Corporate Governance Standard and Financial Performance of Nigerian Health Care Manufacturing Companies

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Abstract

This study examined the extent at which corporate governance standard affects financial performance on health care manufacturing companies in Nigeria from 2012 to 2021. Ex Post Facto research design was adopted for the study. Six health care manufacturing companies were selected for the study. Data were extracted from annual reports and accounts of the sampled health care companies and regression analysis was employed to test the hypotheses. The results show that shareholders relationship has significant effect on return on equity of health care manufacturing companies in Nigeria while remuneration has no significant effect on return on equity of health care manufacturing companies in Nigeria.

Based on the findings of this study, it was recommended that the company's management should consider a judicious and reasonable reimbursement level of board's members to attract a realistic relation between shareholders and company's management, hence, enhance firm's financial performance in the intensification of shareholders' value.

Keywords: *Corporate governance standards, Remuneration of board, Shareholders relationship and financial performance*

Introduction

Several corporate governance experts have projected reforms, some of which have ended up in specific regulation. Henderson and Bainbridge (2013) documented that these reforms shared several unattractive features, for instance, that these reforms were one-size-fits-all, nevertheless the changes across companies and industries. In other hand, the reforms based solely on academics or other "profession" knowing more about what was good for particular companies than the managers and owners of those organizations.

Generally, the proposed reforms seemed to be focusing on board independence as well the enhanced independence of key committees and meaningful disclosure (Khan, 2002). The majority of these reforms were, however, hampered by changes that had to take place in the laws pertaining to corporate governance.

These laws currently mainly revolve around the number of independent directors. Legislation regulating the percentage of directors who must be independent often fails to

account for the inherent differences in the talent challenges individual companies face and the real contrasts between industries when it came to the performance of industry outsiders as board members (Moos and Pecchio, 2012). The measures of corporate governance standards as one covered in this study covered: remuneration, and shareholder, relationship, while the measures of financial performance are Return on Equity (ROE).
The remuneration packages of listed companies are crucial to attracting quality executives and corporate directors. Also, in an attempt to stimulate higher level of firm performance and profitability, board members are motivated through incentives in the form of remuneration to enhance their efforts in the decision-making process and strategic planning (Ibrahim, Zin, Kassim, and Tamsir 2019). The shareholder relationship has been described as one of exchange, where the stakeholder groups supply companies with 'contributions' and expect their own interests to be satisfied via 'inducements.
Financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources (IAI, 2016). Though lot of studies has been carried out on corporate governance and firm performance in Nigeria and none of the available studies was on corporate governance standards in the manufacturing industries. This study therefore ascertains the effect of corporate governance standards on financial performance of health care manufacturing companies in Nigeria. Specifically the study;

i. Determine the extent remuneration package affects return on equity of health care manufacturing companies in Nigeria.
ii. Evaluate the extent shareholders relationship affect return on equity of health care manufacturing companies in Nigeria.

Conceptual Review

Corporate Governance Standards

Corporate Governance standard is a mechanism through which management takes necessary steps to safeguard the interest of stakeholders (Ammar, Saeed, and Abid, 2013). It is also the framework within which rules, relationships, systems and processes are controlled (Osundina, Olayinka and Chukwuma, 2016). Stability and good management can be achieved when firms incorporate corporate governance which is all about complying with stipulated standards, rules and regulations. Sound corporate governance increases the efficiency and value of a firm on the capital market rather than pulling it down and boost the confidence of all stakeholders. Good corporate governance enhances accountability, transparency, ensures efficient and effective use of limited resources, creates competitive and efficient managed companies, attracts and retains investors (Arinze, 2013). Efficient and effective corporate governance leads to satisfaction of employees and consumers. It ensures financial reports reliability and efficient use of resources thereby increasing the reputational effects among internal and external stakeholders. According to Dar, Naseem, Rehman and Niazi (2011), corporate governance reduces transaction cost, cost of capital and vulnerability of financial crises. It leads to the increment of shareholders wealth, survival of companies in turbulent periods, development of capital market and strengthens the global economy.

