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Moderating Role of Corporate Governance Mechanism on the Relationship between Investment Efficiency and Firm Performance: A Conceptual Framework

Abdulrazaq Suleiman Ibrahim
Department of Business Administration, University of Maiduguri, Borno State, Nigeria. Email: abdulrazaq261@gmail.com

Aminu Kado Kurfi
Department of Business Administration and Entrepreneurship, Bayero University, Kano, Nigeria. Email: aminkurfi@gmail.com

Abstract

Firm performance studies reveal investment efficiency declines in Nigeria, possibly due to high cost of living, unstable electricity supplies, high taxes, and insecurity. Enhancing corporate governance can boost economic growth and investor protection. Nonetheless, literature has shown that investment efficiency leads to firm performance, likewise, corporate governance (CG) has been studied from the perspective of firm performance. This leads to the assertion that the CG mechanism has not been investigated from the standpoint of investment efficiency and firm performance which is supported by the variable studies' inconsistent results. This study proposes a framework for moderating the role of the CG mechanism on the relationship between investment efficiency and firm performance. The study used a literature review to formulate critical arguments for the theme that is being investigated. Therefore, the study supported the development of propositions with rigorous prior research. The study provides a conceptual framework for the relationships between the variables, which will help in carrying out further studies and in making decisions about investments made by managers of firms using the CG mechanism. The study's conclusion lays out the theoretical foundation for the relationship between the variables.

Keywords: Corporate Governance mechanism, Investment Efficiency, Firm Performance

Introduction

The soundness of studies on company performance has long been acknowledged in the field of business literature. According to academics, this component is one of the ways to measure a company's effectiveness in real time concerning its total assets or investor equity. Numerous studies on firm performance from various nations, industries, and fields are offered, with the opinion that they are a great way for investors to learn about the current state of the firm. (Phan & Duong, 2021). Businesses now have an increasing number of opportunities to take part in investment projects in the context of a globalised economy, particularly in developing nations. However, because they are ignorant of the potential and benefits that investments can offer, the majority of businesses still struggle with either under or over-investment (Huang et al. 2022).

One important factor in determining an enterprise's potential for economic growth is investment (Huang et al. 2022), whereas the capacity and ease with which a company can turn investment opportunities into real investments is understood to be the definition of investment efficiency (Luo et al. 2021). Nigeria's investment efficiency decreased from 41% in 2013 to 38% in 2014, according to reports. Businesses' investment levels may have dropped sharply in 2014 as a result of the adoption of the International Financial Reporting Standard, also known as IFRS and the need for them to exercise extra caution when choosing investments that could be affected by the new standards. However, businesses increased their investment in 2015 (47%), 2016 (45%), and 2017 (46%). The companies' efficiency peaked in 2015 at 47% and declined to 30% in 2020 (Sule & Akinkoye, 2023). Since 2020, major companies in the oil and gas sector, including Equinor, Shell, Exxon Mobil, and Eni, have been taking £870 million out of Nigeria. This carries on their divesting trend. Over the past ten years, 26 oil mining licences have been sold; ExxonMobil received £11.9 billion for its license, Eni £4 billion, and Shell £1.8 billion. (Punch Editorial Board, 2023).

Similarly, the fact that businesses' degree of investment efficiency declined in the year 2020; the COVID-19 pandemic that devastated the world that year may have contributed to this since numerous companies went out of business during that time. The efficiency of firms' investments remained low for the entire period of observation (2015 to 2020). This is not surprising, given that businesses in Nigeria struggle to survive in the face of numerous obstacles such as the high cost of living, unstable electricity supplies, high taxes, and insecurity. If all of the aforementioned obstacles are overcome or lessened, businesses' investment efficiency will increase (Sule & Akinkoye, 2023).

Nevertheless, the enhanced corporate governance (CG) quality expedites the Gulf region's economic growth and development by mitigating the issue of under- or overinvestment while also protecting investors through efficient capital allocation, integrating responsibility and accountability with empowerment for the betterment of all stakeholders (Jafeel et al. 2023). The CG mechanism is segmented into three: ownership structure (managerial, institutional, government, foreign, family ownership and ownership concentration), board Structure (board size, board independence, board composition, board gender diversity and board meeting) and audit attribute (audit committee, audit meeting, audit financial expertise and audit gender diversity) (Kajola, 2008). However, experts have shown a link between the firm's performance and the total number of directors, the independence of the board, and the average educational background of board members. The CEO duality's outcomes and the early years of the business were insignificant.

