Corporate Governance Mechanisms and Shareholders’ Earnings: The Nigerian Experience

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Abstract
In Nigeria, the shareholders' earnings within deposit money banks, when compared to those in developed and emerging economies, can be considered low and could be attributed to the high records of corporate governance scandals among the banks. The paper examined corporate governance mechanisms on shareholders’ earnings (economic value added and earnings per share) from 2006-2021. The sample comprised thirteen deposit money banks selected along their market capitalization in December 2021. Panel regression analysis revealed that corporate governance mechanisms had individual positive but insignificant effect on economic value added of the deposit money banks in Nigeria (Adj. R\textsuperscript{2} = 0.0120, (F (4, 162) = 1.50, p > 0.05). Also that the proxies of corporate governance mechanisms showed significant effect on earnings per share. Thus, deposit money banks should strengthen their board of directors by along risk committee, independent non-executive directors and diversity to ensure effective participation with inclusive decision-making.

Keywords: Board diversity, corporate governance, deposit money banks, economic value added, earnings per share

1. Introduction
Maximizing the value added to shareholder's investment is the primary objective of every business-oriented organization. This ideological prosperity notion improves growth, survival, and business sustainability, particularly in financial institutions. In deposit money banks, shareholders' wealth maximization is obligatory, but improved corporate governance embedded in investment opportunities propels wealth maximization inexorably. Waleru and Ezebunwa (2021) argued that shareholders' return reflects the efficient use of resources and its ability to generate profits in a company. It is the reason Economic Value Added (EVA) is a performance metric that is closely associated with the production of shareholder capital. EVA, according to Erjola (2015), offers a more accurate picture than the residual since it assesses banks' financial viability from the shareholders' point of view. The position of Owolabi, Akinlabi, and Cole
(2020) supports Erjola (2015) work that EVA, is a suitable financial performance metric, with reference to banks’ underlying economic output.

Report has shown that in Nigeria, value added to shareholder's investment in deposit money banks is low compared to figures in developed and emerging economies. For instance, the total assets of the banking sector, reduced from N1.86 trillion in 2020 to N1.71 trillion in 2021. The 8.2 percent decrease was due to the CBN's reduction in debt securities and cash on hand. Furthermore, Nigerian deposit money banks' poor performance could be attributable to a variety of corporate governance concerns. In July 2016 the Apex Bank dissolved the former Skye Bank Plc and replaced its board and management for failing to recapitalize the bank despite repeated supervisory warnings for the board and management to turn around the bank's fortunes, according to a report released by the Central Bank of Nigeria (CBN) in 2017. The CBN reports (2017) also exposed a number of corporate governance problems at the bank, including insider loans, excessive sectoral lending to the oil and gas industry, banking malpractices, deceptive/manipulative accounting, failure to disclose directors' interests, and lending above the single-obligor limit. It's interesting to note that the CBN and Asset Management Company (AMCON) intervened in the failed bank before 2016 and September 2018, respectively, injecting N350 billion and N780 billion and preserving almost 6,000 jobs, 277 branches, and N949 billion in depositor cash (CBN, 2018).

Buttressing the CBN (2018) report, Ogbeide and IkavboEvbayiro-Osagie (2019) asserted that the issues of corporate governance have been elevated to the forefront, citing the cases of Cadbury, Etisalat, Intercontinental Bank, Oceanic Bank, Skye Bank Plc, and Diamond Bank. After the successful consolidation of the banking industry in Nigeria, eight (8) recapitalized banks failed due to factors such as capital deterioration caused by poor asset quality, poor risk management, and weak corporate governance. To protect depositors' funds, restore public confidence, and safeguard the integrity of the banking industry, the CBN removed the management of eight banks, provided liquidity support, and injected capital. In response, Asset Management Company of Nigeria (AMCON) was established in 2009 to acquire the non-performing loans of the intervened banks. Notwithstanding, similar challenges faced by the banking sector resurfaced in 2016 as a result of massive exposures to rising non-performing loans and declining capital adequacy ratios caused by the economic downturn, low oil prices, foreign exchange depreciation, and policy gaps (Ogbeide &Ikavbo Evbayiro-Osagie, 2019; Omware, Atheru, &Jagongo, 2020).

According to Wapmuk, Kusa, and Ogenyi (2021), capital adequacy ratios decreased from 17.7 percent in 2015 to 14.8 percent in 2016, liquidity ratios decreased from 48 percent in 2015 to 42 percent in 2016, and profitability ratios deteriorated with returns on equity and returns on assets reaching 12.6 and 1.5 percent in 2016. The current situation led to the Central Bank of Nigeria's (CBN) intervention in Skye Bank Plc, the eventual liquidation of the bank, and the establishment of Polaris Bank Limited to assume the assets and liabilities of the defunct Skye Bank (Wapmuk et al., 2021). As such, scholars (Musah & Adutwumwaa, 2021; Omankanlen, Tometi, &Urhie, 2020; Owolabi et al., 2020; Tatiana, Spatacean, Popa, &Sirbu, 2021) observed that without a sound corporate governance system, deposit money banks might not be able to realize their
economic potential. It suggests that a solid structure in the banking industry could result in enhanced performance.