Shareholder Relationship

The relationship between shareholders and directors is a very important aspect of any

organization. This relationship, if not properly managed, can have many negative implications and put the standing of the organization in a precarious balance. As a member of the board of directors, there are very structured responsibilities to shareholders that the board should always be cognizant of and adhere to. Just like the directors have an obligation to fulfill shareholder expectations; shareholders have a set of responsibilities to the board of directors and the company itself.

Shareholder relations are most typically outlined in the corporate charter, shareholder agreements and other shareholder provisions. Since the board of directors is responsible for overseeing the long-term affairs and operations of the company, they must also acknowledge and protect the interests of the shareholders. This includes their fiduciary duties, duty of care, duty of loyalty and duty of obedience. This is done through a sense of transparency in the annual general meeting, which is the only time of the year that the board, executives and shareholders come together to collaborate on leadership and financial matters.

Shareholder relations are a two-way street. There are always going to be defined roles and responsibilities built around succinct policy measures. Additionally, before every annual meeting, there should be a clearly defined agenda, accurate minutes and specific topics that need to be addressed to deal with the long-term goals of the business. This makes the board of directors responsible for shareholder interests and managing shareholder relations.

It is necessary for directors to understand that they are responsible for making sure those shareholders feel heard and that their issues are being addressed. If not, your boards can be sure that this will damage shareholder relations, leading to activism among shareholders. A more open relationship with shareholders will also speak volumes in regards to how board directors maintain their seats and shareholders feel confident with their board.

Remuneration Package

The remuneration packages manufacturing companies are crucial to attracting quality executives and corporate directors. Also, in an attempt to stimulate higher level of firm performance and profitability, board members are motivated through incentives in the form of remuneration to enhance their efforts in the decision-making process and strategic planning (Ibrahim et al., 2019). Nonetheless, there is persistent scholarly debate on the relationship between the remuneration of board directors and the performance of listed companies. Whereas some scholars believe that higher board remuneration significantly motivate board executives be active and effective in the execution of their duties (Harymawan, Agustia, Nasih, Inayati and Nowland, 2020), other school of thought also believe that remuneration of board does not necessarily stimulate higher performance from board members (Aggarwal & Ghosh, 2015). Several studies in the extant corporate governance literature report positive and significant effect of board executives' remuneration on the performance of listed businesses (Harymawan et al., 2020; Lemma, Mlilo, and Gwatidzo, 2020). However, Akter, Abedin and Hossain (2020) reported a negative association between board remuneration and firm performance.

Financial Performance

Financial performance is a subjective measure of how effectively and efficiently a firm has used the assets at its disposal to generate revenue from its business activities. Financial measures include firm value, profitability return on assets, return on shareholders‟ equity liquidity level and so on. These financial indicators measure the result of a firm's policies and operations in monetary terms through operating income, earnings before interest and tax and net asset value. This performance could be evaluated from a short-term or long-

term horizon Busch and Bassen (2015). ROE refers to the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Each insurance firm's ROE has been obtained for its annual reports (Jason, Julius and Skylar, 2022). ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits. The higher the ROE, the more efficient a company's management is at generating

