Corporate Governance Mechanism and Shareholders Wealth Maximization in Quoted Commercial Banks in Nigeria

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ABSTRACT
This study examined the effect of corporate governance mechanism and shareholders wealth maximization of quoted commercial banks in Nigeria. The purpose is to examine how corporate governance variables affect shareholders wealth of quoted commercial banks in Nigeria. Panel data was sourced from financial statement of the quoted commercial banks from 2011 to 2020. Return on equity and return on assets were modeled as a function of board size, board composition, board independence and directors shareholdings. Panel data Ordinary least square method was used as data analysis technique. The study found that 65.7 and 70 percent of return on equity and return on assets were explained by variation in corporate governance variables. Beta coefficient of the variables found that board size and board composition have positive but no significant effect on return on equity of the quoted commercial banks while board independent and directors equity holding have negative effect on the return on equity of the quoted commercial banks. The study found that the independent variables have positive effect on return on assets of the quoted commercial banks except directors' equity holding. From the findings, the study concludes that corporate governance variables have greater effect on return on assets than return on equity of the quoted commercial banks. From the findings, the study recommends the all corporate governance code from the regulatory authorities should well complied with by the management of the commercial banks. Directors equity holding should be reduce and its objectives integrated with the management objective of maximizing shareholders wealth.

Keywords: *Corporate Governance Mechanism, Shareholders Wealth Maximization, board size, board composition*

INTRODUCTION

The traditional finance paradigm theory and teaching put the shareholders wealth maximization as the primary goal of corporate management. The shareholders wealth maximization as function of management is a critical function that requires tactical and strategic measures to achieve. Maximizing shareholders wealth is the primary responsibility of every profit making organization and constitutes the short and long-run management planning and operating strategies. It is a qualitative measure of input-output relationship of management and management efficiency in maximizing investors return on investment, return on assets, return on capital employed and earnings per share.

In Nigeria, the rules and legal framework of corporate governance is contain in relevant laws such the Nigerian Deposit Insurance Act of 1988, Companies and Allied Matter Act of 1990,

Bank and Other Financial Institution Act of 1991, Statement of Accountability Standard, Central Bank of Nigerian Act of 1991 and Corporate Affairs Commission. These laws are expected to regulate the ethical conduct of the management for the realization of shareholders wealth. The relationships between corporate governance and financial performance are usually discussed within the context of the agency theory. The principal/agency literature suggests that hired managers will not have the same objectives as profit-oriented private owners; rather they will use firm's specific rents to satisfy their own maxim and higher ownership concentration may likely mitigate the free-rider problem and this can improve firm efficiency (Uwuigbe, 2011).

Financial scandals that led to the collapse of high- profile firms such as Enron, Worldcom, Tyco, Xerox, Oceanic bank and the opinion that poor corporate governance contributed to poor financial performance and corporate collapse have generated renewed interest in determining the best practices of corporate governance. Conceptually, corporate governance is a trend towards greater responsibility in managing companies and ensuring that businesses are conducted according to standard ethical principles. Corporate governance comprises a collection of link between a corporation's management, the shareholders, the board of the firm and other stakeholders. It is a platform whereby the corporation's goals and objectives are formulated, implemented and their performance is measured and determined (Nworji, Adebayo & Adeyanju, 2011).

The degree of independence of the board directors is not significantly related to the cost of capital. Institutional investors play an important role in financial market since their preference and decisions will affect the firm's governance quality. Institutional investors can mitigate agency problem through outside monitoring and information asymmetry. Firms have greater institutional ownership usually have higher rating because institutional investors would be willing to pay more premiums to firms with good governance (Chen et al., 2019; McCahery et al., 2011). Institutional investors also alleviate market imperfections, thereby mitigating the underinvestment problem (Lev & Nissim, 2013). This suggests that firms with more institutional ownership have a lower cost of debt because institutional investors enhance the monitoring on the management.

The collapse of firms does not only imply conflict of interest between the management and the shareholders but reflect a breach of trust that validates the agency theory, stakeholders' theory and agency cost. The effect of the corporate collapse does not only affect the shareholders but affect the economy at large. An examination of the collapse over the years shows the poor level of corporate governance. The functions of the management and board of directors are contrary to relevant laws that regulate the firms such as the Company and Allied Matter Act.

The series of widely publicized cases of accounting improprieties recorded in the Nigerian in 2009 for example, Oceanic Bank, Intercontinental Bank, Union Bank, Afri Bank, Fin Bank and Spring Bank were related to the lack of vigilant oversight functions by the boards of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders (Uwalomwa & Olamide, 2012). Harford, et al., (2018) confirmed that in some cases, the bank director's equity ownership is low in order to avoid signing blank share transfer forms to transfer share ownership to the bank for debts owed banks. He further opined that the relevance of non-

executive directors may be watered down if they are bought over, since; in any case, they are being paid by the banks they are expected to oversee.

