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RELATED PARTY TRANSACTIONS, GOVERNANCE AND CORPORATE PERFORMANCE BALANCED SCORE CARD PESPERCTIVE

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Abstract: The scrutiny of RPT has gained traction over the past few decades because of increased tax aggressiveness behaviors, conflicts of interest, business failures, insider abuse, asset expropriation and tunneling. There is a slew of empirical works trying to ascertain whether RPT is used for propping or for conflicts of interest. However, the result is mixed. The increasing management bad behaviors and weak corporate governance and its failures in mitigating abuse of RPT has heightened interest of scholars, regulators and other stakeholders on subject. The objective is to determine effect of RPT, and Governance on Balanced scorecard. The study used data from financial statements of manufacturing firms listed on the Nigeria stock exchange for the period 2003 to 2023. Hausman test, Multiple Regression and various diagnostic tests were conducted on data set. Related party transactions have significant positive effects on Returns on Asset, Net profit margin, price earnings ratio and customer loyalty of Manufacturing companies in Nigeria. Increase in RPT increases the performance of ROA, Net profit margin, price earnings ratio and customer loyalty while RPT has negative relationship with internal efficiency thus increase RPT decreases internal efficiency of the firms. Board independence increases customer loyalty and price earnings ratio simultaneously reducing internal efficiency, Net profit margin and return on assets. Chief executive duality has significant negative impacts on ROA, Net profit Margin and price earnings ratio implying CEO duality reduces the performance variables. Contrastingly, CEO duality improves internal efficiency and customer loyalty with significant positive effects. Audit quality has positive correlation with Net profit margin, Return on Assets and internal efficiency implying improved quality of audit improves the variables while correspondingly reducing price earnings ratio and customer loyalty. Outcome of study indicate need to improve efficiency of usage of assets, improve and sustain the internal efficiencies and customer loyalty as this will ultimately increase profits. Based on negative association of CEO duality with reduced profit margin and price earnings ratio, board chairman position should be separate from function of CEO to ensure independence and checks and balances while new strategies should be formulated to sustain customer loyalty and internal efficiency. There is also need for regulators and auditors' scrutiny of RPT to mitigate the effects of earnings management if any as increased RPT associated with improved ROA, Net profit margin and price earnings ratio can also indicate RPT is used for earnings management.

Keywords: Related Party Transactions, Governance, Balanced scorecard, Customer Loyalty, Internal Efficiency, Net Profit Margin.

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1.0 Introduction

Management of firms are willing to pursue actions guided by objectives of the firm. This encompasses internal and external activities that enhances achievement of the objectives. Related party transactions offer an opportunity for fulfilling firm motives of profit and wealth maximization. Related party transaction involves transactions between parties joined together in peculiar association before consummation of transactions. These special relationships take many forms (associate company with holding company, between subsidiaries, directors handling contracts between subsidiaries, sale of goods between parent and subsidiaries, transfer of assets, lending and even transactions between family members of directors). However related party transactions can work in opposing ways creating conflicts that may not align with the overall goals of shareholders. It can be detrimental to the firm in form of sub-optimization and pursuit of short-term projects that yield short term returns while the long run implication is harmful to the business. Further, the divorce of management and control could create opportunities for misalignment of interest between that of management and shareholders or type 2 agency issues where it is used for tunneling out resources by majority shareholders to detriment of shareholders holding minor shares (Venuti & Pozzoli, 2014, Johnson et.al, 2000). These relationships create conflicts of interest and corporate governance issues.

There are two perspectives to related party transactions. One perspective, the efficient transaction hypothesis or 'propping' recognizes related transactions as a sound business consummation which enhances economic value of a business entity through internalized market which improves efficiency and reduces cost (Chen, 2006). According to Coase (1937), related party transactions amongst related members in an entity is cost effective and assist in reducing transaction costs, enhances monitoring, supervision and enforcement of contractual covenants and property rights (Tudor and Corlaciu, 2011). The second perspective tunneling or conflict of interest hypothesis suggest RPT is conflict of interest with firm overall objective where parties involved engage in exploitation of firm resources in pursuit of selfish agenda referred to as moral hazard (Gordon et al. 2004); used as an opportunity for earnings management (Jian and Wong, 2010) information misspecification (adverse selection), tunnelling (Johnson et.al, 2000; Johnson and Mitton, 2003; Khanna, 2015) and victimization of minority shareholders.

Of concern to stakeholders is deliberate alteration of earnings by management creating information asymmetry which impact negatively on investors decision making. RPT can be used for massaging of earnings through income smoothing to report a stable and positive outlook (Onesti and Romano, 2012). RPT can also be used as transfer pricing for aggressive tax behavior to evade tax by multinationals. It can also be deployed for asset expropriation by majority shareholders (Johnson et.al 2000) or transfer resources or create fictitious loans through subsidiaries (Wang and Yuan,2009; Henry, Gordon, Reed and Louwers, 2007) as well as fictitious transfer of asset (Henry,Gordon, Reed and Louwers, 2007). Further, RPT can also be used by management to increase earnings for bonus compensation purposes.

Notwithstanding negative effects of RPT, it can be used for sound economic decision to enhance value when used responsibly and transparently. Many studies (Fan and Goyal, 2006; Khanna and Palepu,1997; Khanna, Tarun and Fisman 2004) confirmed advantages of RPT in enhancing firm performance(Gordon *et al*.2004). Ryngaert and Thomas, 2007 observed advantages of related persons transactions arose from the necessity for speedy information from suppliers and reliability of such information obtained from related parties in comparison to that obtained from unrelated parties.