Empirical Review

Ndum and Oranefo (2021) ascertained the effect of corporate governance on firm performance in Nigeria from 2012 to 2019. Data were extracted from the annual report and account of the firms sampled for the study, the data analyzed with descriptive and ordinary least square regression technique. Findings indicate that audit committee and board composition had positive but not significant effect on return on assets of the sampled conglomerates firms in Nigeria. Jerry (2019) determined the effect of corporate governance on financial performance of companies in Nigeria. The study uses the *Ex Post Facto* research design with a population and sample size of 6 quoted conglomerate companies on the Nigerian Stock Exchange covering the period between 2008 and 2017. Data were extracted from the published annual accounts and reports of the sampled firms. The study found that board size has a significant positive effect on financial performance, while board composition and board ownership have a significant negative effect on financial performance. Biruk and Gurdip (2019) ascertained the impact of corporate governance practices on share companies' financial performance by using panel regression approach. Data sources from 24 share companies for five years. The findings of robust FGLS estimation of panel regression using ROA and ROE as measures of financial performance revealed board of directors' gender diversity (BDGD sig. at 5%) and size of share companies (SIZE sig. at 1%) have a positive association with return on assets and board of directors meeting attendance rate (BDMAR) in person has a positive association but not significant. The board of directors' size (BS sig. at 5%), board of directors meeting frequency and board of directors' leadership practice (BDLPR sig. at 1%) have a negative impact on return on assets. The study findings ROE has a significant and positive association with board meeting frequency; board of directors' gender diversity and size of share company. Board of directors meeting attendance rate in person has a significant and negative relationship with ROE. Akinleye, Olarewaju and Fajuyagbe (2019) studied corporate governance and performance of selected multinational firms Nigeria from 2012 to 2016. Secondary data were extracted from annul accounts of the sampled firms were analyzed via static panel estimation techniques. The study revealed that board size and board activism exert insignificant negative impact on firm's growth rate, also, committee activism insignificantly spurs firm's growth rate. Akingunola, Olaniyan, and Soyemi (2018) examined the effect of corporate governance on financial performance of quoted manufacturing companies in Nigeria using 50 listed manufacturing companies on the Nigerian Stock Exchange from 2009-2013. The regression analysis, results revealed that women on board of directors (BWN), number of executive directors (NED) and number of nonexecutive directors (NNED) have direct relationship with ROA, and these conform to *a'priori* expectation. Number of directors (NDTS) was reported negative significant effect on ROA. On the part of return on equity (ROE), only of executive directors (NED) reported a positive significant impact on ROE. Osundina, Olayinka and Chukwuma (2016) determined the effect corporate governance on financial performance of selected Nigerian

manufacturing companies. *Ex-Post Facto* research design was adopted. Random sampling was used to select 30 companies out of a total population of 45 manufacturing companies listed on the Nigerian Stock Exchange, for a time period of 2010 to 2014. Secondary data (financial and non-financial) were collected from the annual reports and accounts of the selected listed manufacturing companies. Multiple regression analysis and descriptive statistics were used in analyzing the data. The results indicates that Board structure index had a significant positive relationship with performance (ROA) of the sampled manufacturing companies. Also, it was found that Audit committee index had a positive but insignificant relationship with the performance (ROA) of the sampled manufacturing companies, while Ownership structure index had an insignificant negative relationship with performance (ROA) of the sampled manufacturing companies. In conclusion, the study revealed that the performance indicator (ROA) related with each component of the Corporate Governance Index in a peculiar manner.

METHODOLOGY

This study adopted the *Ex Post Facto* research design. Hence secondary source was used as a source of data collection. The population of this study was quoted health care manufacturing companies in Nigeria and six of these companies were selected purposively as the sample size for the study (see appendix).

In order to find solution to the research questions pertaining to research studies generally, data were drawn from annual reports and accounts of health care manufacturing companies in Nigeria. The data generated includes; shareholders relationship and remuneration of board as the independent variables while return on equity was a proxy for financial performance.

Model Specification

Model specification comprehends the choice of independent and dependent variables, as well, the functional form connecting the independent variables. In this study our model would be:

ROE = f(CGS)……………………………………………………………i

This means that:

ROE = f(SHR + REM)…………………………………………………...ii

Expressed economically

$ROE = a+\beta_1 SHR + \beta_2 REM + e_1$ …………………………………………...iii

Where
ROE = Return on equity (proxy for financial performance)
SHR = Shareholders relationship
REM = Remuneration

Operationalization of the variables

Variables	Definition/measurement	Author
Return on Equity (ROE)	Return on Equity (ROE) is a measure of how well a company uses investment to generate earnings growth.	(Garba and Abubakar, 2014)