There are many studies on the effect of corporate governance on financial performance; Uwalomwa and Olamide (2012) studied on the relationship between corporate governance and financial performance, He, and Mahoney (2016) also found that corporate governance of banks is positively related bankruptcy risk and negatively associated with bank profitability. Indian, Yidersal and Wang (2017) conducted to examine the effect of corporate governance on the Profitability of the commercial banking sector in Ethiopia, Ndum and Oranefo (2021) revealed that audit committee and board composition diligence have positive insignificant effect on return on assets of conglomerates firms in Nigeria, Ovbiebo, Ukori and Vincent (2019) found that board characteristics have a negative impact, while audit committee characteristics have a positive impact on firm performance, Awodiran (2019) found that board composition and ownership concentration positively influenced profitability while size of the board and the status of chief executive officer exerted negative but significant influence on profitability. The above indicates that the effect of corporate governance variables on corporate performance is controversial and inconclusive; therefore this study examined the effect of corporate governance mechanism on shareholders wealth maximization of quoted commercial banks in Nigeria.

LITERATURE REVIEW

Corporate Governance

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2002). As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them.

Corporate governance has been looked at and defined variedly by different scholars and practitioners. However they all have pointed to the same end, hence giving more of a consensus in the definition. Coleman and Nicholas-Biekpe (2006) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. However, Mayer (1999**)** offered a definition with a wider outlook and contends that it means the sum of the processes, structures and information used for directing and overseeing the management of an organization. The Organization for Economic Corporation and Development (1999) has also defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between the parties included (board of directors, the supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

Board Size

Board size is defined as the number and mix of both executive directors and non-executive directors on the board of the Institution (Fama and Jensen, 1983). Board size has been a subject of significant research in terms of its relationship with firm performance. In most

cases, this has been fueled by prominent business failures of large companies such as Enron, WorldCom and Parmalat (Opondo, 2012). There is a convergence of agreement on the argument that board size is associated with bank financial performance (De-Andre &Vallelado, 2008; Bonn et al., 2014; Gakeri, 2013). However, other scholars like Lam and Masulis et al., (2017) argued that the size of the board in itself is not significant but rather the quality and effectiveness of the board. The size of the board should be large enough to incorporate key skills and perspectives, and yet small enough to allow for the active involvement of all the members and the smooth functioning of meetings (Mohammed, 2012). There is a belief that the number of directors can affect the performance of a company, especially its financial performance. It is argued that within a certain range, the larger the board, the more effective it is in its statutory duties of monitoring the management.

In theory, the board of directors is one of the most important governance mechanisms that ensure that the management of a company pursues interests that are in tandem with those of the shareholders. Its task is to monitor, discipline and remove ineffective management teams (Darmadi, 2013). Spencer Stuart Board Index (2015) reported that worldwide board size has been shrinking over the years and that there is a continued trend towards smaller boards. Darmai (2013) noted that if boards were just to satisfy regulatory requirements they would represent very high costs to firms hence the need to observe a minimum board size. In practice, however, boards have been known to be generally larger than what the law requires bringing up a more reasonable theory that boards are determined by institutions as a tool to help in alleviating agency problems in large firm as part of the equilibrium solution to the contracting problem between dispersed shareholders and the management (Fama & Jensen, 1983).

Board Independence

Board independence is one of the highly debated issues in corporate governance studies due to its ability to influence board deliberations and ability to control top management decisions and company results (Black, 2001). Board independence is defined as the ability for a board to be free from internal or external interference or pressure in the course of doing their duties. There are many different measurements on the composition of the governing board, and these are varied as number of directors, number of external directors, number of independent directors in the board (Andre & Vallelado, 2008).

The concept of board independence was grounded on agency theory (Omoniyi et al, 2013). Independent board members provide potentially greater oversight and accountability of operations, as they are less likely to be subject to the principal-agent problem themselves. This is because as independent members do not have inherent self-interests per se and are instead guided by the interests of the stakeholders who appointed them (La Porta et al., 2015). For this reason, a greater percentage of independent members in the boards should promote positive performance. It is argued that independent directors are more likely to act in shareholders' interest in a better way compared to executive directors for they do not have an incentive to collude with internal managers to expropriate shareholders' wealth.

In banking firms, the proportion of outsiders may overstate the board's true independence if there are undisclosed lending relationships with directors or the directors' employers especially where such relationships may be large enough to matter for independence (Kiruri, 2013). Although independent directors help a great deal in decision making in companies, research has not found any direct link between board independence and firm performance. Two reasons have been advanced for this: board independence in itself is affected by

financial performance for companies react to bad performance by adding outside directors to the board and the advantages of an active independent board are normally realized when specific issues such as chief executive officer replacement or acquisition proposals are to be voted on.

Board Composition

According to the Committee on Corporate Governance (1999) the board composition allows for effective decision making and supervision of the management. Further to this the board size should give room to fruitful discussions and appropriate, swift and prudent decisions. There is no perfect number of board members due to the different factors that may influence the board size e.g. corporation's size, the business environment and special characteristics. The board should include outside directors in order to maintain practical independence and the appointment of board members should be through a transparent procedure that reflects broadly the diverse opinions of shareholders. Board members should also be competent and professional. Board size is one of the well-recognized dimensions of board composition examined in the literature.