Many empirical studies (Puspitasari, Solihat and Sari, 2023; Rahman, 2018; Venuti and Pozzoli ,2014; Okoro and Jeroh ,2016; Suffian, Sanusi and Rashid ,2022; Diab. Haboud and Hamid, 2019; Okekereoti ,2021;Wang et.al. 2019; Azim, *et al.* 2018; Cheng and Leung ,2014) has been conducted on the subject of related party transaction with conflicting results. Some Prior researches (Suffian, Sanusi and Rashid ,2022; Diab. Haboud and Hamid ,2019; Okekereoti ,2021); Wang et.al, 2019; Azim, *et al*.2018) highlights the advantages of RPT and found a positive association of RPT with performance. Some studies for example Kohlbeck and Mayhew (2010) discovered negative association of RPT with performance while some other studies (Puspitasari, Solihat and Sari, 2023; Rahman ,2018; Venuti and Pozzoli,2014; Okoro and Jeroh, 2016) found no relationship

Recognizing the dangers that is inherent in RPT, regulators respond through tightening of standards and governance initiative. Firm Governance imply set of rules, codes and regulations instituted to guide the way a business is operated. It simply refers to the way a business is governed and serves as a guide to managerial behavior. The efficacy of corporate governance in curtailing RPT malfeasances is debatable. Many studies revealed weak corporate governance punishes firms (Gordon,Henry and Palia,2004; Drury et.al 2010; Huang and Liu, 2010; Porta et.al, 2002) in terms of reduction of firm value and performance while some other studies (La Porta et.al, 2006; Lo and Wong,2011; Chaghadari and Shukor, 2011; Kohlbeck and Mayhew, 2010 Wu, Wang, Lin and Bai,2009) indicate good corporate governance reduces negative effects of RPT. First it reduces the effect of insider dealings (Lopez-De-Silanes and A. Shleifer, 2006; Lo and Wong,2011; Chaghadari and Shukor, 2011; Kohlbeck and Mayhew, 2010), secondly it mitigates asset appropriation (Cheung, Qi, Rau and Stouraitis 2008; Effiezal, Hasnah, and Sofri, 2011; Kohlbeck and Mayhew, 2010; Lo,Wong and Firth, 2010) and avoidance of problem creating transactions (Chaghadari and Shukor, 2011).

Nigeria is a country with weak regulatory framework, poor enforcement of laws and weak institutions. This creates room for financial statement manipulators to escape detection and sanctions thus creating an enabling environment for RPT to be used for conflict-of-interest purposes. Further, weak regulatory oversight by securities and exchange commission creates an environment for type-2 agency conflicts as there are many cases of manipulation of share prices leading to share glut and outright loss of investments, insider dealing and falsification of share ownership records. Corporate governance structures are often sidelined creating business failures These weaknesses motivate the study on RPT, governance and performance. It is therefore obvious the conflicts of empirical studies on both RPT and Corporate governance require further examination as there is a lacuna on the subject. Further, despite the rich literature on the subject, most of the studies are of foreign origin with paucity of researches on the subject in Nigeria. The disparity in culture, level of technological advancement, regulatory environment requires that a study in that context should be carried out in Nigeria in view of its peculiarities. The aim of study therefore is determination of RPT and Governance effect on corporate performance from Balanced score card perspective.

2.0 LITERATURE REVIEW

Conceptual Framework

Related Party Transaction

Organisations do not exist in a vacuum. Although, the physical assets of an organisation is essential for orderliness and smooth operation of an entity, it is people that make up the organisation. The organization is made up of employees, directors and shareholders. These employees, directors and their immediate family members are closely linked to each other and to the organisation and interface in numerous ways that impact the organisation as distinct from external stakeholders. Even firms that are 'artificial persons' that share same ownership or part thereof have a right of association or relationship with each other that impact their social and economic interest. Therefore, parties or persons in a firm whether artificial or not interact with each other.

When financial transactions are involved, they are required by law to report in a transparent manner the transaction that occurred between them. IAS 24 defines 'RPT as transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged'. However, these transactions that occur between related persons may be to promote the selfish agenda of participants or to promote sound economic performance of the business. Thus, related persons transactions can be entered by parties for various motives. Related party transaction in context is defined as an interaction between parties to a firm (subsidiaries, associates, directors, shareholders, spouse of directors, or kith and kin) in form of contract exchanges, sales, loans, transfer of assets from one party to another that impact on the economic interest of the entity.

Governance

This refers to the way a firm is ruled or governed. An array of policies, codes, ethics guiding the running of a business by its board of directors together with the control mechanisms, checks and balances instituted to guide the operations of a business. The behaviour of the governing board determines the direction which a business operates. The board is expected to exercise independence with absence of bias and vested interest in the conduct of the affairs of the entity. However, where management deviates from ethical conduct and promotes selfish interest without the board taking appropriate remedial actions or imposing appropriate sanctions the business will operate sub-optimally. Therefore, the board of directors which governs a business entity determines the success or failure of the business. Many theoretical predictions such as Management Hegemony, Stewardship originates from the expected conduct of the governing board. While the proposition of stewardship theory is that the board will act as good stewards and promote the proper conduct of business of the entity towards achievement of organisational goals the contrary proposition by management Hegemony theory suggest that the board is passive and rubber stamp to management decisions allowing management to act according to their whims and caprices

Performance

Performance is a means of evaluation of the stewardship function of Managers of a business. However, there is generally no agreed yardstick for measuring performance. Contemporary literature adopts financial and market methods. The critique is that accounting measures only capture past events hence the adoption of market-based measures of performance which is futuristic. These performance yardsticks although captures various stakeholders' interest but fails to reflect improvements of the organisation over time. According to Kaplan and Norton, (1992) many measurement approaches have been suggested by the corporate finance literature to capture these improvements. To take into account the various segments of interested users of financial reports including improvements in the organisation, the Balance scorecard is suggested as a useful metric. Balanced scorecard differs from other performance metrics because it is a strategic planning and management approach which aligns vision and strategy of the firm with its operational activities, create internal and external communication linkages and provide feedbacks on organizational achievements of strategic goals. Thus, Balanced scorecard is an evaluation metric that gauges performance, customer satisfaction, business operations in terms of efficiency and learning

The finance perspective is in identifying the strategic finance framework and performance evaluation which offer evidence of achievement of the financial strategy and also determine whether the profitability goals are achieved or not. This facilitates achievement of firm objectives. However, the internal processes are the business processes that determine internal excellence, efficiency and effectiveness, quality of personnel in a drive to achieve organizational goals and profit optimization. The customer perspective establishes and create the values to be offered to the customers on various segments of the market and evaluates the achievement of these objectives in terms of patronage and customer satisfaction. The learning and growth measure of Balanced score card has to do with intellectual properties, skill set and capabilities that personnel possesses and the skills that require upscaling, retention strategies, disengagement strategies and organisational renewal strategies giving support to the internal processes to facilitate value creation.

