Evaluation of Corporate Governance Practices on Financial Performance of Selected Insurance Firms in Nigeria

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Abstract: In Nigeria, particularly in the insurance industry, the issue of corporate governance practices came into life with the increasing trend of frauds, financial scandals, bankruptcies, non-claims settlements, and other unethical related practices. Therefore, the intensity at which corporate governance practices affect firm's performance remains unclear because of the predominant theoretical perspective in explaining the positive implications of corporate governance practices on financial performance. Thus, the research objective of this study is to evaluate the effect of corporate governance practices on financial performance with specific reference to some selected insurance companies in Nigeria. The study adopted ex-post facto research designs. Nine insurance firms were purposively selected to be included in this study. The hypothesis was tested using secondary data from annual reports of selected insurance companies. The test of the hypothesis revealed R^2 of 0.529. This depicted a significant influence of independent variable (corporate governance practices) on the dependent variable (profitability) and the p-value < 0.05. The study recommended among others that there should be corporate accountability movement in the insurance industry through well framed mandatory corporate reporting covering all aspects of social environment and economic performance. This will be pursued logically by having a good corporate code of governance to give direction.

Keywords: Corporate governance; financial performance; insurance Nigeria

JEL Classification: M13; M21

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1. Introduction

Organisations are established to facilitate the economic, political, social and cultural well-being of individuals or groups in the society (Ebitu, 2012). Thus, every business entity including those in the insurance industry is purposive (Transparency International, 2009). Therefore, they are to achieve set goals and objectives and the extent to which they do this depends on how far they apply and comply with rules and regulations in their areas of operations and domain of transaction which will foster their integrity (Aida, 2013).

The development of insurance market has been seen to have mutual link to changes in terms of economic, social, political, technological, cultural, religious and demographic forces. All these forces, according to Odia (2015), have been described as globalization drivers. However, insurance firms and other financial institutions play a significant role in rebuilding the lost trust of potential customers in their services. It has become noticeable that insurance patronage is largely dependent on trust and confidence. Evidence has shown from past studies with respect to this allusion (such as Olowokudejo & Ajemunigbohun, 2015).

Corporate integrity is also measured by what a company does or does not do even when no one is looking. Integrity is violated when corporate governance policies and procedures are disregarded in the quest for personal and corporate gains (OECD, 2015). Previous research (Aida, 2013) shows that there was an ongoing debate on the appropriate approach to assessing and analyzing corporate governance practices. Most of the studies on the relationship between corporate governance and organizational performance indicate a strong and very weak relationship (Momoh & Ukpong, 2013; Aida, 2013; Soba, Erem & Ceylan, 2016). However, the scholars agreed that corporate governance ensures reliability of financial reporting, involves audit committee with the existence of code of corporate governance. Most of these studies (Momoh & Ukpong, 2013; Aida, 2013; Soba, Erem & Ceylan, 2016) did not explore relationship between corporate governance and profitability of firms in insurance industry in Nigeria. This study tends to fill the gap.

1.1. Objectives Of The Study

The main objective of the study is to evaluate the effect of corporate governance practices (board size, firm size and director's remuneration) on financial performance (profitability) of insurance companies in Nigeria.

.2. Research Questions

To what extent do corporate governance practices (board size, firm size and director's remuneration) have effect on financial performance (profitability) of insurance companies in Nigeria?

1.3. Research Hypotheses

H_o: Corporate governance practices (board size, firm size and director's remuneration) do not have effect on financial performance (profitability) of insurance companies in Nigeria.

2. Literature Review

2.1. Concept of Corporate Governance

The term *corporate governance* is uniquely complex and multi-faceted (Momoh & Ukpong, 2013). It has been looked at and defined variedly by different scholars and practitioners. Jose and Teressa (2015), defined corporate governance as a system of making directors answerable to shareholders for effective management of the company in their best interest and the shareholders along with concern for ethics and values. It is the management of companies through the board of directors that hinges on complete transparency, integrity and accountability.

Oyejide and Soyibo (2001) view corporate governance as the relationship of the organisation with shareholders; or in the wider sense, as the relationship of the organisation with society as a whole. Lemo (2010), states that corporate governance is a body of the rules of the game by which business entities are managed and supervised by the board of directors in order to protect the interest and financial stakes of shareholders that are far removed from the management of the firm.

In Nigeria, corporate governance has been given priority by all sectors of the economy. For example, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies. The Bankers' Committee also set up a sub-committee on corporate governance for banks and other financial institutions in Nigeria. This is in recognition of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006). Corporate governance covers the processes and structures by which organisations and other institutions are directed and managed in order to improve long term share holders' value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders (Jenkinson & Mayer, 1992 cited in Fadun, 2013).

Financial scandals, fraud and the recent collapse of major business organisations in the USA, South East Asia, Europe and Nigeria such as Adelphia, Enron, World Com, Commerce Bank and recent past XL Holidays have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. This has brought to the fore once again, the need for the practice of good corporate governance (Aida, 2013).

