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Corporate Governance Mechanism and Sustainability of Health Care Firms in Nigeria

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ABSTRACT

This study was carried out to examine the relationship between corporate governance mechanism and sustainability of health care firms in Nigeria. The study is vital as it portrays the extent to which corporate governance mechanism ensures organizational sustainability. In order to determine the relationship between corporate governance mechanism (CGM) and sustainability, CGMs key proxy variables were used in the study, namely; board independence (BI) and board diligence (BD) while sustainability on the other hand was measured by social-environmental performance. Two hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using ordinary least square model. The study anchored on the Stewardship Theory adopted an Ex Post Facto Approach. Hence, data were collected from the annual reports and accounts of listed health care firms in Nigeria for the period 2016-2020. The empirical analysis of the research indicates that there is a significant and positive relationship between board independence, board diligence and sustainability of listed health care firms in Nigeria at 1% significant level. Thus, the study concludes that corporate governance mechanism ensures sustainability of quoted health care firms in Nigeria. In lieu of this, the study recommended that companies should re-examine the frequency of meetings of the Board. Attention should be focused on the efficiency and not the frequency of meetings of the Board. Also in the composition of corporate board, there shall be independent directors and female directorship presence as thus ensures organizational sustainability.

KEYWORDS: *Board Independence, Board Diligence, Sustainability*

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1. INTRODUCTION

Corporate governance is a subject of considerable interest both in the business and academic world because of major companies' failures since the Cadbury Report of 1992**.** Primarily, these debates were mooted in the wake of major corporate and financial scandals such as Enron, WorldCom and Arthur Anderson, the accountancy Firm in 2001 (Nwagbara & Uguoji, 2015).

In Nigeria however, incessant corporate failures, financial impropriety and failure of CSR reporting and practice to be inclusive and regulated have precipitated credibility gap in corporate governance culture by corporations (Nwagbara, 2014; Adegbite, Amaeshi & Nakajima, 2013; Emeseh & Songi, 2014). Corporate governance is highly welcomed in business practices of today as well as corporate social responsibility reporting pattern in order to close the gaps of business malfunctioning and irregularities noticed in the materiality of issues reported. Effective corporate governance and regulation cannot exist in isolation from the world in which people; stakeholders demand more accountability from corporations as corporate culture has moved trenchantly from stake holding to shareholding (Freeman, 1984). Nowadays, a dynamic business environment features the emergence of increased knowledge economies and enhances both global competition and innovative business practices; these are now at the core of any competitive business advantage (Lawson & Samson, 2011). According to Garengo, Biazzo and Bititci (2015), in this modern age, businesses strive to satisfy their customers who are central to the organization and nowadays, customers demand from the organization quality products and services in a professional manner. Consequently, a proper governance mechanism has to be incorporated in order to ensure sustainability practice that could enable the organization functions well with due consideration to the needs of its various stakeholders.

Business sustainability has also attracted different interest from researcher, industry players and regulators. Sharp practices, structures and documentations in business are areas of interest that affects the growth and sustainability of business organizations especially in the health care sector (Najera-Sanchez, 2020). The global financial crisis affected financial institutions and economies around the world bringing about economic recession and crisis that characterized financial markets world. In order to achieve sustainability, corporate governance culture is being adopted by organization (Vidaver-Cohen, & Bronn, 2015).

From the a priori expectations, corporate governance is seen as a tool for organizational sustainability which enhances organizations performance and protection of stakeholders' interest. Hence, it is essential for Nigerian listed firms to embrace sound corporate governance practices, to protect stakeholders' interest. This is necessary considering the role of stock market development in economic growth.

In the developed nations, most studies on corporate governance mechanism were limited to firms' performance. For instance; Heemalin and Wallace (2017); Firth (2016); Conyon (2015); Doucouliagos, Haman and Askary (2007); Chubbin and Hall (2012); Krishnan and Daewoo (2015); Francoeur, Labelle and Sinclair-Desgagne (2018); Coles, McWilliams and Sen (2017); Berger, Ofek and Yermack (2017); Westpal (2012); Harford (2012); Alzoubi and Selamat (2012) examined the association that existed between corporate governance mechanisms (directors remuneration, board diligence, board independence, female directorship & CEO share ownership) and firm performance.

