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AGENCY COST AND SHAREHOLDER'S RETURN ON CAPITAL: EMPIRICAL EVIDENCE FROM LISTED FIRMS IN NIGERIA

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Abstract

The study examines the effect of agency cost on shareholders' return on capital in Nigeria by drawing samples from non-finance firms that are listed on the floor of the Nigerian Exchange Group (NGX) from 2012-2022. In this study, we ensure the use of agency cost proxies such as asset tangibility, managerial ownership, and director's remuneration while shareholders return on capital is measured in terms of return on equity. Specifically, to achieve the objective of the study, we conducted a pool least square regression before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. This study is based on an *expo-facto* research design. The study covers a period of ten (10) years. That is, from 2012 to 2021 employing non-finance firms listed on the floor of the Nigerian Exchange Group. The population for this study consist of all the listed non-finance firms on the Nigeria Exchange Group. As of 31st December 2021, the total number of listed non-finance firms was 109. The sample size was arrived at through a purposive sampling technique. This is because the firms were included in the sample if they meet certain criteria to enable homogenous sample. These criteria are that the firms must be listed at the stock exchange before the study period (2012); the firms must remain listed during the study period and not be delisted before the end of the study period (2021). This will be done to ensure a balanced panel data structure through the use of a homogeneous periodic scope, which is required for the estimate procedure. From the foregoing, the final sample size of this study consist of 73 listed non-finance firms in Nigeria. Particularly, we conclude that asset tangibility and managerial ownership significantly reduces shareholder's return on capital. However, we also conclude that directors' remuneration insignificantly reduces shareholder's return on capital. Hence, we recommend that although a high ratio of fixed to total assets provides creditors with a high level of security since they will be able to liquidate more assets in case bankruptcy, management of non-finance firms should endeavour to keep the ratio low so as to reduce agency cost and increase shareholder's return on capital. Furthermore, we recommend that managerial ownership should be reduced to mitigate agent principal conflict and thus improve shareholder's return on capital.

Keywords : Agency Cost, shareholder's return on capital, asset tangibility, managerial ownership and director's remuneration

1.0 Introduction

Share capital is one of the sources of raising finance, and most companies benefit from it either as a seller or as buyer or as both. As the operation of any business without finance is impossible, share capital has become a veritable source of raising substantial and cheap finance for many businesses of the world at every stage of their operations. Share capital represents a unit of companies' capital that is allocated to individuals. The shares issued to shareholders qualify the holders for a residual interest in the asset of the company which represents their investment in the company. The traditional finance theory has laid much emphasis and prioritized shareholder wealth maximization as it considered shareholders as the owners of the company who contribute to the capital for the formation and running of the business affairs of the venture, and therefore their interest should be prioritized. Hence, generating wealth for shareholders is one of the most important goals of firms.

However, due to agency conflicts, it may take a back seat, and managers may pursue their own goals (Jensen and Meckling, 1976). Agency cost is the internal expense resulting from conflicts of interest between principals and agents in an organization; it is hidden in any

decision which is not aimed at maximizing company profit. Agents refer to the managers of the company, working on behalf of shareholders. Because shareholders are unable to regularly control every activity of managers in the company, it results in asymmetric information, which can cause ethical risks and lack of consensus. Agency costs have the potential to retard corporate performance and destroy shareholder's wealth in addition to its adverse effect on other corporate stakeholders returns. Jensen (1986) defines agency costs as the costs expended by a company's owners or management in order to structure and oversee management's performance in a way that fits their needs. Agency costs can occur between the external shareholders and internal managers or between debtholders and shareholders (Eboiyehi & Willi, 2018).

