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Ownership Structure and Financial Performance of Listed Insurance Firms in Nigeria: Moderating Role of Independent Director

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ABSTRACT

The financial performance of listed insurance firms in Nigeria has been declined significantly. There are other factors that could lead to the poor financial performance but the researchers are specifically interested in examining the effect of independent director on the relationship between ownership structure and financial performance of listed insurance firms in Nigeria from 2013 to 2022 financial years. The ownership structure variables used in this study are institutional ownership and managerial ownership while the financial performance used is represented by return on assets (ROA), and the moderating variable is independent director. The sample of the study is all the twenty-three (23) listed insurance firms in Nigeria that make up the population of the study. The study uses secondary data and multiple regressions for the purpose of this study. The findings of the study reveal that institutional ownership and managerial ownership have negative and insignificant effects on financial performance of listed insurance firms in Nigeria. Independent director has a positive effect on the relationship between institutional ownership, managerial ownership and financial performance. The researchers therefore recommend that the Central Bank of Nigeria and National Insurance Commission should ensure that there is diversity of experience without compromising compatibility, integrity and independence.

Keywords: Ownership structure, performance, insurance, firms, Nigeria

INTRODUCTION

Firm's performance has become an issue of concern among share holders. This is because the financial performance indicates how well investors 'wealth is being managed in generating returns from investments (Baker, Veit& Powell, 2001).Investors are not interested in running the business but they are interested in how much their investments can generate (Kadivar, 2006).

Henry and Zheng (2017) claim that different stock returns of an organization, usually in the long run, will be affected greatly by financial performance. Ironkwe and Emefe (2019) assert that the maximization of shareholders' wealth which can be shown in share price is the main objective of shareholders.

In addition, financial performance in the context of macroeconomics is the reflection of efficiency of firms on how businesses use their scarce resources(Ironkwe&Emefe, 2019). Therefore, the high performance of firms shows that the economy is viable which can boost the confidence of investors in such firms.

The failing of some reputable business organizations such WorldCom and Enron in the United States of America have created fears in the minds of investor. Since twenty years ago, investors have been interested in knowing the relationship that exists between ownership structure and business performance(Nyaguthii, Mike, David & Kenyatta, 2018).This is because they want besure of the safety of their investments having witnessed the collapsing of other big companies.

Lioui and Sharma (2012) and Qui (2012) believe that ownership of the firm is structured for the purpose of maximizing the worth of the business. They have made a suggestion that the capital structure and ownership of the firm's decisions should be made in such a way that agency problems among different stakeholders such as controlling shareholders and minority owners can be mitigated.

Several studies have been conducted by researchers on the relationship between ownership structure and firm performance but their results have been inconsistent. While studies such Abdul (2016), Alabdullah (2018) and Amin and Hamdan (2018) found significant positive contributions of managerial ownership on performance, Andow and David (2016), Muhammed (2018), Alhaji and Sani (2018) and Farwis and Azeez (2019) showed negative significant effect of managerial ownership on firm performance. It is because of these inconsistent findings in the previous studies that have made the researchers to introduce the moderating variable that is independent director to see how it can strengthen the relationship between ownership structure and firm performance in line with (Baron & Kenny, 1986).

They are other factors that could lead to poor financial performance of an organization. However, the researchers are particularly interested in examining the moderating effect of independent director on the relationship between ownership structure and firm performance of listed insurance firms in Nigeria from 2013 to 2022 financial years.

Insurance industry is an important sector in any economy because of the rolesit plays in that economy of insuring risks. Particularly, the insurance firms in Nigeria are facing many challenges such as lack of awareness and loss of confidence on the part of the public which have been affecting their performance negatively. Oji (2023) has reported in the Business News, the Guardian that so many insurance firms in Nigeria have been a long time not performing well and as a result they are not able to pay dividends to their shareholders. He says that it is only Custodian and NEM insurance firms that have been consistently paying dividends to their investors while other insurance firms have been declaring losses. The share price of AIICO Insurance devalued from 95 kobo in April, 2021 to 53 kobo in April, 2023.

The main objective of the study is to examine the moderating effect of independent director on the relationship between ownership structure and financial performance of listed insurance firms in Nigeria while other specific objectives are as follows:

(i) To examine the effect of institutional ownership on the financial performance of listed insurance firms in Nigeria.

(ii) To assess the impact of managerial ownership on the financial performance of listed insurance firms in Nigeria.

(iii) To evaluate the influence of independent director on the financial performance of listed insurance firms in Nigeria.

(iv) To examine the effect of independent director on the relationship between institutional ownership and financial performance of listed insurance firms in Nigeria.

(v) To assess the impact of independent director on the relationship between managerial ownership and financial performance of listed insurance firms in Nigeria.