They predicted that firm performance (ROA) would increase with an increase in board members and their average educational attainment, but that firm performance would decrease with a decrease in board independence. This emphasises how important CG is to the effectiveness of business performance (Ali et al. 2022).

The significance of robust corporate governance (CG) in determining investment efficiency cannot be exaggerated, as it has a bearing on portfolio selection and makes it possible for investors to finance companies with CG policies that are strong. Failing companies are likely to make changes to their insufficient governance procedures to improve the efficacy of their investment decisions. Consequently, investable resources are wisely directed towards initiatives that will boost job growth and a business's sustainability.

Effective resource allocation is essential to the performance of any company because it maximises shareholder returns and makes the best use of the resources that are already available. However, the effectiveness of corporate governance procedures in place determines how much investment efficiency boosts firm performance. Research from the literature has demonstrated how investment efficiency leads to performance (Ozbugday et al., 2020; Chen & Ma, 2021; Salehi et al., 2022), also in a similar manner how corporate governance leads to firm performance (Alsurayyi & Alsughayer, 2021; Bui & Krajcsak, 2023; Phan & Duong, 2022). All of the research on the subject of corporate governance and firm performance, however, is largely inconsistent (Ali et al. 2022; Balagobei, 2018; Bui & Krajcsak, 2023; Guluma, 2021; Kyere & Ausloos, 2020; Tawfik et al. 2022).

Similarly, Salehi, et al. (2022) used Agency theory as the foundation for their study on the relationship between investment efficiency and firm value. They used data from 177 companies from 2014–2021, taking institutional ownership and board independence into account as moderating variables. Likewise, the results on the relationship between investment and firm performance were mostly found to be inconsistent (Ozbugday et al. 2020; Chen & Ma, 2021; Likitwongkajon & Vithessonthi, 2020, 2021; Liu & Zeng, 2021; Salehi et al., 2022; Song, 2023). This creates a gap in the literature because firms that understand the role corporate governance mechanisms play in this relationship can implement performance-enhancing strategies with greater success.

Additionally, in line with the suggestion from Tawfik et al. (2022), the problem that this research is expected to address is to conceptualise that corporate governance mechanisms moderate the relationship between investment efficiency and firm performance. The objective of this study is to bring out the gap in the literature by providing evidence on how well corporate governance mechanisms can enhance the relationship between investment efficiency and firm performance while mitigating the negative effects of agency costs. This research can therefore contribute to the existing literature and development of workable plans that will improve business performance and raise shareholder returns. However, it is in light of the above issues that this study proposed a framework on the moderating role of CG mechanism on the relationship between investment efficiency and firm performance.

Literature Review

Firm Performance

Although measuring company performance in the current economic environment is vital for working managers and academic researchers, the concept of "firm performance" is complex. Though the term appears frequently in scholarly works, there is disagreement over its definition and quantification (Alsurayyi & Alsughayer, 2021). Scholars claim that a company's performance can be used as a way to measure its efficacy in real time concerning its total assets or investor equity (Phan & Duong, 2021).

The performance of a company is essentially assessed based on how well its operations and functions run. The more efficiently a company completes its tasks and runs its operations, the better its organisational performance is. CG has been utilized by numerous organisations in an attempt to manage company performance. While ineffective CG may allow managers to mismanage the resources of the company, effective CG improves firm performance and maximises investor returns (Ahmed & Duellman, 2007).

Investment Efficiency

The total benefit of an investment, including socioeconomic benefits for investors and all associated parties, is known as investment efficiency. Investors employ their capital to generate and enhance essential assets using project implementation targeted at accomplishing business goals. The project is successful when investment efficiency is attained. (Huang et al., 2022). In other words, the efficient use and distribution of resources for feasible and profitable capital projects is known as investment efficiency (Sule & Akinkoye, 2023)

However, firm profitability is important in the context of investment efficiency because these investments are expected to increase profits and because efficiency is expected to have an impact on profitability (Amoah, 2022). In a similar vein, Huang et al. (2022) identified the four factors that influence investment efficiency - ownership structure, corporate social responsibility (CSR), gender diversity on the board, and quality of financial reporting. Empirical evidence has shown that having a diverse mix of genders on boards adds value and gives companies a competitive advantage. It is also linked to effective investing and strong financial performance.