The conflict of interest leads to a situation where the management (Agent) may take decisions that are detrimental to the shareholders (Principal), and it requires cost in terms of monitoring the activities of the management (Jensen, 1986; Jensen and Meckling, 1976). Eisenhardt (1989) argues that agency problems arise when both the management and shareholders have different goals and monitoring the activities of management is difficult and costly for the shareholders. These agency costs are even higher in countries having weak protection available to investors and ineffective legal systems (Gugler et al., 2003). To overcome these problems, substantial emphasis has been laid on corporate governance that has gained a prominent place in academics and the corporate world. The conflict of interest between the shareholders and management is the classical agency conflict (Fama and Jensen, 1983; Jensen and Meckling, 1976). The stewardship theory states that the shareholders' wealth will be increased if there is a unity of command in the management wherein the top executive person is holding the chair (Donaldson and Davis, 1991). Resource dependency theory considers the directors' role in bringing and using the resources for maximizing the value of the firm (Jackling and Johl, 2009).

The aim of this study is to examine the effect of agency cost on shareholder's return on capital of listed non-finance firms in Nigeria. Most past studies in relation to agency cost and firm performance relationship were done in developing economies in Europe and Asia especially in Pakistan, Indonesia, and India, while in Africa the few studies were in Ghana, Tunisia, and Nigeria but all the studies in Africa and Nigeria in particular ignored firms in the non-finance sector and focused on banks and manufacturing firms. In general, the empirical irregularities and inconclusiveness among the various studies particularly from the perspective of developing and emerging economies and Africa suggest that there is need for further country level test of the portability and plausibility of the effect of agency cost on shareholder's return on capital. Wang (2010) stated in his studies that agency problems are associated with the level of misalignment between stockholders and management cash flows. Armour, Hansmann, and Kraakman (2009) give emphasis to some of the basic agency problems which might arise in corporate organizations one of which is the conflict between the company's managers and company's shareholders.

We contribute to knowledge by employing samples from listed non-financial firms in Nigeria. We ensure the use of agency cost proxies such as asset tangibility, managerial ownership, and director's remuneration while shareholders return on capital is measured in terms of return on equity. Furthermore, unlike previous studies that employed OLS regression technique as their methodology, this study will employ a panel regression technique to control for the heterogeneity effect present in the firms, countries, and fiscal years. More than this, the study to the best of our knowledge will be the first in the context of Nigeria to use most recent data including the covid-19 period of 2020 to investigate the effect of agency cost on shareholder's return on capital of listed non-finance firms in Nigeria from 2012 to 2021.

2.0 Conceptual Clarifications and Hypotheses Development

Shareholder's Returns on Capital

The modern finance theory operates on the assumption that the only objective of a business concern should be to maximize the market value of the share or shareholder wealth. Shareholder wealth is represented in the market value of the organization's shares, which, in turn, is dependent on the organization's investment (long- and short-term) and other, mainly long-term issues such as financing and dividend decisions. Return on share depends on changes in price per share at the end of the investment period and received dividend. Lo and MacKinlay (1990) argue that large firm stock returns respond faster to new information compared with small firm stock returns and large firm stock returns lead small firm stock returns. Richardson and Peterson (1999) and Choi and Wang (2009) find empirical support for the Lo-MacKinlay hypothesis. However, in this study, we measure shareholder's return on capital in terms of return on equity. Return on equity can be used to determine the success of management in managing the company's capital in providing returns to shareholders, the higher this ratio the better because it provides a greater rate of return to shareholders.

Asset Tangibility and Shareholder's Returns on Capital

Tangible Assets are physical assets that go through a relatively long period of use in the operation of the business, such as land, buildings, machinery, and construction in progress that can be offered as collateral to creditors in case of bankruptcy. The scale is used is a rational scale. A high ratio of fixed to total assets provides creditors with a high level of security since they will be able to liquidate more assets in case bankruptcy. (Baker & Martin, 2011). Empirical studies on the subject offer mixed findings. The empirical findings of Mehari and Aemiro (2013) and Birhan (2017) on insurance companies in Ethiopia confirm statistically significant and positive effect of asset tangibility on shareholder's return on capital. Besides, findings of Reyhani (2012) and Azadi (2013)'s studies on Tehran Stock Exchange listed manufacturing firms; Dong, Charles and Cai's (2012), Olatunji and Tajudeen's (2014) and Khan, Shamim and Goyal's (2018) papers on Chinese corporates, Nigerian commercial banks and National Stock Exchange of India Ltd. (NSE India) listed telecommunication companies, respectively, and Korkmaz and Karaca's (2014) and Kocaman, Altemur, Aldemir and Karaca's (2016) works on manufacturing firms in Turkey also confirm these empirical findings and fit with predictions of the theory on tangible assets and financial performance relationship. However, Eric, Samuel, and Victor (2013) on insurance companies in Ghana, Pratheepan (2014) on Colombo Stock Exchange listed manufacturing companies in Sri Lanka, and Vintila and Nenu (2015) on Bucharest Stock Exchange listed firms in Romania, document a statistically significant and negative relationship has been confirmed between asset tangibility and financial performance. On the basis of the foregoing, we hypothesized that:

H01: Asset Tangibility has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria.

Managerial Ownership and Shareholder's Returns on Capital

Managerial ownership is defined as the percentage of shares held by the management who actively participate in corporate decisions including the commissioners and directors. According to Khan et al (2013), managerial ownership allows managers to dominate the company and decide which strategies and policies the company will take because in this case the manager also acts as a shareholder. Singh and Davidson (2003) found that the relationship between management ownership and agency cost can be non-linear. In other words, with increasing levels of management ownership, managers and outside shareholders' interests are aligned, but when this level reaches a certain point, the managers with too much power just focus on collect private benefit. They tend to build their own empires or use their power to enjoy perks. The entrenchment effect will dominate the incentive alignment effect. However, Vijayakumaran

(2019) showed evidence of service listed companies in the Chinese Securities Exchange that, when management teams hold an appropriate percentage of company share, can align the interest between these two groups, because higher shareholding from the managers means that their wealth and benefits are closer to the interest of company owners, which resolves managers' moral hazard problems. This incentive alignment can be via stock options, preferences compensation, and actions through equity ownership. It stated that, in this period, there has been a significant rise in the management ownership in China to reduce shareholder and management conflicts. On the basis of the foregoing, we hypothesize that:

H02: Managerial ownership has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria.

Director's Remuneration and Shareholder's Returns on Capital

Remuneration of the board of directors and executives needs to be considered in corporate governance, because the level of remuneration must be designed in such a way as to be attractive enough to incentivize the board of directors and executives to run the company effectively. Based on agency theory, the goals of shareholders and management must be harmonized. Thus, higher compensation rates will result in higher shareholder's return on capital in broadly diversified ownership companies (Kraft and Niederprüm, 1999). Jiang et al. (2009) also shows that CEO compensation is positively related to the shareholder's return on capital in companies with low concentrated ownership structures. In order for managers to act in the company's long-term interests, it requires alignment of incentives among many managers (Barron and Waddell, 2008). On the basis of the foregoing, we hypothesize that:

H03: Director's remuneration has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria.

Theoretical Review

Agency Cost Theory

Berle and Means (1932) were the first one to address the agency problem. According to them, the agency cost occurs due to the separation of ownership from the control. Managers' interests coincide with the owners to raise the agency problem. Agency theory extends this argument and states that the managers get a hold of cash because holding cash benefits them. Of course, managers' carrier develops on the basis of how they utilize cash for the positive investment projects and similarly they enjoy a better power, and they get easily promoted on the basis of their active involvement in investing decisions. The shareholders on the other hand try to force the managers to maximize their holding which is the primary function of the management. So two ways are possible either the managers invest the shareholders money in positive NPV projects which will raise the value of their shares, or they can get a capital gain. Or the second way is that the management pays out ideally whatever is generated as profit in the form of dividends. If there are no positive NPV projects available and still the management is not paying dividends, then according to Jensen and Meckling (1976), agency problem has arisen. Jensen (1986) suggested that if the agency problems continue, then there is a possibility of corporate takeovers. Since the managers are not able to utilize the cash flow in appropriate manner, it gives outside parties to jump in and take hold of the company and maximize the shareholders wealth. So the fear of losing their job will discourage the managers to invest in negative NPV projects.