On the other hand, attempts were made in the developing nations as thus, Ilaboya and Obaretin (2015); Abdullah (2016); Brown (2016); Lau and Tong (2018); Darmadi (2010), Dezso and Ross (2012); Nwaobia, Kwarbai, and Ogundajo (2016) etc examined the relationship between corporate governance mechanisms (directors remuneration, board diligence, board independence, female directorship & CEO share ownership) and firms performance.

There is a dearth empirical literature in the developed and developing nations' as regard to the relationship which exists between corporate governance mechanisms to sustainability of quoted firms. And more importantly, there is no known study that had examined the effect of corporate governance mechanism on sustainability of firms quoted on health care Sector of Nigeria Stock Exchange based on available literature. Against this backdrop, the present study seeks to examine the relationship between Corporate Governance Mechanism and sustainability of quoted under health care sector of Nigeria Stock Exchange.

To achieve this purpose, the following hypotheses were formulated:

H_{01}: Board Independence has no significant relationship with Sustainability of Health Care Firms in Nigeria

H_{02}: Board Diligence has no significant relationship with Sustainability of Health Care Firms in Nigeria

2. Review of Related Literature

2.1. Corporate Governance Mechanism

According to Nguyen and Nguyen (2016) the definitions of corporate governance are divided into two types as either 'narrow' or 'broad'. The narrow set of definitions, which could be used in studies on corporate governance within a single country, concentrates on the internal mechanisms of corporate governance in ascertaining firm performance and maximizing shareholders' benefits. Corporate governance is defined as a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders (Pallavi, 2018).

As noted in the study of Hassan, Owolabi and Asikhia (2020), corporate governance ensures commitment to values and ethical conduct of business; transparency in business transactions; statutory and legal compliance; adequate disclosures and effective decision-making to achieve corporate objectives. In other words, corporate governance is about promoting corporate fairness, transparency and accountability.

Corporate governance is geared towards an efficient use of resources by reducing fraud and mismanagement with the view to balancing the interest of all stakeholder groups in a business entity. Mallin (2010), explains that the essential features of corporate governance are to assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance. In this study, corporate governance is measured using transparency and accountability as predictors of business sustainability.

2.1.1. Organizational Sustainability

Business operations are at the heart of sustainability. According to Ogbo, Eneh, Agbaeze, Chukwu and Isijola (2017), businesses practicing sustainability is important as it improves their image and reputation, reduce costs, and help boost the local economy, all of which leads to improved business, stronger and healthier local communities for operations. Hami, Mahamad and Ebrahim (2014) posit that, for any economy to survive for short term and long term purpose, then it must be able to meet the 'three bottom line' which has to do with the ability of the firms to achieve sustainability in environment, human and economic objectives of the firms.

Business sustainability is defined as development that meets the needs of the present without compromising the ability of future generation to meet their own needs (Hassan, Owolabi & Asikhia, 2020).

According to Omaliko and Onyeogubalu (2021), for organizations to be sustainable, the following shall be conceded:

- Be accountable for its impacts on the environment, society, and the economy
- Be transparent in its decisions and activities that impact its responsibilities
- Behave ethically
- Respect, consider, and respond to the interests of its stakeholders
- Accept that respect for the rule of law is mandatory

As cited in Omaliko, Nwadialor and Nweze (2020), Nigerian Code of Corporate Governance (2018) reported that paying adequate attention to sustainability issues including environment, social, occupational and community health and safety ensures successful long term business performance and projects the Company as a responsible corporate citizen contributing to economic development.

