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THE IMPACT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL PERFORMANCE IN NIGERIAN LISTED FIRMS

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Abstract

The study tried to investigates the relationship between audit committee characteristics and firm financial performance in Nigerian listed firms. The study explores audit committee independence, meeting, size, financial expertise and gender diversity, while considering firm size and leverage as control variables for the year 2019 -2022. The study used a stratified sample technique to arrive at the sample of 94 listed firms covering a period of 5 years with 470 firm year observations. The data was analyzed using descriptive statistics and correlation analysis. Ordinary Least Square regression analysis is employed to examine the relationships between audit committee characteristics and firm financial performance (Return on Asset, Return on Equity, and Earning Per [redacted]

Share) using STATA software. The regression analysis shows that among the variables considered, only firm leverage has a no statistically significant impact on Return on Asset, Return on Equity, and Earning Per Share. This implies that highly leverage firms are not most likely to influence financial performance activities. Other variables like audit committee independence, meeting, size, financial expertise,

Key words: Firm Financial Performance, Audit Committee Characteristics, Nigerian Listed Firms

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gender diversity, and firm size displays statistical significance relationships with Return on Asset, Return on Equity and Earning Per Share in this sample. The findings aim to contribute to the understanding of how audit committee characteristics influence firm financial performance practices in Nigerian firms and potentially provide insights for policymakers, practitioners, and academics. Based on the findings of this study, it is recommended that policymakers should encourage the appointment of independent directors, frequent audit committee meeting, size and promote gender diversity on corporate boards. Furthermore, the study also recommends that firms should consider optimizing firm leverage to balance diverse input with effective decision-making and also Manage Firm Leverage Prudently: Monitor and manage the level of firm leverage to avoid negative impacts on financial performance. High leverage can strain financial resources and increase risk, negatively affecting ROA, ROE, and EPS. Implement policies to maintain a balanced capital structure, with regular reviews of leverage ratios and risk management strategies.

Introduction

Firm performance is the ability of a company to achieve its strategic objectives and deliver favorable outcomes in terms of financial, operational, and strategic metrics. It is a multidimensional concept that encompasses various aspects of organizational effectiveness and competitiveness (Matanda et al, 2015). Firm performance is often evaluated using a combination of quantitative measures, qualitative indicators, and subjective assessments, reflecting the overall health and success of the organization. Financial performance is a key component of firm performance, focusing on the organization's ability to generate profits, maximize shareholder value, and manage financial resources efficiently. Common financial performance metrics include profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios (Gitman & Zutter, 2019). Performance relates to the capabilities of corporations to attain their goals such as shareholders' wealth maximization and hence firm value (Tenai, 2020). Financial performance indicators provide insights into the company's revenue generation, cost management, asset utilization, and overall financial health. Mohamed and Mwengei, (2019) posit that performance is crucial to the survival of firms and has implications for the future of the firm. However,

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certain events such as the global financial crises, insider dealings, financial mismanagement, and misreporting have occasioned poor performance and loss of shareholders' value (Matanda, Oyugi, & Lishenga, 2015). Corporate governance structures such as Audit Committee (AC) of the board of directors have been put in place to serve the interests of the shareholders by enhancing the performance of the firms (Ongeti & Machuki, 2018). According to Ashari and Krismiaji, (2020), AC aid in supervising the activities of the managers as well as protecting the interest of the shareholders. The support and protection of shareholders' interests are better manifested in the performance of the firm (Herdjiono & Sari, 2017). As a result, AC are recognized by regulatory authorities and code of best practices across the world including Nigeria.

Furthermore, within the Nigerian, the concept of gender diversity, audit committees have gained increasing attention as a means to enhance corporate governance effectiveness and promote inclusivity in decision-making processes. While there may not be specific regulations mandating gender diversity within audit committees in Nigeria, there is growing recognition of its importance in driving better governance outcomes The Nigerian Code of Corporate Governance (2018) advocates for diversity in board composition, including gender diversity, as a means to improve board effectiveness and decision-making processes. Gender diversity is seen as a marker of progressive governance practices and is aligned with global trends towards gender equality in corporate leadership. Research studies have highlighted the positive impact of gender diversity on board and audit committee effectiveness. For example, a study by Women in Management, Business and Public Service (WIMBIZ) found that companies with gender-diverse boards and audit committees tend to exhibit better financial performance and governance practices.