Gompers, Ishii, and Metrick (2003) analyzed the composition of the board of directors and concluded that the size of the board does not enhance the returns of the company. As shown, most of the studies examining board size effect on financial performance have confirmed Gompers, Ishii and Metrick (2004) findings that board size and financial performance of a firm were negatively correlated. This idea suggests that as the size of the group increases, communication and coordination problems increases assert Gompers, Ishii, and Metrick (2003). Anderson, Mansi and Reeb (2004) reveal that although many of the studies suggest a positive relationship between outsider-dominated boards and the performance of the company, some studies found no significant relationship between the proportion of inside/outside directors and company performance.

Moreover, some studies support a negative relationship between the previously mentioned variables. For example, Randoy, Down and Jenssen (2013) findings, which depended on a two-tier board structure, proposed that the proportion of inside directors has an inverse relationship with financial performance. For a successful decision making process, stewardship theory claims that a significant proportion of dependent directors is required in managerial boards. Capiro and Levine (2002) posited that the rationale of this claim is based on the idea that dependent directors can better understand not only the business processes but also the environmental factors.

Shareholders' Wealth Maximization

The shareholder wealth maximization principle states that the immediate operating goal and the ultimate purpose of a public corporation is and should be to maximize return on equity capital. Shareholder wealth can be defined, at any time, as the market capitalization of the public corporation (Pandey, 2005). This market capitalization is the number of equity shares outstanding multiplied by the share price at the time of calculation. Market capitalization is an estimate, by capital markets, of the net worth of the firm. The market capitalization reflects the firm's tangible assets plus the future expected residual revenues, which may be distributed as dividends or kept as retained earnings. The estimate thus includes the future expected dividend stream. Higher earnings per share of common stock (i.e., equity) will tend,

ceteris paribus, to increase the market price of each share (and thus the market value of the firm) and to permit in principle either additional investments in profitable projects or higher dividends.

How to define the shareholders wealth maximization norm as a specific corporate objective and how to measure that objective concretely in order to show an increase or decline in wealth remains a matter of disagreement. There are three different approaches to thinking about measurement: accrual accounting, cash flow, and market value added. The traditional profit-maximization model of the firm embeds the accrual concept of net income (profit).

Return on Equity

Return on equity is another measure of firm performance that shows how well a company has used the capital from its shareholders to generate profits. Investors use ROE as a measure of how well a company is using its money. Evidently, numerous empirical studies have employed this measure in quest to observe the predicted relationship between financial structure and firm performance.

That is; ROE = $\frac{\text{Profit before Interest and Tax}}{\text{Shareholders' Funds}}$

Return on Assets

Return on Assets (ROA) is measures of firm performance that reveals to the users of financial statement how well a company uses its assets to generate income. A higher ROA denotes a higher level of firm performance. A rising ROA, for instance, may initially appear good, but turn out be unimpressive if compare with other companies in same line of activities or industrial average. Hence, if company's ROA is below industrial average the company is not utilizing its full capacity.

ROA = $\frac{\text{Profit before Interest and Tax}}{\text{Total Asset}}$

Theoretical Review

Agency Theory

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton and Canella (2003) pointed to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea.

In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, Schoorman and Donaldson, 1997). In her assessment and review of agency theory, Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist. Principal-agent relationship: Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship e.g. employer employee or lawyer-client.

Stakeholder Theory

This theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) suggests that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Murtha and Lenway(1994) suggested that states are able to influence management because they control authority, markets, and property rights which are the main strategic resources by their involvement in the appointment of a firm's top management as well as board members and providing direct or indirect government subsidies and incentives. States involvement in the markets can negatively affect the degrees of openness (free market) or control (closed market). This influence can also manifest itself through property rights in countries where the government has undue powers in regard to property ownership.

The implication of this theory is that most of the policies and market approaches implemented by commercial banks owned by the government are highly subjective to government strategies being rolled out in that period. The assumption is that the state as the major stakeholder supplies resources to these banks but with a lot of 'strings attached. Therefore, state owned banks will perform well if and only if the ruling government influences competitive strategies.

Empirical Review

Ovbiebo, Ukori and Vincent (2019) investigated the effect of corporate governance mechanisms on the performance of Nigerian quoted companies. Secondary data was used for the study. The data was sourced from the annual reports of companies listed in the NSE. The study adopted the ordinary least square regression technique. The findings suggest that board characteristics have a negative impact, while audit committee characteristics have a positive impact on firm performance.

Awodiran (2019) ascertained the effect of corporate governance surrogates on financial performance of quoted consumer goods firms in Nigeria from which 16 companies were randomly selected. The study used data gathered from financial statements (2008-2017). Descriptive and inferential statistical methods were employed in analyzing the data gathered. Hausman test was also conducted to make a choice between random and fixed effect models of panel least square regression; which favoured random effect model. The study found that board composition and ownership concentration positively influenced profitability while size of the board and the status of Chief Executive Officer exerted negative but significant influence on profitability.

