

Effect of Directors Motivation on Performance of Entities Listed on the Nigerian Stock Exchange

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Abstract

Problem: Most empirical studies used Directors remuneration as an incentive to increase entity performance level. It has been observed from the financial statements of entities that an increase in Directors remuneration was not commensurate to the increase in the performance of entity. In order to evaluate this variance, this study introduced motivational perspective to ascertain the impulse that enhance performance. Therefore, it is important to carry out study on Directors motivation in relation to their efficiency that induces entity performance. **Design/Methodology/Approach:** Adopting the ex-post facto research design, the study focused on entities listed on the Nigerian Stock Exchange for the periods from 2010 to 2019. The population of the study was 162 entities. The sample consisted of 88 entities that met the required information for the study. Data were sourced from the Nigerian Stock Exchange Fact Book, African Financials database and Annual Reports and Accounts of the 88 entities listed on the Nigerian Stock Exchange from 2010 to 2019. Panel regression model of random/fixed effect was adopted for this study to establish the effect of the dependent variable on the independent variable. Performance was the dependent variable with return on asset, return on equity as proxies. **Findings:** The result showed that Directors Efficiency Factor has negative and insignificant effect on Return on Asset (with co-efficient = -0.001725; $p = 0.4841$). By implication, a unit increase or decrease in the level of Directors motivation would not lead to a unit increase or decrease in the performance of entity. Directors Efficiency Factor has positive and significant effect on Return on Equity (with co-efficient = 0.086407; $p = 0.0046$). This implies that a unit increase in the level of Directors motivation would comparably result in a unit increase in the performance of entity. **Conclusion:** In view of the above findings, Directors motivation has insignificant effect on Return on Asset and significant effect on Return on Equity. The effort was spurred by the resultant effect of motivation and the efficient discharge of responsibilities by Directors of an entity. Hence, Directors should optimally utilise the internal resources of entities especially by improving the efficiency of current assets such as receivables as well as inventories. For instance short-term cash investments, good credit policy and debt collection procedures could improve the return on asset significantly.

Keywords: 1. Director Motivation, 2. Director Efficiency, 3. Entity Performance, 4. Return on Asset, 5. Return on Equity.

1. Introduction

Directors are usually appointed by the shareholders to monitor the affairs of the entity according to the requirements of the Company and Allied Matters Act (CAMA), 2020 as amended. It is believed that Directors possess unique attributes and skills to handle complex and non-routine tasks in order to implement the strategic objectives of any given entity. According to Olaniyan (2015), Directors have the responsibility of assessing investment and other risk factors facing the entity. Therefore, Directors are motivated when strategic plans of the entity yield results, corporate governance procedures are effective as well as followed and the financial performance indices are highly favourable (Kristina, 2016). However, it has been observed from the financial statements of entities that the increase in the input (remuneration) is not commensurate with the increase in output (performance) over the years. This observation prompted this study to examine the level of Directors motivation that induces entity performance. Therefore, the specific objectives of this study are to assess the effect of Directors efficiency factor on return on asset; and evaluate the effect of Directors efficiency on return of equity on entities listed on the Nigerian Stock Exchange.

This study consist of five (5) major contents which are; i) introduction which contains brief background, statement of the problem and objectives of the study; ii) conceptual review which contains measurements of entity performance and Directors motivation and efficiency; iii) theoretical review which contains cognitive evaluation, goal content, organismic integration and causality orientation theories; iv) methodology which explains the methods applied; and v) the conclusion and recommendation.

2. Conceptual Review

Measurements of Entity Performance

Entity performance is the overall accomplishment of an entity beyond and above previous position during a specific period of time usually at financial year end (Gentry and Shen, 2010). Therefore, entity performance is usually measured to evaluate or appraise whether or not the outlined objectives have been realised by the strategic implementation system put in place. **Return on Asset** measures the efficient utilisation or management of asset to generate earnings for the entity. According to Warrad (2015), return on asset indicates the return on the number of assets put into use by the entity while Supriyadi (2021) states that return on asset indicates the level of efficiency of an entity's overall operations. Return on asset consists of two elements such as operating earnings and total asset. Operating earnings is gross earnings less operating expenses, depreciation and amortisation. Also, operating earnings is net earnings plus interest expenses and taxation. Total asset is the addition of both non-current and current assets. According to Supriyadi (2021), **Return on Equity** enables equity holders to determine the equity earned on their investment and it also demonstrates the efficient utilisation of capital. Since equity is the most prominent way entities raise funds from the public especially in the capital market, return on equity indicates the capacity of an entity to generate earnings on owned capital (Rosikah, Prananingrum, Muthalib, Azis & Rohansyah, 2018). Return on equity consists of two elements, which are, earnings after tax and total equity. Earnings after tax is ascertained from the statement of comprehensive income while total equity is extracted from the statement of financial position. Total equity in this regard means shareholders' equity which could also be expressed as entity's total assets less debt.