Effective corporate governance reduces „*control rights* shareholders and creditors confer on manager directors, increasing the probability that managers invest in positive net present value projects (Shleifer & Vishny, 1997 cited in Soba *et al.;* 2016). Thus, the relationships of the board and management, according to Al- Faki (2006), should be characterized by transparency to shareholders, and fairness to other stakeholders. This will in effect mitigate the agency cost as predicted by Jensen and Meckling (1976) cited in Fadun (2013).

2.2. Mechanisms of Corporate Governance

There are many factors or variables that may constitute yardsticks by which corporate governance can be measured in an organisation. Some of these mechanisms are briefly discussed below:

2.2.1. Board Size

Limiting board size to a particular level is absolutely to improve the performance of a firm because the benefits by larger boards of adequate monitoring are outweighed by the poorer communication and decision making of larger groups. Empirical studies on board size seem to provide the same conclusion: a fairly clear negative relationship appears to exist between board size and firm value (Mak & Kusnadi, 2005). A large board is likely not to be effective in substantive discussion of major issues among directors in their supervision of management. Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the CEO to have influence. When a board is very large, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organisation. Yermack (1996), with Chinese data, also find negative correlation between board size and profitability. Eisenberg, Sundgren and Wells (1998); Mak and Kusnadi (2005) also report that small size boards are positively related to high firm performance. Mak and Kusnadi (2005), using sample of firms in Malaysia and Singapore, find that firm valuation is highest when board has 5 directors, a number considered relatively small in those markets. In a Nigerian study, Sanda *et al*.; (2003) report that firm performance is positively correlated with small, as opposed to large boards.

2.2.2. Board Composition

According to Young (2003), independence of director, is intuitively encouraging because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay package, challenge the reason behind a proposed merger or bring to bear the scepticism necessary for effective monitoring. The proponents of agency theory say that corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. However, Gompers, Ishii and Metrick (2003), submit that the

evidence of a positive association between corporate governance and firm performance may have little to do with the agency explanation.

Empirical studies of the effect of board membership and structure on firm value or performance generally show results either mixed or opposite to what would be expected from the agency cost argument. Some studies find better performances for firms with boards of directors dominated by outsiders (Mak & Kusnadi, 2005), while Pinteris (2002) find no such relationship in terms of accounting profit or firm value. Also, Forsberg (1989) cited in Fadun (2013), find no relationship between the proportion of outside directors and various performance measures.

In the same vein, Hermalin and Weisbach (1991) and Bhagat & Black (2002) find no correlation between the degree of board independence and four measures of firm performance, controlling for a variety of other governance variables, including ownership characteristics, firm and board size and industry. They find that poorly performing firms were more likely to increase the independence of their board. Baysinger & Hosiansson (1990) and Klein (2002), find that firm performance is insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance is mixed. Studies using financial statement data and Tobin's Q find no link between board independence and firm performance, while those that used stock returns data find a positive relationship. In the case of a sample of 228 small, private firms in China Liang & Li (1999) cited in Fadun (2013), report that the presence of outside directors is positively associated with higher returns on investment.

2.2.3. Audit Committee

The Companies and Allied Matters Act (1990) states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/directors and shareholders) in place. The members are expected to be conversant with basic financial statements. The committee has the following objectives:

(i) Increasing public confidence in the credibility and objectivity of published financial statements;

(ii) Assisting the directors, especially the non- executive directors, in meeting their responsibilities of financial reporting;

(iii) Strengthening the independent position of a firm's external auditors by providing an additional channel of communication.

The committee is expected to perform the following functions:

(i) Provision of oversight functions on effective internal control, reliable financial reporting, which must comply with regulatory requirements and corporate code of conduct. This function is being exercised on behalf of shareholders;

(ii) Review not only external auditors' reports but also, the report of the internal auditor;

(iii) Maintain a constructive dialogue with external auditors and the board in order to enhance the credibility of financial disclosures;

Klein (2002), reports a negative correlation between earnings of management and audit committee independence. Anderson, Mansi & Reeb (2004) find that entirely independent audit committees have lower debt financing costs.

2.2.4. Chief Executive Officer (CEO) Status

Several studies (such as Fadun, 2013; Aida, 2013) have examined the separation of CEO and chairman of the board, positing that agency problems are higher when the same person occupies the two positions. Using a sample of 452 firms in the annual Forbes Magazine rankings of the 500 largest USA public firms between 1984 and 1991, Yermack (1996) shows that firms are more valuable when the CEO and the chairman of the board positions are occupied by different persons. However, Mak & Kusnadi (2005), do not find a positive relation on the separation of the position of CEO and board chair.

2.3. Issues of Corporate Governance in Nigeria

According to Adebayo et al. (2014), good corporate governance has become a welcome international practice, which every nation is embracing. Realizing the need to align with international best practice, the Securities and Exchange Commission (SEC) in collaboration with Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member committee on June 2000 in Nigeria, which was headed by Peterside Atedo (www.naicom.com, 2017). The committee was required to identify weakness in the current corporate governance practices in Nigeria and work out necessary changes that will enhance corporate governance practices in the country. Members of the committee were carefully selected to cut across all sectors of the economy including members of professional organisations, organized private sector and regulatory agencies etc.