The following policies are recommended by NCCG 2018 as regard to organizational sustainability;

- Report on the Company's business principles, practices and efforts towards achieving sustainability;
- Report on the most environmentally beneficial options particularly for companies operating in disadvantaged regions or in regions with delicate ecology, in order to minimize environmental impact of the Company's operations;
- the nature and extent of employment equity and diversity (gender and other issues);
- opportunities created for physically challenged persons or disadvantaged individuals;
- the environmental, social and governance principles and practices of the Company; etc

The position of Global Reporting Initiative (G4-LA1, LA9, G4-HR4, HR8 and G4-SO1) on social sustainability disclosure is as follows

- Report on the total number and rate of new employee hires during the reporting period, by age group, gender and region.
- Report on education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious disease
- Operations and suppliers in which employee rights to exercise freedom of association or collective bargaining may be violated or at significant risk
- The total number of identified incidents of violations involving the rights of indigenous peoples during the reporting period.
- Percentage of operations with implemented local community engagement, impact assessments, and development programs.

2.2. Theoretical Framework

2.2.1. Stewardship Theory

Stewardship theory was propounded by Davis, Schoorman and Donaldson in the year 1997. This theory has its origin in both psychology and sociology. It disapproves the agency theory that managerial role is irrelevant. The theory views a manager as a follower or servant, as opposed to a leader of a firm who is persistent and working towards attainment and maximization of shareholders' value. Stewardship theory is relevant to the study because the manager is responsible for managing a business on behalf of the principal (the owner). Attainment of organisation goals should be paramount to business owners and managers. The stewardship theory is based on the notion that managers, including non-executive directors, are purely driven by their achievements.

The theory advocates the combination of the role of board's chairman and the chief executive officer towards sustainability of firms thereby ensuring an improved performance as a steward to protect investors' interest. However, corporate governance ensures organizational sustainability by contributing to reduction of fraud, managing potential threats, and more efficient use of resources. However, the stewardship theory supports corporate governance and performance because it recognizes that there is a form of agency existing in a corporate setting and beliefs that directors are not concerned about themselves but about the interest of the organization and will act in a way that the best interest of the organization is achieved thereby fulfilling their personal needs (Keay, 2017).

The relevance of stewardship theory is evident as a steward (MD and CEO) can abuse power conferred on them; but, corporate governance seeks to avoid gross abuse of powers by MD/CEO and also mitigate against the risk of an MD becoming too dominant and overbearing influence on the board. Hence, the study is anchored on Stewardship Theory.

2.3. Empirical Review

Adeniyi and Fadipe (2018) examined the effect of board diversity on sustainability reporting in Nigeria. The specific objectives of the study is to ascertain the effect of board size, board gender diversity and board independence on sustainability reporting among brewery manufacturing firms. The research employs ex – post facto design. Regression analysis was used for the panel data analysis in order to establish relationship between sustainability reporting and board diversity. The study discovered that board gender diversity does not significantly affect sustainability reporting. It is amazing that the number of women on board of directors is as low as one (1) while the number of man counterpart is ten (10) especially in Champion Brewery Nigeria Plc. However, the maximum number of females on board of directors among the sample companies is three (3). The study recommends that number of women on the board of directors in brewery manufacturing industry should be increased.

Mgbame and Onoyase (2015) evaluated the effect of corporate governance on environmental reporting. The study makes use of board size, board independence, and audit committee independence to proxy for corporate governance. Their study shows that board size, board independence, audit committee independence and managerial ownership concentration have positive and significant relationship with environmental reporting.

Ashenafi, Kalifa and Yodit (2013) examined corporate governance and impact on bank performance in Ethiopia. A quantitative method of data analysis was employed which involved descriptive and inferential statistical analysis and multivariate regression analysis. The descriptive statistics were used to analyze the means and standard deviations of regression variables. In addition, before conducting regression analysis, various tests were conducted for Classical Linear Regression Model (CLRM) assumptions. The regression results show that explanatory variables such as capital adequacy ratio (CAR), board size (BDSZ), and existence of audit committee (AUDC) have statistically significant negative effect on bank performance while square of capital adequacy ratio (CAR2) and bank size (BKSZ) have a statistically negative effect on performance measured using ROE. Ownership type (OWTP), loan loss provision (LLP) and loan to deposit ratio (LDR) are found to have no significant effect on bank performance.