Directors Motivation and Efficiency

The function of Directors motivation is the attainment of high efficiency. Efficiency involves the production of goods and services at the lowest possible cost without impairment of quality (Kristina, 2016). Effectively motivated Directors result in achieving the strategic objectives of the entity and thus eliminate operational inefficiency (Dobre, 2013). Thus, the efficiency of Directors translates to the level of motivation driving them. The implication is that when Directors motivation is low, their efficiency will be impaired leading to adverse effect on performance. Directors efficiency measures the relationship between benefits received and effort yielded. This is usually expressed as a ratio of input

and output. The relationship between benefits received and effort yield should translate to increase in the performance of the entity.

3. Theoretical Review

Cognitive Evaluation Theory

This is a psychology based theory that is designed to explain the effect of extrinsic impulse on intrinsic motivation. There are two main characteristic of motion systems associated with this theory which are intrinsic motivators (accomplishment, conscientiousness and proficiency) and extrinsic motivators (remuneration, endorsement, feedback, working condition and fringe benefits). Deci (1971), a lead proponent of cognitive evaluation theory, in 1971 developed a design to explain the effect of extrinsic/external impulse on intrinsic/internal motivation (Deci, 1975, 1976). Deci and his colleagues particularly discussed three propositions to illustrate how external impulse affects internal motivation that must be present to foster motivational impulse, which are competence, autonomy and relatedness (Deci & Ryan, 1985). Competence is the feeling of being efficiently effective in circumstances of optimal challenge and display of developmental capabilities. Autonomy is a feeling of independence or self-approval in making decision or taking action. It is an innate need of not being restricted or pressured to accomplish a desired performance. Relatedness is the inborn feeling of connection to colleagues and the environment such as being interpersonally affiliated (Deci & Ryan, 1985).

According to Legault (2017), the presence of external impulse such as bribes, demands, threatening language, uninformative/negative feedback, unhealthy rivalry will undermine or reduce competence, autonomy and relatedness (intrinsic motivation). Deci (1971) in his research did not disregard the effect of extrinsic impulse such as money/remuneration but postulated that when extrinsic reward (money/remuneration) is used, need satisfaction tend to reduce competence, autonomy and relatedness (intrinsic motivation). This was elucidated in the definition of cognitive evaluation theory according to Deci, Koestner and Ryan (1999). In the definition, it was affirmed that the psychological needs of intrinsic motivation are competence and autonomy, hence extrinsic reward tends to affect perceived competence and perceived self-endorsement depending on the consequence. Consequences that tend to promote need satisfaction (perceived competence and perceived autonomy) will increase intrinsic motivation while those that undermine or thwart need satisfaction (perceived incompetence and perceived control) will decrease intrinsic motivation. Therefore, if extrinsic reward is envisaged to frustrate or prevent need satisfaction for competence or autonomy and tend to reduce intrinsic motivation, the performance of the entity will be affected in the long-term. Hence, the implication is that since some extrinsic reward such as bribes, demands could tend to decrease intrinsic motivation; other extrinsic reward such as remuneration should be used as effective motivators (Legault, 2017). Therefore, remuneration should be non-contingent on performance to prevent decrease in intrinsic motivation. Thus, Directors who independently act in decision making process, capable to display their professional competencies and have cordial interpersonal affiliations with their colleagues would tend to motivate them. Conversely, Directors Efficiency would decline if they perceive that their competence and independence are being frustrated even when remuneration/pay/compensation is attractive.

