THE IMPACT OF INTERNAL GOVERNANCE MECHANISMS AND RISK MANAGEMENT ON FINANCIAL INSTITUTIONS IN NIGERIA

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ABSTRACT
Corporate governance mechanisms and regulations have been given a considerable attention worldwide as, they enhance the overall economic proficiency to achieve the overall public benefits of the individual and organizational stakeholders. This research paper seeks to examine whether Internal Governance Mechanism (Board Size, Board Independent and Board Meeting) influence the content of RMD in Financial institutions in Nigeria. The aim of this study is to assess the relationship between internal governance mechanism and risk management of listed financial institutions (FIs) in Nigeria. Specific objectives are to ascertain the effect of internal governance mechanism (Board size, board independence and board meetings) on Credit risk of listed financial institution in Nigeria. Determine the relationship between internal governance mechanism (Board size, board independence and board meetings) and Liquidity risk of listed financial institution in Nigeria. Examine the relationship between internal governance mechanism (Board size, board independence and board meetings) and Interest rate risk of listed financial institution in Nigeria. The study adopted ex-post facto research design because the study entails the use of annual report and accounts of the quoted financial institutions under study, the population of this study consists of some the quoted financial institutions in the Nigerian stock exchange as at 2017. The study covers a period of ten years between 2008 and 2017. Panel data analysis is employed to explore both cross-sectional and time series data simultaneously. Stata Version12.0 are used for the analysis. In our results liquidity risk is negatively significant to the ROA; it means that if liquidity risk increases, profitability decrease, further findings also suggest that liquidity risk is negatively associated with ROE. This research therefore, conclude that in financial sector Banks to be specific, non-performing loans / gross credits have positive effects on the financial performance (ROA; ROE) of banks.

INTRODUCTION

In the aftermath of the global financial crisis, it has been widely argued by politicians, banking supervisors, and other authorities that the crisis can be, at least to some extent, attributed to flaws in the corporate governance practices of financial institutions (Kirkpatrick, 2009; Haldane, 2012). These allegations seem reasonable given that corporate governance can be broadly considered as the set of mechanisms for addressing agency problems and controlling risk within the firm. In general, strong corporate governance practices, and especially, effective board oversight are supposed to encourage the firm's top management to act in the best interest of shareholders and other stakeholders (Shleifer and Vishny, 2018). Significantly, both local and foreign investors will be substantially attracted to the companies where the corporate governance mechanisms are being in practice. The proper execution of the Corporate Governance Code can prevent not only the financial disputes, but can reduce the corruption as well, thus enhancing the overall firm growth that collectively contributes in stimulating the country's overall economic growth and development (Al-Matari, Al-Swidi, Faudziah, Al-Matari, 2012).

In order to achieve good governance practice, the involvement of various parties especially those inside organization, is very crucial. Among major internal mechanisms that contribute towards good governance practice are board of directors (BOD) and its sub-committee including risk management committee. Risk management disclosures are intended to provide information on how firms will meet the increasing challenges and reduce the possibility of failure (Solomon et al., 2000), RMD are likely to be of higher concern after the recent financial crisis due to the increasing risk levels (Cornett et al., 2009). It is quite reasonable to argue that RMD by businesses in general and banks in particular, have significantly increased following the recent global financial crisis.

It should be fully understood by regulators and other standard setters that effective risk management is not about eliminating risk taking, which is a fundamental driving force in business and entrepreneurship. The aim is to ensure that risks are understood, managed and, when appropriate and communicated. At first glance, it may seem somewhat counterintuitive that financial institutions with stronger corporate governance mechanisms are associated with higher levels of systemic risk. However, consistent with traditional shareholder value maximization, well-governed financial institutions may have tried to improve their profitability to placate

shareholders before the crisis by increasing the level of risk-taking. Therefore it is based on the aforementioned that this study is designed to assess the relationship between internal governance mechanism and risk management of listed financial institutions (FIs) in Nigeria.

Problem Statement/Justification

Internal governance mechanism has been largely criticized for the decline in shareholders' wealth and corporate failure all over the world; they have been in the spotlight for the fraud cases that had resulted in the failure of major corporations, such as Enron and WorldCom. In Nigeria, cases of irregularities have been recorded (for example, Wema Bank, Finbank and Spring Bank). Some of these corporate failures are the lack of vigilant oversight functions by the board of directors, the board relinquishing control to corporate managers who pursue their own self-interest. As a result various corporate governance reforms have been specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition, structure and ownership (Liu, 2002; Gbechi, Okafor &Onifade, 2010).