The terms of references of the committee are to:

1. Identify weakness in the current corporate governance practices in Nigeria with respect to public companies;
2. Examine the practice in other jurisdictions with a view to adopting international best practices in corporate governance in Nigeria;
3. Make recommendations on necessary changes in current practices;
4. Examine any other issue relating to corporate governance.

The committee drafted a code of corporate governance on 12th July 2001, which

was circulated in several newspapers and was further reviewed at three locations across Nigeria namely Lagos, Abuja and Port Harcourt. Comments and contributions were made from various stakeholders of whom a good number of items were accepted and subsequently included into the committee's final report (www.naicom.com, 2017).

The committee's final report, which identified code of best Practice on Corporate Governance in Nigeria, was approved by the Boards of the Security and Exchange Commission (SEC) being the regulatory authority of Corporate Affairs Commission and the regulatory authority of companies in Nigeria. The main target of the code is the Board of Directors as leaders of corporate organisations as well as the responsibilities of other stakeholders, including shareholders and professional bodies (www.naicom.com, 2017).

Table 1. Summary of Studies on Corporate Governance

Authors	**Country and Period**	**Method**	**Bank Financial Performance Indicator**		**Corporate Governance Factors**	**Key Findings**
Abdullahi *et al.* (2017)	Nigeria (2006 - 2009)	Panel Regression Analysis	Return on Asset		-Board size -Audit Committee -Firm size -Management change	Positive relationship between board size and ROA. Negative relationship between audit committee size and ROA, Negative relationship firm size and ROA, Positive relationship management change and ROA.
Salim *et al.* (2016)	Australia (1999-2013)	Data Envelopment Analysis andTruncated Regression Analysis	Inputs -Interest expenses –Non-interest expenses	Outputs -Interest income – Non-interest income	-Board size, -Board independence, -Number of board meetings, -Number of committee meetings, -Ownership concentration	Positive relationship with board size and number of committee meetings.

Al-Sahafi *et al*. (2015)	Saudi Arabia (20092012) (11 Banks)	Panel Regression Analysis	-Return on assets, -Return on equity, -Tobin Q	-Board size, -Board Independence -CEO Status, -Audit committee, -Ownership concentration	Positive relationship with board size and board independence. Negative relationship with ownership concentration.
Haider *et al*. (2015)	Pakistan (2008-2012)	Correlation and Linear Regression Analysis	-Return on assets, -Return on equity, -Earnings per share	-Board size, Number of meetings, -Audit committee size	Positive relationship with all corporate governance variables.
Arouri *et al*. (2014)	GCC Countries (2010) (58 Banks)	Multivariate Regression Analysis	Tobin 's Q	-Family ownership, -Institutional ownership, -Foreign ownership, -Government ownership, -Board size, -CEO duality,	Positive relationship with family, institutional and foreign ownership.
Al-Amarneh (2014)	Jordan (20002012) (13 Banks)	Panel Regression Analysis	- Return on assets, -Operating efficiency ratio	-Ownership concentration - Institutional ownership, - Foreign ownership, - Board size, -CEO duality,	Positive relationship with board size and ownership concentration. Not significant with institutional and foreign ownership.
Bokpin (2013)	Ghana (19992007) (25 Banks)	Panel Regression Analysis	-Loan/loss provision, - Return on assets,	-Ownership structure, -Board size,Board independence, -Inside ownership	Positive relationship with board size and foreign ownership. Not significant with board independence
	Nepal (20052011) (29 Banks)	Panel Regression Analysis	-Non-performing loan/Total loan	- Board size, - Board Independence,	Positive relationship with board size, audit committee size and board

					independence.
Poudel & Hovey (2013)				-Number of board meetings, -Audit committee size, - Number of audit committee meetings, - Institutional ownership, - Foreign ownership	Negative relationship with institutional ownership.
Akpan & Riman (2012)	Nigeria (20052008) (11 Banks)	Correlation and Regression Analysis	- Return on assets, - Return on equity, -Non-performing loans	- Board size, - Number of shareholders	Positive relationship with all corporate governance variables.
Tomar & Bino (2012)	Jordan (19972006) (14 Banks)	Panel Regression Analysis	- Return on assets, - Return on equity	-Ownership structure, -Composition of board of directors, -Managerial ownership, -Outstanding shares owned by members of board of directors, -The number of directors appointed by the shareholders on the board.	Positive relationship with compositions of board of directors and institutional ownership.

Tanna *et al.* (2011)	England (20012006) (17 Banks)	Panel Regression Analysis	Inputs: -Fixed assets, -Deposits and shortterm funding -Personnel expenses	Outputs: -Net loans, - Other earning assets	- Board size, - Board Independence	Positive relationship with all corporate governance variables.
Aygun *et al.* (2010)	Turkey (20062008) (12 Banks)	Correlation and Regression Analysis	-Return on assets (ROS), -Tobin's Q (TQ)		-Board size , -Free float rate (FFR)	Negative relationship between BS and ROS Positive relationship between TQ and ROS. Positive relationship with FFR.
Praptiningsih (2009)	Asian Emerging Market	Panel Regression Analysis	-Return on assets		-Ownership concentration,	Not significant with board size, board independence,
	(20032007) (52 Banks)				-Government ownership, -Foreign ownership, -CEO duality, - Board size, - Board Independence, -Rating of banks by repuTable rating agencies (Big 3) -Auditing by repuTable external auditor (Big 4)	ownership concentration and Big3. Negative relationship with foreign ownership and CEO duality. Positive relationship with Big4.
Staikouras *et al.* (2007)	(2002-2004) (58 European	Panel Regression Analysis	-Return on assets, Tobin's Q		- Board size, - Board Independence	Negative relationship with board size. Positive

	Banks)				relationship with board independence.