Shareholder Relationship	shareholder relationship can be defined as one of exchange, where the stakeholder groups supply companies with 'contributions' and expect their own interests to be satisfied via 'inducements'	(March and Simon, 1958)
Remuneration Packages	Remuneration is the total compensation received by an employee.	(Margaret, 2022)

Source: Research compilation (2023)

Data Analysis Technique

The statistical technique used for analysis in this study is the Ordinary Least Square Regression (OLS) via E-view version 9.0

ANALYSIS AND RESULTS

Data Analysis

Table 1: Descriptive Statistics

	ROE	SHR	REM
Mean	-0.035241	435533.3	439429.4
Median	-0.011297	435513.0	454860.5
Maximum	0.105830	435716.0	600380.0
Minimum	-0.278695	435435.0	261987.0
Std. Dev.	0.141414	110.6024	129608.8
Skewness	-0.402971	0.382983	-0.178425
Kurtosis	1.724183	1.611547	1.466255
Jarque-Bera	0.948854	1.047712	1.033215
Probability	0.622242	0.592233	0.596541
Sum	-0.352405	4355333.	4394294.
Sum Sq. Dev.	0.179982	110096.1	1.51E+11
Observations	10	10	10

Source: E-view output, 2023

Table 1 indicates the mean of each variables, their minimum values, maximum values, standard deviation and Jarque-Bera (JB) Statistics (normality test). The results provided some perception into the nature of the Nigerian health care companies that were used in this study.

It was observed that on the average, over the ten (10) years periods (2012-2021), the sampled health care manufacturing companies in Nigeria were characterized by negative return on equity (ROE) (-0.035241). Also, the large difference between the maximum and minimum value of the shareholders relationship (SHR), and remuneration (REM) indicates that the sampled companies in this study are not dominated by companies with more shareholder fund.

In this table, the Jarque-Bera (JB) which test for normality or the existence of outliers or extreme values among the variables shows that most of the variables are normally distributed at 5% level of significance. This means that any variable with outlier are not likely to distort our conclusion and are therefore reliable for drawing generalization. This also implies that the least square estimate can be used to estimate the pooled regression model.

Test of Hypotheses

Hypothesis One

H_{O1}: Shareholders relationship has no significant effect on return on equity of health care manufacturing companies in Nigeria.
H_{11}: Shareholders relationship has significant effect on return on equity of health care manufacturing companies in Nigeria.

Table 2: Regression analysis between shareholders relationship and return on equity
Dependent Variable: ROE
Method: Least Squares
Date: 04/05/23 Time: 21:10
Sample: 2012 2021
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	491.0997	92.79313	5.292414	0.0007
SHR	-0.001128	0.000213	-5.292794	0.0007

R-squared	0.777862	Mean dependent var	-0.035241
Adjusted R-squared	0.750095	S.D. dependent var	0.141414
S.E. of regression	0.070694	Akaike info criterion	-2.284066
Sum squared resid	0.039981	Schwarz criterion	-2.223549
Log likelihood	13.42033	Hannan-Quinn criter.	-2.350453
F-statistic	28.01367	Durbin-Watson stat	1.805673
Prob(F-statistic)	0.000735		

Interpretation of Regression Result

Table 2 shows the regression analysis result between shareholder relationship (SHR) and return on equity (ROE) of health care manufacturing companies in Nigeria. The Adjusted R squared is coefficient of determination which describes the distinction in the dependent variable (ROE) due to changes in the independent variable (SHR). From the result, the value of adjusted R squared was 0.750, showing that there was variation of 75% on ROE due to variations in SHR. This implies that only 75% changes in ROE of the health care manufacturing companies can be accounted for by SHR, while 25% was explained by other variables that were not captured in the model. The probability of the slope coefficients indicate that; P ($0.001<0.05$). The co-efficient value of; β_1= -0.001128 implies that SHR is negatively affects ROE, though this effect was statistically significant at 5%.
The Durbin-Watson Statistic of 1.805673 suggests that the model does not contain serial correlation. The F-statistic of the regression is equal to 28.01367 and the associated F-statistic probability is equal to 0.000735, so the alternative hypothesis was accepted and the null hypothesis was rejected.

