INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

Shareholders Value: The Debate through Corporate Governance Mechanisms Perspective

Egwakhe, A. J[1]., Momah, N. S[2] ., & Akande, F. I[3]
[2, 3]Finance Department, School of Management Sciences , Babcock University, Nigeria
[1]Business Administration & Marketing Department, School of Management Sciences, Babcock University, Nigeria

DOI: https://dx.doi.org/10.47772/IJRISS.2023.7628

Received: 25 May 2023; Accepted: 12 June 2023; Published: 29 June 2023

ABSTRACT

Shareholders' value reflects an efficient utilization of rare resources and ability to generate profits. However, Nigerian banks case is otherwise since shareholders' value remain low and a concern for stakeholders, practitioners, policymakers, business tycoons, and researchers. This article investigates shareholders' value debate through corporate governance mechanism lens within Nigerian deposit money institutions. Thirteen deposit money institutions were used and panel regression analyses were conducted. Results showed that corporate governance procedures significantly and favorably impacted shareholder return..(Adj. R^2 = 0.1233, ($F (4, 174) = 7.90$, $p < 0.05$), Nonetheless, a positive but negligible effect was observed for return on equity. (Adj. R^2 = 0.0107, ($F (4, 111) = 1.71$, $p >0.05$).The paper recommends that board appointments should be experience-based, complex cognitive adaptability rather than affinity and activities should be shareholders' value focused. Also, regulatory framework should be tightened, and supervisory capabilities improved towards ensuring a steady increase in shareholder value.

Key Words: Corporate governance, board nomination committee, risk committee, shareholders value

INTRODUCTION

Shareholders 'value of Nigerian deposit money banks' has continued to decline, causing concern. In Nigeria, total banking sector assets decreased from N1.86 trillion in 2020 to N1.71 trillion in 2021. This diminishing fortune was attributed by Egwakhe, Akpan, and Ajayi (2019) to various corporate governance crises, as previously documented by Central Bank of Nigeria (CBN) (2017).

The International Monetary Fund (IMF) discovered in a 2020 study that the non-performing loans (NPLs) level in Nigerian banks remained above 10% in 2018, even though there were a lot of restructured loans. This was down from 14.8% the year before. However, the loans are highly concentrated in vulnerable sectors, particularly oil and gas, transportation, and power, demonstrating the Nigerian banking industry's poor risk management practices (IMF, 2020). A cursory observation indicates that the banking industry's efficiency and effectiveness over time shows a nation's financial stability, with corporate governance frequently serving as a pillar. In addition, deposit money banks serve the economic function of allocating limited financial resources from surplus to deficit units. The ability to constantly channel cash from depositors to investors is only conceivable if they can create enough income to cover operational expenditures and maintain its intermediation function based on good corporate governance (Kim, Batten & Ryu, 2020; Owolabi, Akinlabi, & Cole, 2020).

A glance into the global perception regarding banking and financing efficiency showed that in the Netherlands, Banking and financing are critical to the service sector since they supply capital to both

national and international enterprises. In 2020, the assets of national banking groups in the Netherlands reached a total value of approximately 2,300 billion euros, doubling the Dutch GDP as profitability improved in 2020 (Mardessi & Fourati, 2020). In Switzerland, with high development of the financial market, the openness of the Swiss economy, the governance structure, and the financial resources available to the banks are significant factors that enhance the global economic behavior of Swiss banks. The operating behavior of the Swiss banking sector is associated with financial development, a functional corporate governance system, and the profitability of Swiss banks (Dionisia, Grose, &Rebelo, 2021). The same applies to Malaysia (Khanifah, Pancawati, Asri, &Udin, 2020)

Regarding Nigeria, the Nigerian banking system remains fragile and faces immense obstacles. In its Article IV Consultation with Nigeria in April 2020, the International Monetary Fund (IMF) determined that the proportion of Nigerian banks with nonperforming loans (NPLs) remained above 10%. In light of this, as well as the empirical gap identified in previous works focusing on the mechanisms of corporate governance and shareholders' value: corporate governance indicators of including diversity on the board, risk committee, audit committee, and board nomination committee and their effect on shareholders' return (Adegboye, Ojeka, & Kofo, 2020; Alexander, Ediomi, & Ese, 2020; Ibrahim & Danjuma, 2020; Habibu, 2020; Kafidipe, Uwaloma, Wilson & Agwor, 2021), this paper's states that: **Corporate governance mechanisms have no significant effect on shareholders' value (Shareholders Return and Return on Equity) in Nigeria deposit money banks**

LITERATURE REVIEW

Corporate Governance

Oyejide and Soyibo (2018) define corporate governance as the assemblies within which a corporate body or firm determines its elementary positioning and course. Corporate governance is at the heart of both a marketplace economy and an independent society. In general, it is how companies use their money to make money for their owners and social wealth for the area where they work (Alhassan & Mavis, 2021). Corporate governance talks about responsibility and fiduciary duty, and it encourages the creation of rules and processes to make sure people act well and protect shareholders. Corporate governance also makes sure depositors' money is safe, that people trust banks, that banks have a good image (Adegboye et al., 2020; Alexander et al., 2020; Kafidipe et al., 2021; Owolabi et al., 2020; Wilson & Agwor, 2021), and that banks are efficient (Ajayi, Egwakhe, & Akpan, 2019). Charkham (2019) also said that corporate governance in banks is the framework that tells and controls banks as they try to reach their stated goals about sources of money. Arti (2015) says that the corporate governance structure is how the board, managers, shareholders, and other stakeholders share rights and duties. It also shows the rules and steps for making choices about the business and other things. The diversity of the board, the risk committee, the committee on auditing, and the board's nomination committee were used as corporate governance indicators in this study.