Source: Adapted from Abdullahi et al.; (2017)

2.4. Organisational Performance

Performance measurement is very essential for the valuable management of an organisation (Hassan, Mukhtar, Qureshi, & Sharif, 2012 cited in Dubihlela & Dhurup, 2014). Scholars have used different performance dimensions such as financial, business, innovative, operational and quality as measures. According to Dubihlela & Dhurup (2014), performance could be viewed as both an objective measure and a subjective measure. Objective measures of performance are mainly economic, while a subjective measure relates to non-economic aspects of performance.

2.4.1. Profitability

Profit can be defined as the money a business earns above and beyond what it spends for salaries, expenses, and other costs (Nickels, McHugh & McHugh, 2011 cited in Amah, 2012). Profit is one of the major reasons for venturing into business. Profitability means a state of producing a profit or the degree to which a business is profiTable. Profitability is the primary goal of all business ventures (Amah, 2012). Profitability ensures long-term survival of business organisations (Amah, 2012). Therefore, a business that is highly profiTable has the ability to reward its owners with a large return on their investment. Profitability has been identified as criterion for organisational effectiveness by many authors (Friedlander & Pickle, (1968); Maheshwari, (1980) cited in Amah (2012).

2.5. Insurance Practices in Nigeria

Insurance, with all its economic, strategic and social significance in an economy has not been performing well in Nigeria. The percentage growth in the annual gross premium has not been progressively sTable. The total investment growth by percentage also leaves much to be desired. In short, from 2009 to 2011, percentage investment contributions were in the negative. To buttress the above, Nduna (2013) stated that life insurance industry in Africa is relatively underdeveloped because most of the economically active people are employed in the informal sector where it is difficult to collect the premium as the majority of the people do not operate bank accounts. In addition, he noted that African reinsurance market is still relatively small and less sophisticated. In 2011, the African reinsurance market represented a mere 0.8% ($6.4billion) of the world's share in direct premiums (Nduna, 2013). He did not fail to add, „The potential for the life assurance industry

is largely untapped in the African continent and there is need for African insurers and reinsurers to invest in product research and development" (Nduna, 2013).

Nigeria is ranked in comparison with ten top African countries in premium income in 2011, in which Nigeria ranked the fourth position trailing behind Egypt, Morocco and South Africa. By land mass, population and insurable assets, Nigeria is first among all African countries. This is buttressed by Akinbola (2010). He states that though the Nigerian Insurance industry boomed until the mid - 80s the industry soon fell into turbulent times, particularly from the early 90s as a result of the following: undercapitalization of most insurance companies in the country; poor product mix/pricing strategy; gross inefficient service delivery channels; low integrity of many insurance firms; low insurance awareness among Nigerians; poor labour practices; poor information technology infrastructure; poor regulatory mechanism, and poor enforcement mechanism. The Nigerian Insurance Industry before the 2006 recapitalization was triggered by the decline in the industry's goodwill. This was exemplified by shrinking market share leading to significant fall in gross premium income of all insurance companies in Nigeria (Ibrahim & Abubakar, 2011).

Insurance companies are also faced with the challenge of limited expertise and skills. (Nduna, 2013) opines that African insurance industry has not developed sufficient Research and Development capacity and has traditionally relied on the expertise from the advanced economies. Consequently, the industry is always lagging behind in terms of product innovations. There is general reluctance by insurers to step out of the comfort zones (government and institutional accounts) and a taboo to explore the informal sector covers.

He also states that insurance in Africa is faced with the challenge of lack of proper infrastructure which often militates against the effective operation of insurance companies. Communication is often difficult due to bad roads and poor telecommunications. As if the above is not enough, the challenge of overtrading (rate-cutting) in some markets often stifles growth of the insurance industry in Africa, where companies compete on pricing to get some premium which covers expenses to the detriment of the interests of policy holders and shareholders (Nduna, 2013).

Insurance industry in Nigeria must start thinking the application of ethical decision making in her operations if she is to become profiTable. As Omar (2007), reports the consumers' attitudes towards life assurance patronage in Nigeria is embedded in lack of trust and confidence in the insurance companies. This is coupled with lack of insurance awareness in Nigeria. Rok (2009) states that the search for excellence and the search for ethics amount to the same thing, and both have to be connected to our concept of corporate strategy. We must learn to build corporate strategy on a foundation of ethical reasoning, rather than

pretending that strategy and ethics are separate. Traditionally, insurance business thrives on trust since their service product is intangible and the buyer only experiences it at the occurrence of a specified event. High standards of building a foundation of trust with stakeholders, contributing to an internal environment of successful teamwork and maintaining social capital that is part of an organisation's market place image (McMurrian & Matulich, 2006).

