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Director's Owing and Directors' Remuneration of Manufacturing Companies in Nigeria

Oranefo, Patricia C.

Department of Accountancy, Nnamdi Azikiwe University, Awka
Mail; rollandchi@gmail.com

ABSTRACT

This study examined the effect of director's owing and directors' remuneration of manufacturing companies in Nigeria. The study adopted the Ex Post Facto research design. The population of the study comprises of manufacturing companies in Nigeria as at year ended December 2021. Data extracted were analyzed and hypothesis was tested with Least Square regression analysis. The study revealed that directors owing of the sample companies has a negative effect on director's remuneration, and this effect has no significant effect. According to the study's findings, the researcher advised utilizing directors' owing to always calculate executive remuneration in order to establish the owners' incentives to evaluate the managers' performance and determine their compensation.

Keywords: Directors owing, Directors remuneration and Corporate Governance

Introduction

The primary goal of corporate governance includes promoting the effective and equitable use of resources, as well as sharing responsibility for their care in a way that balances the interests of people, the company, and society at large. Corporate governance describes the procedures and frameworks used to direct and manage an institution's operations (Shailer, 1997). Enhancing corporate performance and accountability while taking into account the interests of other stakeholders in order to increase long-term shareholder value (Condon, 2020). Therefore, establishing credibility, ensuring accountability and transparency, and maintaining a reliable conduit for information disclosure that would support strong corporate performance are all aspects of corporate governance.

Corporate governance in Nigeria has also benefited from the work of the Institute of Directors (IOD) Nigeria. IOD, Nigeria was founded in Nigeria in 1983, and in 2016 it became a full affiliate. In order to promote sound corporate governance among its members, the IOD in Nigeria established a center for corporate governance in 2019. IOD Nigeria executes its corporate governance duties using a framework created by the African Management Association.

Corporate governance, according to Isenmila, Eragbhe, and Ogiedu (2019), is essential for enhancing economic performance, facilitating corporate access to capital, reducing volatility in retirement savings, and enhancing the general investment climate. It is not just about minimizing the risk of corporate failure and dealing with fraudsters. Despite the fact that the ownership structure should have an impact on how a company is governed, only a small number of studies have looked at the connection between director compensation and ownership structure. In their study on top management pay, Firth, Tam, and Tang (2018) show evidence that ownership and governance issues influence CEO cash remuneration. Whatever the business's ownership structure, this goal remains the same. This study determines the relationship between directors Owning and directors' remuneration in manufacturing companies in Nigeria.

Literature Review

The body of knowledge about corporate governance and director compensation has expanded over time and now spans a variety of fields, including accounting, law, economics, and organizational planning (Murphy, 2019). The code aims to improve Nigeria's financial sector and solve concerns with bad corporate governance. In terms of industry openness, equity ownership, criteria for the selection of directors, board structure and composition, accounting and auditing, risk management, and financial reporting, the code added stricter regulations. According to CBN, the new rule was created to complement the nation's existing codes, and all banks must abide by it (CBN, 2018).

Corporate governance in Nigeria was at a primitive stage, according to an SEC survey that was published in an article in April 2016. Only 40% of

quoted companies, including banks, have recognized norms of corporate governance in place. Poor corporate governance has been cited as one of the main causes of almost all known cases of financial institutions' difficulty in the nation, namely in the banking sector (CBN, 2018).

The Nigerian Securities and Exchange Commission's efforts served as another catalyst for the development of Nigeria's corporate governance framework. The Atedo Peterside committee was established by the SEC in 2016 to identify The Atedo Peterside committee was established by the SEC in 2016 with the goal of identifying flaws in Nigeria's current corporate governance processes for publicly traded firms and making suggestions for the required reforms. Nigeria enacted a Code of Best Practices for Public Companies (SEC, 2016). The optional code is intended to instil ethical conduct and standards for CEOs, auditors, and other executives of listed businesses, including banks. The recent intervention by the Central Bank of Nigeria is a significant event in the history of corporate governance in Nigeria (CBN). The CBN was forced to publish new corporate governance standards to all banks operating in the nation in February 2018 as a result of the on going collapse of the banking sector brought on by bad corporate governance and the bank consolidation effort. Often referred to as the Central Bank of Nigeria Code for Corporate Governance for Nigerian Banks Post Consolidation (CBN, 2018)