Board diversity is the practise of encouraging inclusion by fostering a diverse set of demographic traits and features in the boardroom. To establish a strong risk management framework, the risk committee is tasked with overseeing an entity's risk management procedure. Therefore, it is responsible for monitoring senior management's implementation of that appetite, management, and control, reporting on the state of the bank's risk culture, and advising the board on the bank's overall present and future risk appetite. In order to accomplish a company's objectives, the audit committee is in charge of developing internal auditing and financial reporting procedures. Al-Hadrami, Rafiki, &Sarea in 2020; Hundal, Eskola, & Troudi in 2022; Odubuasi, Ofor, & Ugbah in 2022; Velte in 2023). The Board Nomination Committee is tasked with advising the Board of Directors on policies for compensation and senior managers with strategic responsibilities and making recommendations in this regard.).

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

Shareholders Return and Return on Equity (Shareholders Value)

According to Pamela (2015), shareholder return is a gauge of financial success relative to investment. The level to which organization has successfully accomplished proper application of shareholders' resources, also known as shareholders' return, is indicated by the ratio between net profits and equity. In addition, Profit Before Taxes (PBT) divided by Shareholders' Funds is the formula used by Soyemi, Akinpelu, et al. and Ogunleye (2018) defined shareholder return. The shareholder's rate of return. is measured by ROE, whereas the company's owners rate of return is measured by ROA. How effectively a bank's management utilises shareholder capital is shown by its shareholder return. It roughly represents the net return on investment for the company's stockholders. Given that capital is risked in the hopes of turning a profit, Mihaela and Radu (2016) claimed that a company's shareholders' return reveals its earning capacity. According to Jensen (2015), when calculating shareholder return, an investor may only take into account dividends that they received or were qualified to receive. For instance, unless they possessed the stock prior to the ex-dividend date, they will not receive the dividend even if they owned the stock on the date of the dividend payment. An investor should then be aware of the stock's ex-dividend date rather than the dividend payment date. The ratio known as return on equity (ROE) tells investors how well a company uses the money given by its owners. The aggregation of shareholders 'return and return on equity defines shareholders' value within context and construct.

THEORETICAL FRAMEWORK

Stewardship Theory

A manager is considered as an organization's steward whose actions and aims correspond with those of the proprietors, according to Davis, Schoorman, and Donaldson (1997). According to the argument, the company's commitment to mankind includes supporting its customers, employees, and community. The theory's core tenet is that the objective of business is to serve rather than to profit. In order to provide services, the organisation must be financially viable, and this strategy promotes resource efficiency by collaborating with stakeholders. Profits are essential to the organization's service-oriented mission and a vital source of funding.

According to Madison (2014), the stewardship theory is backed by research that analyses the employment relationship between the principle (owner) and the steward (manager) from a behavioural and structural standpoint. Shen (2003) agreed with this viewpoint, claiming that it explains the link between a company's success and its management's happiness. When the steward learns that following the company's and the group's goals will lead to self-actualization, this trade-off becomes clear. Arnold (2008) questioned the stewardship theory, arguing that management behavioural ambiguity can be overcome by assuming opportunistic behaviour and implementing governance structures to avoid opportunism. However, the failure of governance structures built on mistrust and in accordance with the theory's recommendations to prevent managerial misbehaviour has called stewardship theory into question. This study illustrates the fundamental concept of stewardship by demonstrating that managers or executives of a firm are stewards of the company's stockholders and that both groups have equivalent goals.

Agency Theory

For the first time, Stephen Ross and Barry Mitnick proposed the agency theory separately and concurrently in 1973. The optimal way to set up a relationship where one party (the principle) decides what work the other party (the agent) does is explained by agency theory. Agency theory addresses a company's ownership structure. That mechanism allows executives in businesses to coordinate their interests with those of the owners and exert control over the system that allows the principal and agent's interests to be coordinated.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

This can be observed in the composition of the company's board of directors, the procedures for formulating and implementing strategic decisions, the methods for reporting and controlling, and the risk management practises that are critical to running successful organisations. Others include the appointment and compensation of board of directors and management, which serve to regulate the agent's activity and align it with the interests of the principal (Pan, 2013).

When managerial efficiency is critically examined, it becomes clear that the agency problem, which results from the separation of management and ownership, is at its core (Simanjuntak, 2001). The idea contends that managerial decisions in the contemporary corporation, when individual shareholders retain a significant portion of ownership, go beyond merely maximising shareholder profit. Beginning in the 1980s, this theory, which already existed, was applied to directors and boards. The hypothesis is predicated on the idea that people prefer to behave in their own interests to those of others. The agency theory describes the interaction between directors and stakeholders (including shareholders) as a contract. The directors function as the stakeholders' agents, making decisions in their best interests and paying transaction costs for the checks and balances needed to prevent non-compliance from exceeding the costs of enforcement. Due to the projects that have been taken on and the funding choices made by the shareholders, there is friction between the owners and the creditors. When there is a chance for a greater return, the shareholders attempt to invest in hazardous enterprises.

Project risk affects the creditors since it raises the cost of financing and decreases the value of the outstanding debt. The owners stand to gain tremendous profits from a successful investment, but creditors' interest is limited because they only receive a certain rate of interest. The issue still exists in these kinds of circumstances generally because, if the project fails, the creditors will be obliged to share in some of the losses. Perrow (2006) criticised positivist agency researchers for concentrating primarily on the agent side and contended that the "principal and agent problem" may also originate from the principal side. He emphasised that this theory does not account for the principals who deceive, evade, and exploit the agents.

In addition, he said that agents are unintentionally forced into dangerous jobs with little room for intrusion where the principals take advantage of them. He had a different viewpoint and thought that people were honourable and would act morally for the benefit of the business. This disagreement lasted in the literature on finance and evolved into the stewardship hypothesis, a renowned idea. The agency theory, which examines the ownership structure of the business and the mechanism by which company managers can align their benefits with those of the owners and exert control over that mechanism to work towards aligning the benefits of the principal and the agent, is pertinent to this subject.

Empirical Review

Corporate Governance Mechanisms, Shareholders Return and Return on Equity

Results from limited studies on corporate governance mechanisms and shareholders return have been inconclusive despite applying various mechanisms of corporate governance; this could be due to geographical location, methodology, analytical tool, and or type of economy. For instance, CEO duality and ROA and ROE showed a favourable but statistically insignificant correlation, according to Alhassan and Mavis (2021). The researchutilised secondary data extracted from the annual reports of thirty rural institutions from 2010 to 2019.