Odunayo (2019) determined the extent to which board size, board independence, ownership structure, and board gender diversity affects firm performance for the periods covered 2013 to 2017. Data were sourced from Annual report and statement of financial accounts of the selected companies. Panel Data econometric technique which included least squares dummy variable (LSDV), random effect model and Hausman tests were employed. The study found that board independence (BIND) has positive effect on return on asset while Ownership structure (OWNSTR), Board size (BSIZE) and Board gender diversity (BGD) on return on asset. The study further revealed that all the explanatory variables that is, Ownership structure (OWNSTR), Board independence (BIND), Board size (BSIZE) and Board gender diversity (BGD) have significant and positive effect on return on equity. The study concluded that corporate governance have significant effect on return on equity and it was

recommended that size of the board (membership) should be increased but not exceeding the maximum number specified by the code of corporate governance for banks.

Adeoye (2015) studied the impact of institutional characteristics of corporate governance on corporate governance system in sub-Saharan Africa Anglophone countries. The sample consist of chief executive officers, executive directors, non-executive directors, accountants/auditors company employees and regulatory agencies of one hundred and fifty firms listed in Ghanaian stock exchange (GSE), one hundred firms listed on Nigerian stock exchange (NSE) and seventy one firms in South Africa. Primary data were collected with the use of questionnaire based on international corporate governance norms. The result shows that Ghanaian and Nigerian firms' have large concentration of ownership therefore preferential treatment to large shareholders has influence on the rules and laws of corporate governance practices and thus recommend for the need for general reform of corporate governance of firms in Nigeria by the issue of only one corporate governance code of best practices for each industry which should follow international standard, that Ghana should have financial reporting council in order to have more regulatory and supervisory bodies on corporate governance practices for financial and non-financial firms.
Garg (2017) also conducted a study focusing on India to find out the connection between size of the board, board independence, composition of the board, and the business's performance. He used ROA, market adjusted stock price, sales turnover ratio, and Tobin's Q to measure performance and observed that the relationship between board size and firm's performance was inverse regardless of what the researcher used as the indicator. Furthermore, the relationship between independence of the board and firm performance was positive while using accounting-based performance measures, yet on using market based performance there was no significant relationship

Iwora and Lesley (2014) researched on an analysis of the characteristics and quality of corporate boards of listed deposit collecting banks in Nigeria. They compare the characteristics of corporate boards of Nigerian banks with ten largest banks of the world in terms board size, number of females in the board, number of meeting per annum, age of directors, duality of chairman and chief executive officer position. The research question was to what extent does the characteristics of corporate board of Nigerian banks compared with the ten largest bank globally in terms of the above five mentioned criteria. The sample consists of the ten world largest bank in 2012 and fifteen Nigerian banks published in the official website of Nigerian central bank in 2013. T-test was used for data analysis and the result shows that the governance structure of Nigerian banks is similar with that of the ten largest banks in the world.

Omoye and Eriki (2014) classified Nigerian quoted companies into high and low earnings management levels and also to investigate how corporate governance mechanisms relate to these categories of earnings management levels. A sample of 130 companies were drawn from quoted companies on the Nigerian stock exchange over the period of 2005 to 2010 and to identify the unique firm's corporate governance characteristics and control variables that influence firms' decision to engage in earnings management, descriptive statistics, correlation matrix, diagnostic test and binary regressions analyses of the data were conducted. The study revealed that, quoted companies in Nigeria prefer to use high earnings management practices; Board independence had a positive and significant influence on the probability of Nigerian companies adopting absolute high earnings management, Audit committee independence had

a negative and significant influence on the probability of Nigerian companies adopting absolute high earnings management, Board gender representation had a negative and significant influence on the probability of Nigerian firms adopting absolute high earnings management and also Board size and CEO shareholding were found to be statistically not significant in influencing the likelihood of Nigerian quoted companies adopting high earnings management levels.

Ijeoma and Ezejiofor (2013) determined whether corporate governance contributes significantly in ensuring accountability and transparency in order to improve performances of an enterprise and to determine the extent at which corporate governance can facilitates the organizations in achieving their social responsibilities to the environment. Data for the study were collected from both primary and secondary sources. Hypotheses were analyzed and tested with the Two Way ANOVA for opinion differences, using the Statistical Package for Social Sciences (SPSS) version 17.0 software package. The study concluded that corporate governance assists in provides structure through which the objectives of the SMEs are set and means of attaining those objectives and monitoring performances all to ensure effectiveness in operations and efficiency in their services.

Abbas, Bashir, Manzuor and Akram (2013) assessed the determinants of firm's financial performance, using the textile sector of Pakistan for their study, and found that firm's performance is significantly affected by short term leverage, size, risk, tax and non-debt tax shield. Valentin (2012) examined the determinants of corporate financial performance, is of the opinion that a company's financial performance is directly influenced by its market position. The study identified risk and growth as important factors influencing a firm's financial performance.

Literature Gap

The foundational argument of corporate governance, as seen by both academics as well as other independent researchers, poor corporate governance was identified as one of the major factors in virtually all known instances of corporate distress. Weak corporate governance was seen manifesting in form of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system (Soludo, 2004). This view was supported by the Nigeria Security and Exchange Commission (SEC) survey in April 2004, which shows that corporate governance was at a rudimentary stage, as only about 40% of quoted companies including banks had recognized codes of corporate governance in place. Despite the voluminous body of general corporate governance literature only a small part deals with corporate finance management. Other studies dealt with corporate governance and corporate performance with profitability as major variable.