In light of the above review, scholars such as Akingunola, Adekunle, and Adedipe (2013), Ogege and Boloupremo (2014), and Abdulazeez, Ndibel, and Mercy (2016) discovered a positive correlation between corporate governance and bank performance in response to challenges like technical incompetence of the board and management, conflict of cultures, an increased risk level, a lack of transparency and inadequate disclosure of information, the submission of false returns, the resurgence of high-level malpractices, and inadequate operational and financial controls (CBN, 2006). While on the other hand, some researchers, Papanikolaou and Patsi (2010), Ahmad (2010), and Onakoya, Ofoegbu, and Fasanya (2012), discovered a negative correlation between corporate governance and the performance of banks as reviewed in the literature. Thus, there is no consensus on the relationship between corporate governance and the performance of banks as reviewed in the literature. More so, there are limited studies on corporate governance indicators such as board diversity, risk committee, audit committee, and board nomination committee and their effect on economic value added (Adegboye, Ojeka, & Kofo, 2020; Egwakhe, Akpa, & Ajayi, 2019; Herbert & Agwor, 2021; Kafidipe, Uwaloma, Dahunsi, & Okeme, 2021; Ibrahim & Danjuma, 2020; Makki & Lodhi, 2022; Mustapha, Rashid, Bala, & Musa, 2020; Omankhanlen et al., 2020; Owolabi et al., 2020; Oluwole, 2021; Wilson & Agwor, 2021).

In addition, Owolabi et al. (2020) examined the corporate governance and financial performance of deposit money banks, while Oluwole (2021) analyzed the effect of corporate governance on the profitability of banks in Nigeria utilizing audit committee size, the board size, audit committee meeting frequency, and earnings per share as measures of profitability. Also, Egwakhe et al. (2019) studied board diversity and profitability of insurance firms. Ibrahim and Danjuma (2020) utilized return on assets to measure profitability in their research. Interestingly, the inclusion of board diversity, the risk committee, the audit committee, and the board nomination committee as corporate governance mechanisms distinguishes this paper from previous research. In addition, most researchers only considered financial performance metrics while paying limited attention to economic value added, indicating shareholders' return on investment. Therefore, this paper’s objective is to determine the effect of corporate governance mechanisms on shareholders ‘earnings of deposit money banks in Nigeria.

2. Literature Review

2.1 Corporate Governance

Corporate governance refers to the rules, procedures, or regulations that govern operation, regulation, and governance of institutions (Babatunde, Awoyemi, Atsuwa, & Akomolafe, 2017). Its principal mission is to promote a transparent and efficient financial system that foster the rule of law and encourage the professional and objective separation of tasks. Thus, effective corporate governance policies create a structure that serves the interests of stakeholders by ensuring that the organisation complies to recognize ethical standards and best practices as well as formal regulations (Babatunde et al., 2017; Ibrahim & Danjuma, 2020; Lisa & Hermanto, 2020; Oluwole, 2021; Owolabi et al., 2020). According to the Organization for Economic
Cooperation and Development (OECD) (2017), corporate governance is a collection of interactions between a company's management, its shareholders, and other stakeholders. Therefore, corporate governance provides the structure for establishing the company's objectives, the means for achieving the objectives, and the tools for monitoring performance in accordance with the objectives (Okoye, Olokoyo, Okoh, Ezeji, & Uzohue, 2020). This paper applied board diversity, risk committee, audit committee, and board nomination committee as proxies of corporate governance.

The culture of fostering a wide range of demographic traits and features in the boardroom is known as "board diversity." The board's risk committee is in charge of reporting on the state of the bank's risk culture, advising the board on the bank's overall current and future risk appetite, and interacting with and overseeing the chief risk officer. Senior management is also responsible for implementing the bank's risk appetite, management, and control. The board committee in charge of internal audits and financial reporting is known as the audit committee.

Board Nomination Committee: The board nomination committee is tasked with providing advice to the board of directors on matters pertaining to senior managers with strategic responsibilities and remuneration policies, as well as making recommendations in this area.