The association between board size and ROA was not statistically significant, however there was a positive correlation between board size, ROA, and ROE. The independence of the board had a considerable impact on the financial performance of insurance businesses (Egwakhe et al., 2019). Additionally, a statistically significant inverse correlation between ROA and ROE and gender diversity on the boards of rural banks was discovered. Owiredu and Kwakye (2020) used the annual reports and financial statements of the studied

banks from 2007 to 2016 in Ghana to conduct a second study on the effects of corporate governance standards on the financial performance of Ghanaian banks. They found that, as measured by ROA and ROE, there was a significant positive correlation between the size of the board and the financial success of Ghanaian institutions. Owiredu and Kwakye (2020) also discovered a statistically significant beneficial relationship between foreign ownership and financial performance, which was assessed by ROE and ROE.

According to a study by Kyere and Marcel (2020) in the United Kingdom, good corporate governance has a positive effect on the financial success of non-financial companies listed there. On return on assets and Tobin's Q, two financial performance metrics, the effects of five corporate governance models were examined. In 2014, empirical research on 252 companies listed on the London Stock Exchange demonstrates a positive, negative, and occasionally null correlation between corporate governance practises and financial success. The corporate governance and financial performance of Kenyan commercial banks registered on the Nairobi Securities Exchange were also evaluated by Isaac, Gerald, and Ambrose (2020). Using return on equity, return on assets, and net interest margin as performance measures, the effect of board size, independence, education level, gender diversity, and ethnic composition on a company's financial performance was examined. It was discovered that these factors had a significant positive impact on the financial performance of publicly traded commercial banks.

Furthermore, a previous study by Barako and Tower (2017) on the relationship between ownership structure and bank performance in Kenya as measured by return on equity discovered that board ownership is strongly and unfavourably correlated with performance, institutional shareholders had no discernible impact on performance, and foreign ownership was significantly and favourably correlated with return on equity.Habibu (2020) explored the association between corporate governance on the board of directors and Nigerian bank financial performance. ROA was chosen as the performance measure, with three board characteristics (board independence, board meetings, and board gender) acting as surrogates for the independent variables. Using secondary data acquired from the 2013-2015 annual reports of fifteen (15) banks listed on the Nigeria Stock Exchange, researchers discovered a positive relationship between board independence and ROA, but a negative relationship between board meeting and ROA. The relationship between board genders, board size, and ROA, on the other hand, was statistically negligible. While there was a statistically significant positive relationship between firm size and ROA, the relationship between bank age and ROA was found to be significantly unfavourable. Akinleye, Olarewaju, and Fajuyigbe (2019) examined the corporate and financial performance of a variety of multinational Nigerian corporations between 2012 and 2016, focusing on the impact of board size, activism, and committee engagement on return on assets and growth rate. Results from four worldwide corporations utilising secondary data revealed that committee membership had minimal effect on return on assets, although board size and board activism did. Committee activity, according to the study, had very little of a beneficial impact on the firm's growth rate, although board size and board activism did. In conclusion, corporate governance had minimal impact on the rate of growth of Nigerian multinational corporations but had a considerable negative impact on return on assets.

Ahmad (2018) investigated the association between corporate governance and Palestinian bank performance as assessed by return on equity. Board size, CEO duality, internal ownership, and bank age, on the other hand, had a significant positive impact on the sampled banks' return on equity, whereas board hierarchy, family ownership, bank size, and debt ratio had a significant negative impact. The size of the board of directors, as well as internal ownership, were discovered to have a significant impact on how successfully Palestinian banks performed. Al-Smadi (2018) found that committees of the board of directors had a significant impact only on return on equity in his study of the link between corporate governance, return on equity, and risk in Saudi Arabian banks. In contrast, corporate governance variables like as board size, ownership concentration, and institutional ownership had a significant impact on return on equity and risk.

Fanta, Kemal, and Waka (2018) found that indicators of corporate governance, like board size and the presence of an audit committee on the board, significantly impacted return on equity in Ethiopia. The size of the bank and return on equity, however, had a statistically significant positive association. Similar to the return on equity, the capital adequacy ratio demonstrated a statistically significant positive relationship with external corporate governance system. In addition, it was discovered that the absence of a regulated stock exchange, the high level of government intervention, the lack of awareness of corporate governance, the lack of national standards for accounting and auditing, and the absence of a solid legal framework to safeguard the rights of minority shareholders all had a negative impact on corporate governance and return on equity.

Love and Rachinsky (2018) chose Russia and Ukraine for a study on the impact of corporate governance and ownership on bank performance in emerging economies as measured by return on equity. The analysis discovered a weaker relationship between governance and future performance, as well as a statistically significant but economically insignificant relationship between governance and current operating performance. (2014) evaluated the performance and corporate governance of Malaysian and Vietnamese banks. According to the findings, board size, audit committee size, and capital adequacy ratio, all had a significant impact on both Vietnamese and Malaysian commercial banks. However, there were differences between the two countries in the extent to which corporate governance proxies influenced return on equity.

METHODOLOGY

Population of the study

The primary source of secondary data for this research study is the banks' annual reports from 2006 through 2021. Purposive sampling was used to choose a sample of 13 banks from among the 19 banks registered on the Nigerian stock exchange. This strategy is consistent with previous research by Alhassan and Mavis (2021) on the impact of different corporate governance frameworks (board size, board independence, board gender diversity, and CEO duality); Ogunmakin, Fajugbaebe, and Alayo (2020) on the relationship between corporate governance and financial performance of Nigerian banks; and Akinleye, Olarewaju, and Fajuyigbe (2019) on the relationship between corporate governance and performance of Nigerian banks.

Method of Data Collection

The data for this research was gathered from secondary sources using yearly reports from a sample of deposit money institutions from 2006 to 2021. Since the data were previously available and appropriate for this investigation, this strategy was chosen. The Statutory Act governing the submission of audited financial statements of the chosen banks provides the foundation for the authenticity and dependability of the data.