Summarily, Ibrahim & Abubakar (2011) states that even if the share capital of insurance is increased in multiples, the performance of the industry could still be limited by the attitudes of Nigerians. However, the application *of* business ethics which makes an organisation to integrate core values such as honesty, trust, respect and fairness into its policies, practices and decision making, would cause an insurance company in Nigeria to endear itself to her stakeholders. McMurrian & Matulich (2006), note that there is a positive correlation between an organisation's ethical behaviours and activities and the organisation's bottom-line results. In addition, they say that reputation for ethical business activities can be a major source of competitive advantage.

The Nigerian Insurance Industry (NII) is one of the biggest insurance markets in Africa, ranked 60th in the world in 2011 behind those of South Africa, Morocco and Egypt which were 17th, 53rd and 58th respectively (Swiss Re, 2012 cited in Oyetayo, 2015). Statistics on premium generation in Africa also rank Nigeria fourth after South Africa, Morocco and Egypt (The Financial Service Authority, 2007). The country is in 86th position behind nine other African countries in global insurance penetration and density figures, as a percentage of GDP. These figures are dismal, considering the abundant human and capital resources in Nigeria. The NII contributes less than one percent to Nigeria's GDP, compared to almost thirteen percent in South Africa, mainly from life insurance premiums (Oyetayo, 2015).

Structural inadequacies in the NII have effects on the public acceptability and sustainable growth of the sector, thus accounting for its low contribution to GDP in Nigeria (Akintunde, 2010). These inadequacies relate to ineffective and unreliable service delivery systems, *responsive* (prompt service delivery), *competence*, *access* (approachability and ease of contact) and "credibility", among others (Omar, 2007). This is corroborated by the Nigerian National Insurance Commission (NAICOM) that "weak insurance companies", "poor compliance culture", "inadequate legislative and legal framework", "poor public perception of NAICOM as a regulator" and public resistance to insurance from part of the problems (NAICOM, 2014). Consequently, the weak regulatory framework, coupled with sharp practices (Osae-Brown, 2011 cited in Oyetayo, 2015) has also led to image problems, made worse by low levels of consumer awareness (Barros & Obijiaku, 2011). Furthermore, the pace of technological change is slow and the payment of

insurance claims is often delayed. These circumstances impact personal insurance lines, so most premiums are generated from corporate and government clients, leaving the potential available from Nigeria's large population untapped (Oyetayo, 2015).

Nevertheless, it is argued that effective institutional and legal reforms will create a strong independent and transparent supervisory body and regime, while facilitating the easier detection of fraud and the effective enforcement of sanctions (Oyetayo, 2012). These would however require the adoption of international standards in practice, legislation and supervision to improve consumer awareness and industry / market conduct. The adoption of risks and principles-based regulations world ensure the efficient allocation of resources and proper risk management among insurers, while aiding the development of a financially sound sector (Oyetayo, 2015).

2.6. Theoretical Framework

2.6.1. Stewardship Theory

Stewardship theory has its foundation from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) cited in Fadun (2013), as "a steward protects and maximizes shareholders wealth through business performance, because by so doing, the steward's utility functions are maximized". Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991 cited in Beale & Hoel, 2010), but rather on the role of senior level management being as stewards, integrating their goals as part of the corporate entity. Stewardship theory explained that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks; hence, their motivation is more than mere monetary considerations. Stewardship theory identifies the need for executives to act more autonomously to maximize the shareholder's returns. Consequently, CEOs require authority and desire recognition from peers and bosses to effectively perform their tasks. Hence, shareholders must authorize the appropriate empowering governance structure, mechanisms, authority and information to facilitate managers' autonomy, built on trust, to take decisions that would minimise their liability while achieving the firm's objectives (Donaldson & Dave, 1991 cited in Fadun, 2013).

Unlike agency theory, stewardship theory emphasises the role of top management as stewards because they are expected to integrate their goals as part of the organisation. De George (1993) argues that executives and directors are inclined to protect their reputations by ensuring that their organisations are properly operated to maximise financial performance. Managers are expected to maximise investors' profit and to establish a good reputation to enable them retain their positions

(Shleifer & Vishny, 1997 cited in Fadun, 2013). Thus, stewardship theory advocates unifying the role of the CEO and the chairman to reduce agency costs (Abdullah & Valentine, 2009 cited in Demmke & Moilamen, 2011). Furthermore, De George (1993) cited in Fadun (2013), highlights five components of the management philosophy of stewardship: trust, open communication, empowerment, long-term orientation and performance enhancement.

2.6.2. Stakeholder Theory

This theory was discovered by Freeman (1984) in the book: *Strategic Management: A Stakeholder Approach*. The theory identifies and models the groups which are stakeholders of a corporation. The stakeholder theory was of the opinion that managers in organisations have a network of relationships to serve; this includes employees, shareholders, suppliers, business partners and contractors. The theory is developed by Freeman (1984). The theory is at variance with agency theory which advocates that there is contractual relationship between managers and shareholders; whereby managers have the sole objective of maximising shareholders' wealth. Stakeholder theory considers this view to be too narrow, as manager actions impact other interested parties, other than shareholders. In essence, the stakeholder theory emphasizes the need for managers to be accounTable to group or individuals that can affect the corporation's purpose (Freeman, 1984). Stakeholders' interest, stakeholder theory proposes the representation of various interest groups on the organisation's board to ensure consensus building, avoid stakeholders (Donaldson & Preston, 1995 cited in Fadun, 2013).