2.1.1 Hypothesis

The hypothesis states that:

H1 Corporate governance mechanism has significant effect on shareholders’ earnings (economic value added and earnings per share) of deposit money banks in Nigeria

2.2 Economic Value Added and Earnings per Share (shareholders’ earnings)

Economic Value Added is a financial performance statistic that gauges the added worth of an investment (Waleru & Ezebunwa, 2021). EVA demonstrates how firm management increases the company's value for its owner (Agnes, 2017). In addition, EVA is the financial performance metric that comes closest to measuring an enterprise's genuine economic profit. In addition, it is a performance metric closely associated with the production of shareholder capital. It places greater emphasis on a company's economic profit than any other performance metric. Thus, economic value is a performance metric that determines the value added to deposit money institutions as an established corporate unit. According to Panigrahi and Zainuddin (2015), EVA helps analyse an organization's economic value and growth. The concept of economic value added is separate from the difference between a company's after-tax profit and investment costs. According to Owolabi et al. (2020) research, economic value added was a suitable financial performance metric of banks' underlying economic output. The premise is that if the performance is effectively managed (as measured by the added value provided), the stock price will rise (Dyah, 2015). It implies that if the difference is positive, there is increased value for the company, which will often result in an increase in the stock price. Similarly, a negative EVA indicates a drop in the company's performance, which would reflect in a decline in the share price. Earnings per share: Earnings per share indicates how much a company earns for each share of its stock and is calculated by dividing the company's net income by the number of outstanding common shares. Earnings per share is the portion of a company's earnings allocated
to each share of common stock, net of taxes and dividends on preferred stock (Singh & Yadav, 2017). The combination of economic value added and earnings per share defines shareholders’ earnings in this study.

2.3 Theoretical Framework

This paper is anchored on the shareholder theory and theory of financial intermediation.

2.3.1 Shareholder Theory

Milton Friedman shareholders’ theory in 1970 is a normative theory that asserts the primary responsibility of a company to its shareholders. This approach regards shareholders as the economic engine of the organization and the group to which the firm should demonstrate the highest level of accountability. Hence, maximizing shareholder profits is the sole goal of organizations (Shen & Cannella, 2002), and this is the basis of the theory. Thus, directors should be required to operate only in the shareholder's best interests, which is also considered the essence of the corporate fiduciary duty. Moreover, the shareholder theory assumes that management are employed as the shareholder's agent to operate the company for their benefit. Therefore, legally and morally, organizations are to serve the shareholder's interests. Nevertheless, the shareholder’s idea is regarded as an outdated method of conducting business, with corporations realizing that there are drawbacks to focusing entirely on shareholder interests.

In support of the shareholders' theory for increased financial return for shareholders, Keay (2007) argued forcefully his free-market stance which acknowledges that the corporation is owned by and run for the benefit of its shareholders. According to him, a company's primary social responsibility is to use its resources and engage in activities that will boost its profits as long as it follows the rules and competes honestly and openly. Critics of the shareholders' approach, such as (Hanrahan & Bednall, 2015; Jeff, 2003; Tse & Hawas, 2016), assert that managers are more concerned with gaining market share and profits than with ethical conduct. As a result of the pressures to achieve performance goals, managers frequently adopt a short-term perspective on the business, which could be detrimental to the organization. Concerning this study, the shareholders' theory is predicated on maximizing shareholder return, which makes an organization more competitive, assists management in prioritizing their responsibilities, and promotes transparency by allowing investors to evaluate the company's performance.

2.3.2 Theory of Financial Intermediation

To overcome the issues with the direct funding method, Gurley and Shaw developed the idea of financial intermediation in 1960. It explains the economic importance of the financial intermediation process. The informational asymmetry and agency theories are the cornerstones of the theory of financial intermediation. In general, the following kinds of criteria can be used to explain the existence of financial intermediaries: high transaction costs, a lack of timely and accurate information, and the regulatory structure (Molla, 2019). According to Molla (2019), who supports the financial intermediation theory, the present theory of financial intermediation examines the roles played by financial intermediaries, their impact on the economy, and the effects that government policies have on them. The theory places a strong emphasis on the role
played by financial intermediaries in sustaining economic growth, the effects of regulations on financial intermediation, and the role played by the central bank in the regulation, oversight, and management of financial intermediaries.

Scholten and Wesveen (2000) stated in their critique of the financial intermediation theory that it fails to highlight risk management role of lenders in banking relationships. In addition, the authors emphasized that the intermediation theory did not account for developments occurring in financial markets, such as the rise of information technology and deregulation. It suggests that despite the ongoing dynamic changes in the markets, the significance and growth of financial intermediation are spurred not only by the size of transaction costs and the decline in the benefit of information asymmetry but also by the concept of value creation. Concerning this study, deposit money banks serve as financial intermediaries by acting as an intermediary between the surplus and the deficit units. The sole objective is to maximize profit, which results from the difference between interest received on loans and interest paid on deposits.