Theoretical Underpinning

The theoretical literature which forms the spring board for this study are efficient Transaction hypothesis, conflict of interest Theory, and Management Hegemony Theory. The first two underlying theories cover two perspectives of Related party transactions in a firm. First, transactions may be taken for economic reasons to promote the accomplishment of the firm objectives. Second transactions may be undertaken by managers for selfish motives. These two theories are relevant to this study as we examine related party transactions. **Efficient transaction hypothesis** has notion that related transactions amongst parties enhances efficient business activities thus enabling firms to achieve economic benefits. These benefits include better coordination of activities, familiarity amongst members with resultant timely feedback, insightful and reciprocal knowledge that are impossible during arm's length transaction. It is convenient, mitigate delays, compensate parties for risks taken and beneficial. Coarse (1937) opines related transaction amongst parties reduce costs and enable parties overcome difficulties impairing productive activities. Contrastingly, **conflict-of-interest theory linked to** agency theory (Jensen and Mecklings, 1976) highlights that when owners are not controlling a business, agents who are the managers may not act in pursuit of owners' interest and overall objectives of the firm. These misalignment of interest results in moral hazards and opportunistic behavior from Management leading to sub-optimal decisions, earnings management and lackadaisical and non-committal behavior. Managers motivated by the latitude given by accounting rules and procedures, may be motivated to falsify accounting records, and indulge in other activities to smooth earnings for positive outlook, tax aggressiveness, avoid violation of debt covenants, bonus compensation, manipulation of share prices, expropriation of assets and tunneling. However, to cause alignment between the objectives of the principal and agent and achieve goal congruence there is need for monitoring, supervision and perks of office that will enhance proper managerial behaviors. The Corporate Governance codes however was meant to control management and ensure goal congruence. Related party transactions is a sub-set of Governance as intercompany transactions, insider and related party contracts, loans and transfer of assets decisions are taken at the board level. The extent of the achievement of the desired goal of Corporate Governance is however debatable. Prior studies have noted that Related party transactions thrive in environment with weak governance (Gordon, Henry and Palia, 2004; Ge et.al 2010; Huang and Liu, 2010). Management **Hegemony theory** therefore states that the board is irrelevant, passive and rubber stamp and therefore ineffective in the monitoring and control role thereby causing improper governance of firms. If this is the case, then type two agency conflict between major and minor share owners will thrive. This may necessarily be the case as majority shareholders will use the voting power at their disposal to appoint board members who will align with their interest or terminate the appointment of board members who do not align with their interest to create an unstable and chaotic board that favors their interest. This however will create a viable opportunity for tunneling and asset expropriation to the detriment of minority shareholders.

EMPIRICAL REVIEW

Puspitasari, Solihat and Sari (2023) examined effect of RPT on performance of firms on LQ45 index between 2018 and 2021. Other issues possibly impact well-being of the firms were ascertained such as firm size, sales growth and pandemic covid-19. RPTs had no substantial impact on performance while Covid 19 and company size negatively and significantly influence ROE and ROA. Conversely, sales growth positively and significantly correlate performance. Suffian, Sanusi and Rashid (2022) ascertained relation of connected parties' business activities and performance between 2013 and 2017 of Malaysian firms. Result showed positive significant correlation between related parties business activities and performance. Okekereoti (2021) examined correlation of RPT on return on total equity of banks in Nigeria. Result indicates positive correlate of RPT with return on equity of banks studied

Supatmi, Saraswati and Purnomosidhi (2019) study determined related party transactions (RPTs) link with performance and casually the moderating role of political connection of financial institutions on Indonesian Exchange for 2013-2016. Sample size consisted 40 Indonesian banks with 160 observations based on panel data. Results show account receivables-RPT positively correlate profitability and market result measured with Tobin Q. However, outcome increased operating costs and default risk through non-performing borrowings. Result showed firms with funding from related parties benefited through increased capital capability but disadvantaged by reduced market performance. Also, political connections significantly positively affect liquidity, market valuation, efficiency and capability through RPT. Consequently, result confirmed political connections play a major role in strengthening RPTs effects on banks' performance. Mohammed and Abubakar (2019) assessed related party transactions and off-balance sheet items effects on earnings quality of banks in Nigeria for the period 2011 to 2014.Using descriptive statistics and Regression study revealed RPTs positively, significantly correlate earnings quality while off balance sheet items negatively failed significant test on earnings quality. Elsewhere, Diab. Haboud and Hamid (2019) while examining related party transactions (RPTs) and firm value on companies listed on the Egyptian stock market from 2012 to 2017 confirmed positive link of RPT and firm value. Wang, Lu, Qi Kweh, Siao(2019) explored association of related-party transactions and efficiency of Taiwanese electronics companies on International Financial Reporting Standards (IFRS) adoption for period 2010–2018. Differences in mean revealed efficiency of firms was lower in post-IFRS era than in pre-IFRS period. A confirmation from Regression results revealed RPT significant positive influence on efficiency, However, this positivity was smaller following adoption of IFRS in Taiwan. Overall, outcome revealed evolving accounting policy, rules and techniques wield significant influence on related-party transactions in companies, and ultimately impact performance

Azim, *et al.* (2018) in determining impact of corporate governance and related party transactions on firm performance in Pakistani family-owned firms registered on Karachi Stock Exchange from 2004 to 2014, confirmed RPT positive significant correlation with performance. Suffian, *et al.* (2018) investigated management of RPT and earnings quality in Malaysia and found related party transactions affect earnings quality. In Bangladesh, Rahman (2018) studied related party disclosure by commercial banks for 2014. Results showed related party transactions have no significant association with commercial banks' attributes in Bangladesh. Study further revealed no significant correlate of RPT with banks' attribute. Using firms on Tehran Exchange, Rafizadeh (2016) examined how related party transactions correlate financial performance of companies for period 2009-2013. Outcome confirmed significant association of RPT with financial performance.

Venuti and Pozzoli (2014) studied related party transactions and financial performance for period covering 2008 to 2011. Findings revealed related party transactions and companies' financial performance are not correlates and no evidence of cause-effect relation. Cheng and Leung (2014) reviewed association of related party transactions on ownership structure and impact on corporate performance of Chinese listed firms for period 2007 to 2011 after corporate governance reforms. Results showed a positive association between large shareholding with performance, but no association between related party transactions and corporate performance Okoro and Jeroh (2016) investigated relationship between transactions deemed to have taken place by related party and financial performance of Nigerian firms employing secondary data sourced from published financial reports of firms sampled for period 2007 to 2014. Using regression technique, the results showed that transactions deemed to have taken place by related party are not significant and are not correlated with financial performance.