Empirical Review

Chaudhary (2021) examines the role of board structure and institutional investors in dealing with the agency issues for the Indian firms by taking the data of NSE-500 nonfinancial firms for the period 2010–2019. The author applies dynamic panel data methodology to deal with

endogeneity concerns prevalent in corporate finance variables. The agency view is consistent with the board size in the context of India. The author observed that the board size has a harmful effect on agency cost. A larger board size may create a coordination problem, or CEO may find it easy to thrust his or her decisions on board. The author also noticed that firms should have sizeable institutional ownership, particularly pressure-insensitive investors, in equity as they can reduce agency-related issues.

Nguyen, Doan, and Nguyen (2020) examines the impact of corporate governance, reflecting a wide spectrum of board characteristics and ownership structure on agency costs in 281 listed companies on Ho Chi Minh Stock Exchange (HOSE) in Vietnam in the period 2013–2018. For this purpose, three board characteristics were chosen: (1) the size of board of directors, (2) equilibrium between non-executive and executive members of the board of directors, (3) the CEO chair duality and three types of ownership structures were chosen: (1) management ownership, (2) government ownership, (3) foreign ownership. An inverse proxy of agency costs is used: asset utilization ratio (asset turnover), which reflects the managerial efficiency. The research methodology includes three statistical approaches: Ordinary least squares (OLS), fixed effects model (FEM) and random effects model (REM) are considered to address econometric issues and to improve the accuracy of the regression coefficients. The results create effective corporate governance mechanisms in controlling the managerial opportunistic behavior to lower agency conflicts, and hence lower agency costs.

Hoang, Tuan, Nha, Long, and Phuong (2019) examine the impact of agency costs on firm performance of Vietnamese listed companies. Their sample includes 736 companies in Vietnam during the period from 2010 to 2015. They find that agency costs exert a negative impact on firm performance. Their results are robust to alternative econometric models, including an instrumental variables technique and a system generalized method of moment model. In addition, they show that a debt instrument can be a useful tool to reduce the negative impact of agency costs on firm performance.

Khidmat and Rehman (2014) sought to find out the impact of free cash flows and agency costs on firm performance in KSE listed companies of Pakistan. A sample of 123 companies listed on KSE representing eight different sectors has been analyzed to determine the association of free cash flows, agency costs and firm performance with each other. For the purpose of analysis, secondary data of selected companies for the period 2003–2009 were taken from balance sheet analysis of joint stock companies (BSA) issued by State Bank of Pakistan (SBP). Free cash flows have significantly negative impacts on firm performance. The study also shows a significantly negative impact of agency cost on firm performance with exception to total asset turnover (TATO) ratio which has a positive impact.

Pandey and Sahu (2019) enquire into the relationship among debt financing, agency cost and performance of Indian manufacturing firms. The study tries to document the impact of debt financing on firm performance in two different phases of panel data estimations. In the first phase, the study enquires the effect of debt on firms' profitability measured by 'return on equity'. The second phase tries to empirically explain the reason behind such impact by introducing agency cost. Considering the manufacturing firms traded in the BSE 200 Index from 2009–2016, the study documents a significant and negative effect of debt on firm performance. The magnitude of debt is also found to be positively affecting the agency cost measured by 'general and administrative expenses. So the negative effect of debt on firm performance is reinforced and justified as debt is also found to elevate the agency costs for the firms.

3.0 Methodology

This study is based on an *expo-facto* research design. The study covers a period of ten (10) years. That is, from 2012 to 2022 employing non-finance firms listed on the floor of the Nigerian Exchange Group. The population for this study consist of all the listed non-finance firms on the

Nigeria Exchange Group. As of 31st December 2021, the total number of listed non-finance firms was 109. The sample size was arrived at through a purposive sampling technique. This is because the firms were included in the sample if they meet certain criteria to enable homogenous sample. These criteria are that the firms must be listed at the stock exchange before the study period (2012); the firms must remain listed during the study period and not be delisted before the end of the study period (2022). This will be done to ensure a balanced panel data structure through the use of a homogeneous periodic scope, which is required for the estimate procedure. From the foregoing, the final sample size of this study consist of 73 listed non-finance firms in Nigeria.