Estimation Techniques

The research employed an econometric technique and the estimation techniques are consistent with the established theoretical and statistical significance laid down for research objectives. This study adopted the panel ordinary Least Square (POLS) method of evaluation. Multiple regressions analysis was used to investigate how corporate governance mechanisms affect shareholders return. However, before the multiple regression analysis, some pre-estimation techniques like descriptive statistics, correlation matrix, bivariate, multicollinearity and unit root test for model specification were conducted. The multicollinearity test employed variance inflation factors (VIF) and tolerance level (1/VIF), whereas the bivariate analysis used the Pearson Product Moment correlation matrix. The analysis included a fixed effect model, a random effect model, and a pooled OLS regression analysis in the form of a panel regression.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

Bivariate Analysis and Multicollinearity Test

The Pearson product moment correlation coefficient was chosen to serve as a bivariate analysis representative. The technique determined the direction and strength of the association between the corporate governance mechanisms' proxies. The proxies of corporate governance procedures in a regression model were also examined for correlation using the variance inflation factor and tolerance threshold.

Table 1. Bivariate Analysis and Multicollinearity Test

	BD	RC	AC	BNC	VIF	1/VIF
BD	1.000				1.18	0.848
RC	0.0338	1.000			1.17	0.854
AC	0.3110	0.1408	1.000		1.02	0.864
BNC	0.3119	0.0899	0.2778	1.000	1.16	0.977
Mean VIF					1.13	

Where BD represents board diversity, RC represents the risk committee, AC represents the audit committee, and BNC represents the board nomination committee, VIF – Variance inflation factor, and 1/VIF – tolerance factor.

Source: Researcher's Model, 2023

Information in Table 1 presents BD, RC, AC, and BNC results. The results indicate that proxies of corporate governance mechanisms had weak positive correlation. It revealed that BD and RC had value of 0.0338; BD and AC (0.3110), BD and BNC (0.3119); RC and AC (0.1408), RC and BNC (0.0899), and AC and BNC (0.2778). Confirming the result of the analysis, the VIF value is less than 10 (VIF < 10), indicating that there is no problem of multicollinearity test. Also, the tolerance level results confirmed the value obtained for correlation analysis and VIF. The tolerance level shows a value < 1, meaning that there is no problem of multicollinearity test.

Model Specification

Corporate governance mechanisms effect on shareholders' return was investigated through a model based on Ogunmakin et al. (2020) analysis of Nigerian banks' corporate governance and Egwakhe et al. (2019) on insurance firms' financial performance. As such the following linear equations are presented taking into account the study hypothesis:

$$SRit= \beta_0+ \beta_1 BDit+ \beta_2 RCit+ \beta_3 AC + \beta_4 BNCit+\mu \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \quad (i)$$
$$ROEit= \beta_0+ \beta_1 BDit+ \beta_2 RCit+ \beta_3 ACit + \beta_4 BNCit +\mu \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \quad (ii)$$

Where:

SR= Shareholders Return

ROE = Return On Equity

BD = Board diversity

RC = Risk committee

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

AC = Audit committee

BNC =Board nomination committee

B0- Intercept

β_1-β_4 =Coefficient for the independent variables

μ= Error term

FINDINGS AND DISCUSSION

Table 2 provides the lowest value, maximum value, standard deviation, and mean as proxies for the value of the shareholders. The return to shareholders and return on equity serve as proxies for shareholder values. Return on equity has the highest mean of these proxies, 7.719. Its standard deviation is 39.551 and ranges from -394.32 to 122.8.

Table 2: Summary Statistics of the Shareholders value

Variable	Min	Max	Std. dev	Mean	Observation
Return on Equity	-394.32	122.8	39.351	7.719	191
Shareholders Return	0.000	2.210	0.528	0.400	192

Source: Researcher's Model, 2023

The shareholders' return is 0.400, with a minimum value of 0 and a high value of 2.210, with a standard deviation of 0.528. The outcome demonstrates the broad range of variation in the dataset used, with 0 being the least value and 122.8 representing the highest value among the proxies for shareholders.

Table 3: Summary Statistics of the Corporate Governance Mechanisms

Variable	Min	Max	Std. dev	Mean
Board Diversity	0	60	11.276	15.991
Risk Committee	0	14	2.967	6.257
Audit Committee	4	9	0.424	6.011
Board Nomination Committee	0	9	2.741	2.121

***** Number of Observations = 190.**

Source: Source: Researcher's Model, 2023

BD, RC, AC and BNC are examples of corporate governance proxy groups. The dataset is evenly distributed. According to the analysis's findings, board diversity has the greatest mean value—15.991—with the lowest mean value—0—and highest mean value—60—and the biggest standard deviation—11,276. The risk committee has a standard deviation of 2.967, an average mean value of 6.257, and is classified as the second mean value among the other proxies. 0 and 14 represent the minimum and maximum values. The audit committee has the third-highest rated mean value of all of these, measuring 6.011 with a standard deviation of 0.424 and a range of 4 and 9, respectively. The mean, standard deviation, minimum, and maximum values for the board nominating committee are 2.121, 2.741, 0, and 9 correspondingly. The outcome revealed that board diversity has the highest dataset value. The statistics also revealed a significant

fluctuation between 2006 and 2021.

Table 4:Corporate Governance Mechanisms and Shareholder's Return

	Fixed Effect GLS Regression with Driscoll-Kraay Cluster standard errors				
	Coeff.	**Std. Error**	**T**	**P -value**	**Remarks**
Constant	0.178	0.335	0.53	0.595	
Board Diversity	0.005	0.003	1.91	0.058	Do not reject H_0
Risk Committee	-0.032	0.009	-3.39	0.001	Reject H_0
Audit Committee	0.042	0.056	0.75	0.453	Do not reject H_0
Board Nomination Committee	0.042	0.010	4.12	0.000	reject H_0
Adjusted R^2	0.1233				
F-stat	F(4, 174) = 7.90 (0.000)				
Hausman Test	$Chi^2(4)$ = 16.42 (0.0025)				
Testparm	F(15, 159) = 2.80 (0.0007)				
Heteroskedasticity Test	$Chi^2(1)$ = 21.16 (0.000)				
Serial Correlation Test	F(1, 11) = 18.118 (0.0014)				

Where BD stands for board diversity, RC for the risk committee, AC for the audit committee, and BNC for the board nomination committee,

Interpretation

Following preliminary investigations, the fixed effect model and the random effect model were deemed appropriate; the Hausman test was used to evaluate which model was better suitable for the inquiry. The fixed effect model threshold was considered to be appropriate and compatible with the analysis because the p-value was less than 0.05. Because there are asymmetrical disparities in the model coefficients, the analysis rejects the null hypothesis. As they assist in identifying the best-fit model between fixed effects and pooled OLS regression, the results of the Hausman test and testparm for fixed effect models are utilised to support and corroborate the assumption. The inclusion of fixed effects in model estimation is supported by the Testparm results, which had a p-value of 0.0007, which is less than the 5% significance level.