2.4 Empirical Review

Corporate governance mechanisms, economic value added and shareholders’ return

Numerous studies on corporate governance mechanisms and economic value added in various regions and civilizations have produced varying results. For example, Waleed, Mohammed, and Najib (2020) investigated the impact of corporate governance practises on the financial performance of listed companies in India and the GCC. The results indicate that board accountability (BA) and audit committee (AC) have a negligible effect on firms' performance, as measured by ROE and Tobin's Q. In a similar vein, Wadesango, Charity, Blessing, and Haufiku (2020) examined the effects of corporate governance on the financial performance of commercial banks operating in an unstable economic and political environment. The effects of board size, board composition, audit committee, and leverage ratios in diverse economic and political environments on the financial performance of commercial banks in Zimbabwe. The study revealed that the corporate governance metrics employed by Zimbabwean commercial banks were major determinants of their financial performance. In both time periods, board size, board composition, subcommittees, and leverage were found to explain the profitability of Zimbabwean commercial banks (stable and turbulent environments). Also, Bawaneh (2020) examined the effect of corporate governance components, such as board composition, on the financial performance of Jordanian financial firms listed on the Amman Stock Exchange. The correlation between board composition and financial performance, as measured by ROE, was minimal, according to the study. Tatiana, Spatacean, Popa, and Sirbu (2021) re-examined previous findings to investigate the relationship between corporate governance and the financial performance of Romanian businesses. The results revealed a positive association between net accounting performance, earnings per share, and the dualism of the CEO, and a negative association between share price and dualism.

Josuha, Effiong, and Imong (2019) analysed the corporate governance and financial performance of listed Nigerian deposit money institutions (DMBs). The study analysed DMBs listed on the Nigerian Stock Exchange (NSE) between 2007 and 2016 using data extracted from the annual
financial reports of the selected companies. The audit committee, board composition, and bank size were found to have statistically significant positive associations with return on assets, whereas the relationship between board size and performance was positive but insignificant. The study concludes that board composition and the audit committee are superb predictors of return on assets-based performance (ROA). Ibrahim, Adesina, Olufowobi, and Ayinde (2018) investigated the relationship between corporate governance and the return on assets of Nigerian banks that are publicly traded. According to the findings, corporate governance had a significant impact on return on assets. Moreover, the results revealed that the proportion of shares held by shareholders, board composition, board size, and bank size exert a positive and statistically significant effect on the return on assets of quoted banks in Nigeria, and that bank size has a substantial positive effect on return on assets.

In addition, Lucy (2021) investigated the connection between corporate governance and corporate sustainability performance (CSP) in the United States, as well as whether corporate governance moderates the relationship between CSP and business financial success (CSP–CFP). The results indicate that firms with superior corporate governance are more likely to have a higher CSP and that corporate governance increases the value of the firm. Agbaeze and Okosi (2018) analysed the effect of corporate governance on the profitability of Nigerian institutions between 2005 and 2015. The correlation study discovered a positive relationship between the profitability of Nigerian banks and corporate governance, as measured by the number of board members, as well as a positive and significant influence of corporate governance on the profitability of Nigerian banks. Moreover, the number of Nigerian bank employees had a positive and significant effect on their profitability. Consequently, the study revealed that corporate governance had an effect on the profitability of Nigerian banks. Vu and Nguyen (2017) analysed the relationship between corporate governance aspects and the financial performance of 137 Singapore-listed firms over a four-year period, from 2013 to 2016. The correlation between board size and company performance was found to be negative. Nonetheless, the analysis demonstrated a significant relationship between board dependence, CEO dualism, and business financial performance.

Kobuthi, K'Obonyo, and Ogutu (2018) investigated how corporate governance affected the performance of companies listed on the Nairobi Stock Exchange (NSE). A substantial relationship between corporate governance and the non-financial performance of companies listed on the Nairobi Stock Exchange was observed in the study, suggesting that organisations may perform better by enhancing their corporate governance. The impact of corporate governance policies on the financial performance of Indian hotel operations was studied by Eissa, Faosi, and Almaqtari in 2019. The size, composition, and diligence of the board of directors, the audit committee's size, composition, and diligence, and institutional ownership were the three areas of corporate governance systems that were studied in the study. According to the findings, institutional ownership, board size, board diligence, audit committee size, and audit committee size all significantly influenced return on assets (ROA), whereas board composition, audit committee composition, audit committee diligence, and organisational age had little to no influence on ROA. According to the results, the board composition, board
diligence, audit committee composition, institutional ownership, and firm size had a substantial impact on NIM when it comes to the NIM model, although board size, audit committee size, and audit committee diligence had a minimal impact. According to the findings regarding the EPS model, board size, board composition, board diligence, audit committee composition, and firm age all significantly affect EPS, but audit committee size, audit committee diligence, and institutional ownership only slightly affect EPS.