METHODOLOGY

This study adopted the ex-facto research design which involves the examination of causal relationship between the dependent and independent variables. Nogales (2002) defined population as the total number of elements that conform to the characteristics needed for the purpose of the study. Thus, the population for this study includes the 24 licensed commercial banks in Nigeria as at December, 2021 (NDIC, 2021). The population is further pruned to a sample of 14 banks as the study is focused on Banks that are listed on the floor of the Nigerian Stock Exchange. The data in this study comprises a panel data which were sourced from the financial statement of the 14 quoted commercial banks.

Method of Data Analysis

The study adopted the panel data method of data analyses which involve the fixed effect, the random effect and the Hausman Test. The technique used in this study is the Ordinary Least Square (OLS) estimation technique. The test instruments in the OLS are the T-statistics and F-test which were used to test the significance of variables and the overall significance of the regression respectively. Other test instruments also employed were the Durbin Watson test which was used to test the presence or absence of auto correlation between and among the explanatory variables and the adjusted R square used to test the percentage variation of the dependent and the independent variables.

Model Specification

From theories, principles and empirical findings, the models below are specified in this study.

ROE = f (BS, BC, BI, ESH) (3.1)
ROA = f (BS, BC,BI, DSH) (3.2)
It is empirically stated as

$$ROE = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \quad (3.3)$$

$$ROA = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \quad (3.4)$$

Where:

ROE = Return on equity
ROA = Return on Assets
BS = Board size
BC = Board composition
BI = Board independence
DSH = Directors shareholding
β_0 = Intercept Term
β_1 - β_5 = Coefficients
μ = Error term

Pooled Effect

The study adopts the panel data method of data analyses which involve the pooled effect, fixed effect, and the random effect and the Hausman Test.

Pooled Effect Model

$$ROE = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \quad (3.5)$$

$$ROA = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \quad (3.6)$$

Fixed Effects

The fixed effects focus on the allowance between ownership structure and profitability of quoted food and beverage manufacturing firms differences by using a fixed intercept for each of the different cross-sectional structures. If we assume that the dummy variable for a bank is 1 or 0, then D_i, which is the dummy variable for bank i, can be expressed as:

$$D_i = \begin{cases} 1, & j-1 \\ 0, & otherwise \end{cases} \quad D_2 = \begin{cases} 1, & j-2 \\ 0, & otherwise \end{cases} \quad \ldots D_N = \begin{cases} 1, & j-1 \\ 0, & otherwise \end{cases} \ldots$$

(3.7)

The regression of total samples can be expressed as

$$Y_{it} = \sum_{t=1}^{N} \beta_{ot} D_t + \beta_i D_s + \beta_2 D_{ma} + \beta_3 s_1 + \beta_{it} D_4 s_2 + \varepsilon_{it} \,. \tag{3.8}$$

The dummy variables are expressed as follows: if $j = i$, then $Dj = 1$; otherwise $Dj = 0$.[2]

To further investigate the fraud effect, Adebayo (2012) analyzed whether ownership structure affects profitability of quoted commercial banks. The regression of the effect ownership structure affects profitability of quoted food and beverage manufacturing firms is specified.

$$ROE_{it} = \sum_{t=1}^{N} \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \tag{3.9}$$

$$ROA_{it} = \sum_{t=1}^{N} \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BI + \beta_3 DSH + \mu \tag{3.10}$$

Because the fixed effects account for both cross-sectional and time-series data, the increased covariance caused by individual- bank differences is eliminated, thereby increasing estimation result efficiency.

Random Effects

Random effects focus on the relationship with the study sample as a whole; thus, the samples are randomly selected, as opposed to using the entire population. The total sample regression (a function of the random effect) can be expressed as:

Hausman Test

The Hausman test (YairMundlak 1978) is the most commonly used method for evaluating fixed and random effects. If variables are statistically correlated, then the fixed-effects estimation is consistent and efficient, whereas the random- effects estimation is inconsistent, and the fixed-effects model should be adopted. Conversely, if the variables are statistically uncorrelated, then the random-effects estimation is consistent and efficient, whereas the fixed-effects estimation is consistent but inefficient, and the random-effects model should be adopted.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Hausman Test Analysis

	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.	Decision	Remark
Model 1	9.174853	5	0.0000	Reject H0	Fixed effect model valid
Model 2	3.158643	2	0.0849	Accept H0	Random effect model valid

Source: Computed from E-view 9.0

Following the various methods of panel data analysis, the question of which is the most appropriate or suitable methods arises. Therefore, some means of selecting the most suitable method among the different approaches especially between the FEM and REM is needed. In literature, a basic test that has been employed by most empirical studies to choose the most appropriate method is the Hausman Chi-square (Judge et al., 2007; Tian and Zeitun, 2007; Salawu, 2007). Table 1 summaries the Hausman test results for the eight regression models.

