	45.0685	0.2682	180.208	0.0000	1(1)
POL	63.9117	0.0095			1(0)
RL	11.7261	1.0000	120.815	0.0000	1(1)
RQ	180.951	0.0000			1(0)
VAC	88.6312	0.0000			1(0)

Source: Authors' Computation (2024)

The aforementioned tables present a concise overview of the unit root tests conducted, specifically the Augmented Dickey-Fuller (ADF), Levin, Lin & Chu

t*, and Im, Pesaran and Shin W-stat tests. A consistent pattern emerges from these results: nearly all variables exhibit stationarity at their level, with the exceptions being Rule of Law (RL), Government Effectiveness (GOV), and Control of Corruption (COC), which instead achieve stationarity at their first difference. This means that the ARDL method will be better for the analysis.

Panel ARDL Co-integration equation Selected

Model: ARDL
Dependent Variable: D(ROA)

Variabl	Coefficient	Standard	t-Stat.	Probability
D(COC	0.537235	0.348094	1.543363	0.1287
D(GOV	-0.461972	0.241943	-1.909425	0.0616
D(POL	0.004483	0.294833	0.015206	0.9879
D(RL)	0.625008	0.683202	0.914822	0.3644
D(RQ)	0.149389	0.111608	1.338511	0.1864
D(VAC	-0.756068	0.334569	-2.259826	0.0280
ECM(-	-0.132277	0.060983	-2.169086	0.0346
Mean dependent	0.001016		S.D. dependent var	2.107043
S.E. of regression	0.500419		Akaike info criterion	-4.863357
Sum squared	13.27221		Schwarz	-2.151359
Log	770.6028		Hannan-	-3.770620

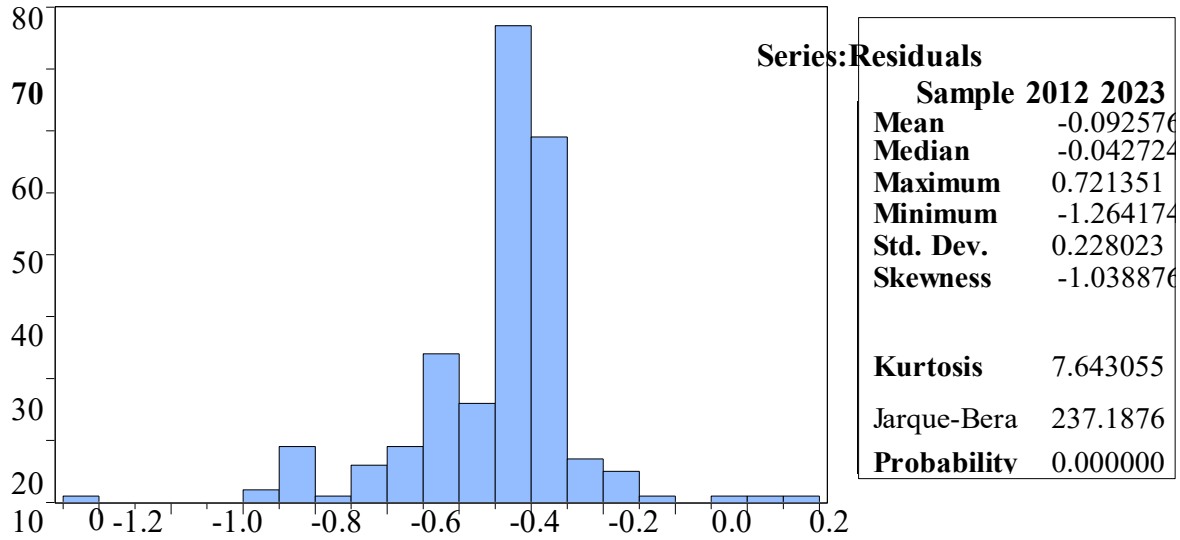
Source: Authors' Computation (2024)

Results of ARDL Coefficient and Short run equation

The ARDL coefficient of all the variables shows that, they all have positive impact on ROA (Return on Asset) except GOV (Government effectiveness) and VAC (Voice and Accountability). This means that, a 1% increase COC, POL, RL and RQ on the average will lead to approximately 0.54%, 0.004%, 0.63%, and 0.15% increase in ROA (Return on Asset) respectively. Examining the same table reveals that the coefficients for Government Effectiveness (GOV), at -0.461972, and Voice and Accountability (VAC), at -0.756068, both indicate a negative influence on Return on Assets (ROA). This implies that a one percent improvement in either government effectiveness or voice and accountability would lead to a reduction in Return on Assets by approximately 0.46% and 0.76% respectively.

Furthermore, it is worth noting that half of the coefficients for all the variables are smaller than their corresponding standard errors, which suggests that these particular variables do not hold statistical significance. However, the coefficient for Voice and Accountability (VAC) stands out, as half of its value exceeds its standard error, pointing to a statistically significant impact, a conclusion further supported by its associated probability values

Test of Normality



Source: Authors' Computation (2024)

The Jarque-Bera statistics, specifically valued at 237.1876, with a skewness of approximately -1.04 and a kurtosis of roughly 8, initially suggest a normal distribution of the variables. However, the associated probability value of 0.0000, being less than the 5 percent significance level, compels us to reject the null hypothesis. Therefore, it is concluded that the distribution of the variables is, in fact, not normal. Shifting to the long-run effects presented in Table 9, Regulatory Quality (RQ) demonstrates a positive and statistically significant impact on Return on Assets (ROA) at the 5% level. Similarly, both Government Effectiveness (GOV) and Voice and Accountability (VAC) also exhibit a positive, albeit statistically insignificant, influence on ROA. Quantitatively, a one percent increase in GOV, RQ, and VAC is projected, on average, to lead to an approximate 0.61%, 0.003%, and 0.07% increase in ROA respectively, over the long term. Conversely, the same table reveals that the coefficients for Control of Corruption

(COC) (-0.069652), Political Stability (POL) (-0.076870), and Rule of Law (RL) (-0.045495) all indicate a negative and statistically significant long-run impact on ROA.

Conclusion and Recommendations

In conclusion, the evidence strongly suggests that the financial health and overall performance of publicly traded companies in Nigeria are profoundly shaped by the quality of institutions. Although higher results are typically the result of strong institutions, the precise effects can differ by nation and location. Sustaining economic growth and development requires an understanding of how company performance and institutional quality interact. The effectiveness of regulatory frameworks, voice and accountability, and the upholding of the rule of law all tend to exhibit a negative association with Return on Assets (ROA). Interestingly, several aspects of governance demonstrate an inverse relationship with a company's Return on Assets (ROA). Specifically, regulatory quality, the extent of voice and accountability, and the control of corruption all tend to decrease as ROA increases. Conversely, political stability and the overall effectiveness of government show a positive association with ROA. According to Acheampong and Dzator (2020), most dimensions of institutional quality, namely, rule of law, regulatory quality, political stability, and corruption control, exert a positive influence on ROA in the short term. The exceptions to this trend are government effectiveness and voice and accountability, which do not exhibit this short-term positive effect. Despite these observed relationships, findings from Abreo et al. (2021) highlight an important need for significant improvements in Nigeria's institutional framework. This study concludes that policies aimed at improving political institutions or governance, particularly those that promote public accountability, free speech, media freedom, equitable rule of law, efficient and effective governance, and improved regulatory frameworks, can support the growth of quoted firms in Nigeria.

Implication and limitation of the study

The study shows that improving governance is key to achieving broader, more sustainable economic development in Nigeria, as it directly impacts how publicly listed companies perform. However, it is worth noting that the study might not have accounted for other variables that influence a company’s financial success.

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