Decision

Since the Prob(F-statistic) of 0.000735 is less than the critical value of 5% (0.05), then, it

would be upheld that shareholders relationship has significant effect on return on equity of health care manufacturing companies in Nigeria at 5% level of significance.

Hypothesis Two

H_{O1}: Remuneration has no significant effect on return on equity of health care manufacturing companies in Nigeria.

H_{11}: **R**emuneration has significant effect on return on equity of health care manufacturing companies in Nigeria.

Table 3: Regression analysis between shareholders relationship and return on equity

Dependent Variable: ROE
Method: Least Squares
Date: 04/05/23 Time: 21:11
Sample: 2012 2021
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.091055	0.169807	0.536226	0.6064
REM	-2.87E-07	3.72E-07	-0.772326	0.4621

R-squared	0.069387	Mean dependent var	-0.035241
Adjusted R-squared	-0.046939	S.D. dependent var	0.141414
S.E. of regression	0.144695	Akaike info criterion	-0.851521
Sum squared resid	0.167493	Schwarz criterion	-0.791004
Log likelihood	6.257603	Hannan-Quinn criter.	-0.917908
F-statistic	0.596487	Durbin-Watson stat	1.017893
Prob(F-statistic)	0.462125		

Table 3 shows the regression analysis result between remuneration (REM) and return on equity (ROE) of health care manufacturing companies in Nigeria. The Adjusted R squared is coefficient of determination which describes the distinction in the dependent variable (ROE) due to changes in the independent variable (REM). From the result, the value of adjusted R squared was 0.047, showing that there was variation of 5% on ROE due to variations in REM. This implies that only 0.05 changes in ROE of the health care manufacturing companies can be accounted for by REM, while 95% was explained by other variables that were not captured in the model. The probability of the slope coefficients shows that; P $(0.462>0.05)$. The co-efficient value of; $\beta_1 = -2.87E-07$ implies that REM is negatively affects ROE, though this effect was not statistically significant at 5%.

The Durbin-Watson Statistic of 1.017893 suggests that the model does not contain serial correlation. The F-statistic of the regression is equal to 0.596487 and the associated F-statistic probability is equal to 0.462125, so the null hypothesis was accepted and the alternative hypothesis was rejected.

Decision

Since the Prob (F-statistic) of 0.000735 is higher than the critical value of 5% (0.05), then, it would be upheld that remuneration has no significant effect on return on equity of health care manufacturing companies in Nigeria at 5% level of significance.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the extent at which corporate governance standard on financial performance on health care manufacturing companies in Nigeria, using shareholders relationship and remuneration as the independent variables while return on equity was measured as the financial performance. Data were extracted from annual reports and accounts of the sampled health care companies. Regression analysis was employed to test the hypotheses. The results show that shareholders relationship has significant effect on return on equity of health care manufacturing companies in Nigeria at 5% level of significance. On the other hand, remuneration has no significant effect on return on equity of health care manufacturing companies in Nigeria at 5% level of significance.

This result implies that shareholders relationship is a very significant feature of a corporate organization. However, this relationship was not well managed, hence resulted negative implications and it can place the performance of the companies in a risky equilibrium. Nonetheless, remuneration of the board shows that there a low board remuneration as a result not significantly motivate the board to be active in the execution of their duties.

Conclusively, the corporate governance standard though partially significant, has negative effect of performance of health care manufacturing companies in Nigeria.

Recommendations

Based on the findings of this study, it was recommended that the company's management should consider a judicious and reasonable reimbursement level of board's members to attract a realistic relation between shareholders and company's management, hence, enhance firm's financial performance in the intensification of shareholders' value.

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