Corporate Governance (CG)

Magdi and Nadereh (2002) state that CG is concerned with ensuring that investors receive a reasonable return and that the company is managed well. A more detailed definition of CG can be found in the Organisation for Economic Cooperation and Development (OECD 1999). Corporate governance is the term used to describe the framework that controls the operations of business corporations. The CG structure defines the rights and obligations of various stakeholders, including the board, managers, shareholders, and other relevant stakeholders, as well as the procedures and guidelines for making decisions regarding corporate matters. In doing this, it also provides the structure for determining the objectives of the organisation and outlining the strategies for accomplishing them and monitoring advancement. This definition conformed with that of Wolfensohn (1999), Uche (2004), and Akinsulire (2006). CG mechanism could be segmented into three: ownership structure (managerial, institutional, government, foreign, family ownership and ownership concentration), board Structure (board size, board independence, board composition, board gender diversity and board meeting) and audit attribute (audit committee, audit meeting, audit financial expertise and audit gender diversity) (Kajola, 2008)

Empirical Studies

Investment Efficiency and Firm Performance

Through the use of the Resource-based view and Information Asymmetry theory, Song (2023) investigates the impact of ownership property on the relationship between IT investment and corporate performance of 6215 Chinese listed companies. Corporate performance is proxied by Tobin's Q and ROA; ownership structure is represented by SOE; and IT investment intensity (ITI) is measured by IT investment. The findings indicate that property ownership has a negative moderating effect on the positive correlation between IT investment and company performance and that there is a significant positive correlation between IT investment and corporate performance. The study addresses the problems of endogeneity with fixed-effect models and model regressions. Finally, robustness testing with a one-period lag on the company performance data yielded strong results.

Similarly, employing propensity score matching as a proxy for green investment and growth of output, employment, productivity, export intensity, and energy intensity for firm performance, Siedschlag and Yan (2023) investigate the effects of firms' green investments on a variety of their performance outcomes, including the growth of output, employment, productivity, export intensity, and energy intensity of 9295 firms in Ireland. The findings show that green investments generally improve a company's performance over the medium term. It also discovered that, when accounting for firm heterogeneity, the effects are more pronounced for larger, more productive, foreign-owned, and low-tech firms. Even though not every firm experiences the same benefits from green investments, the data indicates that there may be a positive correlation between environmental quality and firm performance.

Salehi, et al. (2022) use Agency theory to examine how investment efficiency affects firm value, taking into account the moderating effects of institutional ownership and board independence for 177 companies listed between 2014 and 2021 on the Tehran Stock Exchange (TSE). The study measures firm value using Tobin's Q and total investment. The findings demonstrate that firm value is impacted by investment efficiency. Furthermore, this impact is mitigated by institutional ownership and board independence.

In the same vein, after adjusting for firm characteristics, Liu and Zeng (2021) investigate the empirical relationship between abnormal investment (an accounting-based investment model) and future stock returns in the United Kingdom using 122,180 firm-year observations. The outcome shows that abnormal investment and stock performance in the future are negatively correlated. The primary cause of this negative relationship is underinvestment rather than overinvestment. The outcomes hold up well to different investment models and estimation techniques.

Furthermore, Likitwongkajon and Vithessonthi (2021) use 168,083 firm-year observations in Asia Pacific to investigate whether firms with larger foreign investments (as measured by the ratio of foreign assets to total assets, or FATA) outperform those with smaller foreign investments, as well as whether cost-effectiveness and revenue growth (as measured by the gross profit margin (GPM) and revenue growth (ΔREV) mediate the effect of foreign investments on firm performance (ROA) and firm value (Tobin's Q). According to the IV-2SLS results, companies that invest more overseas typically perform worse than companies that invest less overseas over both short- and long-term periods. The results also show how revenue growth and cost-effectiveness are negatively impacted by foreign investments. According to the study's findings, there is some evidence that revenue growth moderates the relationship between foreign investments and firm performance to some extent, but there is no evidence that cost efficiency does so.