Goal Contents Theory

Deci in 1971 postulated the goal content theory which differentiates between basic needs satisfaction and well-being in terms of intrinsic and extrinsic impulse (Deci, 1971). The goal contents theory postulates that the basic (psychological) needs for satisfaction propel or inspire the aspiration systems in specific ways (Legault, 2017). The theory differentiate between performance and well-being in the context of extrinsic and intrinsic goals (Grouzet, Kasser, Ahuvia, Dols, Kim & Lau, 2005; Ryan & Deci, 2000) and that the relations of the goal contents to performance and well-being are independent of the effects of the participants' intrinsic and extrinsic aspirations for involving in a goal-directed activity (Vansteenkiste, Lens & Deci, 2006; Kim, Kasser & Lee, 2003). According to Sheldon and Kasser (2008), extrinsic aspirations are pecuniary accomplishment, status, reputation, power and

prominence which are used to attain peripheral validation and to evidence self-esteem. Intrinsic aspirations are close relationships, contribution to the public and individual augmentation to attain satisfaction of basic psychological needs. According to Duriez, Vansteenkiste, Soenens and De Witte (2007), both extrinsic and intrinsic ambitions respond differently to basic psychological needs that will equally affect performance in those different ways. They established that importance placed on extrinsic ambitions negatively affect performance or outcome while importance placed on intrinsic ambitions positively affects performance or outcome. However, observation shows that the importance placed on negative-extrinsic ambitions such as bribes, negatively affect performance or outcome in actual sense.

The theory stresses the importance to consider the role of extrinsic and intrinsic aspirations in motivation as it helps to specifically structure behaviours and practices. These aspirations function to synchronise decisions, actions and inclinations relevant to those aspirations or values (Legault, 2017). Directors who place great importance on extrinsic motivation such as money, power, reputation and status are most likely to establish relationships that will enable them attain those aspirations. Also, Directors who are intrinsically motivated by meaningful relationships and contribution to community, will enable them cultivate and explore intimate and lasting connections (Legault, 2017). Therefore, Directors' efficiency predisposition to achieve both intrinsic and extrinsic aspirations within a social setting could also be applicable in a corporate setting. It might be more beneficial for Directors to focus on the balance of both extrinsic and intrinsic values and aspirations in order to have better performance in a corporate setting.

Organismic Integration Theory

According to Legault (2017), organismic integration theory by Deci in 1971 posited that tasks are executed when there is the presence of extrinsically achievable goals for doing them. The motivational impulse for individuals to behave in a particular way may not be linked to intrinsic aspirations or values but extrinsic aspirations or values. Therefore, these extrinsic aspirations or values should be valuable or beneficial to the society, that is, the environment (Rassakazova, Ivanova & Sheldon, 2016). Individuals will respond to a set of extrinsic reward through different degrees of extrinsically induced motivation. Ryan & Deci (2017), state that the proposition of organismic integration theory is mainly to make clear the various kinds of extrinsic motivation influence the integration and internalisation of practices and tasks. In essence, these various kinds of extrinsic motivation found in the organismic integration theory include external regulation, introjected regulation, identified regulation and integrated regulation. External regulation is extrinsically regulating behaviours or practices that depend on extrinsic rewards or punishments. According to Ryan & Deci (2017), external regulations propel individuals to perform tasks in order to obtain reward or satisfy external demands. By implication, it means that certain practices or behaviours might not be sustained when the attached reward is not available or removed. Examples of external regulation include compliance, external rewards and punishments (Legault, 2017). Introjected regulation causes individuals to exhibit certain behaviours or practices to perform tasks because of the feeling of guilt (Ryan & Deci, 2017) or feel like a decent human being and to maintain self-esteem through volunteerism (Millete & Gagne, 2008). According to Legault (2017), the features of introjected regulation include self-control, ego-enhancement, internal rewards and punishers. Identified regulation is an intrinsic action with the focal objective to accomplish a task or obligation through external regulation (Ryan & Deci, 2017). According to Millete and Gagne (2008), identification is the most autonomous form of extrinsic motivation. This in essence makes an individual to identify the importance of a behaviour. The examples of identified regulation include personal importance and conscious valuing (Legault, 2017). Integrated regulation is the last form of extrinsic motivation in organismic integrated theory. Integrated regulation allows people to integrate the regulation of behaviour in order to understand its personal significance and synergies their needs, values, identity and other forms of behaviours (Legault, 2017). This will enable people to align their values and beliefs to emerging regulations through assimilation. According to Legault (2017), the examples of integrated regulation include congruence, awareness and synthesis with self. The

implication of this theory is that Directors' commitment to the affairs of the company will decline if attached reward (remuneration/pay/compensation) is stopped. This will consequently affect the performance of the entity since the remuneration/pay/compensation serves as the motivation to the Directors to function efficiently.