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Table 2: Test of Unit Root

Method	Statistic	Prob.**	Statistic	Prob.**
ROE				
Levin, Lin & Chu t*	-4.80153	0.0000	-55.7907	0.0000
Im, Pesaran and Shin W-stat	-2.12190	0.0169	-11.2472	0.0000
ADF - Fisher Chi-square	44.9126	0.0120	90.6174	0.0000
PP - Fisher Chi-square	91.1771	0.0000	176.872	0.0000
BS				
Levin, Lin & Chu t*	1.47680	0.9301	-2.40340	0.0081
Im, Pesaran and Shin W-stat	-0.04339	0.4827	-3.35826	0.0001
ADF - Fisher Chi-square	19.7400	0.8037	24.7430	0.0000
PP - Fisher Chi-square	110.851	0.0000	84.0837	0.0000
BC				
Levin, Lin & Chu t*	-3.30445	0.0005	-9.44491	0.0042
Im, Pesaran and Shin W-stat	-0.96747	0.1667	-8.32082	0.0033
ADF - Fisher Chi-square	30.1839	0.2601	37.1307	0.0028
PP - Fisher Chi-square	25.5910	0.4858	108.989	0.0000
BI				
Levin, Lin & Chu t*	0.23364	0.5924	-3.93637	0.0000
Im, Pesaran and Shin W-stat	-0.98462	0.1624	-1.87499	0.0304
ADF - Fisher Chi-square	29.5641	0.2861	43.6898	0.0163
PP - Fisher Chi-square	35.5640	0.1000	74.5297	0.0000
DSH				
Levin, Lin & Chu t*	-2.52033	0.0059	-3.38305	0.0004
Im, Pesaran and Shin W-stat	-0.36455	0.3577	-1.58975	0.0559
ADF - Fisher Chi-square	28.4142	0.3384	39.8379	0.0405
PP - Fisher Chi-square	39.5537	0.0431	82.0658	0.0000

Source: computed from E-views 9.0

The study employed the first generation panel unit root tests which allow for cross-sectional independence between variables. As displayed in Table 2 the results suggest that the financial

condition indices and commercial stability null hypothesis is be rejected by all the first generation tests (LLC, IPS, ADF and PP Fisher). . We can conclude that the results of panel unit root test (IPS test) reported support the hypothesis of a unit root in all variables across among the variables, as well as the hypothesis of zero order integration in first differences.

Table 3: The Estimated Regression Coefficient

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	0.313834	0.453094	0.692647	0.4900
BC	0.010261	0.013787	0.744212	0.4583
BI	-0.022962	0.307675	-0.074631	0.9406
DSH	-0.326780	0.261656	-1.948891	0.0143
C	42.31733	10.06568	4.204119	0.0001
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.702473	Mean dependent var		43.07208
Adjusted R-squared	0.657312	S.D. dependent var		12.05493
S.E. of regression	7.056902	Akaike info criterion		6.873777
Sum squared resid	5577.584	Schwarz criterion		7.270820
Log likelihood	-428.7955	Hannan-Quinn criter.		7.035109
F-statistic	5.555506	Durbin-Watson stat		1.312478
Prob(F-statistic)	5.555506			

Source: Computed from E-views 9.0

The adjusted R^2 (R-squared) is satisfactory and ranges from 0.657312 which indicates that more than 65.7 percent of the variations in the return on equity of the commercial banks have been explained by the variation in the corporate governance mechanism as modeled in the regression model. The F-statistics (Fisher statistics which is a measure of the overall goodness of fit of regression**)** is 5.555506. However, the prob (F-statistics) of 5.555506 is highly significant for Capital adequacy indicator of commercial return on equity, which implies that the regression model fitted the data, therefore there, is goodness of fit. The rule of thumb for Log Likelihood criteria is that it must be very low in value; therefore, from the observed value above of -329.8612 in our model, it means that the model has performed well and is very reliable. Akaike info and Criterion and Shcwarz Criterion were also evaluated from the regression results above. The rule of thumb here is that it must be very low. The observed figures in the table above are very low in value and therefore means the model has strong forecasting power. D-W statistics also showed significant values. The value of the DW statistics which ranges from 1.312478 further indicates that the regression equation is free from the problem of autocorrelation.

Table 4: Pedroni Residual Cointegration Test

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-2.016601	0.9781	-1.540015	0.9382
Panel rho-Statistic	3.417041	0.9997	2.967020	0.9985
Panel PP-Statistic	-7.109223	0.0000	-12.27748	0.0000
Panel ADF-Statistic	-4.178432	0.0000	-3.398128	0.0003
	Statistic	Prob.		
Group rho-Statistic	4.419665	0.0000		
Group PP-Statistic	-20.70101	0.0000		

Group ADF-Statistic	-2.036274	0.0209

Source: Computed from E-views 9.0

The study found that the seven statistics reject null hypothesis of no cointegration at the five percent level of significance for the ADF statistic and group ρ –statistic, while the group – ADF is significant at one percent level.

