Corporate Governance System and Financial Performance of Quoted Insurance Companies in Nigeria

EBERE, Chukwuma Christopher; IBANICHUKA E.A.L. & OGBONNA G.N

Department of Accounting
Faculty of Management Sciences,
University of Port Harcourt, Port Harcourt, Nigeria

ABSTRACT
This study empirically investigate the corporate governance system with the purpose of finding out the relationship that exist between board size, board composition, earnings per share (EPS) and Return on Assets (ROA) of quoted insurance companies in Nigeria from (2008 to 2015) respectively. In order to accomplish the purpose of the study, data was sourced from 14 insurance companies and analyzed using Pearson Correlation and Multiple regression analyses. Our study shows that board size had a positive and statistically significant relationship with Return on asset and Earnings per share (EPS). Furthermore, our findings showed that there was a positive and statistically significant relationship with board size and earnings per share. From the findings, we conclude that board size and board composition contribute significantly to the financial performance of insurance companies in Nigeria. We therefore recommend that; regulators must ensure that competent independent members are well represented in the board of directors, and insurance companies should adhere strictly to the corporate governance code of conduct as it affects board size and board composition to achieve maximum performance.

Keywords: Corporate governance, insurance companies, board size, board composition, financial performance

INTRODUCTION
The choice of the insurance sector for this study is hinged on the fact that, there is need to find out and access the well being i.e. the performance(financial) of insurance sector in Nigeria since after the directive by the federal government recapitalization of the insurance companies. The recapitalization was aimed at improving the overall wellbeing of insurance companies in the sector. “Before the recapitalization of this sector in year 2006, it was faced with decaying goodwill that investors have no trust and confidence in the industry. So Eight year (2008 – 2015) after the recapitalization is a sufficient time to evaluate the performance of the industry to ascertain if it has achieved its recapitalization goals (Ibrahim and Abubakar, 2011).”

The highest challenge to humanity on this earth from time past has been management of risks and uncertainties that result in financial and material losses, despite advancement in areas of science and technologies over the years. In a bid to handle these challenges, insurance which is a product of human mind has been accepted everywhere in the world as an essential element used in the safeguard of any personal and material economy. Insurance companies serves as the meddle person between the household and the financial institutions are mob up cash and make it available for the business sector to borrow for investment. Insurance is a contract that happens between two persons or parties (insurer and insured) in which the insurer promises to indemnify the insured in the case of lose. Insurance is a method of guiding
financial loss and it is a type of risk management strategy that is mostly utilized against the risk of uncertainties and contingencies (https://en.wikipedia.org/wiki/insurance).

The insurance sector is understood to be the prime mover of the economy of any nation including Nigeria, through its operations. It is the request of the National Insurance Commission (NAICOM) that the sector unveil those good qualities that would enhance Nigeria economic growth. A good response to this request is the introduction and practice of corporate governance in the insurance sector which in the context of this study is life and non-life insurances listed in Nigeria stock exchange. Life insurance business render services such as (life, term insurance, keyman assurance, group life, annuity, endowment policy, school fees guarantee scheme, deposit administration, children education, individual savings and protection plan and micro personal pension plan) payment is by claims. While non-life or general business services insurance undertake programmes such as (comprehensive car insurance, marine cargo, marine hall, goods on transit, fire and special perils and industrial all risk) settlement to the clients is by indemnity.

Corporate governance in insurance is associated to be the manner or ways in which insurance companies are handled, managed, controlled and directed. It encompasses the manner by which the board as well as junior members of the management team are made to be liable for the conducts which are corporate, transparency, discipline, social responsibility, fairness and honesty. This need for this research arises as the issue of financial mismanagement has eaten up corporate organizations worldwide of which Enron, Rank Xerox and Africa insurance is among. This crisis occurs due to lack of good corporate governance within the organizations.

In Nigeria, many insurance companies have wind-up due to poor corporate governance of which board crises is among. Any organization that has proper and good corporate governance established tends to flourish and be successful as there will be accountability and transparency.

Although, several studies conducted on the topic are centered on developed countries like Canada, German. Moreover, not much empirical work has been carried out in developing nations like Ghana, (Tornyeva & Wereko, 2012) and Kenya (Wanyama & Olweny, 2013) and less in Nigeria. These two African studies limited their scope to five (5) years (2007-2011) & (2005-2009) respectively. Recent studies on insurance in Nigeria not withstanding, by (Momoh & Ukpong 2013, and Yusuf et al, 2009). Consequently, there is an existing gap in knowledge which is to be filled by this study. In a bid to fill the gap, this study intends to analyze “corporate governance with (Board size, Board composition and Audit Committee) and financial performance with (Return on Assets (RoA) and earnings per share (EPS) and the study period for eight years for the first time in Nigeria.