From the Governance perspective many studies were conducted. Khan. Et.al (2024) investigate boardroom independence and financial performance of non-financial firms registered with Pakistan Stock Exchange from 2003 to 2018. Result confirmed independence of board significantly and negatively relate to ROA and ROE. Also, there was negative significant effect of CEO duality on performance measures. Agrawal and Knoeber (1996) tried to ascertain relation between board independence and value of the firms and found significant negative outside directors influence on firm value. De Jong et al. (2005) discovered significant negative significant association of boardroom independence with performance. Al-Gamrh et. al. (2021) found weak negative impact of RPT on financial and social performance of Arab firms. Pham and Nguyen (2020) suggest boardroom independence negatively relate performance. Mejbel Al-Saidi (2021) confirmed board independence negatively correlate Tobin's Q only and causality ran from board independence to firm performance but not vice versa. Potharla and Amirishetty (2021) also confirmed negative inverse association between boardroom independence and performance. Nguyen and Nguyen (2024) assessed effect of governance and audit quality on financial performance of firms registered with Vietnam Stock Exchange for period 2012 to 2021. Result suggests audit quality positively correlate performance Fasua (2023) examines relations between audit quality and firm financial performance of listed firms on Nigeria stock exchange. Audit independence associates positively but insignificantly with ROA. Also, audit quality positively affect performance. Jwailes (2021) in a study of Jordian firms to determine the nature of relationship of CEO duality, board independence and performance. Result confirms positive association of the variables on firm performance

3 METHODOLOGY

Design

Study adopts cross-sectional design using secondary data with purposive sampling method to carry out the study on related party transactions, Governance and performance of listed manufacturing firms on Nigeria stock exchange for period 2013 to 2023. Population consists of sixty-five manufacturing firms while the study uses 22 firms with available data**.** Data was obtained from financial statements of firms studied before being computed into ratios for data. Reliability of data is assured as only firms with audited reports are used for the study**.** The study employed the Multiple Regression analysis, Hausman Test for selection of appropriate model and autoregressive distributed lag

Diagnostic tests

In satisfying assumptions of auto regressive distributed lag, four diagnostic tests for normality of distribution, serial correlation, LM test, heteroscedasticity test, and cumulative sum (CUSUM) were carried out.

Variables used in Study

Independent variables

The two independent variables in this study are related party transaction and Governance. RPT denotes total goods and services sold or bought from associates and subsidiaries including contracts with related parties. Governance in this study essentially captures the attributes of board of directors and quality of external auditors. The Governance variables are Board independence, audit quality and chief executive duality. The goal is to ascertain how these corporate governance variables affect performance

Dependent Variable

The study adopted Balance scorecard metrics to gauge performance. Balanced score card is evaluated through financial, customer and internal efficiency. First, financial perspective gives overall framework of budgeting, operations and capital expenditure required for running the business. It provides a basis of evaluating how well the business performs after matching revenue and expenses, the efficiency in utilization of resources and market perception of the business. The customer perspective evaluates customer satisfaction in terms of offerings to various segments of the market and the efficacy in enhancing customer patronage which influences increases in sales volume and revenue. Internal processes evaluate cost reduction strategies, efficiency and effectiveness in business activities, intellectual properties, expertise in management, leadership, skills set, renewal strategies of employees in terms of upscaling of skills, disengagement of staff with low productivity and hiring of new staff where additional skills and experience are required. It has to do with the efficiency.

- **Financial Perspective**

The financial metrics used in this study are Net profit margin, Returns on asset and price earnings ratio. In this study, we define the financial variables as follows:

a) **Net Profit Margin (NPM**. Based on extant literature Net profit margin is calculated as follows:

$$\frac{\textbf{Net profit for the period}}{\textbf{Sales Revenue}} \textbf{ X 100}$$

b) **Return on Assets**

$$\text{ROA ratio} = \frac{\textbf{Earnings before interest and taxes}}{\textbf{Total Assets}}$$

c) **Price earnings ratio:**

$$\textbf{PE ratio} = \frac{\textbf{Market price per share}}{\textbf{Earnings per share}}$$

- **Customer satisfaction Perspective**

The customer perspective of Balanced scorecard assumes that only loyal customers will return to patronize the business and this happens when customers are satisfied with the products and services offered. This loyalty will reflect in rate of patronage and increased sales revenue enhancing profitability. For this study, customer satisfaction is measured through sales growth denoted as follows:

<u>Sales Revenue for the current year Sales Revenue for the previous year</u> X 100 Sales Revenue for the previous year

- **Internal Efficiency Perspective**

The balanced scorecard also assumes that internalized excellence, cost reduction, managerial acumen, supervision and coordination of the subparts of the business will ultimately impact achievement of organizational goals. In the study internal efficiency is measured via inventory turnover depicted by the formula

$$\textbf{Inventory Turnover (IT)} = \frac{\textbf{Cost of Goods Sold}}{\textbf{Average Inventory}}$$

Table 1: Summary of Variables

Dependent Variable	Measurement	Expected Sign
Net Profit Margin	**Net profit for the period X 100** **Sales Revenue**	Positive
Return on Assets	Net Profit X 100 Total Assets	Negative
Internal Efficiency	efficiency in the utilization of financial resources of the organization given by formula: **Inventory Turnover (IT)** = **Cost of Goods Sold** **Average Inventory**	Positive
Price earnings ratio	**P/E ratio =** Market price per share Earnings per share	Negative
Customer satisfaction	percentage change in sales revenue growth measured as: **Sales Revenue for the current year + Sales Revenue for the previous year** **X 100** **Sales Revenue for the previous year**	Positive
Related Party Transactions	The natural logarithm of all transactions with related persons evaluated in monetary terms as reported in firm financial reports (IAS 24)	Positive/Negative
Audit Quality	Dummy variable equal to 1 if auditor is one of the largest eight auditors in Nigeria otherwise 0	positive
Chief Executive Duality	For CEO occupying dual position of Chairman/ CEO 0 and Separation of CEO and Chairman 1	Negative/positive
Board independence	Number of external directors divided by total number of directors on the board	Negative/positive

Modelling

The model specification is reported below

$ROA = \beta_0 + \beta_1 Log RPT + \beta_2 BID + \beta_3 CED + \beta_4 AUQ + U_1, t$………(i)

$NPM == \beta_0 += \beta_0 + \beta_1 Log RPT + \beta_2 BID + \beta_3 CED + \beta_4 AUQ + U_2, t$ (ii)

$PER = \beta_0 + = \beta_0 + \beta_1 Log RPT + \beta_2 BID + \beta_3 CED + \beta_4 AUQ + U_3, t$………... (iii)