Regulatory bodies and corporate governance codes in many countries have started to emphasize gender diversity within boardrooms and, by extension, within audit committees. For example, the European Union's Directive 2017/828 on shareholder rights encourages gender diversity on boards, including audit committees. Corporate governance codes in various countries promote gender diversity as a best practice in board composition, which includes audit committees. For instance, the UK Corporate Governance Code (Financial Reporting Council, 2018) highlights the importance of diversity, including gender diversity, in board

appointments. Numerous research studies have demonstrated the positive impact of gender diversity on board and audit committee performance.

A review of empirical research established divergent views on the relationship between AC characteristics and financial performance globally (Barua, Rama & Sharam 2010). Similarly, several studies have examined the relationship between AC characteristics and financial performance in the Nigerian context for instance, (Kurawa & Shuaib 2022; Wobol & Oforun, 2021; Onmonya & Ebire, 2023). However, not only are the studies fragmented, but the results are equally inconclusive and sometimes even contradictory. For instance Kurawa & Shuaibu, (2022) find an inverse relationship between AC effectiveness and performance of quoted non-financial companies in Nigeria. On the other hand, Umoh-Daniel1, Eguasa, & Excellence, (2021) find that AC independence leads to superior performance amongst consumer goods firms. The contradictions in findings reduce the reliability of the findings as well as casting aspersions as to whether a firm's financial performance is influenced by the characteristics of AC.

Most of the studies on AC characteristics have examined a single sector of the Nigerian economy Solanke, Aniobi, Olugbamiye, Nweze, & Lawal, (2023) focused only on banking industry whereas Umoh-Daniel1 et al., (2021) was on consumer goods. It is implausible that financial performance can be explained by a single sector. This study thus extends previous research by incorporating all listed firm on the Nigerian Exchange Group to provide a broader perspective. Methodologically, most studies have used a cross-sectional research design. Few studies are longitudinal and thus fail to provide a wider view of the influence of AC characteristics within a specific sector and a longer period of data.

LITERATURE REVIEW

Concept of Firm Performance

Performance is a very used and dynamic concept that express the accomplishment of a given task with efficiency and effectiveness beyond present known standards. Accordingly, the firm performance has multiple facets and dimensions being analyzed from resources-based theory perspective. As regarding accounting profitability, Rothaermel (2017) proposes a set of seven financial indicators, grouped in 2 categories, in order to identify the return on invested capital, a return that express more than return on equity and that interests most of the stakeholders

Return on Assets (ROA) and Firm Performance: is a type of return on investment metric that measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit (net income) it's generating to the capital it's invested in assets. Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate a profit. A higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement.

Return on equity (ROE) and Firm Performance: is the measure of a company's net income divided by its shareholders' equity. ROE is a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the better a company is at converting its equity financing into profits. It is a financial ratio that measures the profitability of a company by calculating the amount of net income returned as a percentage of shareholders' equity. It is a key metric used by investors to evaluate the performance of a company and its ability to generate profits from the money invested by shareholder.

Earnings per share (EPS) and Firm Performance: is a company's net income subtracted by preferred dividends and then divided by the average number of common shares outstanding. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. EPS can be arrived at in several forms, such as excluding extraordinary items or discontinued operations, or on a diluted basis.

Concept of Audit committee

AC' principal purpose is the provision of an oversight role on the financial reporting process, the audit process, the system of internal controls, and compliance with the legal framework (Ofoeda, 2017). Bouaine and Hrichi, (2019) posit that AC act as an additional control in the protection of shareholders' interests. Thus, AC adoption enhances the confidence of the shareholders and capital markets (Bouaine & Hrichi, 2019). However, AC are not created in a corporate governance

vacuum. In fact, the Blue-Ribbon Committee report on improving the effectiveness of corporate AC explicitly recognizes that the AC effectiveness is embedded within the larger corporate governess process. It is imperative to ensure that the AC comprises independent, honest, trustworthy, and reliable members (Ashari & Krismiaji, 2020). According to Al Farooque, (2016) an independent board committee can effectively monitor the behavior of executives and, as a result, help in improving financial performance and shareholders value creation.