3. Methodology
This paper utilized an ex-post facto research design. This design is applicable because it examines past events. The data used in this study were extracted from a sample of deposit money institutions' annual reports between 2006 and 2021. The data were obtained through secondary sources from published financial statements of selected Nigerian banks. The research involved a variety of estimating methodologies as both the inferential and descriptive analysis were utilized. Also, the panel regression model analysis was utilized to investigate the effect of corporate governance mechanisms on economic value added and earnings per share of deposit money banks in Nigeria. This study employed panel data methodology. This approach of data analysis is appropriate for this investigation since the data consists of a cross-sectional time series with many observations per sampling unit.

Estimation Techniques
The research employed sound econometric technique appropriate for empirical problems. Estimation techniques consist of the techniques which decide the theoretical and statistical significance of the study for laying down objectives. This study adopted the panel ordinary Least Square (POLS) method of evaluation. Although sometimes alternative methods to OLS are necessary, in most situations, OLS remains the most popular technique for estimating regression because it is easier than the alternatives, and OLS results have desirable characteristics. This study used Panel regressions model to predict the inherent nature of corporate governance mechanisms and shareholders’ earnings (economic value added and earnings per share). However, before the necessary panel regression, the study used pre-estimation techniques like descriptive statistics, correlation matrix, bivariate, multicollinearity, and unit root test for model specification. The bivariate analysis adopted the Pearson Product Moment correlation matrix, while the multicollinearity test used variance inflation factors (VIF) and tolerance level (1/VIF). The panel regression analysis consisting of a fixed effect model, a random effect model, and pooled OLS regression analysis were used for the analysis.

Bivariate Analysis and Multicollinearity Test
Pearson product moment correlation coefficient was used as a representative of the Bivariate analysis. The method was used to determine the level of relationship between the proxies of corporate governance mechanisms. Also, variance inflation factor and tolerance level were used to determine whether the proxies of corporate governance mechanisms in a regression model are correlated.
Table 1: Bivariate Analysis and Multicollinearity Test

<table>
<thead>
<tr>
<th></th>
<th>BD</th>
<th>RC</th>
<th>AC</th>
<th>BNC</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>BD</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td>1.18</td>
<td>0.848</td>
</tr>
<tr>
<td>RC</td>
<td>0.0338</td>
<td>1.000</td>
<td></td>
<td></td>
<td>1.17</td>
<td>0.854</td>
</tr>
<tr>
<td>AC</td>
<td>0.3110</td>
<td>0.1408</td>
<td>1.000</td>
<td></td>
<td>1.02</td>
<td>0.978</td>
</tr>
<tr>
<td>BNC</td>
<td>0.3119</td>
<td>0.0899</td>
<td>0.2778</td>
<td>1.000</td>
<td>1.16</td>
<td>0.977</td>
</tr>
<tr>
<td>Mean VIF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.13</td>
<td></td>
</tr>
</tbody>
</table>


Source: Researcher’s Compilation, 2023

Table 1 presents the results for board diversity, risk committee, audit committee, and board nomination committee. The results indicate that proxies of corporate governance mechanisms have a weak positive correlation. This shows that BD and RC have 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 was no problem of multicollinearity test. Also, the result of tolerance level 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

To examine into how Nigerian deposit money banks’ earnings (economic value added and earnings per share) are affected by corporate governance mechanisms. The models were constructed using data from Ogunmakin, Fajugbaebe, and Alayo's (2020) investigation of the financial health and corporate governance of Nigerian banks. Taking into account their models, the models for this study were created, changed, and reported in accordance with the following:

\[ EV\text{At} = \beta_0 + \beta_1 BD + \beta_2 RC + \beta_3 AC + \beta_4 BNC + \mu \]  \hspace{1cm} (1)

\[ EPSit = \beta_0 + \beta_1 BD + \beta_2 RC + \beta_3 AC + \beta_4 BNC + \mu \]  \hspace{1cm} (2)

Where:

- EVA = Economic Value Added
- EPS = Earnings per share
- BD = Board diversity
- RC = Risk committee
- AC = Audit committee
- BNC = Board nomination committee
- \( \beta_0 \) = Intercept
- \( \beta_1 - \beta_4 \) = Coefficient for the independent variables
- \( \mu \) = Error term
Test of Hypothesis
The primary focus of the first hypothesis examined was the impact of corporate governance mechanisms on the economic value added of deposit money banks in Nigeria. The dependent variable was determined by using all corporate governance mechanisms as approximations (board diversity, risk committee, audit committee, and board nomination committee). Using panel regression analysis, such as fixed effect model, random effect model, and pooled OLS regression model, the hypothesis was examined.