Perhaps one of the greatest shocks from the financial crisis has been the widespread failure of risk management. In many cases risk was not managed on an enterprise basis and not adjusted to corporate strategy. Risk managers were often separated from management and not regarded as an essential part of implementing the company's strategy. Most important of all, boards were in a number of cases ignorant of the risk facing the company. Some studies have reported that companies with good internal governance mechanism were less affected in the time of the crisis (Suvankulov &Ogucu, 2012; Watkins, Spronk 11 &Dijk, 2009).

Indeed, various researchers have tried to apprehend the report between the system of governance and the performance. Some of them have studied the correlation between the system of remuneration of manager (for example stock options) and the stock market performance. Some others have checked the relationship between ownership structure or composition of the board of directors and financial performance. However, the conclusions are various. Based on the literature review conducted by the researcher, it is revealed that most of studies conducted on the influence of Corporate Governance Mechanism on Risk Management were in Asia, Europe and America, very few were conducted in Africa (Jizi, 2015; Iqbal, Strobl, &Vähämaa, 2015; Nekaa& Sami 2017) and with little certainty on the context of Nigerian financial

institutions that covers the period between 2008-2017. This study is therefore unique, as it is on the aspects not widely covered by researchers as justified by the reviewed literature. This study is therefore, an attempt to complement the gap left by other previous studies.

OBJECTIVE(S) OF THE STUDY
The aim of this study is to assess the relationship between internal governance mechanism and risk management of listed financial institutions (FIs) in Nigeria. Specific objectives are to

i.   Ascertain the effect of internal governance mechanism (Board size, board independence and board meetings) on Credit risk of listed financial institution in Nigeria.

ii. Determine the relationship between internal governance mechanism (Board size, board independence and board meetings) and Liquidity risk of listed financial institution in Nigeria.

Research Questions

i.   What is the effect of internal governance mechanism (Board size, board independence and board meetings) on Credit riskof listed financial institution of Nigeria?

ii. To what extent internal governance mechanism (Board size, board independence and board meetings) influences Liquidity risk management of listed financial institution of Nigeria?

Hypotheses of the Study
In line with the objectives and research questions of the study, the following hypotheses are formulated in null form to guide the study,

H_{o1} Internal governance mechanism has no significant impact on Credit risk Management of listed financial institution in Nigeria.

H_{o2} There is no significant relationship between internal governance mechanism and Liquidity risk management of listed financial institution in Nigeria

Scope of the Study
This research work examines the effect of internal governance mechanism and risk management of all listed financial institutions on the Nigerian Stock Exchange in Nigeria. Furthermore, this study only covers

the relationship between internal governance mechanisms such as "Board Size (BS), Board Independent (BI) and Board meetings (BMT)" while credit risk, liquidity risk and interest rate risk management will be used as the component of risk management. This study covers a period of ten years starting from 2008 to 2017. The ten-year duration is considered appropriate to study the relationship between internal governance mechanism and risk management of listed financial institution in Nigeria, and will enable meaningful contribution to the knowledge.

REVIEW OF RELATED LITERATURE
Concept of Internal Governance Mechanism
There are a wide range of definitions of corporate governance. Corporate governance has gained popularity as a result of the increase in high profile collapses of companies Aguilera & Jackson (2013).Shleifer &Vishny (2012) define corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. However, the conflicts of interests in organisation, management recklessness and greed, corporate dishonesty and ethical breakdowns, weak internal control and poor risk assessments are some of the factors that have caused corporate failures and have been the herald of corporate government discourse. According to Razaee (2013) despite the recent widespread use of the term it has no generally accepted definition, perhaps this could be because the term cuts across various disciplines.

Corporate governance can be described as a system that consist of two based of institution and market to make director of company to make decision that will bring about increase in profit to the investors of a corporation(McConnell & Denis, 2013).   While according to Cadbury, (2012) and World Bank, (2000), the term corporate governance refer to a whole system of controls which guarantee that a firm is directed in right approach and towards the right direction, which encourage the efficient use of resource and equally to require honesty, prudence and accountability in allocating those resources. From foregoing definitions,' it can be deduced that the definition of corporate governance can be categorised into two perspectives. Corporate governance is viewed as a mechanism to safeguard shareholders' interests, and as a means to protecting the wider community. From, the highlight of the above definitions, it is clear that corporate governance is all about mechanism that ensures participants in the business, get a return on investment from

the business. Fama& Jensen (2012) suggested that mechanisms of corporate governance are system of control that are provide in order to subsist conflicts of interest between owners and management it could also reduce information asymmetry. Equally, such control mechanism should also enhance reporting quality as organisation become more transparent and accountable and thereby improve the market confidence in the information provided by the firm (Jensen & Meckling,1976).