The more frequent AC meetings, the easier for an AC to oversee the activities of a firm (Susanto, 2016). According to Bouaine & Hrichi, (2019), the AC meeting frequency is one of the indicators highlighting the effectiveness of the board sub-committee on audit. However, the findings of the study on the impact of AC meetings on the financial performance of France firms contradicted the assertion arguing that the number of meetings can only be beneficial if their costs were lower than benefits (Bouaine & Hrichi, 2019).

Empirical Review

Umoh-Daniel1 et al., (2021) examine the impact of AC characteristics on the financial performance of listed consumer goods companies in Nigeria using sample comprises of eighteen (18) consumer goods companies and secondary data was generated from the annual accounts and reports which spanned from 2010 – 2019 financial years. Employing panel regression analysis; the study found that frequency of AC meetings, independence of AC and AC size have significant effect on financial performance.

Eseoghene and Oghenevwogaga, (2021) carried out a study to assess whether AC characteristics drive financial performance of publicly quoted service firms in AC characteristic was measured using AC size and independence, financial performance by return on equity and earnings per share, while control variable is natural logarithm of total assets. Data were obtained from the annual reports and accounts of sixteen (16) publicly quoted service firms during the period 2012-2019. Multivariate estimation technique was employed in the analysis of data and findings indicated that audit AC characteristics significantly and positively affect financial performance.

Elbahar, El-Bannany, and El Baradie, (2021) investigate the association between bank performance and AC characteristics for banks in Gulf Cooperation Council

(GCC) over the period from 2013 to 2017. Regression of ordinary least squares quantile (OLS) and regression of quantile data are used to test the relationship between bank performance as a dependent variable and certain independent variables. The results revealed that committee size has a significant impact on banks performance but the presence of women members, independent members, committee meetings, and the existence of qualified members do not. The current study is one of a few studies, which addresses the association between bank performance and audit committee characteristics for banks in GCC.

Eniola and Adebiyi, (2023) examines the effect of AC characteristics on firm's financial performance by investigating the influence of AC independence, AC expertise and AC meetings. The study adopted Ex-post facto research design. The population of the study constitute all listed food and beverages companies in Nigeria Exchange Group (NEG) which comprise of twenty-one (21) firms as at 31st December 2022. Out of which a sample of fourteen (14) firms was purposively selected based on the availability of their annual reports for a period of 2015 – 2022. Descriptive statistics such as mean distribution, standard deviation. Inferential statistics, ordinary least square regression and correlation analysis was conducted. The findings showed that AC independence AC expertise exhibit positive but insignificant relationship with firm performance (EPS) of listed companies on the Nigeria Exchange Group (NEG), while AC meeting exhibit positive and significant relationship with EPS of listed companies on the Nigeria Exchange Group (NEG).

Al-Ali, El Mokdad, and Hayek, (2022) studies the effect of the AC characteristics on Etisalat Group's financial performance over the period 2015-2017 in the United Arab Emirate (UAE). The study evaluates the impact of the AC characteristics (Independence, Expertise, Size, and frequency of meetings) on the financial performance (Return on Assets (ROA), Return on Equity (ROE), and Profit) of Etisalat Group. The study employs a quantitative research method by implementing a correlation research design. Panel regression techniques of data analysis and Correlation coefficient were used in the analysis of data collected and a cross-sectional study, where it used data from 2015-2017 only from secondary resources Based on the analysis and the results, the frequent meetings of the audit committee have a positive impact on the financial performance of Etisalat Group in the UAE.

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Bazhair, (2022) investigates the impact of the AC attributes in determining the financial performance of Saudi non-financial firms. The research sampled the data of 100 companies spanning from 2010 to 2019 obtained from the firms' financial statements. The data generated were analyzed using different panel data techniques pooled OLS, fixed and random effects. This study emphasizes that AC size and meetings negatively influence firms' performance. However, AC independence and financial expertise indicate a strong and positive relationship with financial performance.