Stakeholder theory has been criticized for over saddling managers with the responsibility of being accounTable to several stakeholders without specific guidelines for solving problems associated with conflict of interests. However, Freeman (1984) contends that the network of relationships with many groups can impact decision making processes, as stakeholder theory is concerned with the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders. Likewise, Donaldson & Preston (1995) assert that stakeholder theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others. This suggests that managers are expected to consider the interests and influences of people who are either affected or may be affected by a firm's policies and operations (Frederick et a1.; 1992 cited in Fadun, 2013). Similarly, Jensen (2001) affirms that managers should pursue objectives that would promote the long-term value of the firm by protecting the interest of all stakeholders.

3. Materials and Methods

Ex-post facto research design was used to collect secondary data from annual reports of insurance companies within the sample frame of this study. Nine insurance companies were purposively selected within the classification of insurance industry (General, Composite and Life Insurance) in Nigeria for this study.

The hypothesis was tested using secondary data from annual reports of nine selected insurance companies.

Model Specification

$$\ln \boldsymbol{PAT}_{it} = \sum_{i=1}^{9} \alpha_i \boldsymbol{D_{it}} + \beta_2 \ln \boldsymbol{BS}_{it} + \beta_3 \ln \boldsymbol{FS}_{it} + \beta_4 \ln \boldsymbol{DR}_{it} + \varepsilon_i + \boldsymbol{\mu}_{it} \ldots\ldots.$$

Definitions of Variable

Variables		Definitions
Dependent Variable:		
$\boldsymbol{PAT}$	-	Profit after tax (as a measure for profitability)
Explanatory Variables:		
$\boldsymbol{BS}$	-	Board size
$\boldsymbol{FS}$	-	Firm size
$\boldsymbol{DR}$	-	Directors’ remunerations
$D_{1t}, D_{2t} \ldots\ldots D_{9t}$	-	Dummy variable for each company (equation 3.4)
$\boldsymbol{u_{it}}$	-	Error term

β_2 = Partial elasticity coefficient of $\boldsymbol{PAT}$ with respect to $\boldsymbol{BS}$.

β_3 = Partial elasticity coefficient of $\boldsymbol{PAT}$ with respect to $\boldsymbol{FS}$.

β_4 = semi elasticity coefficient of $\boldsymbol{PAT}$ with respect to $\boldsymbol{DR}$.

α_i = fixed effect of company $\boldsymbol{i}$. This represents the mean profit after tax (*PAT*) of each company.

4. Descriptive Analysis of Secondary Data

The Table 2 below presents the results of the descriptive analysis of the variables; profit after tax (*PAT*), board size (*BS*), firm size (*FS*) and directors’ remunerations (*DR*) for the secondary data analysis.

Table 2. Results of Descriptive Analysis

	PAT	BS	FS	DR
Mean	1.14E+09	8.363636	2.72E+10	77199227
Median	6.14E+08	8.000000	1.14E+10	58907500
Maximum	9.68E+09	13.00000	1.66E+11	3.11E+08
Minimum	-1.89E+09	5.000000	4.79E+09	17196000
Std. Dev.	2.07E+09	1.930067	3.73E+10	58953582
Skewness	2.288465	0.494524	2.210835	1.755008
Kurtosis	9.268651	2.404741	7.247450	6.869721
Jarque-Bera	110.4478	2.443007	68.91867	50.04075
Probability	0.000000	0.294787	0.000000	0.000000
Sum	5.02E+10	368.0000	1.20E+12	3.40E+09
Sum Sq. Dev.	1.85E+20	160.1818	5.99E+22	1.49E+17
Observations	44	44	44	44

Source: Researcher's Computation Using E-views, 2018

The Table 2 above shows the various descriptive parameters such as mean, median, maximum, minimum, standard deviation, skewness and kurtosis. The mean value of ***PAT*** (profit after tax) is ₦1.14 billion, the maximum ***PAT*** is ₦9.68 billion (2016 *PAT* of AIICO Insurance) and the minimum ***PAT*** is ₦1.89 billion (2016 loss of Cornerstone). The mean value of ***BS*** (board-size) is approximately 3 members, the maximum ***BS*** is 13 (2016 board-size of Mutual Benefit Assurance) and the minimum ***BS*** is 5. The mean value of ***FS*** (firm-size measured, total assets as a proxy) is ₦27.2 billion, the maximum ***FS*** is ₦166 billion (2016 total assets of Leadway Assurance) and the minimum ***FS*** is ₦4.79 billion (2012 total assets of Sterling Assurance). The mean value of ***DR*** (directors' remunerations) is ₦77,199,227, the maximum ***DR*** is ₦0.311 billion (2016 *DR* of Mutual Benefit Assurance) and the minimum ***DR*** is 17196000. The Jarque-Bera statistics show except the series *PAT*, *FS* and *DR* are not normally distributed since the p-value of each variable (0.000018, 0.0000, and 0.0000 respectively) is less than 0.05. On the other hand, ***BS*** follows a normal distribution since its p-value (0.2948) is more than 0.05.