Causality Orientation Theory

Causality orientation theory describes individuals' perception or approach to motivation and behavioural pattern. Causality orientation theory is focused on the inner resources of the individual (Legault, 2017) and as such the interpretation to situations in the environment by individuals will vary according to personality traits (Hagger & Chatzisarantis, 2015). According to Ferguson (2013), the effects of causality orientations on personality traits are probable to be weak relatively on an unswerving basis across spheres of influence. However, there are types of orientations enshrined in this theory and they include autonomous orientation, controlled orientation and impersonal orientation. Autonomous orientation influences individuals' interpretation on developmental and social events in generalised term which originates from personality, otherwise intrinsic motivation (Hagger & Chatzisarantis, 2015) or personality trait of functional autonomy (Weinstein, Przybylski & Ryan, 2012). Controlled orientation, according to Legault (2017), influences individuals to deduce events as a result of external consequences such as obligations, pressures and expectations. These dispositional environmental tendencies regulate the way people behave. Impersonal orientation is associated with the inability to control self in periods of helplessness, derogation, depression, detachment and anxiety (Ryan & Deci, 2017). Hence, autonomous motivational orientation will influence Directors to interpret controlling events from a rewards perspective.

This study anchors on the cognitive evaluation theory particularly addressing the three significant psychological needs that must be present to propel motivation in an individual to perform efficiently (Riley, 2016) and also discusses the social and environmental factors that facilitate or undermine motivation intrinsically (Ryan & Deci, 2017). The cognitive evaluation theory posits that reward incentive may enhance and maintain intrinsic motivation if the incentive is informational and supports the feelings of confidence and competence (Ryan & Deci, 2000). Specifically, reward should not be deemed to be used as a controlling feature in order not to adversely affect quality and creativity; and consequently undermine the motivation to perform efficiently (Deci & Ryan, 2009). Also, the cognitive evolution theory described the three propositions that must be present to foster motivation and enhance performance, which are competence, autonomy and relatedness. These are the essential elements that trigger both extrinsic and intrinsic motivation which other theories fail to discuss.

4. Methodology

Adopting the *ex-post facto* research design, the study focused on entities listed on the Nigerian Stock Exchange for the periods from 2010 to 2019. The population of the study was 162 entities. The sample consisted of 88 entities that met the required information for the study. Data were sourced from the Nigerian Stock Exchange Fact Book, African Financials database and Annual Reports and Accounts of the 88 entities listed on the Nigerian Stock Exchange from 2010 to 2019. Panel regression model of random/fixed effect was adopted for this study to establish the effect of the dependent variable on the independent variable. Performance was the dependent variable with return on asset, return on equity as proxies while Directors Motivation was the independent variable with Directors Efficiency Factor as proxy.

Decision Rule

When the P-values as presented above are less than 5%, the null hypothesis is rejected and the alternative hypothesis is accepted. On the other hand, if the P-value does not have a positive sign and its probability greater than 0.05, the null hypothesis is accepted and the alternate rejected.

Results and Discussion of Findings

Table 1: Descriptive statistics of variables for the period; 2010-2019

| | DEF | ROA | ROE | LNI | LNA1 |
|--------------|------------|------------|------------|------------|-------------|
| Mean | 0.158611 | 0.089123 | 0.370181 | 7.416463 | 9.359819 |
| Median | 0.029550 | 0.058750 | 0.115450 | 7.588577 | 9.123582 |
| Maximum | 44.43640 | 0.928300 | 102.6472 | 12.61422 | 13.80203 |
| Std. Dev. | 1.662407 | 0.109683 | 3.575818 | 2.764511 | 1.898723 |
| Skewness | 23.63765 | 3.726003 | 26.93747 | -1.621005 | -0.279063 |
| Kurtosis | 599.1090 | 22.67733 | 763.9649 | 8.214020 | 4.723549 |
| Jarque-Bera | 13111301 | 16233.42 | 21338903 | 1379.068 | 120.3446 |
| Observations | 880 | 880 | 880 | 880 | 880 |