It is on this premise that the researcher intends to investigate and examine the impact of corporate governance on financial performance of quoted insurance companies from 2008-2015.

Research Problems

“As an importance element of the financial system, insurance plays a vital role in the Nigeria fast growing economy. Notwithstanding its numerous contributions, this sector is faced with some problems that have hindered its progress and goal actualization. This problems ranges from: ethical issues, poor premium management, poor labour practices, weak regulatory mechanism and enforcement mechanism (Akingbola 2010). Also insurance in Nigeria lacks proper code of conduct on how its activities should be carried out and lack of ethical behavior in insurance business practice (Soares, 2014 and Irukwu, 2009).

To add voice to the poor performance of insurance practice, Nduna (2013) opined “that lack of bank account by citizens hinders the collection of life insurance premium which has also slowed down development of insurance in Africa. In year 2003, three top officers of Skanda insurance company in Sweden were interrogated for not utilizing properly, the corporate assets (Momoh and Ukpong, 2013). It is in the light of the identified problems above, and to bridge the gap in body of existing literature, an empirically investigation is carried out to ascertain corporate governance impact on financial performance of quoted insurance companies in Nigeria.

Aim And Objectives

This research has as its aim the empirical investigation of corporate governance impact on financial performance of quoted insurance companies in Nigeria. While specifically it objectives are as follows:
1. To find if board size can affect return on assets of quoted insurance companies in Nigeria.
2. To ascertain whether board size will affect Earning per share (EPS) of insurance companies in Nigeria.
3. To determine the extent board composition affects return on asset.
4. To find out the extent board composition affects return equity.

1.3 Research Hypotheses
The following hypotheses were formulated:

\[ H_0_1: \] Board size does not significantly affect Return on assets of quoted insurance companies.

\[ H_0_2: \] Board size as a dimension of corporate governance does not significantly affect earnings per share of quoted insurance companies.

\[ H_0_3: \] Board composition does not significantly affect Return of assets of quoted insurance companies.

\[ H_0_4: \] Board composition does not significantly affect Earnings per share (EPS) of quoted insurance companies.

2.0 THEORETICAL FRAMEWORK
The stewardship theory, agency theory and resource dependency theory are the based theories on which this research is carried out.

**Stewardship Theory:** After an academic presentation by Donaldson and Davids (1997), this theory came up and it assumes that the shareholders and management interest are aligned; that management are encouraged to take actions that would x-ray the state of being and performance of the company. This theory further emphasis that there is a steward who safeguards and uplifts shareholders wealth through firms actions arising from performance. In so doing the stewards usage duties are optimized. They are viewed as representative of the shareholder performing duties that are of interest and beneficial to the shareholders. The stewardship idea is of the view that stewards are fulfilled and encouraged when the success of the organization they represent is achieved. Furthermore, the stewardship theory is of the view that there should be unification of the duties. This theory supports this study because both the board and foreign ownership interest must be adequately represented in the organization.

**Resource Dependency Theory:** This theory as propounded by Pfeffer (1973) and Pfefer and Salancik (1978) tries to explain the various roles performed by managers in a bid to protect and make resources available which in turn improve the performance of the organization. For companies to meet up with their objectives and perform adequately, resources such as finance, technical communication, human information must be available to collaborate with. Thus, Daily et al (2003) said that when there is access to resources that the companies will perform well and there will be high chances for growth and survival. Organizations are independent to an extent, but their transactions go a long way to affect the financial performance of another adequately or inadequately. Hence, the reasons for organization to maintain harmony at all levels, essentially at the board.

While (Johannisson and Huse, 2000) say that boards do all these activities with the aid of social and professional as well as interlocking directorates as posited by (Lang and Lockhert, 1990). This theory is inline with this study because it agrees with what the study aims at achieving.

**Agency Theory:** Agency theory explains the agent and principal agreement or relationship in which there is delegation of duty to the agent by the principal. The principal assign an agent to work and carry out business on his behalf. The agent may yield to self ambition, thereby deviating from the objectives and demands required of principal and agent relationship not minding and understanding why the risk was ventured into. According to (Bhimani, 2008) not minding such drawbacks, this theory was initiated purposefully as a distinction between the ownership and control of an organisation. While (Clarke, 2004) posited that agents are manipulated by the principal using lay down rules with the objective of having shareholders value.