Table 2: Corporate Governance Mechanisms and Economic Value Added

<table>
<thead>
<tr>
<th>Fixed Effect GLS Regression with Driscoll-Kraay standard errors</th>
<th>Coeff.</th>
<th>Std. Error</th>
<th>T</th>
<th>P -value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.009</td>
<td>0.0215</td>
<td>-0.41</td>
<td>0.686</td>
<td></td>
</tr>
<tr>
<td>Board diversity</td>
<td>-0.0002</td>
<td>0.0003</td>
<td>-0.69</td>
<td>0.494</td>
<td>Do not reject H0</td>
</tr>
<tr>
<td>Risk committee</td>
<td>-0.0024</td>
<td>0.0013</td>
<td>-1.85</td>
<td>0.066</td>
<td>Do not reject H0</td>
</tr>
<tr>
<td>Audit committee</td>
<td>0.0069</td>
<td>0.0053</td>
<td>1.32</td>
<td>0.190</td>
<td>Do not reject H0</td>
</tr>
<tr>
<td>Board Nomination Committee</td>
<td>-0.0011</td>
<td>0.0013</td>
<td>0.90</td>
<td>0.368</td>
<td>Do not reject H0</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.0120</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-stat (4, 162)</td>
<td>1.50 (0.2051)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman Test</td>
<td>Chi²(4) = 16.49 (0.0024)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testparm</td>
<td>F(15, 159) = 4.26 (0.0000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heteroskedasticity Test</td>
<td>Chi²(1) = 30.99 (0.000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serial Correlation Test</td>
<td>F(1, 11) = 5.051 (0.0461)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where BD – board diversity, RC – risk committee, AC – audit committee, and BNC – board nomination committee

Source: Researcher’s Compilation, 2023

Interpretation
The objective of this study was to analyze the effect of corporate governance mechanisms on the economic value added of deposit money banks in Nigeria. The most appropriate method of estimating among the panel regression consisting of fixed effect model, random effect model, and pooled OLS regression model are presented in Table 2. The Hausman test was used to distinguish between the fixed effect and random effect models. The Hausman test reveals a p-value of 0.0024, or 0.24 percent, which is less than the 5 percent selected for the study, indicating that the fixed effect model is the most suitable estimator. This indicated that the null hypothesis was refuted, indicating the presence of a typical difference in the model coefficients.

The Hausman test demonstrated the suitability of fixed effect models. This confirmation is performed based on the results of the Hausman test and testparm for the fixed effect model, as this serves to determine the most suitable model between fixed effects and Pooled OLS regression. The Testparm results have a p-value of 0.0000, which is less than the significance level of 5%, confirming that fixed effects are appropriate for estimating the model. Additionally,
the model was examined for heteroscedasticity. The null hypothesis states that the model's standard errors are constant over time. The Breusch-Pagan/Cook-Weisberg test was conducted, and the heteroskedasticity p-value of 0.0000, which is less than the 5 percent significance level, indicates the presence of heteroskedasticity; that is, the residuals of the model are not constant over time, so the model is heteroscedastic.

As a test for serial correlation between residuals and model coefficient, the Wooldridge test for autocorrelation was utilised. The autocorrelation effect causes the standard errors of the coefficient to be less than their actual value and the coefficient of determination to be greater than usual. The null hypothesis of the test states that serial correlation does not exist (no first order of autocorrelation). The test was conducted using the Wooldridge test, and the p-value of 0.0461, which is less than the 5 percent significance level, indicates that the model has a serial correlation problem.

The outcome shown in Table 2 demonstrates that none of the corporate governance proxy measures were significant at the 5% level of significance. This implies that all the proxies of corporate governance mechanisms (BD, RC, AC, and BNC) insignificantly affect economic value added. Apart from these, the study found that BD, RC, and BNC negatively affect economic value added. It implies that a percent increase in the number of the BD, RC and BNC will lead to 0.0002 percent decrease in the measurement of EVA. Also, a percent increase in the number of BD,RC and BNC will result to 0.0002, 0.0024 and 0.0011 percent decrease in EVA. Meanwhile, the result of the analysis shows that AC has a positive effect, indicating that increase in the number of AC, will lead to 0.0069 percent in an improvement of the measure of EVA. At the level of significance 0.05, the $F$ statistics of 1.50 with the $p$-value of 0.2051 revealing that the null hypothesis stating that the corporate governance mechanism has no significant effect on economic value added is not rejected. Hence, corporate governance insignificantly affects economic value added of the deposit money banks in Nigeria.