Ngwube (2013) evaluated corporate governance principles success in an organization. Some of the principles examined are; transparency in the organization, sound whistle blowing system, balance in power, formal and periodic evaluation of the CEO, formal and periodic evaluation of directors, strong market institution, external regulation and monitoring, disclosure of compensation policies and practices, open and well implemented conflict of interest policy and condor between executives of a firm and staff. Based on these, the study concludes that the adoption of corporate governance principles in an organization is a huge step toward creating safeguards against corruption and mismanagement

Ahmad and Mensur (2012) examined corporate governance and financial performance of banks in the post-consolidation era in Nigeria. Data were sought from sixty annual reports of 12 banks for the period of 2006 – 2010. The independent samples t-test was employed to analyze data gathered for the study. Multiple regressions (Analysis of Variance) were used to further analyze hypotheses two and three. Findings revealed that Dispersed equity holding does have an impact on the earnings and dividend of banks. Also, board size does not have an impact on profitability of banks. The existence of a chief compliance does not significantly enhance profitability of healthy banks in Nigeria. The study recommends the practice of restrictive equity holding in banks, be upheld. Secondly, the need to strengthen managerial policies so that financial performance can be improved is important as the stress test conducted by CBN and NDIC revealed only a positive operational performance. Also, the compliance status needs to be identified in banks that are yet to comply with this provision, so that efficiency and effectiveness in management is complimented with other internal controls.

Hassan, Owolabi and Asikhia (2020) evaluated the effect of corporate governance practices on sustainability of deposit money banks in Lagos Nigeria. The study adopted a quantitative methodology using the cross-sectional survey design. The population of the study comprised of fifteen selected deposit money banks operating in Nigeria as at March, 2019. Data was collected using a well-structured and validated research questionnaire with Cronbach's alpha ranging from 0.721 to 0.849. Data were analysed using multiple regression analysis. The study revealed that transparency and accountability jointly have a significant effect on business sustainability ($R2 = 0.084$, $p = 0.000 < 0.05$). Hence, the study recommended that money deposit banks should adopt openness in their practices, they should be transparent in all they do at board level and should be committed to accountability at all levels of bank management in order to sustain customer's confidence.

Ayorinde, Toyin and Leye (2012) studied the effect of corporate governance on the performance of the Nigerian banking sector. The judgmental sampling technique was used in selecting the 15 listed banks out of 24 banks that met the consolidation date line of 2005. These banks were considered because they were listed in the Nigerian Stock Exchange market which therefore enables them to have easy accessibility to their annual reports which is the major source of their secondary data. A positive correlation was observed between the level of corporate governance items disclosed by the banks and return on equity which is the proxy for performance. This means that banks who disclose more on corporate governance issues are more likely to do better than those that disclose less. More so, a positive correlation was observed between the directors' equity interest and corporate governance disclosure index. This indicates that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. This invariably is expected to improve the performance. But board size has strong negative correlation with return on equity. This implies that how large the size of a board is does not have a positive effect on the level of financial performance of commercial banks in Nigeria but a negative effect.

3. Methodology

The study adopted Ex Post Facto Design since secondary data was used which cannot be manipulated or controlled. The population of the study consists of the entire 10 Health Care Firms listed on Nigerian Stock Exchange. Out of 10 firms that formed our sample size, 2 firms have empty financial information within the period under study (*Evans Plc and Nigerian German Chemical Industries Plc)* which was removed. Based on this, a total of 8 firms formed our sample size with 40 observations. These firms include Fidosn Plc, Morrison Plc, Glaxosmithline Plc, Pharma Deko Plc, Union Diagnostic Plc, Ekocorp Plc, May & Baker Plc and Neimeth Plc. The study covers the period of 2016-2020.

The data collected were analyzed using OLS model with the aid of STATA V. 15. The study adopted this technique in order to examine the relationship between corporate governance mechanism (BI & BD) and sustainability (SEP) among the listed Health Care Firms in Nigeria.