$INE = \beta_0 + \beta_1 Log RPT + \beta_2 BID + \beta_3 CED + \beta_4 AUQ + U_4, t$…..........…(iv)

$CUL = \beta_0 + = \beta_0 + \beta_1 Log RPT + \beta_2 BID + \beta_3 CED + \beta_4 AUQ \; U_5, t$ ……..*(v)*

Where, RPT=Related party transactions, NPM = Net profit Margin, ROA = Returns on Asset, PER = Price earnings ratio, TBN = Tobin Q, INE = Internal Efficiency, CUL = Customer loyalty, BID = Board Independence, CED= Chief Executive Duality, AUQ= Audit Quality, β_0 are the regression intercepts and U_1t, U_2t, U_3t, U_4t are the autoregressive coefficients or persistence terms. We expect board independence, audit quality and chief executive duality will positively impact performance

4.0 RESULT

Descriptive Statistics

Table 2 discloses average, standard deviation, other summary statistics on related transactions, Governance and performance. The statistics indicate mean which represents average is 0.06 for return on assets (ROA) while maximum value is 6.17 and 10.19 negative value as minimum value respectively. This outcome discloses inefficiency of asset management in firms studied. The standard deviation value for return on assets is 0.67 indicating wide disparity and variations of return on earnings amongst the firms studied. The skewness is negatively high value show many of the firms had ROA values higher than the average. The huge negative disparity disclosed on ROA is responsible for the low mean value. Average net profit margin is 0.07 disclosing poor financial performance of firms.

Table 2: Descriptive Statistics of the Panel Data for Firms

Variable	Mean	Max.	Min.	S.D.	Skewn.	Kurt.	J-B	Obs.
ROA	0.06	6.17	-10.19	0.67	-6.66	151.24	384001.2(0.00)	416
NPM	0.07	5.96	-2.87	0.61	4.58	46.26	33891.4(0.00)	416
PER	15.08	1284.0	0.02	76.27	14.52	223.03	853801.0(0.00)	416
INE	22.11	4212.2	-11.41	259.92	14.68	219.73	829099.9(0.00)	416

CUS	-4.60	1.00	-898.19	61.69	-14.28	205.35	723852.0(0.00)	416
RPT	16.58	20.43	10.96	2.08	-0.34	2.78	8.89(0.00)	416
AUQ	0.86	1.00	0.00	0.35	-2.05	5.22	377.44(0.00)	416
CED	0.75	1.15	0.00	1.34	1.88	4.35	422.48(0.00)	416
BID	1.33	11.00	0.00	2.16	1.95	6.62	489.54(0.00)	416

Net profit margin in similitude with ROA exhibited high variation in reported standard deviation of 0.61 while price earnings ratio (PER), averaged15.08 percent with standard deviation at 77.27. Also, the kurtosis for performance variables is high and suggest extremes among the firms. Average internal efficiency stood at 22.11 percent while average customer loyalty is -4.6, indicating low scores for the two measures of performance.

J-B statistics of performance are high and significant at 1 percent level revealing non-normality and heterogeneity in distribution. Essentially, the non-normal distribution confirms strong firm-specific influences on outcome as reported on table 2. For related party transactions, mean value is 16.58 standard deviation 2.08.

Correlation Analysis

The correlation result for variables is disclosed on table 3 below. From Table 3, RPT has a significant and positive correlation coefficient.

Table 3: Correlation Matrix

Variable	RPT	ROA	NPM	PER	INE	CUS
RPT	1					
ROA	0.07 (0.17)	1				
NPM	0.07 0.13	0.13 0.01	1			
PER	0.05 0.27	-0.01 0.77	-0.08 0.08	1		
INE	-0.03 0.49	0.00 0.92	0.00 0.97	-0.01 0.88	1	
CUS	0.04 (0.36)	0.00 (0.99)	-0.24 (0.00)	0.00 (0.97)	0.01 (0.91)	1

The correlations amongst balanced scorecard metrics are presented on table 3. Result show ROA and NPM correlate positively and significantly, which indicate return on assets and net profit margin increase concurrently. The correlation results also show customer loyalty negatively correlate with net profit margins but does not correlate with other balanced score card metrics. Also, there is no correlation between internal efficiency of the firms and other balance score card metrics. The correlation tests indicate extreme variations amongst reported balance scorecard measures

Test for Normality

The test of normality using Kernel test ascertained cross-sectional properties of data and hence determine suitability for analysis. Test result is depicted on table 5 showing density plots widely spread, concentrated away from the Centre and normally. This outcome reflects the heterogeneity of the pool of firms used in the study making it inappropriate to use ordinary least square