Board size
According to Cadbury, (2012)the board of directors is the first level of supervision over the activities of the institution and its management. The board is ultimately responsible for the activities and results of the bank, for the maintenance of stability and financial soundness. The powers and rules of the board are specified in the law and the statute of a bank. The mode of operation should be specified in the rules of procedure of the board. Furthermore, board size consist of total board members both executives and non-executives.

Board Independence
Another matter of corporate governance, of essential importance, is the membership of the independent persons in the council. The Polish good practice recommends that at least two members of the supervisory board meet the criteria of independence (whatever the overall size of the board). Their participation in the board is to objectify its work, to provide care to the board in the first instance of the fortunes of the company (and not just its owners), as well as a balance between the interests of the dominant shareholders and minority shareholders (Marcinkowska 2012).

Board Meeting
Each committee should have a charter or other instrument that sets out its mandate, scope and working procedures. This includes how the committee will report to the full board, what is expected of committee members and any tenure limits for serving on the committee Adams & Ferreira (2009). The board should consider the occasional rotation of members and of the chair of such committees, as this can help avoid undue concentration of power and promote fresh perspectives. In the interest of greater transparency and accountability, a board should disclose the committees it has established, their mandates and their composition (including members who are considered to be independent).

Compensation Committee

The compensation committee is required for systemically important banks. It should support the board in overseeing the remuneration system's design and operation and in ensuring that remuneration is appropriate and consistent with the bank's culture, long-term business and risk appetite,

Van Greuning &Brajovic (2010) proved that corporate governance principles of the institutions should promote performances, and control environments. The compensation committee should be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create. The compensation committee works closely with the bank's risk committee in evaluating the incentives created by the remuneration system. The risk committee should, without prejudice to the tasks of the compensation committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

Concept of Risk Management

According to International Federation of Accountants' (IFAC, 1999) report defines risk as an uncertain future event, which can influence the achievement of an organization's strategic, operational and financial objectives. The International Accounting Standards Board (IASB, 2015) presents a strong definition of risk in its professional report and defines risk as "... uncertainty as the amount of benefit.

The concept of risk management remains an absence of a widely accepted definition In finance, risk management is understood in terms of volatility in expected outcomes, negatively and positively (Power 2004).Similarly, Risk was also understood as a process, principally from an enterprise risk management (ERM) perspective where the emphasis is on strategy-setting across the enterprise, the identification of potential events that may affect the entity, the management of risks within given risk appetites, and the provision of reasonable assurance of the achievements of entities' objectives.

Credit Risk Management

Credit risk can be defined as 'the potential that a contractual party will fail to meet its obligations in accordance with the agreed terms'. Credit risk is also variously referred to as default risk, performance risk or counterparty

risk. These all fundamentally refer to the same thing: the impact of credit effects on a firm's Transactions. According to Brown & Moles (2014) there are three characteristics that define credit risk:

1. Exposure (to a party that may possibly default or suffer an adverse change in its ability to perform).
2. The likelihood that this party will default on its obligations (the default probability).
3. The recovery rate (that is, how much can be retrieved if a default takes place)

Market Risk Management

Market risk management can be seen as a response to changes in the market environment, business development and management requirements, the Bank thoroughly reviewed the effectiveness of its market risk management system and took measures to optimize and upgrade its market risk management function in a flexible and forward-looking manner (Verbano &Venturini 2013).

Liquidity Risk Management

Liquidity risk management system is the proceed aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and the group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost Matz &Neu (2005).