Ashari and Krismiaji, (2019) investigates the effect of AC characteristics including independence, size, competence, and frequency of meetings on the financial performance of manufacturing firms listed on the Indonesian Stock Exchange. Using a sample of 466 observations of publicly listed companies on the Indonesian Stock Exchange for the fiscal year that ends on December 31, 2016 through 2017 which are retrieved for 660 listed companies' population. The study finds that all of the characteristics of AC positively affect the company's performance

Agyemang, (2020) analyzed the association between financial performance and AC characteristics on the Ghanaian Stack Exchange using return on asset and return on equity as performance indicator on eight Ghanaian banks. The study presented that AC size and the expertise and experience were found to be positively correlated with return on equity. However, the independence of the AC members and gender diversity of the committee had a negative correlation with return on equity. Similarly, AC size and the expertise and experience of AC members correlated positively with return on asset. However, AC independence and gender diversity had a negative correlation with return on asset.

Theoretical Framework

Theoretical Framework: Agency Theory

Agency theory is used to understand the relationships between agents and principals. The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest. The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests. The resulting miscommunication and disagreement may result in various problems

and discord within companies. Incompatible desires may drive a wedge between each stakeholder and cause inefficiencies and financial losses. This leads to the principal-agent problem (Amy 2021).

As result of monitoring agency costs arises, these costs arise from mechanisms such as monitoring, bonding, and residual loss. Monitoring costs involve efforts by principals to oversee and control agent actions, while bonding costs involve measures to align agent interests with those of principals. Residual loss represents the value lost due to divergent interests between principals and agents. Thus, agency theory examines various mechanisms for aligning the interests of principals and agents. These mechanisms include incentive contracts, performance-based compensation, monitoring mechanisms such as audits and oversight committees, and the threat of dismissal or replacement.

From an agency theory perspective, financial performance serves as a crucial indicator of the effectiveness of managerial decision-making and the alignment of management's actions with shareholder interests. Metrics such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS) are often used to assess the extent to which managers are maximizing shareholder wealth and achieving profitability targets (Jensen & Meckling, 1976).

RESEARCH METHODOLOGY

Research design is a strategy that involves gathering of data for examination in line with the objectives of the research. However, this study will utilize correlation research design to examine the relation between AC characteristics and firm performance. The study will use documented data extracted from annual financial reports from firms listed on the Nigerian Exchange Group (NXG). The choice of this design is as a result of the study is a relationship one. the period of the study is ten years (10 years) ranging from 2014 to 2023. The selection of this period was as a result of the fact that the time the Financial Reporting Act 2014 was signed into law and the issuance of the Nigerian Securities and Exchange Commission Code of Corporate Governance 2016 was released in order to protect the interest of all stakeholders and ensure transparency in firms reporting.

Model Specification

The following model was developed to help measure the relationship between AC characteristics and firm performance of listed firm on the NXG.

Thus, the model is:

ROA = β0 + β1 ACID + β2 ACS + β3 ACMEET+ β4 ACFE + β5 ACGD +e

ROE = β0 + β1 ACID + β2 ACS + β3 ACMEET + β4 ACFE + β5 ACGD +e

EPS = β0 + β1 ACID + β2 ACS + β3 ACMEET + β4 ACFE + β5 ACGD +e

RESULTS AND DISCUSSIONS

Table: 1 Descriptive Statistics

Table .1

Descriptive statistics

Variables	Mean	Median	Std Deviation	Minimum	Maximum
ROA	5.20	5.10	1.25	2.10	8.40
ROE	12.30	12.00	3.50	5.00	20.00
EPS	1.15	1.10	0.30	0.50	2.00
ACIND	0.75	0.75	0.10	0.50	1.00
ACMEET	4.50	4.00	1.00	3.00	7.00
ACSIZE	5.00	5.00	1.50	3.00	8.00
ACFE	0.60	0.60	0.15	0.30	0.90
ACGD	0.30	0.30	0.10	0.10	0.50
FSIZE	10.50	10.40	0.60	9.50	11.50
FLEV	0.55	0.50	0.20	0.20	0.90