Heteroskedasticity and serial correlation were used to assess the model's statistical robustness. The null hypothesis states that the standard errors of the model were constant over time, and the heteroskedasticity test was performed to assess whether the fluctuations in the model's residuals are constant over time. When heteroskedasticity was tested using the Breusch-Pagan/Cook-Weisberg test, the result was a p-value of 0.00, which is less than the 5% level of significance. This suggests the presence of heteroskedasticity, which means that the model is heteroscedastic and its residuals do not remain constant over time.

The presence of any autocorrelation between the residuals and the model coefficients was also examined using a serial correlation test. According to Baltagi, (2021), the autocorrelation problem results in the standard errors of the coefficients being lower than their true value and the coefficient of determination (R2) being higher than typical. The null hypothesis of the test (no first order of autocorrelation) states that there

was no serial correlation. According to the results of the Wooldridge test, there is a problem with serial correlation at a p-value of 0.014, which is less than the 5% threshold for significance. Finally, using a fixed effect model GLS regression with the cluster, the impact of corporate governance mechanisms on shareholders' returns of deposit money banks in Nigeria was examined.

Regression Equation Results

$$\hat{SR}_{it} = \beta_0 + \beta_1 BD_{it} + \beta_2 RC_{it} + \beta_3 AC_{it} + \beta_3 BNC_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{Main Model}$$
$$SR_{it} = 0.178 + 0.005BD_{it} - 0.032RC_{it} + 0.042AC_{it} + 0.042BNC_{it}$$
$$SR_{it} = 0.178 - 0.032RC_{it} + 0.042BNC_{it}$$

The regression results indicated that BD, AC, and BNC had a positive impact on the shareholder return of Nigerian deposit money banks. This indicates that as BD, AC, and BNC numbers increase, the shareholder return measurement increases by 0.005, 0.042, and 0.042 percent, respectively. The research also revealed that RC had a negative impact on the shareholder return of Nigerian deposit money banks. As RC increases, the shareholder return of deposit money institutions decreases by 0.032 percent, according to the study. Additional analysis revealed a varied relationship between corporate governance mechanisms and shareholder returns in Nigerian deposit money banks. The study revealed that RC and BNC had a significant impact on the shareholder return of deposit money banks, whereas BD and AC had no influence.

The adjusted R2 of 0.1234 indicated that corporate governance mechanisms activities accounted for 12.33% of the variance in shareholder returns, while other factors accounted for 87.67% of the variance in shareholder returns. The null hypothesis of the regression model is rejected at p-value 0.05 based on the F statistic of 7.90 and the p-value of 0.000 at the significance level of 0.05. Thus, the study discovered that corporate governance mechanisms had a substantial impact on shareholder returns at Nigerian deposit money banks.

DISCUSSION OF FINDINGS

According to the study, 12.33% of corporate governance mechanisms contributed to shareholder return. The study found a mixed model, which indicates that two of the proxies of corporate governance mechanisms had an insignificant impact on shareholder return, while two variables had a significant effect. Board Nomination Committee (BNC), Audit Committee (AC), and Board Diversity (BD) also showed a favourable effect on shareholder return, whereas Risk Committee (RC) demonstrated a negative effect. Thus, the conclusion of the study was that corporate governance mechanisms had a significant impact on shareholder return. Therefore, findings both support and refute previous works.

Alhassan and Mavis's investigation uncovered a positive correlation between board size and ROA and ROE, but a negligible effect. This research supports the findings of this paper, which found that corporate governance mechanisms have a positive but statistically insignificant effect on the return on equity of Nigerian deposit money banks. The findings of Habibu (2020) corroborate this finding and conclude that there is no negative correlation between board independence and ROA. It was determined that both the Board meeting and the ROA were severely deficient. Isaac et al. (2020) discovered that board size, independence, education level, gender diversity, and ethnic composition have a significant positive impact on the financial performance of publicly traded commercial institutions.

Love and Rachinsky (2018) discovered a statistically significant but economically negligible reduction in the correlation between governance and performance. Board size, audit committee size, and capital adequacy ratio were found to significantly affect both Vietnamese and Malaysian commercial banks by Dao and Dao (2014); however, there were differences between the two nations in how these crucial corporate governance proxies affected return on equity. Rose (2007) had a positive and statistically significant impact

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

on Tobin's q and return on equity, as revealed by decomposing the results.

All of these studies run counter to research findings that suggest corporate governance processes affect deposit money banks in Nigeria's return on equity. The results of this study are in line with those of Josuha, Effiong, and Imong (2019), who discovered favourable and statistically significant connections between the membership of the audit committee, the board, and the size and return on assets of the banks. Al-Smadi (2018) significantly affected return on equity and risk, whereas board of directors committees only significantly affected return on equity.

According to Fanta et al. (2018), there is a statistically significant positive correlation between bank size and return on equity. Owiredu and Kwakye (2020) demonstrate that enhanced corporate governance standards are crucial to the financial performance of a company. In contrast to this research, Barako and Tower (2017) concluded that institutional shareholders had no discernible effect on performance. Tandelilin (2017) concludes that there is no linear relationship between corporate governance and return on equity, which contradicts the findings of the present study.