Table 1 shows the descriptive statistic of the basic aggregative averages of the mean and median. It also shows the standard deviation which measures the spread and variation of all the observations. Skewness measures the degree of departure from symmetry, which kurtosis measures the "tailedness" of the probability distribution. That is, skewness is a measure of the combined weight of the tails relative to the distribution. The result shows the spread and variation in Directors Efficiency Factor at 0.158611, Return on Asset at 0.089123, Return on Equity at 0.370181, while the control variables; Net Income stood at 7.416463 and Net Asset at 9.359819.

Directors Efficiency Factor, Return on Asset and Return on Equity show a positive skewness of 23.63765, 3.726003, 26.93747 respectively, measuring the degree of departure from the mean. On the other hand, net income and net asset show a negative skewness of -1.621005 and -0.279063 respectively. Also, all variables show a positive value for kurtosis. These revealed that the degree of tailedness of all variables used within the period has a heavier tail and this is called leptokurtic distribution.

Table 2: Correlation Analysis

| | DEF | ROA | ROE | LNI | LNA1 |
|-------------|------------|------------|------------|------------|-------------|
| DEF | 1.0000 | | | | |
| ROA | -0.045496 | 1.0000 | | | |
| ROE | -0.005897 | 0.066116 | 1.0000 | | |
| LNI | -0.154873 | 0.024349 | 0.010414 | 1.0000 | |
| LNA1 | -0.029664 | -0.137346 | -0.140125 | 0.619485 | 1.0000 |

Source: E-view 10.0 Output, 2021

Table 2 shows the result of the test of the degree of linear association of the variables. The correlation matrix for the dependent and independent variables is demonstrated in Table 2. The coefficients between all variables are found to be significant at 0.01 level of significance. In addition, it is showed that all the variables are not highly correlated with each other.

Unit root test

The P-values are in parenthesis. They are all smaller than 1%; so the null hypothesis is rejected, we therefore conclude that the variables series are stationary. The result illustrates that all the variables both explanatory, regressor and control variables are stationary at both levels and 1st difference.

Table 3: Summary of Panel Unit Root Test

| Variables | Levin, Lin & Chu t | Im, Pesaran and Shin W-stat | ADF - Fisher Chi-square | PP - Fisher Chi-square | Status |
|-----------|-------------------------|-----------------------------|-------------------------|------------------------|--------|
| DEF | -39.9579*** (0.0000) | -8.93210*** (0.0000) | 343.933*** (0.0000) | 354.325*** (0.0000) | 1(0) |
| ROA | -25.7229*** (0.0000) | -9.70912*** (0.0000) | 433.195*** (0.0000) | 893.144*** (0.0000) | 1(1) |
| ROE | -20.7651*** (0.0000) | -10.1012*** (0.0000) | 453.179*** (0.0000) | 932.916*** (0.0000) | 1(0) |
| LNI | -22.1701*** (0.0000) | -8.74643*** (0.0000) | 409.456*** (0.0000) | 724.004*** (0.0000) | 1(1) |
| LNA1 | -23.6669*** (0.0000) | -5.74701*** (0.0065) | 296.231*** (0.0011) | 358.115*** (0.0000) | 1(0) |

Source: E-view 10.0 Output, 2021

4.3 Panel Regression Analysis

Hypothesis One: Directors Efficiency Factor has significant effect on Return on Asset

Table 4: Hausmann Test for Hypothesis Two

| Hypothesis Two | | | |
|----------------------|-------------------|--------------|--------|
| Test summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 0.560039 | 3 | 0.9055 |

Source: E-view 10.0 Output, 2021

The cross-section chi-square statistic with 5 degree of freedom is 0.56 and the p-value is 0.906 as presented in table 4.6. The p-value of the Hausmann chi-square statistics is greater than 5%; so the null hypothesis is accepted for hypothesis one. In conclusion, random effect model is a better option than the fixed effect for hypothesis one.