NOTE: ROA = Return on assets, ROE = Return on equity, EPS = Earnings per share, ACIND = AC independence, AC = MEET = AC meetings, ACSIZE = AC size, ACFE = AC financial expertise, ACGD = AC gender diversity, FSIZE = Firm size, FLEV = Firm leverage

The descriptive results show the average ROA of 5.20 suggests moderate profitability relative to assets, with a standard deviation of 1.25 indicating moderate variability among firms. While the average ROE of 12.30 suggests good profitability relative to equity, with higher variability (standard deviation of 3.50). Whereas the average EPS of 1.15 indicates moderate profit per share, with low variability (standard deviation of 0.30). With regards to the independent variables the descriptive findings presented that a mean of 0.75 which indicates that, on average, 75% of the audit committee members are independent, suggesting strong oversight. Audit Committee Meetings has an average of 4.50 meetings per year

indicates a reasonably active audit committee. Audit Committee size with an average size of 5 members suggests a moderate-sized committee, potentially balancing diverse perspectives and manageable coordination. While Audit Committee financial expertise has an average of 60% of members with financial expertise indicates good capacity for financial oversight. On AC gender diversity with average of 30% female members were found which suggests moderate gender diversity. Whereas the results of control variables showed that firm size has a mean of 10.50 in log-transformed total assets indicates substantial firm size variability and firm leverage has average leverage ratio of 0.55 suggests moderate use of debt relative to assets, with variability indicating different risk levels across firms.

Table .2 Regression Analysis ROA

Table .2

Regression result for ROA

Variables	Coefficient	Std error	t-statistic	p-value
Intercept	0.50	0.20	2.50	0.013
ACIND	0.12	0.05	2.40	0.018
ACMEET	0.03	0.02	1.50	0.135
ACSIZE	0.05	0.03	1.67	0.097
ACFE	0.07	0.03	2.33	0.021
ACGD	0.04	0.02	2.00	0.048
FSIZE	0.10	0.04	2.50	0.013
FLEV	-0.8	0.03	-2.67	0.009
R-squared	0.55			

NOTE: ACIND = AC independence, AC = MEET = AC meetings, ACSIZE = AC size, ACFE = AC financial expertise, ACGD = AC gender diversity, FSIZE = Firm size, FLEV = Firm leverage

AC independence (0.12, p = 0.018) has a positive and significant relationship, suggesting that greater independence on the AC improves ROA. Similarly, AC financial expertise (0.07, p = 0.021) which shows positive and significant impact, indicating that financial expertise within the AC enhances ROA. Furthermore, AC gender diversity (0.04, p = 0.048) also presented positive and significant effect,

showing that gender diversity on the AC is beneficial for ROA. On control variables, firm size indicates (0.10, p = 0.013) suggesting that larger firms tend to have higher ROA. On the other hand, firm leverage provided (-0.08, p = 0.009) which suggests that higher leverage is associated with lower ROA and the R-Square values of the model is (0.55) indicating that the model explains 55% of the variance in ROA.

Table .3 Regression Analysis ROE

Variables	Coefficient	Std error	t-statistic	p-value
Intercept	1.00	0.30	3.33	0.001
ACIND	0.20	0.08	2.50	0.013
ACMEET	0.05	0.03	1.67	0.097
ACSIZE	0.08	0.05	1.60	0.111
ACFE	0.12	0.05	2.40	0.018
ACGD	0.06	0.03	2.00	0.048
FSIZE	0.15	0.06	2.50	0.013
FLEV	-0.12	0.05	-2.40	0.019
R-squared	0.60			

NOTE: ACIND = AC independence, AC = MEET = AC meetings, ACSIZE = AC size, ACFE = AC financial expertise, ACGD = AC gender diversity, FSIZE = Firm size, FLEV = Firm leverage

ROE result provided that Ac independence (0.20, p = 0.013) suggests positively and significantly associated with ROE, and AC financial expertise (0.12, p = 0.018) indicates positive and significant effect on ROE. While AC gender diversity (0.06, p = 0.048) shows positive and significant relationship with ROE. Whereas, firm size (0.15, p = 0.013) providing larger firms tend to have higher ROE. Conversely, firm leverage (-0.12, p = 0.018) showing higher leverage correlates with lower ROE. The R-squared result is (0.60) indicating the model explains 60% of the variance in ROE.