Fig. 4.43a: Kernel Density Test for RPT

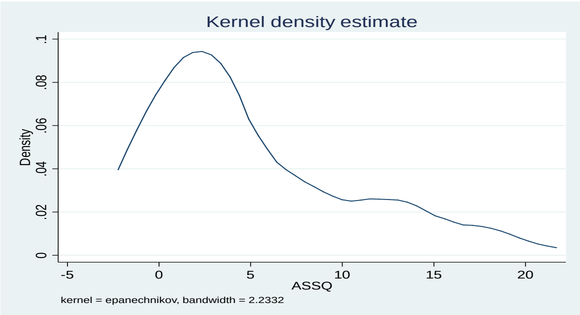


Fig. 4.3b: Kernel Density Test for ROA

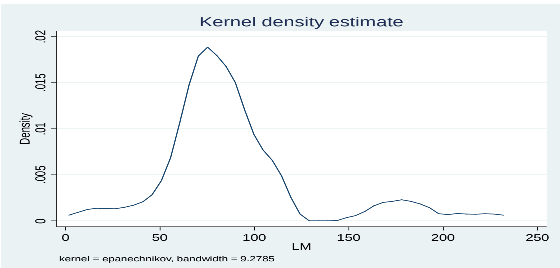


Fig. 4.3c: Kernel Density Test for NPM

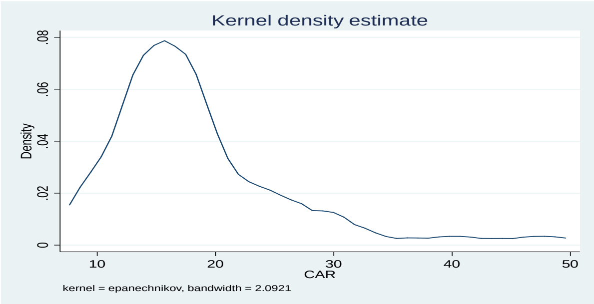


Fig. 4.3d: Kernel Density Test for PER

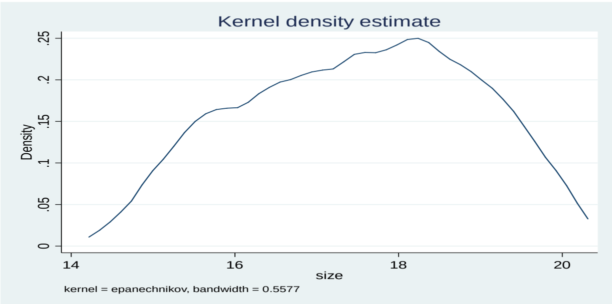


Fig. 4.3e: Kernel Density Test for INE

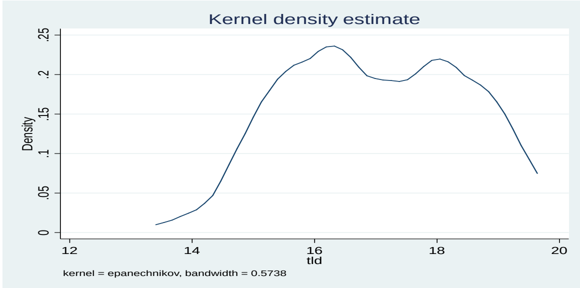
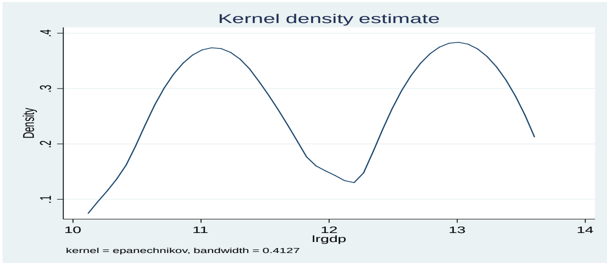


Fig. 4.3f: Kernel Density Test for CUS



Cross-sectional Dependence Test

Pesaran (2004) cross-sectional dependence (CD) examined cross-section correlations in the data since the data in the study. The outcome of Pesaran CD test and Breusch-Pagan LM test is shown on table 4

Table 4: Cross-section Dependence Test Results

Variables series tested	Pesaran CD	P-value	Breusch-Pagan LM	P-value
ROA equation	7.63	0.00	300.8	0.00
NPM equation	3.28	0.00	275.4	0.00
PER equation	3.04	0.01	277.6	0.00
INE equation	6.03	0.00	293.5	0.00
CUS equation	9.39	0.00	337.6	0.00

Source: Author's computations

From results, Peseran CD and Breusch-Pagan tests passed significance tests at 1 percent level ($p < 0.01$) confirming existence of cross-sectional dependence which indicate possibility of consistent but non-efficient regression estimates thus disclosing standard errors biased. Obviously, it is necessary to extend the tests to circumvent this result

Unit Root and Cointegration Tests

The heterogeneity and homogeneity characteristics of firms used for this study require panel unit root tests to check for stationarity of data and prevent incidence of "spurious" inference. For homogeneity test, Levin, Lin and Chu LLC is used while for heterogeneity, Im, Pesaran and Shin (IPS, 2003) and the Augmented Dickey-Fuller tests are conducted. The results of the Unit root tests are depicted on table 5

Table 5: Panel Data Unit Root Tests Results in levels

Variables	*Common unit process*	*individual unit root process*		
	LLC	IMP	ADF	PP-Fisher
ROA	-4.15	-0.31	159.21	98.98
NPM	-9.74	-1.78	97.47	111.1
PER	-157.00	-27.38	111.57	79.06

INE	-16.21	-4.06	85.11	169.1
CUS	-2.75	-0.27	79.74	89.12
RPT	-1.29	1.86	58.48	154.1
BID	-1.96	3.67	20.13	122.6
CED	-7.34	3.43	20.14	113.4
AUQ	-8.38	-3.25	131.6	179.2

Source:. *Note: ** and * indicate significant at 1% and 5 % levels respectively; IPS = Im, Pesaran & Shin; LLC = Levin, Lin & Chu*

From the results on the table given in levels, the critical test values are higher than test statistic confirming stationarity at their levels. The variables are integrated same order zero (i.e., I[0]). Based on result likelihood of convergence is established thereby facilitating long run cointegration tests to ascertain the dynamic relationship amongst variables using Kao test.

Table 6 presents outcome of the Kao cointegration tests result is shown on table 8 for each of the models as it permits lesser degrees of freedom and the result establishes significance of 5% in each model. Therefore, there is substantial confirmation of cointegration with long run relationship amongst variables thereby supporting deployment of dynamic panel data estimation analysis

Table 6: Panel Cointegration Test Result

Equation	Kao statistic	Prob.
ROA	-4.72	0.00
NPM	-4.71	0.00
PER	7.02	0.00
INE	13.14	0.00
CUS	2.10	0.04

*Note: **,* * indicates the rejection of the null hypothesis of no cointegration at the 0.01 and 0.05 level of significance respectively

Regression Analysis

Test of Panel Estimation Framework

To test varying conditions of data set and determine the most appropriate model for the study, Hausman test is carried out and result is depicted on table 7. From the result the Chi-Square values for the equations passes the significance test at 5 percent level. This implies that the fixed effects estimation procedure is the most efficient procedure for estimating the relationships since misspecification cannot occur when the fixed effect procedures are employed in the estimation.

Table 7: Result of Hausman Test

Model	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
ROA equation	12.41	6	0.019
NPM equation	12.25	6	0.016
PER equation	13.47	6	0.00
INE equation	21.11	6	0.00
CUS equation	13.37	6	0.00

However, previous analysis indicated cross-sectional dependence in dataset. Hence, fixed effect regression produces biased standard errors, thus making estimates inefficient. To address deficiency of Fixed effect model and the alternative GMM because of the cross-sectional correlation, the panel corrected standard error (PCSE) is used in estimation to accomplish better results This method estimates panel data regression whose cross-sectional errors are correlated by reporting heteroskedasticity-robust standard errors.