In this study we employed secondary data sourced from the Nigerian Exchange Group Fact books and related companies' annual financial reports for the periods. This study employed analytical software of Stata version 14 and Microsoft excel for the analysis. The secondary data collected was analyzed using descriptive statistics, correlation, and regression analysis. The descriptive statistics was used to evaluate the characteristics of the data: mean maximum, minimum, and standard deviation and also check for normality of the data. Panel regression analysis technique was employed to find the cause effect relationship between the independent variables and the dependent variables. The study adapted the model specified by Hoang, Tuan, Nha, Long, and Phuong (2019) which was modified for the purpose of establishing the relationship between the dependent variables and the linear combinations of several determining variables captured in the study. Succinctly, the econometric form of our model is expressed as:

Where:

ROEQ	=	Return on Equity
ASTA	=	Asset tangibility
MOWN	=	Managerial ownership
DSRA	=	Director's remuneration
FSIZ	=	Firm Size (Control Variable)
β_0	=	Constant
β_1- β_4	=	Slope Coefficient
	=	Stochastic disturbance
i	=	i^{th} companies
t	=	time period

4.0 Empirical Results and Discussion

The study examines the effect of agency cost on shareholders' return on capital in Nigeria by drawing samples from non-finance firms that are listed on the floor of the Nigerian Exchange Group (NGX) from 2012-2021. In this study, we ensure the use of agency cost proxies such as asset tangibility, managerial ownership, and director's remuneration while shareholders return on capital is measured in terms of return on equity. Specifically, to achieve the objective of the study, we conducted a pool least square regression before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. However, we first describe the variables under consideration in terms of the mean, standard deviation, minimum, and maximum.

Descriptive Analysis

In this section, the researcher examines the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard

deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

Table 1: Descriptive Statistics

VARIABLES	MEAN	SD	MIN	MAX	NO OBS
ROEQ	6.05	56.54	-430.97	480.55	715
ASTA	42.09	24.84	0	98.82	715
MOWN	20.16	25.75	0	100.74	721
DSRA	1.97	14.78	0	385.65	715
FSIZ	7.10	0.85	5.03	9.38	715

Source: Author (2023)

The results obtained from the descriptive statistics of the study is presented in the table above. The table shows that the mean of shareholders capital return as measured in terms of return on equity (ROEQ) is 6.05 with a standard deviation of 56.54. The result also shows that return on equity was -430.97 on the minimum and 480.55 on the maximum. In the case of the independent variables, the table shows that the mean of asset tangibility (ASTA) is 42.09 with a standard deviation of 24.84. Asset tangibility ranges from 0 to 98.82. In terms of managerial ownership (MOWN) had a mean of 20.16 with a standard deviation of 25.75 as well as a minimum and maximum value of 0 and 100.74 respectively. The mean of directors' remuneration (DSRA) is 1.97 and 14.78. The minimum and maximum value of directors' remuneration was 0 and 385.65. In the case of the control variable, the result obtain from the descriptive statistics shows that the mean of firm size (FSIZ) was 7.10 with a standard deviation of 0.85.

Correlation Analysis

In examining the association among the variables, we employed the Spearman Rank Correlation Coefficient (correlation matrix), and the results are presented in the table below.

Table 2: Correlation analysis

	ROEQ	ASTA	MOWN	DSRA	FSIZ
ROEQ	1.0000				
ASTA	-0.1020	1.0000			
MOWN	-0.1011	-0.0688	1.0000		
DSRA	-0.2018	0.0342	0.2622	1.0000	
FSIZ	0.1702	-0.0071	-0.3225	-0.5083	1.0000

Author's computation (2023)

The table above shows the results of the correlation matrix for this study. Particularly, the table shows that all the independent variables are negatively associated with the dependent variable of shareholder capital return as measured by return on equity. Particularly, the results shows that asset tangibility (-0.1020), managerial ownership (-0.1011), and director's renumeration (-0.2018) all have negative association with the dependent variable of shareholder capital return as measured by return on equity. However, we find that the control variable of firm size (0.1702) has a positive association with the dependent variable of shareholder capital return as measured by return on equity. However, all association are seen to be weak, hence there is no need to suspect the presence of multicollinearity in the model. Furthermore, to test the hypotheses, a regression results will be needed since correlation test does not capture cause-effect relationship.