Table 3. Result of Panel Data Regression Model Estimation

Dependent Variable: LOG_PAT
Method: Panel EGLS (Cross-section random effects)
Sample: 2012 2016
Periods included: 5
Cross-sections included: 9
Total panel (unbalanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	**-9.188768**	**5.036944**	**-1.824275**	**0.0778**
LOG_BS	**-0.498281**	**0.865736**	**-0.575558**	**0.5691**
LOG_FS	**0.640616**	**0.166630**	**3.844535**	**0.0006**
LOG_DR	**0.880310**	**0.247259**	**3.560272**	**0.0012**
	Effects Specification			
			S.D.	Rho
Cross-section random			0.259788	0.0955
Idiosyncratic random			0.799697	0.9045
	Weighted Statistics			
R-squared	**0.529016**	Mean dependent var		17.07957
Adjusted R-squared	0.483437	S.D. dependent var		1.140622
S.E. of regression	0.803508	Sum squared resid		20.01435
F-statistic	**11.60655**	Durbin-Watson stat		1.984292
Prob(F-statistic)	**0.000029**			

Source: Researcher's Computation Using E-views 10, 2018

Interpretation: Magnitudes, Signs and test of significance of the individual Regression Coefficient.

(a) The intercept coefficient *C* (β_1)

The value of the intercept term C ***-9.189*** in the Table 3 above represents the common mean value (β_1) given in equation above as part of the intercept value of the individual country.

(b) The regression coefficient „$\boldsymbol{\beta_2}$"

Sign and Magnitude: In the Table 3 above, the partial elasticity coefficient of ***PAT*** (profit after tax) with respect to ***BS*** (board-size) is ***-0.498%***. This has a negative sign indicating that ***BS*** has a negative effect on ***PAT***. This implies that for every 1% increase in ***BS***, ***PAT*** decreases by ***0.498%%*** and vice versa. The negative sign is however not in line with the *apriori expectation.*

Test of Significance: $H_o: \beta_2 = 0$ and $H_1: \beta_2 \neq 0$

In the Table above, the p-value of the t-statistic of the partial regression coefficient of ***BS*** is 0.5691. This is more than 5%. Thus, the null hypothesis is accepted. This implies that ***FD*** is not statistically significant to individually influence ***PAT***.

(c) The regression coefficient "β_3"

Sign and Magnitude: In the Table above, the partial elasticity coefficient of ***PAT*** (profit after tax) with respect to ***FS*** (firm-size) is ***0.641%***. This has a positive sign indicating that ***FS*** has a positive effect on ***PAT***. This implies that for every 1% increase in ***FS***, ***PAT*** increases by ***0.641%*** and vice versa. The positive sign is however in line with the *apriori expectation.*

Test of Significance: $H_o: \beta_3 = 0$ and $H_1: \beta_3 \neq 0$

In the Table 4.10 above, the p-value of the t-statistic of the partial regression coefficient of ***FS*** is 0.0006. This is less than 5%. Thus, the null hypothesis is rejected. This implies that ***FS*** is statistically significant to individually influenced ***PAT***.

(d) The regression coefficient "β_4"

Sign and Magnitude: In the Table above, the partial elasticity coefficient of ***PAT*** (profit after tax) with respect to ***DR*** (directors' remunerations) is ***0.88%***. This has a positive sign indicating that ***DR*** has a positive effect on ***PAT***. Thus, for every 1% increase in ***DR***, ***PAT*** increases by ***0.88%*** and vice versa. The positive sign is however in line with the *apriori expectation.*

Test of Significance: $H_o: \beta_4 = 0$ and $H_1: \beta_4 \neq 0$

In the Table above, the p-value of the t-statistic of the partial regression coefficient of ***DR*** is 0.0012. This is less than 5%. Thus, the null hypothesis is rejected. This implies that ***DR*** is statistically significant to individually influenced ***PAT***.

The Multiple Coefficient of Determination (R^2)

This is the measure of goodness of fit of the multiple regression model. It gives the proportion or percentage of the total variation in the dependent variable (***FI***) jointly explained by the explanatory variables (***BS***, ***FS*** and ***DR***). In Table above, the adjusted-R^2 value of 0.4834 denotes that about 48.34% of the total variation in the dependent variable, profitability (measured by profit after tax; ***PAT***), is explained by the independent variables (***BS***, ***FS*** and ***DR***). The remaining 51.66% out of 100% is due to the factors not included in the model as represented by the error term u_{it} in the *equation 4.10* above.

Testing the Overall Significance of the Estimated Panel Regression Model

This test is carried out to examine if all the explanatory variables are jointly

significant to influence the dependent variable (***PAT***) using F-test.

$$H_o: \beta_2 = \beta_3 = \beta_4 = 0$$

$$H_o: Not\ all\ \beta's\ are\ simultaneously\ equal\ to\ zero$$

In the Table above, the F-statistic is 11.606 and its p-value is 0.000029 (less than 5%). Thus, the null hypothesis is rejected. This implies that the independent variables (***BS***, ***FS*** and ***DR***) are jointly significant to influence the dependent variable (***PAT***).