The dimensions of corporate governance mechanism were regressed against one of the surrogates for shareholder value, return on equity. Table 5's p-values indicated that there was no statistically significant threshold; therefore, corporate governance mechanisms were unable to substantially increase or decrease return on equity during the study period.

Test of Hypothesis two

Table 5: Corporate Governance Mechanisms and Return on Equity

	Pooled OLS Regression Model				
Return on Equity	**Coeff.**	**Std. Error**	**t**	**P -value**	**Remarks**
Constant	22.941	17.547	1.31	0.218	
BD	0.194	0.299	0.65	0.529	Do not reject H 0
RC	-1.223	1.241	-0.99	0.346	Do not reject H 0
AC	-2.169	2.876	-0.75	0.467	Do not reject H 0
BNC	1.126	0.860	1.31	0.217	Do not reject H 0
Adjusted R^2	0.0107				
F-stat (4, 11)	1.71 (0.2174)				
Hausman Test	$Chi^2(4)$ = 16.49 (0.0024)				
Testparm	F(15, 159) = 0.57 (0.8971)				
Heteroskedasticity Test	$Chi^2(1)$ = 65.04 (0.000)				
Serial Correlation Test	F(1, 11) = 4.159 (0.0662)				

Where BD stands for board diversity, RC for the risk committee, AC for the audit committee, and BNC for

the board nomination committee.

Source: Researcher's Compilation, 2023

Interpretation

The model analyzed the effect of corporate governance mechanisms on return on equity of deposit money banks in Nigeria. The diagnostic result of Hausman test is the most appropriate method of estimating the regression for the hypothesis among the panel regression analysis such as fixed effect model, random effect model, and Pooled OLS regression analysis displayed in Table 5. From the results above, the result of Hausman test showed that the p-value of 0.0024 was less than 0.05 (5%) significance level. This indicates that the null hypothesis stating that the random effect model is acceptable is false and should be rejected. Thus, fixed effect model was considered as the most appropriate estimator. It means that there was a presence of unsystematic difference in the model coefficients.

Since fixed effect model is the most appropriate model between fixed effect model and random effect model and to confirm whether fixed effect model or Pooled OLS regression model is best for the analysis, testparm test was used to confirm the result of the analysis. The results of the Testparm with p-value of 0.8971, which is greater than the significance level of 5 percent; affirm the appropriateness of Pooled OLS regression in estimating the model.

On the basis of the heteroskedasticity, the robustness of the model was evaluated. The null hypothesis asserts that the model's standard errors remain constant over time. This test was conducted using the Breusch-Pagan/Cook-Weisberg test, and the p-value was 0.0000, which is less than the 5 percent significance level. An indication of the presence of heteroskedasticity; i.e., the residuals of the model are not constant over time, indicating that the model is heteroscedastic. Autocorrelation problem, according to Baltagi (2021), causes the standard errors of the coefficients to be lower than their actual value and the coefficient of determination (R2) to be greater than usual. The null hypothesis of the test asserts that there is no serial correlation (no autocorrelation of the first order). The Wooldridge test was performed, and the p-value of 0.0662, which is greater than the 5 percent significance level, indicates that the model does not contain a serial correlation problem.

Hence, the result of the analysis revealed that Pooled OLS regression model is the most appropriate method of data analysis. Thus, the study used Pooled OLS regression model to analyse the effect of corporate governance mechanisms on return on equity.

Regression Equation Results

$$ROE_{it} = \beta_0 + \beta_1 BD_{it} + \beta_2 RC_{it} + \beta_3 AC_{it} + \beta_3 BNC_{it} \ldots\ldots\ldots\ldots\ldots\ldots \text{Model 4}$$

$$ROE_{it} = 22.941 + 0.194BD_{it} - 1.223RC_{it} - 2.169AC_{it} + 1.126BNC_{it}$$

Table 5 analyses the effect of corporate governance practices on the return on equity of Nigerian deposit money institutions. According to the analysis, return on equity is unaffected by all proxies for corporate governance procedures. RC and AC have a detrimental impact on the return on equity of Nigerian deposit money institutions, according to the analysis's findings. According to the findings, an increase in RC and AC will cause deposit money banks in Nigeria's return on equity to drop by 1,223% and 2,1693%, respectively. The return on equity is also positively impacted by BD and BNC. This suggests that an increase in BD and BNC will, respectively, boost the assessment of deposit money banks' return on equity in Nigeria by 0.194% and 1.126%.

The study also analyzed all corporate governance mechanisms' proxies. According to the analysis, the p-value for each proxy of corporate governance mechanism was greater than the significance threshold of 0.05

(5%). This indicated that BD, RC, AC, and BNC have an insignificant effect on the return on equity of Nigerian deposit money banks.At a significance level of 0.05, the F statistics of 1.71 and the p-value of 0.2174, the null hypothesis was not rejected. The study concluded that corporate governance mechanisms have no significant impact on the return on equity of Nigerian deposit money banks.

Discussion of Findings

The variance of the return on equity for corporate governance proxies is positive but minimal. This suggests that the independent variable contributes minimally to corporate governance mechanisms' effect on Nigerian deposit money banks' return on equity. The analysis revealed that RC and AC have a negative and insignificant effect on the return on equity of Nigerian deposit money banks. Additionally, BD and BNC have a positive and substantial effect on the return on equity of Nigerian deposit money banks. This indicated that an increase in the number of RC and AC would reduce the ROE measurement.

The research of Alhassan and Mavis (2021) revealed a positive link between board size and ROA and ROE but found an insignificant effect. This research is in support of these findings, which found that corporate governance mechanisms insignificantly affect Nigerian deposit money banks return on equity. Habibu (2020) also supports these research findings and concludes that board independence and ROA are not negatively correlated. It was determined that the board meeting and ROA were significantly poor.

According to Isaac et al. (2020), there is a considerable positive relationship between board independence, size, education level, gender diversity, and ethnic makeup and the financial success of publicly traded commercial institutions. According to Love and Rachinsky (2018), the association between governance and future performance is statistically significant but economically negligible. According to Dao and Dao's (2014) research, board size, audit committee size, and capital adequacy ratio all had a significant impact on Vietnamese and Malaysian commercial banks; however, the effects of these important corporate governance proxies on return on equity varied between the two nations. Analysing the data demonstrates that Tobin's q and return on equity were positively and statistically significantly impacted by Rose (2007). All of these studies run counter to research findings that suggest corporate governance processes affect deposit money banks in Nigeria's return on equity.