Chen and Ma (2021) employ micro-level data with 378 observations of 90 energy-listed firms in China with Green Development Theory to offer fresh insights into the relationship between green investment and firm performance. Net profit, return on equity (ROE), and Tobin's Q was used as proxies for company performance while in the case of green investment, the study used environmental taxes, government subsidies, technological innovation, and expenditures and expenses related to technological transformation and R&D; the treatment of industrial waste and other pollutants; the building and purchase of equipment for desulfurization and denitrification and boiler reconstruction; and the management and greening of mine ecological environments. The study's conclusions indicate that there is a significant and positive correlation between financial performance and green investment, i.e., increasing green investment results in higher financial performance. After spending money on reducing emissions and conserving energy, financial performance has greatly improved in the third year. Furthermore, government subsidies, technological innovation, and environmental taxes all have distinct but beneficial moderating effects on green investments that support financial performance; the long-term performance of these investments makes this effect more evident. In conclusion, this study reveals that green investment contributes to the decrease in environmental infractions and the enhancement of environmental performance; additionally, environmental performance can bolster the influence of green investment in enhancing the long-term profitability of enterprises.

Additionally, Likitwongkajon and Vithessonthi (2020) evaluate the effects of foreign investments on firm value and firm performance of 45,617 firm-year observations involving 3,141 firms in Japan using Economic International Trade, Internationalisation, Transaction Cost, and Agency theory. The study measures foreign investments and firm value growth (ΔFV), as well as firm value and performance, using Tobin's Q, ROA, and the ratio of foreign assets to total assets (FATA). The results show that foreign investments and firm value are negatively correlated. Furthermore, there is a negative correlation between foreign investments and firm performance over both short- and long-term horizons. Furthermore, it seems that foreign investments have the opposite effect on revenue growth from company performance, suggesting that simply increasing foreign investments does not always result in increased firm efficiency or revenue growth.

Ozbugday et al. (2020) investigate the hypothesis that Small and Medium-Sized Enterprises (SMEs) will perform better in terms of growth when investments are made to improve resource efficiency. Using a survey for firm performance, propensity score matching (PSM) estimations were used to measure resource efficiency investment and turnover growth. The result shows that investments in resource efficiency have a positive and statistically significant (at the 1% level) effect on SMEs' growth performance. These results have significant policy implications for the strategies and actions that national and international policymakers should pursue concerning corporate investments in cleaner production. The results indicate that one of the most important policies that governments should put into place if they want to encourage green growth is to subsidise resource efficiency investments made by SMEs in energy-intensive industries.

Finally, through the use of data from 9,295 firm-year observations obtained in Ireland between 2008 and 2016, Siedschlag and Yan (2020) analyse how corporate green investments affect several performance metrics, such as output growth, employment, productivity, export intensity, and energy intensity. The study uses propensity score matching to evaluate how green investment affects employment, output, export intensity, energy intensity and productivity for firm performance. The findings show that green investments have positive and statistically significant effects on businesses' performance over the medium term. The study concludes that, when firm heterogeneity is taken into consideration, the effects are stronger for larger, more productive, low-tech, foreign-owned firms.

Corporate Governance (CG) Mechanism as a Moderator

Using the Agency, Stewardship, Resource Dependency, Transaction Cost, and Stakeholder theories, Bui and Krajcsak (2023) investigate the relationship between CG and financial performance in the context of 302 publicly traded companies in Vietnam for the years 2019 to 2021. The study used the component governance indexes and the total CG index to measure CG and used Tobin's Q, ROA, and ROE to measure the performance of the firms. The study discovered a positive correlation between CG and company size as well as a positive relationship between financial performance and transparency disclosure. In 2021, the COVID-19 pandemic caused a postponement of general shareholder meetings, leading to a decrease in transparency and information index scores compared to 2019 and 2020. The study's conclusions differ from previous research in this area concerning the connection between board responsibility ("cg_reob"), the shareholder rights index ("cg rosh"), and financial performance.