4.1. Discussion of Findings

The objective of the study is to evaluate the effect of corporate governance practices on profitability of insurance companies in Nigeria. To achieve this research objective, research hypothesis was tested. The result of the test of hypothesis revealed that corporate governance practices have effect on profitability of companies in insurance industry in Nigeria. In probing the hypothesis, random effect model was used to examine the variables of corporate governance (board size, firm size and director's remuneration) and profit after tax of insurance companies in Nigeria. These variables have joint effects on profit after tax of insurance companies in Nigeria. Although, board size does not have effect on profit after tax which was supported by the study carried out by Abdullahi *et al.*; (2017). Abdullahi *et al.*; (2017), revealed that the relationship between board size and financial performance (ROA) is insignificant. The other two variables (firm size and director's remuneration) have significant effect on profit after tax in insurance companies in Nigeria. This result is supported by the studies carried out by (Soba *et al.*; 2016; Fadun, 2013; Aida, 2013; Amah, 2012). Thus, research objective was achieved with the result of the test of hypothesis that corporate governance has effect on profitability in insurance companies in Nigeria.

5. Conclusion and Recommendations

The study examined in-depth measures to operationalize the concept of corporate governance practices and organisational performance (financial indices). Thus, the study concludes that for corporate entities in the insurance industry in Nigeria to enjoy sustainable competitive advantage (whether at micro firm-level or macro industry-level), they must implement a value-creating strategy embedded with integrity that other business organisations cannot imitate.

The study recommends that NAICOM and NIA should improve their supervisory roles in ensuring total compliance to rules and regulations guiding insurance companies in the industry. Both institutions should prosecute insurance companies

involved in fraud and other unethical practices with high sanctions and penalties. This will further put sanity and build trust in the sector for continuity and competitive advantage to companies that imbibe the tenets of regulators in the industry.

Also, regulators (NAICOM and NIA) should as a matter of urgency evaluate each company in the industry with respect to their claims handling procedures. This is to avoid deficiency in terms of their operational delivery. More so, regulators and other stakeholders within the industry should at regular intervals interact with insurance companies to keep them updated with global business practices.

There should be corporate accountability movement in the insurance industry through well framed mandatory corporate reporting covering all aspects of social environment and economic performance. This will be pursued logically by having a good corporate code of governance to give direction.

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Appendix

Secondary Data Structure

S/N	COMPANY	YEAR	PROFIT AFTER TAX (₦)	BOARD SIZE	FIRM SIZE (TA, ₦)	DIRECTORS' REMUNERATION (₦)
1	CUSTODIAN	2012	822687000	6	4881459000	104516000
		2013	1503627000	6	6311800000	113736000
		2014	1711742000	6	7000788000	120010000
		2015	2416789000	7	9558436000	157693000
		2016	2829524000	7	10894906000	158674000
2	LEADWAY	2012	673569000	8	66324687000	34264000
		2013	1718079000	8	97161751000	41038000
		2014	2809578000	9	1.00585E+11	58524000
		2015	6379929000	9	1.37363E+11	87979000
		2016	6661957000	10	1.66064E+11	150819000
3	AIICO	2012	1247963000	7	34868088000	38916000
		2013	-930158000	7	41718941000	42364000
		2014	2131892000	8	57857130000	56215000
		2015	966461000	7	79385266000	61040000
		2016	9682115000	8	73912963000	73248000
4	SOVEREIGN TRUST	2012	1476354000	7	7113234000	20345000
		2013	346930000	7	8649296000	22145000
		2014	294943000	6	8492844000	23164000
		2015	557847000	7	9264871000	24055000
		2016	23592000	7	9511560000	17196000
5	CORNERSTONE	2012	433981000	9	11807686000	51432000
		2013	931859000	10	13962425000	60121000
		2014	1282346000	10	14894672000	84152000
		2015	-535513000	11	17919118000	95354000
		2016	-1889787000	11	18368248000	105035000
6	MUTUAL BENEFIT	2012	-475292000	11	13893809000	134154000
		2013	574870000	12	14448212000	148564000
		2014	2243768000	12	14488600000	164245000
		2015	652613000	11	15798729000	196530000
		2016	-1390527000	13	16579092000	310593000
7	STERLING	2012	-59967000	5	4785719000	52241000
		2013	-595354000	6	4800538000	54324000
		2014	-165434000	7	4819694000	58600000
		2015	96016000	6	4819208000	59438000
		2016				
8	NEM	2012	434020000	9	7580140000	53415000
		2013	368908000	8	9627878000	57451000
		2014	1507178000	9	10977313000	59215000
		2015	685460000	10	12087666000	61200000
		2016	1848616000	10	14531978000	63100000
9	CONSOLIDATED HALLMARK	2012	226779161	7	6664332022	19815000
		2013	-207111706	8	6130357618	20451000
		2014	185052535	8	6111846251	22415000
		2015	534279069	8	6964209568	25410000
		2016	197922858	10	7392512630	33570000