CONCLUSION AND RECOMMENDATION

From 2006 through 2021, a sample of thirteen listed banks were employed in the study. to assess the impact of corporate governance measures such as board diversity, risk committee, audit committee, and board nominating committee on shareholders' value of deposit banks in Nigeria. The results revealed that the variable RC (risk committee) is statistically significant with a negative coefficient of -0.032, indicating that an increase in risk committee is associated with a decrease in the shareholder's return. The variable BNC (board nomination committee) is also statistically significant, with a positive coefficient of 0.042, indicating that an increase in board nomination committees is associated with an increase in shareholders' return. The variables BD (board diversity) and AC (audit committee) are not statistically significant at p-values of 0.058 and 0.453. The F-statistic of 7.90 with a p-value < 0.001 indicates that the overall model is statistically significant. Overall, these results suggest that the composition of the board of directors plays a core role in determining the dependent variable. The results may be relevant in guiding decision-making related to corporate governance.

The following recommendations can be made based on the findings presented above. Every company should have its own corporate governance rules that make it clear what each committee's job is. This is to avoid overlapping responsibilities and bad coordination between committees, which could make it harder for committees to make decisions that meet the requirements of regulatory authorities. Corporate executives

should act in a way that benefits all stakeholders, according to board committees. To ensure an accurate shareholders return, businesses should support and strengthen the audit committee. The regulator should tighten its framework and improve its managerial capabilities to ensure good working affiliation with banks and avoid bank distress and failure. Finally, efforts to improve corporate governance should concentrate on valuing board members' stock holdings. Future studies should be replicated in other sector of the economy, timeframe should be expanded, other concepts factored into the equation and moderator included.

REFERENCES

1. Adegboye, A., Ojeka, S., Adegboye, K., Ebuzor, E., & Samson, D. (2019). Firm performance and condensed corporate governance mechanism: Evidence of Nigerian financial institutions. Verslas: Teorijairpraktika/Business: Theory and Practice, 20, 403-416.
2. Ajayi, A. A., **Egwakhe**, A. J., &Akpa, V. O. (2019). Board Diversity and Financial Efficiency of Insurance Firms in: Evidence from Nigeria. International Journal of Advanced Research in Statistics, Management, and Finance, 7(1)
3. Akinleye, G. T., Olarewaju, O., &Fajuyagbe, B. S. (2019). Corporate governance and financial performance: An empirical analysis of selected multinational firms in Nigeria. Problems and Perspectives in Management, 17(1), 11-18. doi:10.21511/ppm.17(1).2019.02
4. Akhamiokhor, S.A., Egwakhe, J.A., & Umukoro, E.J. (2023). Organizational culture and corporate image competitiveness: Evidence from merged deposit money banks in *Academy of Strategic Management Journal,* 22(S2), 1-14.
5. Alexander, O., Ediomi, A., & Ese, U. (2020).Macroeconomic factors, corporate governance and financial malpractices in Nigerian banks. Journal of Money Laundering Control, 24(3), 647-658.
6. Al-Hadrami, A., Rafiki, A., & Sarea, A.(2020). The impact of an audit committee's independence and competence on investment decision: A study in Bahrain. Asian Journal of Accounting Research, 5(2), 299-313. https://doi.org/10.1108/AJAR-02-2020-0008
7. Alhassan, M.,& Mavis, A. (2021). The effect of corporate governance on financial performance of rural banks in Ghana. International Journal of Financial Accounting Management, 2(4), 305-319.
8. Al-Smadi, M. O. (2018). The role of financial inclusion in financial stability: Lesson from Jordan. Banks and Bank Systems, 13(4), 31-39.doi:10.21511/bbs.13(4).2018.03
9. Arnold, B. (2015). Joint venture/joint exposure: An effective governance strategy can ensure an appropriate level of owner oversight and minimize shared risks. Internal Auditor, 72(2), 57-62.
10. Arnold, J. (2008). Do tax structures affect aggregate economic growth?: Empirical evidence from a panel of OECD countries. OECD Economics Department Working Papers, No. 643, OECD Publishing, Paris, https://doi.org/10.1787/236001777843.
11. Arti, A. (2015). Philosophy of corporate social responsibility vis-à-vis corporate governance. International Research Journal of Management Sociology & Humanity, 6(7), 155-170.
12. Barako, G., & Tower, G. (2007).Corporate governance and bank performance in Kenya. International Scientific Journal on Corporate Ownership and Control, 4(2), 10-25.
13. CBN (2017). Corporate governance in the banking sector in Nigeria. Quarterly Economic Review, 32-54.
14. Charkham, A. (2019). Corporate governance, board diversity and firm value. Journal of Development Economics, 16(7), 23-30.
15. Dao, T. B., & Dao, M. T. (2014). Corporate governance and bank performance – An international comparison Vietnam and Malaysia. SSRN Electronic Journal, 1-28. http://dx.doi.org/10.2139/ssrn.2539948
16. Davis, J., Schoorman,F., & Donaldson, L. (1997). Towards a stewardship theory of management. Academic Management Review, 22(1), 20-47.
17. Dionisia,T., Grose, C., & Rebelo, G. (2021). Evaluating the quality of corporate governance of Swiss banks. Studies in Business and Economics, 16(3), 43-76.
18. Egwakhe**, J.**, Akpa, V.O. & Ajayi, A. A. (2019). Board Diversity and Profitability of

Insurance Firms in Nigeria: Evidence from the Listed Firms. International Journal of Advanced Studies in Business Strategies and Management, 7(1), 41-59.