3.1. Operationalization and Measurement of Variables

3.1.1. Independent Variable

The measurements for independent variables for the study include, board independence and board diligence. This is shown on Table 1 as thus:

Table 1: Measurement for Dependent and Independent Variable

Variables	Measurement	A priori Expectations
Independent Variable		
Board Independence	Number of independent director on the board	Shukeri, Shin and Shaari. (2012), Baysinger and Bulter (2015), Foo and Zain (2010)
Board Diligence	Number of board meetings	Conger and Ready (2014), Hambrick and Manson (2014), Johl, Kaur and Cooper (2013)

Source: Empirical Survey (2022)

3.1.2. Dependent Variable

Sustainability was measured using Kinder Lydenberg Domini (KLD) social-environmental performance (SEP) rating system and the content analysis method of data collection as used by Uwuigbe (2011), Omaliko and Okpala (2020), Omaliko, Nwadialor and Nweze (2020). For this purpose, a score of (1) was awarded if an item was reported; otherwise a score of (0) was awarded ***(See Appendix 1).*** Consequently, a firm could score a maximum of 20 points and a minimum of 0. The formula for calculating the reporting scores by using these 20 attributes ***(See Appendix 1)*** is expressed in a functional form below:

$$\mathbf{RS} = \sum_{i=1}^{20} d_i$$

Where:
RS = Reporting Score
di = 1 if the item is reported and 0 if the item is not reported
i = 1, 2, 3.... 20.

3.2. Model Specification

In line with the previous researches, the researcher adapted and modified the models of Shukeri, Shin and Shaari (2012) in examining the relationship between corporate governance mechanism and organizational sustainability. This is shown below as thus:

Shukeri, Shin and Shaari (2012): $\mathbf{ROE = \beta_0 + \beta_1\,BI + \beta_2\,BD + \beta_3\,DR + \mu}$ **----------------------1**

The modified functional model is shown below as thus:

SEP = F (BI & BD) ---II

The econometric form of the regression modified for the study is expressed as thus:

MODEL: $\mathbf{SEP = \beta_0 + \beta_1\,BI + \beta_2\,BD + \mu}$ **---III**

Where:
SEP = Social-Environmental Performance
BI = Board Independence
BD = Board Diligence

4. Data Analysis

Table 2: Descriptive Statistics of our Variables from Health Care Firms in Nigeria

	SEP	BI	BD
Mean	2.153	1.996	1.605
Std. Dev.	.5495462	.4927203	.8673419
Maximum	2.9	4	7
Minimum	1	0	2
Observations	40	40	40

Source: Researcher's Computation (2021).

Table 2 helps to provide some insight into the nature of the selected listed health care firms in Nigeria. Firstly, it can be observed that on the average, in a 5-year period (2016-2020), the listed health care firms in Nigeria was characterized by positive social-environmental performance (SEP) value = 2.153. This is an indication that the entire health care firms in Nigeria have positive SEP with a standard deviation value of .5495462. The average Board Independence (BI) for the sampled firms was 1.996 with a standard deviation value of .4927203. This means that firms with BI values of 1.996 and above are sustainable. There is also a high variation in maximum and minimum values of BI which stood at 4 and 0 respectively. This wide variation in BI values among the sampled firms justifies the need for this study as the researcher assumes that firms with higher BI values are more sustainable than those firms with low BI values.

Board Diligence (BD) on the other hand was characterized by a mean value of 1.605 with a standard deviation value of .8673419. This means that firms with BD values of 1.605 and above are sustainable. Also, there is also a high variation in maximum and minimum values of BD which stood at 7 and 2 respectively. This wide variation in BD values among the sampled firms justifies the need for this study as the researcher assumes that firms with higher BD values are more sustainable than those firms with low BD values.

4.1. Data Analysis and Results

OLS Model on the hand was used to test the linear relationship between the dependent and independent variables. It was operated using STATA version 15 as shown on the table below:

Table 3: Result on the Relationship between Corporate Governance Mechanism and Sustainability of Health Care Firms in Nigeria.