Discussion of Findings
Findings in this paper summarily revealed that aggregately, corporate governance mechanisms have positive but insignificant effect on economic value added of deposit money banks in Nigeria. The finding support and negates previous works. This variation could be due to geographical location, economies, or industry specific. For instance, Wadesango et al. (2020) found that the corporate governance metrics utilized by Zimbabwean commercial banks were significant determinants of their financial performance. Also, board size, board composition, subcommittees, and leverage were found to be significant in explaining the profitability of Zimbabwean commercial banks (stable and turbulent environments). Similarly, Ibrahim et al. (2018) discovered that corporate governance had a significant effect on return on assets. Lucy (2021) added, in support of prior research, that firms with superior corporate governance are more likely to have a higher corporate sustainability performance and that corporate governance increases the value of the firm. In same vein, Agbaeze and Okosi (2018) and Kobuthi et al. (2018) found a positive link between corporate governance and profitability of Nigerian banks and non-financial performance of companies listed on the Nairobi Securities Exchange.
respectively. Consequently, this paper’s findings support the positive effect and link in previous works but not significantly. The insignificant effect result in this study could be associated with the theory of financial intermediation by Gurley and Shaw (1960), that the influence of government policies on financial intermediaries, the central bank's involvement in the regulation, supervision, and control of financial intermediaries affects how corporate governance mechanisms translate to economic value added.

In additionally, results showed that although all the proxies of corporate governance mechanisms showed an insignificant effect, audit committee showed a positive effect, while board diversity, risk committee, and board nomination committee had a negative effect on economic value added of the deposit money banks. Waleed et al. (2020) found that board accountability and audit committee have little impact on firms' performance as measured by ROE and Tobin's Q. Also, Bawaneh (2020) found the correlation between board composition and financial performance as measured by ROE was weak. In addition, Tatiana et al. (2021) found a positive association between net accounting performance, earnings per share, and the dualism of the CEO, and a negative association between share price and dualism.

Josuha et al. (2019) found that the audit committee, board composition, and bank size all indicated positive and statistically significant associations with return on assets, while the relationship between board size and performance was positive but negligible. While Ibrahim et al. (2018) found that the proportion of shares held by shareholders, board composition, the board size, and bank size exerts a positive and statistically significant effect on the return on assets of quoted banks in Nigeria and that bank size has a substantial positive effect on return on assets. However, Vu and Nguyen (2017) findings revealed a negative correlation between board size and company performance. Despite this, the analysis revealed a significant connection between board dependence, CEO dualism, and business financial performance. Thus, the hypothesis for this paper which states that corporate governance mechanism has no significant effect on economic value added of deposit money banks in Nigeria, is not rejected.

The second hypothesis examined the effect of corporate governance mechanisms on earnings per share. As such, some estimation tests were conducted along Hausman and heteroskedasticity tests to establish if the model was more appropriate for the investigation. The Hausman result revealed a $p$-value of 0.128, which is greater than the 5% significance level used for the investigation, indicating that the random effect model is the best suitable estimator. This is consistent with the null hypothesis, which states that there is no unsystematic difference in the model coefficients; therefore, the null hypothesis is not rejected. To determine the model's robustness, it was tested for heteroskedasticity and serial correlation. The heteroskedasticity test was performed using the Breusch-Pagan/Cook-Weisberg test, and the result of heteroskedasticity with a $p$-value of 0.001 and was less than the 5% level of significance chosen for the study, indicates the presence of heteroskedasticity; that is, the model's residuals are not constant over time, indicating that the model is heteroscedastic.
Table 3. Corporate Governance Mechanisms and Earning per Share

<table>
<thead>
<tr>
<th>Earnings Per Share</th>
<th>Random Effect GLS Regression with Driscoll-Kraay standard errors</th>
<th>Coeff.</th>
<th>Std. Error</th>
<th>T</th>
<th>P -value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>-0.786</td>
<td>2.456</td>
<td>-0.32</td>
<td>0.749</td>
<td></td>
</tr>
<tr>
<td>BD</td>
<td></td>
<td>0.026</td>
<td>0.019</td>
<td>1.38</td>
<td>0.167</td>
<td>Do not reject H₀</td>
</tr>
<tr>
<td>RC</td>
<td></td>
<td>-0.127</td>
<td>0.066</td>
<td>-2.06</td>
<td>0.040</td>
<td>Reject H₀</td>
</tr>
<tr>
<td>AC</td>
<td></td>
<td>0.351</td>
<td>0.408</td>
<td>0.86</td>
<td>0.389</td>
<td>Do not reject H₀</td>
</tr>
<tr>
<td>BNC</td>
<td></td>
<td>0.236</td>
<td>0.072</td>
<td>3.28</td>
<td>0.001</td>
<td>Reject H₀</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td></td>
<td>0.1053</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wald Test</td>
<td></td>
<td>Chi²(4) = 18.00 (0.001)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman Test</td>
<td></td>
<td>Chi²(4) = 7.16 (0.128)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heteroskedasticity Test</td>
<td></td>
<td>Chi²(1) = 15.85 (0.0001)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serial Correlation Test</td>
<td></td>
<td>F(1, 11) = 4.286 (0.063)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross-Sect Dep. Test</td>
<td></td>
<td>Chi²(1) = 49.62 (0.000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where BD – board diversity, RC – risk committee, AC – audit committee, BNC – board nomination committee,