Reputation Risk Management

Reputational Risk Management of Commercial Banks are document issued by the CBRC, actively followed the Group's policy on reputational risk management, continued to improve its reputational risk management system and mechanism and strengthened the consolidated management of reputational risk, so as to enhance the reputational risk management level of the Group. It attached great importance to the investigation and pre-warning of potential reputational risk factors and further strengthened routine public opinion monitoring

Operational Risk Management

Operational risk management can be defined as a system. That used to promote the application of operational risk management tools, using various management tools including Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC) to

continually identify, assess and monitor operational risks. The Bank enhanced its system supporting capability by optimising its operational risk management information system. It strengthened its business continuity management system, optimised its operating mechanism to enhance its business operating sustainability, carried out disaster recovery drill and improved the Group's capacity for continuous business operation

Empirical Review
Corporate Governance and Risk Management
Tandelilin, Kaaro, Mahadwartha and Supriyatna (2017) investigate the relationships among corporate governance, risk management, and bank performance in Indonesian banking sector. This research utilizes both primary data and secondary data analyses. Method of analysis used for secondary data is Generalized Methods of Moments (GMM). This study finds that the relationships between corporate governance and risk management and between corporate governance and bank performance are sensitive to the type of bank ownership. Furthermore, Zhu , Li , Zeng , He (2012) studied a panel of chin ease banking sector between (2002- 2005). They examined the impact of foreign investors on the behavior of bank risk. They found that foreign investors have a positive but limited impact on the credit risk of the bank in China, but risk management is improved when the participation of foreign investors is more than 15% of the total capital of bank (decrease credit risk of bank).

Tsorhe, Aboagye and Kyereboah-Coleman (2010) studied the impact of stakeholders of Ghanaian banks on the management of bank capital risk, credit risk and liquidity risk is investigated. Bank stakeholders include the board of directors, shareholders, depositors and regulators. Other explanatory variables of bank financial risks include management efficiency, total assets, inflation and central bank lending rate. Three fixed effects (least squares dummy variables) regression coefficients were estimated for each of the three risks, using an unbalanced panel of 23 banks covering 2005-2008. It was concluded that there is no statistical difference between the strengths of bank boards in Ghana, and that board strength does not have significant impact on capital risk, credit risk nor liquidity risk. Lofti and Malgharni (2013) investigated the relationship between the composition of board of directors and risk management of companies listen in Tehran Stock Exchange. The research population consists of the companies listen in Tehran Stock Exchange during the

years 2007-2012. The sample consists of 107 companies from 20 different industries. The correlation and multiple regression tests were used to examine the hypotheses. The results indicate that there is a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management. But, there is no significant correlation between the independence of the board of directors and risk management.

Kakanda, Salimand Chandren (2017) conducted a study on the relationship between Corporate Governance (CG), risk management, and firm. The study adopts use ex-post facto research design. The study used multivariate statistics in analyzing the data. The study is conceptual in nature, only reviewed were done and the result shown that board characteristics (board size, board composition, board meeting, and board expertise) and risk management disclosure have positive relationship with firm performance. Mamatzakis, Zhang and Wang (2017) conducted on the corporate governance mechanisms on bank risk taking after analyzing 43 Asian banks over the period from 2006 to 2014; I find that banks with strong corporate governance are associated with higher risk taking. More specifically, banks with intermediate size of board, separation of CEO and chairman of board, and audited by Big Four audit firm, are likely higher risk taking. Overall, my findings provide some new perspectives into the governance mechanisms that affect risk taking on commercial banks.

METHODOLOGY
Research Design
This study adopted ex-post facto research design because the study entails the use of annual report and accounts of the quoted financial institutions under study; this is in view of its relative importance to governance mechanism and risk management in the Nigerian listed financial institutions.

Population of the Study
The population of this study consists of some the quoted financial institutions in the Nigerian stock exchange as at 2017. The study will covers a period of ten years between 2008 and 2017. Table one contained the list of all the banks financial institutions quoted on the Nigerian Stock Exchange, and their years of listing.

Table 1: Population of the Study

S/N	Bank Name	Year of Incorporation	Year of Listing
1	UBA	1961	1970
2	Union Bank	1969	1970
3	FBN	1969	1971
4	Wema Bank	1969	1991
5	Starling Bank	1960	1993
6	GTB	1990	1996
7	Access Bank	1989	1998
8	Zenith Bank	1990	2004
9	FCMB	1982	2004
10	Stanbic IBTC	1989	2005
11	Fidelity Bank	1987	2005
12	Diamond Bank	1990	2005
13	SKY Bank	1989	2005
14	Unity Bank	1987	2005
15	Eco Bank	1980	2006

Source: Generated by the researcher from the NSE Website

Sample Size of the Study

This represents the portion of the population to be studied in order to
make conclusions on the population. According to Asika (1991), the best
sample is the complete population itself, because every element of the
population is represented in it. Representation is the hallmark of a good
sample, which makes it validly estimate the population characteristics,
thereby minimizing sampling error and ensuring the absence of systematic
variance. Therefore, all the financial institutions will be used in this study
for wider coverage. This will be done to; apart from the fact that the
required data for all the financial institutions are available, this will
provide wider range of generalizing the findings as previous studies in this
area covered fewer FIs.