In the same vein, focusing on the distinctiveness of royal family ownership, Tawfik et al. (2022) use resource dependency theory to investigate the relationship between corporate governance practises and firm performance in GCC countries. It also investigates whether the 266 companies in Saudi Arabia, the United Arab Emirates, Oman, and Qatar corporate governance practices affected the relationship between royal family ownership and firm performance between 2009 and 2017. RYLOW (Percentage of Royal Ownership) measures ownership by the royal family and internal and external governance mechanisms and Tobin's Q was used to measure corporate performance. The findings show that audit quality (AUQ) and a board with fewer than nine members are efficient corporate governance tools since they can improve firm performance through monitoring. However, the results demonstrate that local auditors (AUQL), institutional ownership, and CEODU (chief executive officer duality) all significantly affect company performance. The outcomes also show that royal ownership greatly enhances corporate performance. By demonstrating that royal members with ties to the outside world are more likely to have easy access to resources that are required to support the improvement of company performance, this finding supports the resource dependency theory. Further analysis showed that the big four international audit firms (AUQ) and AUQL positively moderate the relationship between royal ownership and firm performance.

The Agency and Stakeholder theory is also used by Ali et al. (2022) to demonstrate the connections between corporate governance instruments (board independence, CEO status, board size, Established Years of the Firm and board education) and firm performance, as measured by the return on asset (ROA) in 75 Pakistani companies from 2010 to 2019. The average educational background of board members, the board's independence, and the total number of directors were found to be correlated with the firm's performance. The CEO duality's outcomes and the early years of the business were unimportant. According to the results, firm performance (ROA) would increase with an increase in the number of board members and their average educational attainment, but ROA would decrease with a decrease in board independence. This demonstrates how important corporate governance is to attaining firm performance.

Nevertheless, the relationship between corporate governance mechanisms (CEO duality (CEO), knowledge capability (CAP), gender diversity, and firm performance (ROA) in 101 HOSE-listed manufacturing firms in Vietnam was examined by Phan and Duong (2021) using Agency and

Upper-Echelons theory. The results showed that CEO, knowledge capability, gender diversity, and board size are positively correlated with firm performance, while firm age is negatively correlated with performance.

Guluma (2021) used behavioural decision-making, agency theory, and resource dependence theory to examine the effects of corporate governance measures (internal CG, such as independent boards, dual board leadership, and ownership concentration) and external CG, such as debt financing and product market competition, on firm performance (ROA and Tobin's Q) and the role of managerial behaviour (Corporate earnings forecasts) on the relationship between corporate governance mechanisms and firm performance of 11,634 Chinese listed firms from 2010 to 2018. The study's findings showed that ownership concentration, product market competition, and firm performance as measured by ROA and TQ had a positive and significant relationship. Additionally, there is a significant negative correlation between debt financing and both ROA and TQ measures of firm performance, as well as a negative relationship between dual leadership and TQ. Additionally, the empirical results showed that the relationships between ownership concentration, dual leadership, board independence, and firm performance are negatively impacted by managerial overconfidence. However, as measured by Tobin's Q, managerial overconfidence has a positive moderating effect on the impact of debt financing on firm performance and a negative influence on the relationship between operational firm performance and debt financing.

Similarly, Kyere and Ausloos (2020) employ agency and stewardship theory to investigate empirically how good corporate governance affects the financial performance of 252 UK non-financial listed companies in 2014. The study uses the following as measures for corporate governance and financial performance of the firms: insider ownership, board size, independence, CEO duality, audit committee meetings, ROA, and Tobin's Q. The findings indicate that there is either a positive or negative correlation, or sometimes none at all, between corporate governance practises and financial performance.

Likewise, with Agency theory, Koji et al. (2020) investigate the relationship between financial performance (ROA and Tobin's Q) and corporate governance (family ownership, institutional ownership, foreign ownership, government ownership, board size, frequency of board meetings, and independence) of publicly listed family and non-family firms in 1412 Japanese manufacturing industry from 2014 to 2018. The results show that family businesses outperform their non-family counterparts in terms of ROA and Tobin's Q when univariate analysis is carried out. Family businesses do better than non-family businesses in multivariate analysis when it comes to Tobin's Q. However, family ownership affects the company's performance when ROA is taken into account. When it comes to how governance components affect Tobin's Q, institutional shareholding seems to be a major and beneficial factor for enhancing the performance of both family and non-family enterprises. Additionally, the size of the board has a positive effect on the performance of non-family firms, but not on family firms. In terms of return on assets (ROA), companies with foreign ownership outperform those without. In addition, government ownership of family businesses improves their performance; however, this benefit is severely undermined by board independence. The study also shows that family businesses run by the founder's descendants outperform those run by the founders themselves.