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Directors Owning

Due to its impact on the owners' motivations to evaluate managers' performance and set their compensation, ownership structure plays a significant role in determining executive salary. Companies are expected to consider a director's ownership of shares in his own company when determining his salary. Directors who own fewer shares are more likely to be motivated by rewards from stock option grants. As a result, there are conflicting findings for US businesses about the relationship between CEO compensation and CEO ownership. Lambert and Larcker (2017) Firth, Tam and Tang, (2018) found that CEO compensation is lower when the CEOs ownership is higher and when there is an internal member on the board other than the CEO who owns at least 5% of the shares. A negative correlation between institutional stock ownership and CEO cash compensation is found by Mangel and Singh (2017) in their study on ownership structure, board relationships, and CEO compensation in large US businesses. According to Cyert, Kang, and Kumar's (2017) research, there is a negative relationship between the largest shareholder's equity ownership and the CEO's pay: doubling the outside shareholder's percentage ownership lowers non-salary compensation by 12–14%. Using a sample of 1440 companies from 1992 to 2018, Hartzell and Starks (2016) investigated the relationship between institutional investors and executive pay. Their findings revealed a negative correlation between institutional percentage stock ownership and the level of cash executive compensation. In their analysis of a sample of 412 Hong Kong companies, Cheung, Stouraitis and Wong (2019) make the case that CEOs with significant share ownership may supplement their cash salary with dividend income. Therefore, such CEOs are likely to be less concerned with the amount of their cash compensation if they earn dividend income that is significantly higher than their cash salary. According to the findings of Cheung et al., dividends are a method that CEOs who hold a significant amount of stock utilize to supplement their cash pay. Using a sample of 409 companies listed on the Bombay Stock Exchange. Parthasarathy, Menon, and Bhatthacherjee (2018) conducted an empirical study on the relationship between executive compensation, firm performance, and corporate governance. Their findings indicate that institutional ownership has a favourable relationship and is statistically significant for executive compensation. Ozkan (2018) asserts that institutional ownership and block-holder ownership have a large and detrimental impact on CEO salary, with the results of their study demonstrating a lower CEO compensation when the directors' ownership is higher.

Corporate governance and director remuneration

According to the 2016 Code of Corporate Governance, executive directors should have appropriate experience in the business's fields of operation. They shouldn't have a say in how much they get paid and shouldn't be eligible for any of the non-executive directors' salaries, such as sitting fees. On the other hand, non-executive directors must be given a setting that is suitable for the successful performance of their duties and must promptly receive adequate and thorough information on all board concerns (Sullivan, 2015).

The recommendation that every public business should have at least one independent director on its Board is a key clause in the Code's section on independent or non-executive directors. Only once the company has consented to pay the compensation, in which case it is paid from the company's fund, do directors of a company have a right to it. The Code enhanced this and made a minor modification to this regulation. It mandates that businesses create complete director and senior management compensation policies, and that these compensation plans must be adequate to attract, motivate, and retain knowledgeable, competent, and qualified individuals capable of successfully leading the organization (Sullivan, 2015). A corporate entity or enterprise's basic orientation and direction are all that the concept of corporate governance is concerned with, according to a narrow perspective (Rwegasira, 2015), but from a broad perspective, it is seen as the center of both a market economy and a democratic society, there are at least two ways

to look at it (Sullivan, 2015).

Empirical Studies

Hassan, Christopher, and Evans (2016) conducted research on the connection between director compensation and company performance in Malaysia. Evidence from this study, which covered the years between 2015 and 2017 before and after the Asian financial crisis, produced good results even though it revealed a poor correlation between directors' compensation and firm success. However, lag-effect research revealed a significant correlation between financial metrics and director compensation. Tosi, Werner, Katz, and Gomez-Mejia (2015) investigated the significance of performance using A meta-analysis of CEO compensation found little correlation between CEO salary, firm size, and performance. The study's additional analysis of the impact of business size and performance on directors' compensation revealed that, in comparison, firm performance is a very weak predictor of directors' compensation. Additionally, Firth, Tam, and Tang (2015) discovered no significant association between CEO pay and company financial success, but a persistent positive relationship between CEO pay and corporate size of Norway listed businesses. Canyon (2015) discovered a negligible correlation between director compensation and corporate performance. For a sample of 414 large UK companies for the fiscal year 2016–2018, Ozkan (2018) empirically examined the impact of corporate governance mechanisms, namely ownership and board structure of companies, on the level of CEO compensation. Based on their findings, they concluded that firms with large boards and a higher proportion of non-executive directors pay their CEOs more, indicating that non-executive directors are not more effective in monitoring the performance of their boards. Wilson, Chacko, Shrader, and Mullen (2018) used longitudinal data from the disclosure database for 390 large American corporations in their study on top executive compensation and Director's salary. Among performance metrics, total assets (board size) were shown to have the strongest link with executive pay, suggesting that the relationship between director salary and executive pay may not be linear. No evidence of a positive relationship between pay and performance is found by Parthasarathy, Menon, and Bhatthacherjee (2018) conducted an empirical study on the relationship between executive compensation, director compensation, and corporate governance. Their findings demonstrate that corporate performance has a positive and significant impact on executive compensation.

METHODOLOGY

Ex Post Facto research design was used for this study since the events being studied have already happened and the secondary data cannot be changed. Data collection and analysis are required for the research corporate governance variable.