Sources and Method of Data Collection

The aim of this study is to examine the effect of CG on Risk management
of all listed financial institutions in Nigeria. The reliability of a report on
any study would depend largely on the accuracy of data collected and the
methods used in conducting the research work. In line with the aim of
this study and based on the significance of the secondary data to the
research topic, the study utilize the secondary source of data. Data will be
obtain from the annual reports and accounts of all the financial
institutions quoted in the Nigerian stock exchange covering the period of
ten years from 2008 to 2017.

Variables of the Study

The variables of the study comprises of dependent variables, independent variables, and control variables and their measurements. The dependent variable are risk management, the independent variables includes the Board Size (BS); Board Independent (BI); Board meetings, while the control variables includes the firm size which is measured as the Natural logarithm of the total asset of the firm (SIZE), Age and Leverage.

The Variables and its Measurement
Table 2 Variables and Measurement Criteria

Variables	Measurement
Dependent variable	
Credit risk	Non - performing loans Total gross loan
Liquidity risk	Cash Total deposits
Capital risk	Tier 1 Capital + Tier 2 Capital Risk Weighted Assets
Independent Variables	
Board size	The total number of the board of directors
Board composition	The ratio of non-executive directors to total directors
Board Independence	Proportion of non-executive directors to the total directors on the board
Control variables	
Firm size	Logarithm of total assets
Firm age	Number of years passed since listed
Leverage	Total debt Total equity

The Independent Variables and their Measurement

CG is the independent variable. The measure of the variables which is consistent with the study of Batool and Javid, (2014),Kurawa&Ishaku (2014) and is explained below.

Board Size (BS): is the total number of members of the board of directors

Board Independence (BI): this is the proportion of non-executive directors sitting on board with the executive directors. The number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors (CBN 2006). A positive relationship is expected between the proportions of outside directors in a company as outside directors are better able to challenge the CEOs. It is

basically in recognition of the outside directors' role that in the UK a minimum of three outside directors is required on the board; in the US, at least two-thirds of the board of directors must be outside directors (Sanda, Mikailu&Garba 2005).

Board Meeting (BT) the number of Board meetings held per year (Maniaga et al. 2013). According to CBN Code of CG the Board members are expected to have a minimum of four board meeting per year.

Control Variables
Firm Size: was measured as the natural log of total assets. This is in accord with many other studies, including, Thanatawee (2013),Batool&Javid, (2012), Obradovich& Gill (2013), Wu, (2013), Toby (2014), and Rice& et al (2014).

Bank Age: Age of business affect the kind of investment and financing decisions. So much experience is acquired and companies which have been in business for long have good links and access to a lot of opportunities than new and upcoming ones. It is reported firms that have existed for long have less material internal control weakness (Tang, Tian& Yan, 2015).

Leverage: The composition of debt in a bank's capital structure exposes it to some consequences and especially when default rate is high, servicing these debts becomes a problem. Corporate failure could emanate from high leverage (Altman, 1968; Hillegeist et al., 2004).

Technique of Data Analysis and Model Specification
Given the objective of the study and following the works of Hwang, Kim, Park &Soo (2013); Ajanthan, (2013); Obradovich, John and Gill, (2013);); Nasrum, (2013); Wu, (2013); Daradkah &Ajlouni, (2013); Maniagi, et al. (2013);Dameh, and Mohammed, (2013); Batool &Javid (2014); and Kurawa & Ishaku, (2014). Panel data analysis will be employed as it will help to explore both cross-sectional and time series data simultaneously. Stata Version12.0 will be used for the analysis; this is consistent with the study of Kurawa and Ishaku, (2014). Therefore, the general model based on the variables of the study which is a modification of (Maniagi et al; and Kurawa &Ishaku 2014) is stated thus:

$$CR_{it} = \beta_{0it} + \beta_{1it}BS + \beta_{2it}BIt + \beta_{3it}BM + \beta 4itSIZE + \beta_{5it}AGE + \beta_{6it}LEV + \varepsilon it......1$$

$$LR_{it} = \beta_{0it} + \beta_{1it}BS + \beta_{2it}BIt + \beta_{3it}BM + \beta 4itSIZE + \beta_{5it}AGE + \beta_{6it}LEV + \varepsilon it.......2$$

$$CCR_{it} = \beta_{0it} + \beta_{1it}BS + \beta_{2it}BIt + \beta_{3it}BM + \beta 4itSIZE + \beta_{5it}AGE + \beta_{6it}LEV + \varepsilon it.....3$$

Where:

CR: Stands for credit risk

LR: Stands for liquidity risk

CCR: Stand for capital risk]

BS: Is Board Size

BI   is Board Independence

BM stands for board meetings

SIZE: is a stand for firm size.

AGE: is a stand as firm age

ε is error term

RESULTS AND DISCUSSION

This part of the paper, presents the results of the analysis conducted on the secondary data generated from the annual financial report and accounts of the Nigerian deposits money banks quoted on the Nigerian stock exchange from 2007-2017. However, the descriptive statistics, correlation, regression and t-test results are presented in the subsequent sub sections of this part.

Correlation Results

The correlation between the dependent and independent variables are presented in Table 4.1. The correlation matrix shows the relationship between all pairs of variables in the regression model; the relationship between all explanatory variables individually with explained variable and the relationship between all the independent variables themselves.

Correlation between governance mechanisms and financial performance

Governance mechanisms (Variables)				Financial Performance (Variables)				
	BDILIG	MKP	BSZ	FSZ		ROA	MKP	BSZ	FSZ
BDILIG	1.00				ROA	1.00			
MKP	-0.0016	1.00			MKP	-0.2267	1.00		
BSZ	0.4574	-0.104	1.00		BSZ	0.6531	-0.3603	1.00	
FSZ	0.9992	0.0012	0.4560	1.00	FSZ	0.9993	-0.2352	0.6477	1.00

Source: Author's computation using STATA version 12.0

Table 4.1 shows the correlation coefficients on the relationship between the dependent variable (ROA) and independent variables (MKP, BSZ and FSZ). ROA is found to be positively correlated with BSZ and FSZ but negatively correlated with MKP. FSZ is found to be positively related with both BSZ and MKP, whereas MKP and BSZ are negatively related. The correlation coefficient for ROA and MHP is -0.0016 which shows a very weak negative relationship. The correlation coefficients for ROA, FSZ and BSZ are 0.4574 and 0.9992 respectively which shows a very strong positive relationship between ROA and BSZ while an average relationship between FSZ and ROA.

Collinearity: Which is a situation where two of the independent variables are related and multicollinearity: this is an instance where more than two of the independent variables or predictors are correlated implies interdependence among the predictors or independent variables and if high in magnitude, adversely affects the predictive ability of the independent variables. To determine the presence of collinearity problem, a Variance Inflation Factor (VIF) test was carried out, the results of which provide evidence of the absence of collinearity. This is because the result of the VIF test shows a vif value of less than 2 in all the models. However, VIF of 5.00 can still be a proof of absence of collinearity (Kothari and Garg, 2014).

Regression Results
Table 4.2 provides results of panel regression model, estimated Between the Independent Variable (Internal Governance mechanism) and the dependent Variable (Credit risk Management)

Table 4.2: Regression results Between Internal Governance mechanism) and Credit risk Management)

Internal Governance mechanism (Fixed effect Model)				Credit Risk Management (Robust OLS Model)				
	Coef.	Std.Err.	T	P>|t|		Coef.	Std.Err.	t	P>|t|
MKP	0.00046	0.0012	0.38	0.705	OR	0.0058	0.0031	1.85	0.071
BSZ	0.00202	0.0010	1.94	0.063	CR	0.0022	0.001	2.27	0.029
FSZ	15.3496	0.6090	25.20	0.000	LR	17.289	0.1243	139.04	0.000
Cons	-5.8023	0.5318	-10.91	0.000	Cons	-7.525	0.1075	-69.98	0.000
R^2	0.9638		Prob>F	0.000	R^2	0.9987		Prob>F	0.000

Source: Author's computation using STATA 12.0
The results from the regression analysis above show that liquidity risk has a negative impact on ROA and ROE; it means that if liquidity risk

increased profitability decrease. In financial sector, the operational risk
positively influences ROA and ROE, but when adding corporate
governance as moderator then it show a negative effect. These findings
are in relation to Boahene and Agyei (2012) and Aduda and Gitonga
(2011), which show a positive relationship between credit risk and bank
profitability. While Credit risk is negatively associated with ROA and
ROE in Banks which indicate that increase in credit risk decrease the
profitability and firms' performance. The operational risk is negatively
associated when adding moderator variable corporate governance then
results are changed the operational risk has no impact on the firm's
performance.