Furthermore, Akbar et al. (2019) employed dynamic panel estimation to look into the impact of CEO duality on board composition and how it is related to firm performance in 230 Pakistani listed non-financial companies between 2004 and 2014. They accomplish this by employing agency, stewardship, and managerial signalling theories to test the relationship. Board Size, Board Independence, Board Meetings, CEO Duality, Concentrated Ownership, Institutional Ownership, Managerial Ownership, Managerial Ownership Square, Audit Quality, Audit Committee Composition, and Change in Corporate Governance Code are proxies for CG and ROE, Tobin's Q for Firm Performance. The results show that corporate governance has a significant impact on the financial performance of businesses in Pakistan. Consistent with earlier research, the study's findings also show some statistical differences between the sampled firms' sizes (large and small). The CEO dual puts the efficacy of board independence at risk. The nonlinear relationship between managerial ownership and performance is further demonstrated by the study's findings.

In addition, Balagobei (2018) uses Agency theory as a theoretical framework to examine the effects of CG (Board size, Board independence, CEO duality, director ownership, and audit committee) on firm performance (ROA and Tobin's Q) of 50 listed companies in Sri Lanka from 2010 to 2015. The results indicate that board size and the audit committee have a significant impact on Tobin's Q, and that board independence, CEO duality, and director ownership have an insignificant effect on firm performance measures, such as ROA. Furthermore, there is a negative correlation between the size of the audit committee and the board of directors and the company's performance.

Finally, Naimah and Hamidah (2017) examine the impact of CG (board size, board independence, outside directors, audit committee size, audit committee meeting, audit quality, and CGPI) to increase company performance (ROA) using 133 observations from Indonesian companies that followed the CGPI award from 2005 to 2014. The results indicate that the following variables affect profitability: firm size has a negative effect on profitability; board independence affects profitability; audit committee meetings have an impact on profitability; leverage has an impact on profitability; and audit quality has an impact on profitability.

However, Tawfik et al. (2022) look into whether corporate governance practises have an impact on the relationship between royal family ownership and firm performance. Ngatno, et al (2021) use corporate governance mechanisms to moderate the relationship between capital structure and firm performance in Indonesia. Likewise, Hamid and Ibrahim (2020) employ corporate governance to moderate the relationship between corporate social responsibility and the financial performance of listed non-financial services companies in Nigeria. This shows that the CG mechanism will be a good moderator between investment efficiency and the financial performance of oil and gas companies in Nigeria.

Theoretical Framework

Agency Theory

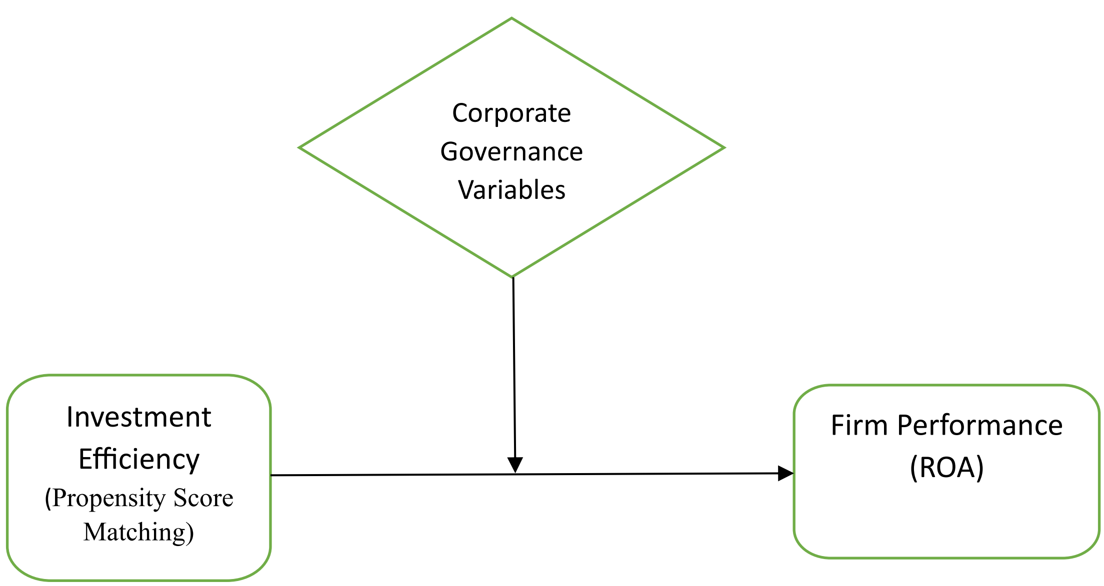
The conceptualization of this study is guided by the Agency theory, which was initially applied in New York by Jensen and Meckling (1976). It stated that conflicts of interest can arise due to the fact managers and shareholders pursue distinct goals. Shareholders want to maximise their return on investment, even though managers may prioritise their interests over those of the company. Agency costs such as managers taking unwarranted risks, shirking, and building empires can be caused by goal misalignment. By bringing management's interests into line with shareholders', corporate governance tools such as the board of directors, executive compensation plans, and shareholder rights can lower these agency costs.