Manufacturing companies in Nigeria as of the year ended December 2021 make up the study's population. Twelve manufacturing enterprises in Nigeria were chosen using the purposive selection method.

The study made use of secondary data sourced from various annual reports of the sampled companies. The research covered a period of six years (2016-2021).

Model Specification

To test the relationships between the director owing and directors' remuneration of consumer goods manufacturing companies on the NGX, this study used the following models in providing answers to the formulated null hypotheses of the study:

The study model is in the following form:

$Y = \beta o + \beta_1 X_1 + \mu$

Where:

Y = Directors' remuneration (dependent variable)

X = Director owing (independent Variable)

β_0 = Constant term (intercept)

β_1 = Coefficients of directors remuneration

μ = Error term (stochastic term)

Explicitly, the equation can be defined as:

Directors' remuneration = *f* (Directors owing) + μ

Representing the equations with the variables of the construct, hence the equations below are formulated:

$DRMit = \beta_0 + \beta_1 DIO + \mu t$ ……………………………………..………… ……….i

Where

DRM = Directors' remuneration

DIO =Directors Owing

β_o = Intercept

β_1-β_2 = Coefficient of directors' remuneration

μ_t = error term for period t *t* denotes the annual time_period

Method of Data Analysis

Both the dependent and independent variables were computed from the data extracted from the Exchange Group from 2015 to 2020.

Inferential statistics was also utilized with the aid of E-Views 9 using:

i. Coefficient of correlation: which is a good measure of relationship between two variables that tell us about the strength of relationship and the direction of the relationship as well?

ii. Regression analysis: Regression analysis predicts the value the dependent variable based on the value of the independent variable and explains the impact or effect of changes in the values of the variables.

Decision Rule

Accept the alternative hypothesis, if the Probability value (P-value) of the test is less than 0.05 (5%). Otherwise reject.

Data Analysis

Table 1: Pearson Correlation Matrix (Nigeria)

	DIR	DIO
DRMN	1	
BIO	-0.20873	1

Source: E-Views 9.0 output (2022)

The Pearson correlation matrix in table 4.3 shows that there is a negative relationship between DIR and (DIO -0.209).

Test of Hypothesis

Ho_1: There was no relationship between directors Owning and directors 'remuneration in manufacturing companies in Nigeria.

Table 2: Regression analysis between directors' remuneration and Ownership Structure of manufacturing companies in Nigeria

Dependent Variable: DRM
Method: Least Squares
Date: 07BN/11/22 Time: 10:15
Sample: 2015 2020
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	248766.9	32991.78	7.540271	0.0017
DIO	-0.819210	1.919173	-0.426856	0.6915

R-squared	0.043567	Mean dependent var	238497.3
Adjusted R-squared	-0.195541	S.D. dependent var	50573.45
S.E. of regression	55297.42	Akaike info criterion	24.94004
Sum squared resid	1.22E+10	Schwarz criterion	24.87063
Log likelihood	-72.82013	Hannan-Quinn criter.	24.66217
F-statistic	0.182206	Durbin-Watson stat	0.877738
Prob(F-statistic)	0.691457		

Source: E-Views 9.0 output (2022)

In Table 2, R-squared and adjusted Squared values were (0.04) and (0.20) respectively. This indicates that the independent variable, director's owing (DIO) jointly explain about 20% of the systematic variations in dependent variable, directors' remuneration (DRM) of our samples companies in Nigeria over the six years periods (2015-2020).

Test of Autocorrelation: using Durbin-Waston (DW) statistics which we obtained from our regression result in table 4.8a, it is observed that DW statistics is 0.878 and an Akika Info Criterion and Schwarz Criterion which are 24.940 and 24.871 respectively also further confirmed that our model is well specified. In addition to the above, the specific finding from the explanatory variable is provided below.

Based on the Coefficient value of -0.819, t-value of -0.4267 and p-value of 0.692 was found to have a negative effect on our sampled Nigerian companies and this effect is not statistically significant as its p-value is higher than 0.05 values.

This result from table, director's owing of the sample companies in Nigeria has a negative effect with directors remuneration, and their effect have no significant effect on directors remuneration. Therefore suggests that we should accept our null hypothesis four which states there was a significant relationship between directors owing and directors' remuneration in manufacturing companies in Nigeria.

Conclusion

This research study examined directors' compensation and debts in Nigerian manufacturing firms using empirical methods. To determine whether there is a meaningful link between the variables, the extracted data were evaluated and the least square regression method was used to test the hypothesis. Directors owing of the sample firms have a negative impact on directors' compensation, but this impact is not very large. This suggests that the compensation of the company's directors is unaffected by the ownership structure. The study claims that a rise in director ownership results in a drop in the amount of director compensation. According to the study's findings, the researcher advised utilizing directors' owing to always calculate executive remuneration in order to establish the owners' incentives to evaluate the managers' performance and determine their compensation.

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