Based on the regression analysis in table 4.2 above, return on asset is with
maximum value of 0.00046and with a mean value of 0.38it means that
some DMBs are in crises due to either political situation or reserve ratio
requirement and cannot earn on their assets. ROE maximum value is
6.411 with means value of 1.027 it means that companies earn 1.07 on
their capital, while the liquidity ratio average value is 1.425. Board size in
industries and services sector is maximum members of 17 with means of
9 members and minimum 7 members according to the code of corporate
governance of Nigeria. Board meeting with maximum 24 and average of 6
and followed the code of corporate governance of at least one board
meeting in each quarter. Mostly firms have independent directors in the
board and ownership concentration has with maximum 8 members and
with average of three.

SUMMARY OF RESULTS AND IMPLICATIONS OF FINDINGS
From the above regression result, it shows that both board size and board
composition has coefficients of 0.0001 and 0.000115 for the two values
which are both statistically significant less than 1%. These results provide
evidence of rejection of the hypothesis (H_{o1}) which states internal
governance mechanism has no significant impact on Credit risk
Management of listed financial institution in Nigeria. Also the results
provide evidence for the rejection of hypothesis (H_{o2}) which states that
there is no significant relationship between internal governance
mechanism and Liquidity risk management of listed financial institution
in Nigeria. Moreover the implications of these two results show that board
size and board composition significantly affect bank performance in
Nigeria negatively. This finding suggests that a smaller board size and
board composition can increase banks' performance as well as the smaller

size can take fast and adequate efficient decision for the performance of the banks, whereas large board size tend to be slow when taking decisions. The findings of this study are consistent with the findings of (Ajala, Amuda, and Arulogun (2012), Bawa and Lubabah (2012), and Muhibudeen, Nuhu, and Farouk (2015). Alsothe findings support the view of Bebeji, Mohammed and Tanko (2015), who concluded that smaller board size contributes more to financial performance than larger board size in order to achieve the goal and objective in and effective and efficiency manner.

CONCLUSION AND RECOMMENDATIONS

This study focused on the effect of Internal Governance mechanism and Credit Risk Management on financial performance of listed DMBs in Nigeria. The dependent variables firm performance is measured by two ways by return on asset(ROA) and return on equity(ROE).The independent variables which are, liquidity risks are measured by liquidity ratio and calculated as the liquid asset, credit risk are measured by non-performing loan ratio and operational risk are measured by earnings before interest and tax divided by total assets and the moderator variable corporate governance(that corporate governance aspects that directly impact) has been taken. In our results liquidity risk is negatively significant to the ROA; it means that if liquidity risk increased profitability decrease and also liquidity risk negatively associated with ROE. In financial sector Banks to be specific, operational risk is positively significant with adding moderator as corporate governance when added corporate governance it is negatively significant. Credit risk is negatively associated with ROA and ROE it means that increase in credit risk decrease the profitability and poor firms' performance. This shows that non-performing loans / gross credits have positive effects on the financial performance (ROA; ROE) of banks. These findings are according to Abdelrahim (2013); Li and Zou (2014) and Boahene and Agyei (2012) finding, that the capital adequacy ratio had no effect on credit risk management and some credit risk indicators had a positive effect on the financial performance of banks. Our results are similar to Juanjuan (2009) who found that risk management has positive impact on the firm's performance. Moreover, our results are a continuation of the work of Abiola and Olausi (2014) and are in line with Adeusi et al., (2013), which determine the impact of credit risk management on profitability. However, Future research should be conducted on Risk management comparing to other nation like two countries risk management comparison. The corporate governance other

variables board knowledge and experience and existence of the audit committee should be taken in further research. Also the ownership concentration should be taken as moderator in further research. Because in some countries organizations and banks are governed by the government then see government ownership as a moderator in risk management should be the topic of further research.

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