LITERATURE REVIEW

The literatures related to institutional ownership, managerial ownership and firm performance are reviewed under this section.

Institutional Ownership and Firm Performance

Angsoyiri (2021) examined the impact of institutional ownership on firm performance of listed firms in Ghana from 2013-2018 using a sample size of 20 companies selected from all companies. The method of data analysis was multiple regression technique. The result showed that there was a weak positive correlation between institutional ownership and firm performance.

Ogabo et al. (2021) examined the impact of institutional ownership on firm performance of the United Kingdom's FTSE 350 companies from 2008- 2018 fiscal years. The study used multiple regression technique, secondary data and the sample size of 48 companies. The finding showed that institutional ownership has a negative impact on the firm performance.

Managerial Ownership and Firm performance

Okewale et al. (2020) studied the impact of managerial owners on financial performance of food and beverage quoted companies in Nigeria from 2010-2018 financial year. The source of the data was secondary and the method of data analysis was multiple regressions while the sample size was 17 foods and beverages manufacturing companies. It was shown that managerial ownership had an insignificant positive impact on financial performance.

Doorasamy (2021) examined the effect of managerial ownership on financial performance of East African countries from 2009-2018 financial years. The study used GMM estimation technique to analyze the data while the sample size was 65 firms. The finding showed that managerial ownership had a negative significant impact on financial performance.

Theoretical Framework

Jensen and Mickling (1976) propounded agency theory and the theory sees management as the employees of the shareholders. Therefore, the management is expected to take only actions that will maximize the wealth of the shareholders. Furthermore, the theory stresses the separation of shareholders from the management, because the management sometimes may pursue the goals that benefit them rather than maximizing the wealth of owners.

METHODOLOGY.

The study relies on Correlational research design because of the nature of the study which deals with the relationship between ownership structure and the financial performance of listed insurance firms in Nigeria.

The population of the study is twenty-three (23) insurance firms that were listed on the Nigerian Stock Exchange as at 31st December, 2022 and the technique of data analysis is panel data regression.

The study uses all the 23 listed Insurance firms in Nigeria because of the small number of the firms from which the researchers can get complete data for the purpose of the study.

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Table 1 Variables Measurement

Variables	Symbols	Definitions/ Measurement
Dependent Variable	**DV**	
Return on Asset	ROA	As earnings after interest and tax divided by the total assets (Jiraporn& Liu 2008).
Independent Variables	**IV**	
Institutional Ownership	IO	Measured as number of shares held by institutional investors divided by the total number of shares issued (Adewumi et al.2018).
Managerial Ownership	MO	Measured as number of shares held by managers of the company divided by the number of shares issued (Farwis&Azeez, 2019).
Moderating Variable	**MV**	
Independent Director	ID	Measured as number of non- executive directors on the board divided by the total number of directors on the board (Kallamu, 2016).

Source: Developed by the Researcher based on Literature.

The Model Specifications for the study are stated as follows.
.ROAit= α0+ β1IOit+β2MOit+β3ID+μ……………………………i

.ROAit = α0+ β1IOit+β2MOit+β3ID+β4IOit*ID+β5MOit*ID+μ…………………………ii

Where:

ROA=Return on Assets,

α=Intercept or Constant Term of the Model;

IO= Institutional Ownership;

MO=Managerial Ownership;

ID= Independent Director;

β1-β2= Coefficient of the Independent Variables;

β3= Coefficient of Independent Director;

β4-β5= Coefficient of Independent variables and Independent Director;

i= Firms;

t=Time ;

μ=Error Term

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RESULTS AND DISCUSSION

Table 2 Descriptive Statistics

Variables	Mean	Minimum	Maximum	Std. Dev
ROA	0.035	-0.531	0.283	0.067
IO	0.501	0.048	0.698	0.177
MO	0.091	0.001	0.376	0.182
BIND	0.140	0.140	0.923	0.144

Source: STATA output, 2023.

The above table shows that the measure of return on assets (ROA) of listed insurance firms inNigeria has a mean value of 0.035 with standard deviation of 0.067, and minimum and maximum values of -0.531 and 0.283 respectively. This implies that the average return on assets in listed insurance sector is 0.035 and the deviation from both sides of the mean is 0.067.

The Table indicates the mean value of shares held by institutional ownership (IO) of 0.501 with standard deviation of 0.177, the minimum and maximum values are 0.048 and 0.698 respectively.

The Table shows that the mean value of shares held by managerial ownership (MO) is 0.091 with the standard deviation of 0.182, the minimum and maximum values are 0.001 and 0.376 respectively.

Lastly, the Table indicates that the mean value of independent director (ID) is 0.602 with the standard deviation of 0.144, the minimum and maximum values are 0.140 and 0.923 respectively.