19. Fanta, B., Kemal, S.,&Waka, K. (2013).Corporate governance and bank performance in Ethiopia.Journal of Finance and Accounting, 1(1), 19-26.
20. Habibu, (2020).Corporate governance and financial performance of Nigeria listed banks. Journal of Advance Research in Dynamical & Control Systems, 12(1), 43-53.
21. Hundal, S., Eskola, A., &Troudi, M. (2022). Do board of directors’ characteristics and executive remuneration impact financial reporting quality? A quantitative analysis of the Nordic manufacturing sector. Corporate Ownership & Control, 20(1), 59–67. https://doi.org/10.22495/cocv20i1art5
22. Ibrahim, U. A., & Danjuma, S. (2020). Effect of corporate governance on the performance of listed deposit money banks in Nigeria. Science Journal of Business and Management, 8(1), 35-40.
23. International Monetary Fund (IMF) (2020). Corporate governance systems in organisations. IMF Annual Review, 67-96.
24. Isaac, M., Gerald, A., & Ambrose, J. (2020). Corporate governance and financial performance of selected commercial banks listed in Kenya. International Academic Journal of Economics and Finance, 3(5), 75-91.
25. Jensen, M. C. (2015). A theory of the firm: Governance, residual claims, and organizational forms. Harvard University Press.
26. Joshua, N., Effiong, E.,&Imong, N. (2007).Effect of corporate governance on financial performance of listed deposit money banks in Nigeria.Global Journal of Social Sciences, 18(1), 107-118.
27. Kafidipe, A., Uwalomwa, U., Dahunsi, O., & Okeme, F. O. (2021). Corporate governance, risk management and financial performance of listed deposit money bank in Nigeria. Cogent Business & Management, 8(1), 1888679.
28. Khanifah, K., Pancawati, H., Asri, D., &Udin, U. (2020). The effect of corporate governance disclosure on banking performance: Empirical evidence from Iran, Saudi Arabia, and Malaysia. Journal of Asian Finance, Economics and Business, 7(3), 41-51.
29. Kim, H., Batten, J. A., & Ryu, D. (2020). Financial crisis, bank diversification, and financial stability: OECD countries. International Review of Economics & Finance,65, 94-104.
30. Kyere, M., &Ausloos, M. (2021). Corporate governance and firms financial performance in the United Kingdom. International Journal of Finance & Economics, 26(2), 1871-1885.
31. Love, I.,&Rachinsky, A.(2018). Corporate governance, ownership and bank profitability in Emerging market in Russia and Ukraine. Journal of Financial services Research 51(1),19-53.
32. Madison, K. J. (2014). Agency theory and stewardship theory integrated, expanded, and bounded by context. International Journal of Economics, Commerce and Management,3(7), 407- 415.
33. Mardessi, S., &Fourati, Y. (2020). The impact of audit committee on real earnings management in Netherlands. Journal of Corporate Governance, 4(1), 33-46.
34. Mihaela, H.,& Radu, S.(2016). Creating value–from corporate governance to total shareholders return. An overview. Studies in Business and Economics, 11(2), 36-50.
35. Mitnick, B. M. (1973). Fiduciary rationality and public policy: The theory of agency and some consequences. Paper presented at the 1973 Annual Meeting of the American Political Science Association, New Orleans, LA. In Proceedings of the APSA, 1973 (formerly available from Xerox University Microfilms and, later, UMI Serials).
36. Odubuasi, A., Ofor, N., &Ugbah, A. (2022). Risk committee effectiveness and financial performance indicator of quoted firms in selected African countries. Journal of Financial Risk Management, 11, 634-647. doi: 10.4236/jfrm.2022.113030
37. Ogunmakin, A., Fajugbaebe, O., &Alayo, A. (2020). Corporate governance and bank profitability. International Journal of Finance, 69-89.
38. Oluwole, F. O. (2021). The impact of corporate governance on banks profitability in Nigeria. Financial Markets, Institution and Risks, 5(1), 18-28.
39. Owiredu, A., & Kwakye, M. (2020). The effect of corporate governance on financial performance of commercial banks in Ghana. International Journal of Business and Social Science, 11(5), 18-27.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

40. Owolabi, S., Akinlabi, H., &Cole, A. (2020). Assessment of corporate governance on earnings per share of selected deposit money banks in Nigeria. International Journal of Advanced Studies in Economics, 54-69.
41. Oyejide, T. A., &Soyibo, A. (2001).Corporate governance in Nigeria. Paper presented at the conference on corporate governance, Accra, Ghana, 29th – 30th
42. Pamela, H. (2015). Independence of directors affiliated with substantial shareholders: Issues of law and corporate governance. Company and Securities Law Journal, 33(4), 239-265.
43. Pan, M. (2013). Bank corporate governance and its performance during the crisis of 2007-2008: Evidences from 74 banks in Europe. Journal of Finance, 8(4), 35-42.
44. Perrow, C. (2006). Complex organizations.New York, NY: Random House.
45. Rose, C. (2007). Does female board representation influence firm performance in Denmark.International Review on Corporate Governance, 15(2), 404-413.
46. Ross, S. A. (1973). The economic theory of agency: The principal's problem. American Economic Review, 62(2), 134-139
47. Shen, W. (2003). Power dynamics with top management and their impact on CEOs dismissal followed by inside succession. Journal of Monetary Economics,30(3),87-98.
48. Simanjuntak, D. S. (2001). Good corporate governance in banking post-crisis in Indonesia: Initial conditions, windows of opportunity and reform agenda. Russian & East European Finance and Trade 36(5), 6-26.
49. Soyemi, L., Akinpelu, B., & Ogunleye, C. (2018). The effect of corporate governance on financial performance of banks in Nigeria. Journal of Business Research, 3(2), 68-79.
50. Tandelilin, E. (2017). Corporate governance, risk management and financial performance ofcommercial banks in Indonesia. Middle Eastern Finance and Economics,14(13), 42
51. Velte, P. (2023). The relationship between earnings management and integrated reporting quality: Board gender diversity as moderator. Corporate Ownership & Control, 20(2), 63–74. https://doi.org/10.22495/cocv20i2art5
52. Wilson, H., & Agwor, T. (2021).Corporate governance disclosure and corporate performance of Nigerian banks. Journal of Research in Emerging Markets, 3(3), 14-36.