Source: Researcher’s Compilation, 2023

Model 2 explains how corporate governance mechanisms effect on earnings per share in Nigeria deposit money banks. The results show that corporate governance mechanisms; BD had a positive and insignificant effect on EPS (β = 0.026; p = 0.167). This implies that a percent increase in BD translates into 0.026 percent increase in EPS but insignificant. This is similar to AC, as it has a positive and insignificant effect on EPS (β = 0.351; p = 0.389). However, the result for risk committee has a negative and significant effect on EPS (β = -0.127; p = 0.000). This indicates that a percent increase in RC will trigger a 0.127 percent decrease in EPS measure of shareholders earnings. The result of board nomination committee indicates a positive and significant effect on EPS (β = +0.236; p = 0.001). This implies that as board nomination committee performs its responsibility, EPS increases, indicating that 0.236 percent increases in BNC activities will increase EPS in Nigeria deposit money banks. This implies that the cognitive complexity flexibility of the BNC members stimulates the upward trajectory of the EPS.

The adjusted R² of the model was 10.53%, this shows that variation in EPS can be attributed to all independent variables of corporate governance mechanism while the remaining 89.47% variations in EPS are caused by other factors not included in this model. Based on the probability of Wald test of 0.001, being less than 5% chosen significant level of the study. The null hypothesis was rejected at 5%, and thereby concluded that there was a significant effect of corporate governance mechanisms on the earnings per share of deposit money banks in Nigeria.
Discussion of Findings
The corporate governance mechanisms (BD, RC, AC, and BNC) significantly affected earnings per share. The study found that BD and AC insignificantly affect the EPS and although a positive effect was observed. Risk committee and BNC activities had significant effect on EPS with RC indicating decreasing effect on EPS and BNC shows an increase effect on EPS. The results shown that BD and AC do not contribute significantly to EPS while RC and BNC significantly contributed to changes in EPS. In the model, corporate governance mechanisms significantly affected earnings per share of the deposit money banks in Nigeria. The findings of the study share common denominator with Mhaka et al. (2020), which found a significant effect between corporate governance and financial performance of commercial banks. It also slightly abounds in the sense of Nassè (2019) and Nassè (2022) that shows that a good corporate governance and fair practices contribute to small and medium enterprises financial performance. Shamsi (2020) was collaborated with reference to the significant effect discovered between corporate governance components and financial performance of Jordanian financial enterprises. Tatiana et al. (2021) position was sustained since a significant effect between corporate governance and the financial performance was discovered in Romanian enterprises. Joshua et al. (2019) perspective was credited that corporate governance and financial performance of Nigeria listed deposit money institution share significant association. Mamatzakis and Bermpei (2015) looked at corporate governance along the performance of American investment banks whose findings were sustained and Akinyomi and Olutoye (2015) presented a differ perspective on corporate governance mechanism and earnings per share (between board composition, profitability; and board size and profitability). Waleed et al. (2020) discovered an insignificant effect between Tobin’s Q and transparency and disclosure, which board diversity bear similarity. Molla (2019) and Jinag (2012) implied that foreign minority ownership in local banks does not enhance performance, and that banks with more dispersed ownership are more profit efficient.

6. Conclusion
Based on the findings, the study concluded that corporate governance mechanisms had positive but other insignificant effect on shareholders’ earnings (economic value added and earnings per share). The managerial implication is that a corporation cannot achieve excellence in shareholders’ earnings without adopting and practicing corporate governance roles. Hence, mastery of corporate governance mechanisms might trigger dominance over others and improvement in shareholders’ earnings. From the research objectives, the following were recommendations: Deposit money banks need to strengthen their board of directors by including more independent non-executive directors to ensure effective participation with inclusive decision-making. There should be a diversity of experience, perspectives, and expertise in the composition of the audit committee to ensure an improved governance system for the banks. Deposit Money Banks should ensure a wide diversity in the leadership pool to ensure effective decision-making, guidance, and risk management. Future studies be replicated in other geographical locations and economies with similar proxies for corporate governance or the introduce of additional proxies.
References