Regression Analyses

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a regression

analysis. The OLS pooled results and the panel regression results obtained are presented and discussed below.

Table 3: Regression Result

Variables	ROEQ Model (Pooled OLS)	ROEQ Model (FIXED Effect)	ROEQ Model (RANDOM Effect)
CONS.	6.743 {0.722}	203.652 {0.030} **	12.840 {0.605}
ASTA	-0.336 {0.000} ***	-0.483 {0.006} **	-0.352 {0.001} **
MOWN	-0.200 {0.017} **	-0.076 {0.627}	-0.284 {0.006} **
DSRA	-0.145 {0.314}	-0.098 {0.511}	-0.132 {0.355}
FSIZ	2.620 {0.301}	-24.642 {0.058}	1.787 {0.592}
F-Statistics	6.08 (0.0000)	2.21 (0.0513)	19.38 (0.0016)
R- Squared	0.0411	0.0171	0.0996
VIF Test	1.05		
Het. Test	69.85 (0.0000)		
Hausman	6.62 (0.2507)		

Note: (1) bracket {} are p-values

(2) **, *, implies statistical significance at 5% and 1% levels respectively**

The results of the Pool OLS and panel regression from STATA are shown in the table 3 above. The results from the Pool OLS regression shows an R-square value of 0.0411 which indicates that about 4% of the systematic variations in shareholder's returns are jointly explained by the independent and control variables in the model during the period under study. This implies that variations in shareholder's returns of listed non-finance firms in Nigeria cannot be 100 percent explain by the agency cost proxies employed in this study. However, the unexplained changes in shareholder's returns as measured in terms of return on equity are attributed to the exclusion of other independent variables that are not within the scope of our study but have been captured as error term. Furthermore, the F-statistic value of 6.08 with the associated P-value of 0.0000 indicates that the model of the Pool OLS regression is statistically significant at 1% level. This means that the model of the Pool OLS regression is valid and can be used for statistical inference. However, to further validate the estimate of the pool OLS regression results in the table above, we carried out some basic diagnostic test. These regression diagnostics tests include test for multicollinearity and test for heteroscedasticity.

We employed the variance inflation factor (VIF) technique to determine the presence or absence of multicollinearity in this study, as in most studies. A cut-off VIF value of 10 is used to determine whether a VIF is high. This is in line with Gujarati's (2004) recommendations that the mean VIF should be less than 10. The table above shows a mean VIF value of 1.05. The result implies that the mean VIF is within the benchmark of 10 as recommended by Gujarati's (2004). Hence, there is no room to suspect of multicollinearity in the model under study. For the test for homoscedasticity assumption, the result obtained from the test as shown in the table above reveals a significant P-value of the Chi2 at 1% level. These results indicates that the assumption of homoscedasticity has been violated due to very low P-values. This suggest that the estimate of the OLS regression cannot be relied upon for policy recommendation. We, therefore, employ the panel regression technique to control for the violation of the homoscedasticity assumption of the OLS regression as shown in table above.

The F-statistic and Wald-statistic value 2.21 (0.0513) and 19.38 (0.0016) for fixed and random effect regression respectively shows that both models are valid for drawing inference since they are both statistically significant at 5%. In the case of the coefficient of determination (R-squared), it was observed that 2% and 10% systematic variations in shareholder's returns are

jointly explained by the independent and control variables in the model during the period under study. This implies that variations in shareholder's returns of listed non-finance firms in Nigeria cannot be 100 percent explain by the agency cost proxies employed in this study. However, the unexplained changes in shareholder's returns as measured in terms of return on equity are attributed to the exclusion of other independent variables that are not within the scope of our study but have been captured as error term. In selecting from the two panel regression estimation results, the Hausman test was conducted, and the test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. Specifically, a look at the p-value of the Hausman test (0.2507), implies that we should accept the null hypothesis and reject the alternative hypothesis. This implies that we should adopt the random effect panel regression results in drawing our conclusion and recommendations. This also implies that the random effect results tend to be more appealing statistically when compared to the fixed effect regression. From the foregoing, we proceed to interpret the results of the random effect regression.