RPT, Governance and Balanced score card measure ROA

The influence of Related party transactions and Governance on return on assets (ROA) of the firms are presented table 8. From PCSE result which is more efficient shown on Table 8, adjusted R-squared is 0.825 disclosing over 82 percent of systematic variations in ROA for the companies was caused by Related party transactions. This indicates that model suitably explained the association between ROA, Related party transactions and Governance

Table 8: Related Party Transactions, Governance and ROA

The Variable	*Panel OLS*			*Panel Correlated Standard Errors*		
	Coefficient	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
RPT	0.015	0.91	0.36	0.013	7.26	0.00
BID	-0.007	-0.47	0.64	-0.007	-5.74	0.00
CED	-0.494	-1.72	0.09	-0.448	-15.02	0.00
AUQ	0.213	2.20	0.03	0.212	19.51	0.00
Adj. R-sq.	0.073			0.825		

The coefficient of related party is significant and positive implying RPT significantly improve efficiency in managing firms' assets. For Governance, board independence and CEO duality sufficiently and negatively impacted ROA thereby suggesting more independence of boards and CEO performance of dual roles weaken managerial efficiency in asset management for the firms. Conversely, audit quality significantly improves ROA of the firms.

The results of RPT and Governance on net profit margins are presented on table 11. Coefficient of variation is 0.585 confirming more than 58 percent variations in net profit margins of firms was explained in the model. The coefficient of RPT is positive and confirmed significance at 1 percent level indicating significant positive influence on net profit margins of sampled firms. Changes in RPT promotes significant shifts in the performance of the manufacturing firms net profit margins.

Table 9: Related Party Transactions, Governance and Net Profit Margin

Variable	*Panel OLS*			*Panel Correlated Standard Errors*		
	Coefficient	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
RPT	0.014	0.89	0.37	0.013	5.85	0.00
BID	-0.025	-1.77	0.08	-0.021	-11.50	0.00
CED	-0.542	-2.01	0.04	-0.492	-12.91	0.00
AUQ	0.208	2.28	0.02	0.192	12.81	0.00
Adj. R-sq.	0.019			0.585		

Governance measures board independence and Chief executive duality have negative coefficients and show that CED and board independence lead to decline in net profit margins. Conversely, increase in audit quality significantly improves net profit margins for the firms.

The result of effects of RPT and Governance on price earnings ratio (PER) of firms is presented in Table 10. PER defines quality of performance of firms in the market for investors. PCSE results showed goodness of fit statistic and adjusted R squared value of 0.653 thereby revealing over 65 percent variations in PER was captured in the model, indicating that the model has an impressive prediction capacity. Coefficient of RPT is significant at 1 percent level thereby indicating RPT exerts significant positive impacts on price earnings ratios of the companies.

Table 10: Related Party Transactions, Governance and Price Earnings ratio

Variable	*Panel OLS*			*Panel Correlated Standard Errors*		
	Coefficient	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
RPT	3.021	1.56	0.12	2.577	16.19	0.00
BID	0.794	0.45	0.66	0.857	8.17	0.00
CED	-38.869	-1.15	0.25	-30.943	-10.51	0.00
AUQ	-25.426	-2.23	0.03	-23.457	-15.83	0.00
Adj. R-sq.	0.017			0.653		

From Table 10, RPT has positive coefficient. High RPT transactions increases price earnings ratio.

From PCSE estimates reported on table 11, adjusted R squared is low at 0.212 thereby indicating only 21 percent of variations in internal efficiency of firms was explained by model. From result, RPT has a negative coefficient with internal efficiency and also significantly relate to internal efficiency at 1 percent level. Increase in RPT negatively influenced internal efficiency of the firms.

Table 11: Related Party Transactions, Governance and Internal Efficiency

Variable	*Panel OLS*			*Panel Correlated Standard Errors*		
	Coefficient	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
RPT	-4.937	-0.74	0.46	-1.083	-3.97	0.00
BID	-4.734	-0.77	0.44	-0.728	-3.17	0.00
CED	124.758	1.07	0.28	32.929	5.83	0.00
AUQ	38.676	0.99	0.33	12.892	5.26	0.00
Adj. R-sq.	0.016			0.212		

Source: Author's computation

The coefficient of BID is negatively significant and shows independence of boards limit internal efficiency of manufacturing firms. Conversely, result shows coefficients of CEO duality and audit quality are both positive. This, better audit quality enhances internal efficiency of the firms.

Finally, effects of RPT and Governance on customer loyalty of the firms is examined using PCSE result presented on table 12. The R-squared is high at 0.997, indicating 99 percent of systematic variations in customer loyalty behavior for firms was attributed to related party transactions and Governance attributes.

Table 12: Related Party Transactions, Governance and customer loyalty

Variable	*Panel OLS*			*Panel Correlated Standard Errors*		
	Coefficient	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
RPT	0.383	0.30	0.76	0.258	6.96	0.00
BID	0.930	0.80	0.43	0.681	20.65	0.00
CED	-1.186	-0.05	0.96	1.213	1.72	0.09
AUQ	-7.215	-0.96	0.34	-7.266	-52.99	0.00
Adj. R-sq.	0.348			0.997		

From the result RPT, BID and Audit quality passed the test at 1% level. The coefficient of CED failed significance test at 1 percent level. This finding revealed RPT exert significant positive impact on customer loyalty. Additionally, board independence has significant positive impact on customer loyalty. In particular, more independent boards tend to result in higher customer loyalty of manufacturing firms in Nigeria. The coefficient of audit quality is however negative and suggests that the quality of audit in the firms significantly lowers customer loyalty. Chief executive duality failed to significantly affect customer loyalty among the firms.

Robustness Test

Multicollinearity Test

The multicollinearity test is deployed to ascertain extent of correlation amongst independent variables. From table 13, VIF values are lower than 5.0, revealing coefficients for equations do not integrate and therefore reliable

Table 13: Variance Inflation Factor and tolerance levels of the independent variables

Variable	VIF	1/VIF
RPT	1.21	0.824935
BID	1.11	0.898832

CED	1.08	0.925767
AUQ	2.47	0.384933
Mean VIF	**1.22**	

Test of Hypotheses and Discussion of Findings

Hypothesis One: Related party transactions and Governance do not significantly affect Return on Assets of manufacturing companies in Nigeria

The PCSE estimates on Table 8 is used to ascertain the nature of relationship amongst variables. Coefficient of RPT is 0.015(0.015<0.05) with p-value that is less than 0.01. coefficient of variable is positive and passed passes significance test at 1 percent level. Increase in RPT increases ROA. For Governance, variables also pass the tests at 1% level. BID and CEO however have negative significant relationships with Return on Assets. Higer independence of the board and CEOI duality decreases ROA. However, Audit quality has significant positive relationship with returns on asset The higher audit quality of the firms the higher returns on asset. In sum enhanced audit quality improves management efficiency and returns on assets