**Board Size/Composition:** The board of a company can be affected negatively or positively by the number that constitute the directors. The board size helps to measure how valuable and relevant it is as noted by Jenson (1993). The real board size is difficult to know, because in choosing the directors, many
factors are considered. According to Lipton and Lofsoh (1992), to achieve good coordination, seven (7) to nine (9) directors are needed whereby accountability and faster decision will improve the performance of the firm. Jensen (1993) is of the view “that for a company to benefit from sound decision making it must have a bigger board of directors where greater experts will assist in making sound decisions and at the same make things difficult for CEOs that like to influence much powers.” Lipton and Lorsch (1992), and Jensen (1993) do not agree leading them to propose that boards that are bigger in terms of size, are less effective and manipulatable by strong CEOs to their demands

**Firm Performance Measures**

The analyst has all it takes for a research work because of the justification and interest in providing the key indicators for performance allowed to measure companies performance. Profitability, efficiency, leverage and liquidity are always regarded as indicators of performance. In the views of Bourne and Franco (2003) for performance to be good enough, that must have basic features such as broad based measure, provide feedback, take action on results and structured understanding of strategy. The study centred on the measures that are very strategic for the good performance of the company. Hence, this study would be measuring financial performance of quoted issuance companies considering “Return on Asset (ROA) and Earnings per share (EPS).”

The ROA shows the extent to which the asset or resources of an organization has yield the desired returns. It evaluates the performance of management in the utilization of the company’s assets. Return on Asset is express as

\[
\text{Return on Asset} = \frac{\text{EBIT}}{\text{Average Total Assets}} \quad \text{– in book value.}
\]

While, Earnings per share show the percentage returns on an investment. It is express as Net profit after tax/ No of shares issue.

**Fig. 1: Corporate Governance System and Financial Performance of Insurance Companies Researchers Conceptualization**

### 3.0 DATA AND METHODOLOGY

The study made use of output from 14 quoted insurance companies in Nigeria, covering 2008-2015. The “dependent variable (ROE and EPS) and the independent variable (Board size and Board Composition)” were analyzed with Pearson correlation which gives the strength of the relation and multiple regression which helps for predicting.
Table 1: Correlation Matrix for Earnings Per Share, Board Composition and Board Size

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>BdComp</th>
<th>BdSize</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>EPS</td>
<td>1.000</td>
<td>.251</td>
<td>.217</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td>.251</td>
<td>1.000</td>
<td>-.329</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>.217</td>
<td>-.329</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>EPS</td>
<td></td>
<td></td>
<td></td>
<td>.004</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td></td>
<td></td>
<td></td>
<td>.011</td>
<td>111</td>
</tr>
<tr>
<td>N</td>
<td>EPS</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>111</td>
<td>111</td>
<td>111</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1 above shows the Pearson Correlation results for Earnings Per Share (EPS), Board Size (BS) and Board Composition (BC). The results indicate “that there is a positive correlation between board composition and earnings per share of about 25.1% with the implication that increasing board size will lead to increase in earnings per share.” Furthermore, board size also reported a positive correlation with earnings per share of about 21.7%.

However, we note that the level of the positive correlations of 25.1% and 21.7% respectively for Board Size (BS) and Board Composition (BC) as reported above are quite low which is an indication that there are other variables driving the changes in earnings per share beyond the corporate governance mechanisms covered in the study.

Table 2: Correlation Matrix for Return on Asset, Board Composition and Board Size

<table>
<thead>
<tr>
<th></th>
<th>RoA</th>
<th>BdComp</th>
<th>BdSize</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>RoA</td>
<td>1.000</td>
<td>.230</td>
<td>.208</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td>.230</td>
<td>1.000</td>
<td>-.335</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>.208</td>
<td>-.335</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>RoA</td>
<td></td>
<td></td>
<td></td>
<td>.007</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td></td>
<td></td>
<td></td>
<td>.014</td>
<td>112</td>
</tr>
<tr>
<td>N</td>
<td>RoA</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdComp</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 above shows the Pearson Correlation results for Return on Assets (RoA), Board Size (BS) and Board Composition (BC). The results indicate “that there is a positive correlation between board composition and Return on Assets of about 23% with the implication that increasing board size will lead to increase in Return on Assets.” Furthermore, board size also reported a positive correlation with earnings per share of about 20.8%. Thus, an increase in the number of non-executive directors in the Board will boost Return on Assets of insurance companies in Nigeria.
However, we note that the level of the positive correlations of 23% and 20.8% respectively for Board Size (BS) and Board Composition (BC) as reported above are quite low which is an indication that there are other variables driving the changes in Return on Assets beyond the corporate governance mechanisms covered in the study.