Table 5: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
BS does not Granger Cause ROE	138	0.90140	0.4093
ROE does not Granger Cause BS		1.56481	0.2143
BC does not Granger Cause ROE	138	1.43787	0.2423
ROE does not Granger Cause BC		0.08647	0.9172
BI does not Granger Cause ROE	138	0.98799	0.3760
ROE does not Granger Cause BI		0.10285	0.9024
DSH does not Granger Cause ROE	138	1.24222	0.2932
ROE does not Granger Cause DSH		0.28643	0.7516

Source: computed from E-views 9.0

Table 5 presents the Pairwise Granger Causality Tests on the effect of corporate governance indices and return on equity of 14 quoted commercial banks, the study found that, there is no causal relationship between the variables, this means we accept null hypothesis of no causal relationship as against the alternate. This means that the variables could not predict each other within the periods covered in this study.

Corporate Governance Mechanism and Return on Assets

Table 6: Test of Unit Root

Method	Statistic	Prob.**	Statistic	Prob.**
ROA				
Levin, Lin & Chu t*	-8.11403	0.0000	-9.84178	0.0000
Im, Pesaran and Shin W-stat	-2.59588	0.0047	-4.25215	0.0000
ADF - Fisher Chi-square	50.7285	0.0026	71.4353	0.0000
PP - Fisher Chi-square	64.5481	0.0000	147.778	0.0000
BS				
Levin, Lin & Chu t*	0.72929	0.7671	8.01453	0.0048
Im, Pesaran and Shin W-stat	0.59175	0.7230	-9.66041	0.0045
ADF - Fisher Chi-square	14.3820	0.9676	28.2415	0.0000
PP - Fisher Chi-square	36.0425	0.0909	218.436	0.0000
BC				
Levin, Lin & Chu t*	-1.91254	0.0279	3.26177	0.0094
Im, Pesaran and Shin W-stat	-1.33847	0.0904	9.09437	0.0076
ADF - Fisher Chi-square	33.5284	0.1473	19.9136	0.0000
PP - Fisher Chi-square	10.5343	0.9969	153.206	0.0000
BI				
Levin, Lin & Chu t*	-8.22744	0.0000	-19.9860	0.0000
Im, Pesaran and Shin W-stat	-2.85104	0.0022	-7.20850	0.0000
ADF - Fisher Chi-square	52.2346	0.0017	107.368	0.0000
PP - Fisher Chi-square	131.971	0.0000	127.771	0.0000
DSH				
Levin, Lin & Chu t*	2.86208	0.9979	-2.85684	0.0021
Im, Pesaran and Shin W-stat	0.09158	0.5365	-2.39106	0.0084

ADF - Fisher Chi-square	18.5095	0.8565	49.9829	0.0032
PP - Fisher Chi-square	38.9180	0.0496	183.730	0.0000

Source: computed from E-views 9.0

Table 6 presents the results of the tests at first difference for IPS test in constant and constant plus time trend. We can conclude that the results of panel unit root test (IPS test) reported support the hypothesis of a unit root in all variables across among the variables, as well as the hypothesis of zero order integration in first differences.

Table 7: The Estimated Regression Coefficient

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	0.047216	0.278213	0.169711	0.8655
BC	0.805915	0.737584	2.092642	0.0367
BI	0.220320	0.903798	1.943771	0.0478
DSH	-0.505977	0.314016	-1.611308	0.1097
C	21.31175	11.81864	1.803232	0.0738
Effects Specification				
			S.D.	Rho
Cross-section random			5.313950	0.3477
Idiosyncratic random			7.278375	0.6523
Weighted Statistics				
R-squared	0.738553	Mean dependent var		14.33682
Adjusted R-squared	0.700215	S.D. dependent var		7.277591
S.E. of regression	7.278375	Sum squared resid		6568.868
F-statistic	3.994443	Durbin-Watson stat		0.900487
Prob(F-statistic)	0.004035			
Unweighted Statistics				
R-squared	0.325771	Mean dependent var		36.07208
Sum squared resid	9957.436	Durbin-Watson stat		0.579281

Source: Computed from E-views 9.0

The adjusted R^2 (R-squared) is satisfactory and ranges from 0.400215 which indicates that more than 40 percent of the variations in the return on assets indicators of the commercial banks have been explained by the variation in corporate governance mechanism as modeled in the regression model . The F-statistics (Fisher statistics which is a measure of the overall goodness of fit of regression) is 45.43308. However, the prob (F-statistics) of 0.004035 is highly significant for return on assets of commercial return on assets, which implies that the regression model fitted the data; therefore there is goodness of fit. D-W statistics also showed significant values. The value of the DW statistics which ranges from 0.900487 further indicates that the regression equation is free from the problem of autocorrelation.

Table 8: Pedroni Residual Cointegration Test

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-2.236989	0.0474	-2.794680	0.0474
Panel rho-Statistic	3.596805	0.0098	3.215093	0.0093
Panel PP-Statistic	-4.157033	0.0000	-7.371609	0.0000
Panel ADF-Statistic	0.143509	0.5571	-1.263033	0.1033
	Statistic	Prob.		
Group rho-Statistic	4.724977	0.0000		
Group PP-Statistic	-12.41364	0.0000		

Group ADF-Statistic	-0.742873	0.2288

Source: computed from E-views 9.0

The study found that the seven statistics reject null hypothesis of no cointegration at the five percent level of significance for the ADF statistic and group ρ –statistic, while the group – ADF is significant at one percent level.