Hypothesis Two: Related party transactions and Governance do not Significantly affect Net profit margin of manufacturing companies in Nigeria

PCSE estimates in Table 9 revealed coefficient of RPT is 0.013 and p-value < 0.01. The variables passed the significance test at 1 percent level. This revealed RPT influenced positively Net profit margin of manufacturing companies in Nigeria. In terms of Governance, board independence and Chief executive duality exerts significant negative impact on Net profit margin. The higher board independence and chief executive duality the lower the Net profit margin. Contrastingly, audit quality has significant positive effect on Net profit margin indicating increased audit quality improves net profit margin of the firms examined. Based on findings, null hypothesis which states RPT and Governance do not significantly affect Net profit margin is reject and conclude that board independence, chief executive duality and audit quality exert significant effects on Net profit margin

Hypothesis Three: Related party transactions and Governance do not significantly affect internal efficiency of manufacturing companies in Nigeria

The PCSE result on table 11 disclosed RPT has a negative coefficient of -1.83 with p-value<0.01. RPT and Governance variables passed significance test at 1 percent level. Hence, null hypothesis is rejected, which implies Related party transactions and Governance n significantly affect internal efficiency of manufacturing companies in Nigeria. The conclusion is that there is significant effect of related party transactions on internal efficiency. In terms of Governance, Board independence exerts negative significant impact on internal efficiency while CEO duality and audit quality exert significant positive impact on internal efficiency hence the hypothesis which states that Governance does not significantly affect internal efficiency is rejected.

Hypothesis Four: Related party transactions and Governance do not significantly affect price earnings ratio of manufacturing companies in Nigeria

The PCSE outcome in Table 10 revealed RPT has a coefficient 2.577 with p-value <0.01and passes significance test at 1 percent level. Hence, the null hypothesis is rejected, which implies Related party transactions affects positively internal efficiency of manufacturing companies in Nigeria. In terms of governance all variables passed the significant test at 1% level. Board independence has a positive significant relationship while CEO duality and audit quality have negative significant relationship with PER indicating increase in the duo increases price earnings ratio. Contrastingly, increase in board independence reduces price earnings ratio. In testing hypothesis, the null hypothesis which states Governance does not affect price earnings ratio is rejected confirming significant effects.

Hypothesis Five: Related party transactions and Governance do not significantly affect Customer loyalty of manufacturing companies in Nigeria

the PCSE results in Table 12 confirmed coefficient of RPT is 0.258 (p < 0.01). The coefficients passed the significance test at 1 percent level. Thus, the null hypothesis is rejected demonstrating that Related party transactions have positive significant effects on Customer loyalty of manufacturing companies in Nigeria. For Governance, variables also passed significant tests at 1% level. In particular, board independence and chief executive duality have positive significant relationships with customer loyalty indicating more independent boards tend to result in higher customer loyalty of manufacturing firms in Nigeria, However, audit quality has negative significant coefficient with customer loyalty. Result revealed null hypothesis which states governance does not affect Customer loyalty is rejected and confirmed substantial effect of governance on customer loyalty.

5.0 Conclusion

In this study, effects of Related party transactions, Governance on Corporate performance was examined using the balanced score card. Using panel data estimation framework, cross-sectional dependence was discovered necessitating adoption of panel correlated standard errors estimate technique. Based on outcome of the analysis, the conclusion drawn are as follows:

- Related party transactions have significant positive effects on Returns on Asset, Net profit margin, price earnings ratio and customer loyalty of Manufacturing companies in Nigeria. Increase in RPT increases the performance of ROA, Net profit margin, price earnings ratio and customer loyalty while RPT has negative relationship with internal efficiency thus increase RPT decreases internal efficiency of the firms

- Board independence increases customer loyalty and price earnings ratio simultaneously reducing internal efficiency, Net profit margin and return on assets
- Chief executive duality has significant negative impacts on ROA, Net profit Margin and price earnings ratio implying CEO duality reduces the performance variables. Contrastingly, CEO duality improves internal efficiency and customer loyalty with significant positive effects.
- Audit quality has positive correlation with Net profit margin, Return on Assets and internal efficiency implying improved quality of audit improves the variables while correspondingly reducing price earnings ratio and customer loyalty

Recommendations

The objective was to determine relationship of related party transaction, Governance on Corporate governance using the balance score card. The study revealed significant positive impacts of RPT on ROA, NPM, PER and customer loyalty but negative impact on internal efficiency. Recommendations are made from result as follows:

- The recommendation is that although this study aligns with efficient transaction hypothesis that RPT can be used for the economic benefits of the firm care should be taken to address the internal inefficiencies created by RPT as indicated by the findings of this study. Further, increases in ROA, NPM and Price earnings ratio can also point to earnings management issues where managers could bloat the earnings to boost bonuses and therefore the recommendation is that there is need for regulators and auditors' scrutiny to mitigate the effects of earnings management if any
- Board independence increases customer loyalty and price earnings ratio simultaneously reducing internal efficiency, Net profit margin and return on assets. This findings of negative effect NPM and ROA indicates that board independence is effective in working against earnings management by preventing declaration of false profit. However, new initiatives should be taken to address the operational inefficiencies created while sustaining customer loyalty.
- Chief executive duality has significant negative impacts on ROA, Net profit Margin and price earnings ratio implying CEO duality reduces the performance variables. Contrastingly, CEO duality improves internal efficiency and customer loyalty with significant positive effects. From the Governance perspective, we interpret the negative association of CEO duality to reduction in ROA, NPM and PER to imply the effectiveness of the variable in reducing earnings management associated with declaration of false profit. Falsification of profits declared to earn increased bonuses are mitigated by the CEO also serving as the board chairman. Also, the reduction of profit caused by CEO duality could be interpreted to indicate sub-optimal decisions because of the overbearing influence of the CEO. Based on this, efforts should be made to improve efficiency of usage of assets to improve and sustain the internal efficiencies and customer loyalty as this will ultimately increase profits. However, based on negative association of CEO duality with reduced profit margin, price earnings ratio the Chairman of the board position should be separated from the function of the CEO to ensure independence and checks and balances while new strategies should be formulated to sustain customer loyalty and internal efficiency

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