Salehi et al. (2022) state that the Agency Theory suggests that, in the context of corporate governance, there is a positive correlation between investment efficiency and firm performance. The ability of a company to distribute its resources in a way that maximises returns is known as investment efficiency. Nonetheless, the effect of investment efficiency on company performance might be lessened depending on the calibre of corporate governance practices in place. Efficient investments are more likely to lead to improved firm performance if corporate governance mechanisms are effective in aligning managers' interests with shareholders.

Improved firm performance may not always arise from efficient investments, though, if corporate governance practises are inadequate or ineffectual. In fact, because of agency costs, it might even have unfavourable effects like managers taking on too much risk or creating an empire. Consequently, the Agency Theory suggests that CG, investment efficiency, and company performance have a complex and interdependent relationship. Sustaining the positive effects of investment efficiency on company performance can be enhanced by efficient corporate governance mechanisms, which also mitigate the adverse effects of agency costs.

Conceptual Framework

This study suggested that a proposed framework should be used to examine the moderating effect of the CG mechanism on the relationship between investment efficiency and financial performance. It is recommended that investment efficiency and financial performance be proxied by Propensity Score Matching and return on asset (ROA), These measures help in the understanding of investment efficiency behaviour, earnings generation, and expected return on asset by investors. A company's growth potential and potential profitability are captured by ROA, which also helps managers in performance evaluation and problem-solving. CG mechanism is suggested as a moderating variable to either strengthen or weaken the relationship between the variables under study. Based on the explanation, the research concept is a logical relationship established by the theoretical foundation and empirical studies compiled. It can be expressed in the following:



Independent Variable **Dependent Variable**

Propositions

1. Investment efficiency affects firm financial performance
2. Board of directors affects firm financial performance
3. Executive compensation plans affect firm financial performance
4. Shareholder rights affect firm financial performance
5. Board of directors moderate the relationship between investment efficiency and firm financial performance
6. Executive compensation plans moderate the relationship between investment efficiency and firm financial performance
7. Shareholder rights moderate the relationship between investment efficiency and firm financial performance.

Research Method

This study uses desktop review to examine books, journals, news articles, official publications, and websites. The majority of the arguments made to evaluate the variables under study are supported by the body of existing literature. The researcher can provide a conceptual framework for the relationships between corporate governance mechanisms, investment efficiency, and firm performance through the literature synthesis from published articles and institutional websites.

Conclusion

Ultimately, this study offered a conceptual framework for investigating the moderating effect of corporate governance mechanisms on the relationship between investment efficiency and firm performance. The proposed framework is grounded by the Agency Theory, which argues that effective corporate governance practices can improve firm performance by aligning managers' interests with shareholders and reducing agency costs.

The proposed framework places significant emphasis on the moderating effect that corporate governance practices will have on the correlation between investment efficiency and enhanced firm performance. The framework includes several corporate governance tools that can be used to lessen the detrimental effects of agency costs while increasing the positive effects of investment efficiency on company performance, such as executive compensation plans, shareholder rights, and the board of directors. The conceptual framework of the study offers a useful starting point when conducting empirical research on how corporate governance practises affect the relationship between investment efficiency and firm performance.

Empirical studies have the potential to provide insight into the corporate governance strategies that yield the greatest reduction in the negative impacts of agency costs and optimisation of the positive effects of investment efficiency on company performance. Considering everything, the conceptual framework of this study can help with developing workable strategies to improve future studies. Aligning managers' interests with shareholders can help businesses maximise shareholder returns, increase investment efficiency, and improve performance.

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