Source	SS	df	MS	
Model	4.07398873	2	2.03699437	Number of obs = 40
Residual	7.70405125	37	.208217601	F(2, 37) = 9.78
Total	11.7780400	39	.3020010250	Prob > F = 0.0004
				R-squared = 0.3459
				Adj R-squared = 0.3105
				Root MSE = 0.4563

SEP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
BI	.6629644	.1508194	4.40	0.000	.3573752	.9685536
BD	.0270592	.0856776	0.32	0.005	.2006586	.1465402
_cons	.8731531	.3156777	2.77	0.009	.2335294	1.512777

Source: Result output from STATA 15.

4.2. Discussion of Findings

Board Independence has no significant relationship with Sustainability of Health Care Firms in Nigeria

In view of the above analysis as shown on table 3, the result shows that there is a significant and positive relationship between board independence and sustainability of listed health care firms in Nigeria. With a P-value of 0.000, the test is considered statistically significant at 1% level. This could be verified with the positive coefficient of correlation of 0.66% which indicates that board independence ensures sustainability of listed health care firms in Nigeria by 66%. Based on this, we rejected the null hypothesis and accepted alternate hypothesis which contends that board independence has significant relationship with sustainability of health care firms in Nigeria

This result aligns with a priori expectation of Mgbame and Onoyase (2015), Ngwube (2013), who found that corporate governance, determines corporate performance. In disagreement, Adeniyi and Fadipe (2018) found no relationship between corporate governance and organizational sustainability.

Board Diligence has no significant relationship with Sustainability of Health Care Firms in Nigeria

The result of the analysis as shown on table 3 indicates that there is a significant and positive relationship between board diligence and sustainability of listed health care firms in Nigeria. With a P-value of 0.005, the test is considered statistically significant at 1% level. This could be verified with the positive coefficient of correlation of 0.27% which indicates that board diligence ensures sustainability among the listed health care firms in Nigeria by 2.7%. Based on this, we rejected the null hypothesis and accepted alternate hypothesis which contends that board diligence has significant relationship with sustainability of health care firms in Nigeria

The above result is in tandem with the status quo of Hassan, Owolabi and Asikhia (2020). Ayorinde, Toyin and Leye (2012). Also Ashenafi, Kalifa and Yodit (2013) found negative relationship between corporate governance and firm performance.

5. Conclusion

The study from the statistical analysis concludes that corporate governance mechanism has positive and significant relationship with organizational sustainability. Hence, the study concludes that corporate governance mechanisms ensure the sustainability of listed firms in Nigeria.

5.1. Recommendations

1. The study having established that board independence has significant and positive relationship with firms sustainability, it was recommended that firms should ensure that there are independent board of directors in board composition as thus ensures sustainability.
2. Diligent members are also recommended in the board composition since the study found that board diligence ensures sustainability among the quoted firms in Nigeria.

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Appendix 1

Table 4: Twenty Testable Social-Environmental Performance Items

S/N	Environmental	Energy	Research & Development	Employee Health and Safety
1	Environmental Pollution	Firms Energy Policies	Investment in Research on Renewal Technology	Disclosing Accident Statistics
2	Conservation of Natural Resources	Disclosing Energy Savings	Environmental Education	Reducing or eliminating Pollutants, Irritants, or Hazards in the work Environment
3	Environmental Management/Environmental Policies	Reduction in energy Consumption	Environmental Research	Promoting Employee Safety and Physical or Mental Health
4	Recycling Plant of Waste Products	Received Awards or Penalties	Waste Management/Reduction and Recycling Technology	Disclosing Benefits from increased Health and safety Expenditure
5	Air Emission Information	Disclosing increased Energy Efficiency Products	Research on New Methods of Production	Complying with Health and Safety Standards and Regulations and Establishment of Educational Institution

Source: Adapted from (Hackston & Milne, 1996 & Adler, 1999)