Table 3 Correlation Matrix

Variables	ROA	IO	MO	BIND
ROA	1.0000			
IO	0.1888	1.0000		
MO	0.0886	-0.3793	1.0000	
BIND	-0.5260	-0.1444	-0.0129	1.0000

Source: STATA output, 2023

The results in Table 3 show the degree of association between return on assets and all pairs of independent variables individually as well as between themselves and cumulatively with the dependent variable (ROA) of the study in the insurance firms. The Table presents a positive relation between return on assets (ROA) and institutional ownership (IO) from the correlation coefficient of 0.1888. The Table indicates a positive relationship between return on assets (ROA) and managerial ownership (MO) and this can be seen from the correlation coefficient of 0.0886.

All the independent variables have negative correlation between themselves and also negative correlation is observed between independent director and all independent variables.

Table 4: Summary of Regression Result

Direct Model:	(Robust OLS)	Random Effect		Moderation	Model:	Fixed Effect
Variables	Coefficients	z- values	p-value	Coefficients	t- value	p- values
IO	-0.606	-1.23	0.220	-2.770	-3.350	0.000
MO	-0.382	-0.83	0.409	-3.208	-2.940	0.004

BIND	-0.695	-42.44	0.000	-0.365	-4.830	0.000
CONSTANT	0.026	-0.09	0.926	-1.275	2.900	0.000
IOBIND				1.479	-5.170	0.004
MOBIND				2.036	2.990	0.003
R-Square	0.40			0.65		
Wald chi2/FSta	9349.90		0.000	41.440		0.000

Source: STATA OUTPUT, 2023.

The cumulative R^2 (0.40) in the model signifies that 40% of total variation in return on assets of listed insurance firms in Nigeria is caused by the collective effort of institutional and managerial ownerships signifying that the model is fit and supported by the Wald chi2 statistics of 9349.90 with a p- value of 0.0000.

The result reveals that institutional ownership has a negative and insignificant impact on financial performance of listed insurance firms in Nigeria. This can be seen from a z- value of -1.23, coefficient value of -0.606 with a p- value of 0.220. The result of this study is line with the prior studies carried out by Milena- Jana (2018) and disagrees with the study of Nyaguthii et al. (2018).

Managerial ownership has a negative insignificant impact on financial performance of listed insurance in Nigeria. This can be seen from a z-value of -0.83, coefficient value of -0.382 with the p- value of 0.409. This finding is in line with study of Lawal (2018) and it is not in line with the study of Abdul (2016), Alabdullah (2018)

Independent directors have a negative significant influence on financial performance of listed insurance firms in Nigeria. This can be seen from a z- value of -4.830, coefficient value of -0.365 with a p- value of 0.000.

Independent director has a negative significant moderating role on the relationship between institutional ownership and financial performance of listed insurance firms in Nigeria. This can be observed from a t-value of -5.170 a coefficient value of 1.479 with a p- value of 0.004. However, independent director has a positive significant moderating role on the relationship between managerial ownership and financial performance of listed insurance firms in Nigeria as indicated bya t- value of 2.99, a coefficient value of 2.036 with a p- value of 0.003.

CONCLUSION

The study provides both empirical and statistical evidence on the usefulness of two independent variables that made up the ownership structure of this study that is institutional and managerial ownerships in explaining and predicting return on assets of the sample firms. The study revealed that there is a negative and insignificant relationship between institutional ownership and financial performance of listed insurance firms in Nigeria. The study found negative and insignificant relationship between managerial ownership and financial performance of listed insurance firms in Nigeria. Independent directors have a negative and significant relationship with the financial performance of listed insurance firms in Nigeria.

Therefore, the presence of independent directors on board is likely to improve the financial performance of listed insurance firms in Nigeria because of their integrity, expertise and independence. Thus, active monitoring from independent directors that are free from managerial influence is capable of improving the financial performance of listed insurance firms in Nigeria..

RECOMMENDATIONS

The researchers have made the recommendations based on the findings and conclusions of this study.

(i) The Central Bank of Nigeria and National Insurance Commission should ensure that directors of listed insurance firms in Nigeria is structured in such a way that there is a diversity of experience among them without compromising compatibility, integrity and independence in order to improve the financial performance of listed insurance firms in Nigeria.

(ii) Management of listed insurance firms in Nigeria should ensure that they indemnify immediately the insured after they have ascertained the level of losses suffered by them so as to restore the confidence of the insured and the public in the listed insurance firms in Nigeria.

(iii) The management of listed insurance firms in Nigeria should quickly bring modern technology such automated teller machine (ATM), SMS etc. into the industry to make transactions simply and easy for their customers to make the industry attractive to their customers.

(iv)The management of insurance firms in Nigeria should also try to intensify the awareness of their products as well as their benefits to insurance policy holders in order to attract more potential insurance policy holders.

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