Overall findings

The regression analysis provides valuable insights into how various AC characteristics and control variables influence firm financial performance. Key findings include: AC independence consistently shows a positive and significant relationship with ROA, ROE, and EPS, indicating that independent AC contribute to better financial outcomes. Similarly, AC financial expertise shows positively and

significantly impacts all three financial performance metrics, underscoring the importance of financial expertise in AC. Furthermore, AC gender diversity has was positively associated with ROA, ROE, and EPS, suggesting that gender-diverse AC enhance firm performance. While firm size result indicates that larger firms generally perform better financially, as indicated by the positive relationships with ROA, ROE, and EPS. Finally, firm leverage indicated a negatively affects all three financial performance metrics, highlighting the risks associated with higher leverage. These results support the idea that strong corporate governance, as evidenced by independent, financially expert, and gender-diverse AC, plays a crucial role in enhancing firm financial performance. Control variables like firm size and leverage also significantly impact performance, emphasizing the importance of considering these factors in financial analysis.

CONCLUSIONS, RECOMMENDATIONS

This study explored the relationship between AC characteristics and firm financial performance in Nigerian listed companies. By leveraging the theoretical frameworks of agency theory. This study examined how AC independence, meeting frequency, size, financial expertise, and gender diversity influence key financial performance indicators: return on assets (ROA), return on equity (ROE), and earnings per share (EPS). The analysis also included control variables such as firm size and firm leverage. The positive and significant impact of AC independence on ROA, ROE, and EPS indicates that independent AC is crucial for effective oversight and governance. This aligns with agency theory, which suggests that independent AC helps mitigate agency conflicts by ensuring management actions align with shareholders' interests. Regular AC meetings positively affect ROA, ROE, and EPS. Frequent meetings provide more opportunities for monitoring and addressing issues promptly, leading to better financial performance. This supports the idea that active and engaged AC are essential for robust governance.

The study's findings strongly support agency theory. Effective AC characterized by independence, frequent meetings, appropriate size, financial expertise, and gender diversity, play a crucial role in mitigating agency problems. These ACs ensure that management acts in the best interests of shareholders, leading to improved financial performance. By reducing information asymmetry and

providing rigorous oversight, well-structured AC enhances the alignment between management and shareholders.

Recommendations of the Study

These recommendations are grounded in the principles of agency theory, emphasizing the importance of effective AC. These recommendations are:

1. Strengthen AC Independence: Ensure that a significant proportion of AC members are independent non-executive directors. The Rationale for independent members can provide unbiased oversight, reduce conflicts of interest, and enhance the credibility of the AC, leading to better financial performance. Companies should revise their governance policies to increase the number of independent directors on the AC. Regulatory bodies should enforce stricter guidelines on the independence of members.
2. Increase Frequency of AC Meetings: AC should meet more frequently to address issues promptly and provide continuous oversight. Regular meetings ensure that the AC stays informed and can react quickly to any emerging issues, thereby enhancing financial performance
3. Optimize Audit Committee Size: Maintain an optimal size for the AC to ensure a diversity of views while remaining manageable. A well-sized AC can balance diverse perspectives with effective decision-making capabilities, improving governance and financial outcomes. Companies should assess and adjust the size of their AC to include sufficient expertise and diversity without becoming unwieldy.
4. Enhance Audit Committee Financial Expertise: To include members with strong financial backgrounds and qualifications in the AC. Financial expertise is crucial for understanding complex financial issues and ensuring accurate financial reporting, leading to improved financial performance.
5. Promote Gender Diversity in AC: Increase gender diversity within AC to benefit from a wider range of perspectives. Gender-diverse committees bring varied viewpoints and approaches, which can enhance decision-making and oversight, improving financial performance. Establish policies to promote gender diversity and actively recruit qualified female candidates for AC positions.

6. Manage Firm Leverage Prudently: Monitor and manage the level of firm leverage to avoid negative impacts on financial performance. High leverage can strain financial resources and increase risk, negatively affecting ROA, ROE, and EPS. Implement policies to maintain a balanced capital structure, with regular reviews of leverage ratios and risk management strategies.

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