Table 3: Coefficients of Regression for Earnings Per Share, Board Composition and Board Size

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-6.681</td>
<td>1.629</td>
<td></td>
<td>-4.101</td>
</tr>
<tr>
<td>1</td>
<td>BdComp</td>
<td>6.825</td>
<td>1.759</td>
<td>.362</td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>.357</td>
<td>.099</td>
<td>.336</td>
</tr>
</tbody>
</table>

a. Dependent Variable: EPS

\[ R = 0.404; R^2 = 0.164 \]

The results show that the coefficient of correlation (R) between board composition, board size and Earnings Per Share is 40.4% with the implication that board size and board composition increase earnings per share of insurance companies in Nigeria. Furthermore, the coefficient of determination (R^2) indicates a value of 0.164. This implies that taken as a unit, board composition and board size can only be relied on to explain 16.4% of the variations in Earnings Per Share. The coefficients of regression (B) for the study is shown in Table 3 above. The results above indicate that the coefficient of regression (B) reported for board size, board composition and Earnings Per Share respectively are 6.825 and 0.357.

Table 4: Coefficients of Regression for Return on Assets, Board Composition and Board Size

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-2.104</td>
<td>.545</td>
<td></td>
<td>-3.864</td>
</tr>
<tr>
<td>1</td>
<td>BdComp</td>
<td>2.101</td>
<td>.585</td>
<td>.337</td>
</tr>
<tr>
<td></td>
<td>BdSize</td>
<td>.114</td>
<td>.033</td>
<td>.321</td>
</tr>
</tbody>
</table>

a. Dependent Variable: RoA

\[ R = 0.380; R^2 = 0.144 \]

The results show that the coefficient of correlation (R) between board composition, board size and Return on Assets is 38% with the implication that increase in board size and board composition will lead to increase in the Return on Assets of insurance companies in Nigeria. Furthermore, the coefficient of determination (R^2) indicate a value of 0.144. This implies that taken as a unit, board composition and board size can only be relied on to explain about 14.4% of the variations in Earnings Per Share. The coefficients of regression (B) for the study are shown in Table 4 above. The results indicate that the coefficient of regression (B) reported for board size, board composition and Return on Assets respectively are 2.101 and 0.114.
Hypothesis Testing
Hypothesis One
Board composition does not significantly affect the Earnings Per Share of Insurance companies in Nigeria.
From the summary results on table 3 above, we can reject the null hypothesis of no significant relationship between board composition and earnings per share of insurance companies in Nigeria. This is because the computed t-statistic of 3.880 is >1.960. Thus, we conclude that board composition does significantly affect the Earnings Per Share of Insurance companies in Nigeria.

Hypothesis Two
Board size does not significantly affect the Earnings Per Share of insurance companies in Nigeria
From the summary results on table 3 above, we can reject the null hypothesis of no significant relationship between board size and earnings per share of insurance companies in Nigeria. This is because the computed t-statistic of 3.604 is >1.960. Thus, we conclude that board size does significantly affect the Earnings Per Share.

Hypothesis Three
There is no significant relationship between Board composition and the Return on Assets of Insurance companies in Nigeria
From the summary results on table 4 above, we can reject the null hypothesis. This is because the computed t-statistic of 3.589 is >1.960.

Hypothesis Four
There is no significant relationship between Board size and the Return on Assets of Insurance companies in Nigeria.
From the summary results on table 4 above, we can reject the null hypothesis. This is because the computed t-statistic of 3.414 is >1.960.

CONCLUSION AND RECOMMENDATIONS
Resulting from the findings of this study, we hereby conclude that there is a significant impact board composition on Earnings per share and Return on assets of insurance companies in Nigeria. Thus, having a board of directors with a larger proportion of non-executive members will boost the financial performance of the firm. This we conclude is as a result of the fact that board members who are independent are more likely not to be swayed by internal politics and wrangling within the firm and therefore will make contributions that will favour the company instead of individuals.

The research also concludes that the board size is vital determinant of the financial performance of insurance companies in Nigeria. Thus, within certain limits, a large board of directors improves Return assets and Earnings per share which is proxies of financial performance. For example, a large board of directors with competent and experienced members will have a wealth of knowledge to draw from for the success of the company.

Given the above conclusions, it is recommended that regulators ensure that competent independent members are well represented in the board of directors of insurance companies operating in Nigeria.

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