Discussions of Findings

The results obtained from the random effect regression model revealed that asset tangibility has a significant negative effect on shareholder's return as measured by return on equity of listed non-finance firms in Nigeria. Specifically, this is shown as (Coef. = -0.352; P -value = 0.001). Our result indicates that asset tangibility significantly reduces shareholder's return on capital. The result implies that the hypothesis that **asset tangibility has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria** is rejected. This finding negates the agency cost theory created by Jensen and Meckling (1976) which indicated that there is a positive relationship between the fraction of tangible assets and firm performance. Particularly, we note that an enterprise with a high proportion of fixed assets is expected to be associated with high ability to repay their liabilities, thus reducing shareholder's returns since the funds are used to settle liabilities (Titman and Wessels, 1988: Sbeti & Moosa, 2012; and Vo, 2017).

We also provide evidence from the results obtained from the random effect regression model revealed that managerial ownership has a significant negative effect on shareholder's return as measured by return on equity of listed non-finance firms in Nigeria. Specifically, this is shown as (Coef. = -0.284; P -value = 0.006). Our result indicates that managerial ownership significantly reduces shareholder's return on capital. The result implies that the hypothesis that **ownership structure has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria** is rejected. We show that the ownership structure that is associated with high agency costs can lead to the decrease of shareholder's return on capital. We agree the studies of Black and Kim (2012) and Liu et al. (2015) who mention that independent boards with high shareholding may not mitigate agency problem and therefore decrease shareholder's return on capital. However, we negate the studies of Ang et al. (2000) who found that agency costs are higher in a company that is under management of the outsider rather than the insider. Furthermore, we disagree with Chen (2015) who show that an increase in the number of outsiders managing the firm can improve the firm performance.

Finally, the results obtained from the random effect regression model revealed that director's remuneration has an insignificant negative effect on shareholder's return as measured by return on equity of listed non-finance firms in Nigeria. Specifically, this is shown as (Coef. = -0.132; P -value = 0.355). Our result indicates that directors' remuneration insignificantly reduces shareholder's return on capital. The result implies that the hypothesis that **directors' remuneration has no significant effect on shareholder's return on capital of listed non-finance firms in Nigeria** is accepted. According to OECD, (1999) an effective board of directors, equitable treatment of all shareholders, communication with the shareholders, and

enhanced disclosure requirements are some of the important principles of corporate governance. In this study it is noted that increasing directors' remuneration may not be the best strategy to enhanced shareholders return on capital. The findings agree with that of Lee, Lev, and Yeo (2008), Abdullah, (2006) who argue that it is not always true that remuneration is wholly or even partially based on performance, hence, we carefully conclude that the insignificant negative relationship between directors' remuneration and shareholder's return on capital as obtained from the study is due to ineffective corporate governance structures and agency problems which these firms may be experiencing.

5.0 Conclusion and Recommendation

Shareholders are unable to regularly control every activity of managers in the company, it results in asymmetric information, which can cause ethical risks and lack of consensus. Agency costs thus have the potential to retard corporate performance and destroy shareholder's wealth in addition to its adverse effect on other corporate stakeholders returns. Agency costs can occur between the external shareholders and internal managers or between debtholders and shareholders. The conflict of interest leads to a situation where the management (Agent) may take decisions that are detrimental to the shareholders (Principal), and it requires cost in terms of monitoring the activities of the management. In this study, we have successfully established a relationship between the variables of agency cost and shareholders return on capital. Particularly, we conclude that asset tangibility and managerial ownership significantly reduces shareholder's return on capital. However, we also conclude that directors' remuneration insignificantly reduces shareholder's return on capital. Hence, we recommend that although a high ratio of fixed to total assets provides creditors with a high level of security since they will be able to liquidate more assets in case bankruptcy, management of non-finance firms should endeavour to keep the ratio low so as to reduce agency cost and increase shareholder's return on capital. Furthermore, we recommend that managerial ownership should be reduced to mitigate agent principal conflict and thus improve shareholder's return on capital.

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