Table 9:Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
BS does not Granger Cause ROA	138	3.20736	0.0447
ROA does not Granger Cause BS		0.18903	0.8281
BC does not Granger Cause BS	138	1.74470	0.1800
ROA does not Granger Cause BC		0.48611	0.6165
BI does not Granger Cause ROA	138	2.67843	0.0736
ROA does not Granger Cause BI		0.55793	0.5742
DSH does not Granger Cause ROA	138	1.41586	0.2476
ROA does not Granger Cause DSH		1.01841	0.3649

Source: computed from E-views 9.0

Table 9 presents the Pairwise Granger Causality Tests on the effect of financial condition indices and asset quality of 14 quoted commercial banks, the study found that, there is no causal relationship between the variables, except uni-directional causality from board size to return on assets, this means we accept null hypothesis of no causal relationship as against the alternate. This means that the variables could not predict each other within the periods covered in this study.

Discussion of Findings

The estimated model one results found that corporate governance mechanisms explained 65.7 percent variation in return on equity of the quoted commercial banks over the periods covered in the study. The model was statistically significant when judged by the value of F-statistics and probability while the Durbin Watson statistic justifies the absence of serial autocorrelation among the variables in the time series. Beta coefficient of the variables found that board size and board composition have positive but no significant effect on return on equity of the quoted commercial banks while board independent and directors equity holding have negative effect on the return on equity of the quoted commercial banks.

The positive effect of the variables confirms our a-priori expectations and in line with the agency theory while the negative effect of the variables contradict our a-priori expectations. Empirically the findings is in line with the findings of Ovbiebo, Ukori and Vincent (2019) that board characteristics have a negative impact, while audit committee characteristics have a positive impact on firm performance, Awodiran (2019) that board composition and ownership concentration positively influenced profitability while size of the board and the status of chief executive officer exerted negative but significant influence on profitability and the findings of Odunayo (2019) that board independence has positive effect on return on asset while Ownership structure Board size and Board gender diversity on return on asset and that all the explanatory variables that is, Ownership structure, board independence, Board size and Board gender diversity have significant and positive effect on return on equity.

The estimated model one results found that corporate governance mechanisms explained 40 percent variation in return on assets of the quoted commercial banks over the periods covered in the study. The model was statistically significant when judged by the value of F-statistics and probability while the Durbin Watson statistic justifies the absence of serial autocorrelation among the variables in the time series. The regression coefficient as presented in the table indicates that the independent variables have positive effect on return on assets of the quoted commercial banks except directors' equity holding. The positive effect of the variables confirm our a-priori expectations and in line with theories.

The findings are in line with the findings of Adeoye (2015) that Ghanaian and Nigerian firms' have large concentration of ownership therefore preferential treatment to large shareholders has influence on the rules and laws of corporate governance practices and thus recommend for the need for general reform of corporate governance of firms in Nigeria, Iwora and Lesley (2014) that the governance structure of Nigerian banks is similar with that of the ten largest banks in the world, Omoye and Eriki (2014) that, quoted companies in Nigeria prefer to use high earnings management practices; Board independence had a positive and significant influence on the probability of Nigerian companies adopting absolute high earnings management and the findings of Ijeoma and Ezejiofor (2013) that corporate governance assists in provides structure through which the objectives of the SMEs are set and means of attaining those objectives and monitoring performances all to ensure effectiveness in operations and efficiency in their services.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of corporate governance mechanism and shareholders wealth maximization using panel data of 14 quoted commercial banks. The study found that 65.7 percent and 70 percent variation in return on equity and return on assets of the quoted commercial banks were explained by variation in corporate governance variables as formulated in the repression model. from the findings, the study conclude that board size and board compositions have positive but no significant effect on return on equity while board independent and director shareholding have negative effect on return on equity of the quoted commercial banks. Furthermore the study conclude that board size, board composition and board independent have positive effect while directors shareholding have negative effect on return on equity of the quoted commercial banks.

Recommendations

i. All corporate governance codes issued by the regulatory authorities such board size and board compositions should fully be complied with by the management of the commercial banks and the regulatory authorities should ensure compliance of corporate governance codes.
ii. Board composition of commercial banks in Nigeria should be reformed and the proportion of executive to non-executive directors should be in line with corporate governance codes.
iii. Board independent of Nigeria commercial banks which include gender diversity, board size, board independence, and board-director duality need to be strengthened to positively affect shareholder wealth maximization
iv. There is need for managers to ensure that the size of the board is also congruent to commercial banks management needs, such that the board size, competencies, skills

and ability advance bank quest for effective management and ensure increase in shareholders wealth.

v. There is need for directors and chief executive officers of the firms to consider the implication of poor corporate governance on the finance management of commercial banks and ensure adequate measures to achieve high level of corporate governance.

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