Table 5: Directors Efficiency Factor has significant effect on Return on Asset

Dependent Variable: Return on Asset

| Variables | Coefficient | Std Error | t-statistics | Pro. |
|--------------------|-------------|-----------|--------------|--------|
| DEF | -0.001725 | 0.002464 | -0.699984 | 0.4841 |
| LNI | 0.006822 | 0.001669 | 4.087999 | 0.0000 |
| LNA01 | -0.014147 | 0.002420 | -5.846000 | 0.0000 |
| C | 0.171341 | 0.018268 | 9.379143 | 0.0000 |
| R ² | 3.9% | | | |
| Adjusted R-square | 0.03 | | | |
| F- stat | 11.81% | | | |
| P-value | 0.000000 | | | |
| Durbin-Watson stat | 1.86≈ 2 | | | |

Source: E-view 10.0 Output, 2021

Table 5 shows the panel least square result for hypothesis one. From the result, the R² of 3.9% represent the goodness of fit of the panel regression. The independent variable is responsible for 3.9% variation in the dependent variable with an unexplained variation of 96.1%. This implies that there are other variables that are responsible for change in the dependent variable that is not accounted for. Although this figure is high it cannot discredit the model because the result shows that the data set are normally distributed as evidenced by the F-statistic of 11.81, Durbin-Watson stat of 1.86 approximately 2 and the corresponding probability value of 0.000000. These are pointers that the result is good enough for a meaningful analysis. DirectorsEfficiency Factor revealed a negative and

insignificant effect on Return on Asset of the sampled entities in Nigeria for the period studied. The control variables are both statistically significant.

Hypothesis Two: Directors Efficiency Factor has significant effect on Return on Equity

Table 6: Hausmann Test for Hypothesis Three

| Hypothesis Three | | | |
|----------------------|-------------------|--------------|--------|
| Test summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 9.024637 | 3 | 0.0290 |

Source: E-view 10.0 Output, 2021

The cross-section chi-square statistic with 5 degree of freedom is 9.02 and the p-value is 0.03 as presented in Table 6. The p-value of the Hausmann chi-square statistics is lesser than 5%; so the alternate hypothesis is accepted for hypothesis three. In conclusion, fixed effect model is a better option than the random effect for hypothesis two.

Table 7: Directors Efficiency Factor has significant effect on Return on Equity

Dependent Variable: Return on Equity

| Variables | Coefficient | Std Error | t-statistics | Pro. |
|--------------------|-------------|-----------|--------------|--------|
| DEF | 0.086407 | 0.030408 | 2.841574 | 0.0046 |
| LNI | 0.455662 | 0.139119 | 3.275346 | 0.0011 |
| LNA01 | -1.494782 | 0.378343 | -3.950862 | 0.0001 |
| C | 10.97399 | 2.741277 | 4.003241 | 0.0001 |
| R ² | 19% | | | |
| Adjusted R-square | 0.09 | | | |
| F- stat | 2.05% | | | |
| P-value | 0.000000 | | | |
| Durbin-Watson stat | 2.37 | | | |

Source: E-view 10.0 Output, 2021

Table 7 shows the panel least square result. From the result, the R² of 19% represent the goodness of fit of the panel regression. The independent variable is responsible for 19% variation in the dependent variable with an unexplained variation of 81%. This implies there are other variables that are responsible for change in the dependent variable that are not accounted for. Although this figure is high it cannot discredit the model because the result shows that the data set are normally distributed as evidenced by the F-statistic of 2.05, Durbin-Watson stat of 2.37 and the corresponding probability value of 0.000000. These are pointers that the result is good enough for a meaningful analysis. DirectorsEfficiency Factor revealed a positive and significant effect on Return on Equity of the sampled entities in Nigeria for the period studied. The control variables are both statistically significant.

5. Conclusion and Recommendation

The empirical findings established that Directors Motivation has insignificant effect on Return on Asset and significant effect on Return on Equity. The effort was spurred by the resultant effect of motivation and the efficient discharge of responsibilities by Directors of an entity. Hence, Directors should optimally utilise the internal resources of an entity especially by improving the efficiency of current assets such as receivables as well as inventories. For instance short-term cash investments, good credit policy and debt collection procedures could improve the return on asset significantly. In order to maintain growth in Return on Equity, Directors should establish control measured to improve on the rate of asset turnover and develop strategic financial leverage procedure to boost shareholder return.

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