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CORPORATE GOVERNANCE AND SUSTAINABILITY IN NIGERIAN INSURANCE COMPANIES.

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Abstract

This research is studying the association of corporate governance and sustainability of Nigerian insurance companies. The research is investigating on the association of governance of corporate and sustainability (assets' return) of Nigerian insurance companies. Ex-post facto is adopted as research design from financial reports of insurance companies for ten (10) years (2010-2019). This study is to employ multiple regression analysis as the estimating tool for investigating effect of governance of corporate on the Nigerian insurance enterprises sustainability. We, however conclude that the Size has insignificant impact on the Nigerian insurance enterprises sustainability. It reveal that Composition and audit committee reveal to be significantly impacted on the Nigerian insurance enterprises sustainability. The recommendations among others state that all Nigerian companies of insurance ought to have strictly adhered with the codified sound insurance governance of insurance so as to ensure the collaboration between different stakeholders in the insurance industry in order for the performance improvement and efficient growth of the Nigerian insurance businesses. Insurance managerial teams and the adequately viable regulatory bodies should patiently organise and improve on the ethic practices' governance of corporate and audit committees constituted as well. All insurance firms' audit committee members in Nigeria should appoint nonexecutive directors who are viable experienced financial accounting background.

Keywords: *Corporate Governance, Sustainability, Insurance, Insurance Companies.*

1. Introduction

The present of risk is certainty any economic development, expansion of societal environment. Although, insurance stands as the mechanism to drive the critical area of losses on economic growth and development against the threatening risk in order to strengthen the system of finance and economy in a nation (Elegunde, Ajemunigbohun, & Azeez, 2020; Shawar & Siddiqui,

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2019). Organization wants to achieve an established objectives and goals, effective, efficient, and ethical management in terms of long-term profitability and perpetuity. Therefore, governance of corporate is an operational or strategic parameter that greatly endangers the firms' performance. It can also increase accessibility of external finance, fostering sustainable economic (Osundina, Olayinka, & Chukwuma, 2016).

Accountability and transparency shortcomings may serve as the inadequacy of corporate governance towards the business stakeholders, which may come in different forms such as bribery incidents, minority shareholders' rights violations, managers and directors' official negligence, an inadequately better internal control system, and other menaces The insurance sector, in particular, requires complete procedural control for internally making policies should have been established by directors' board and executed through experienced officer, under the guidance of efficient management. Compliance with regulations and principles governing insurance business can greatly improve company performance, which can lead to higher efficient performance and overall success (Olumuyiwa & Babalola, 2012).

Governance of Corporate specifically addresses interest's conflicts, devising methods to minimise misconduct of corporate and aligning the stakeholders' interests through motivative mechanisms. Various frameworks for corporate governance have been developed and adopted globally. Mulili and Wong (2010) studied that most of European nations adhered with civil rules and regulations especially the civil law (France, Germany, Italy, and the Netherlands). Meanwhile, common law history and adoption by developed countries of the world and others had made them to focus on not only the stakeholder returns but also their interests as well through the Checks and Balances strength within an organizational system is filled up by Corporate Governance Nwachukwu (2017).

The insurance market evolution is inherently linked to the changes caused by external corporate environmental forces, which these are referred to as the forces of globalization drivers (Odia, 2015). However, the insurance organisations' patronage will be heavily reliant on trustworthiness and assurance by the insured (Olowokudejo, & Ajemunigbohun, 2015). Notable and reputable companies had importantly and deeply revealed and sourced issues in the governance of corporate, which led dismissing of a director known Dick Grasso from the esteemed New York Stock Exchange due to over excessive compensation (Foluso, & Lateef, 2017).

In this context, corporate governance is a global and vital discourse in the current period that all commercial enterprises have put all hands on the deck to follow the guidelines, rules and regulations of the government agencies (David, George, & David, 2007), which these characterised discussions surrounding the discourse of corporate governance enhancements are the ownership structures, board characteristics, and board committees, as well as directors' remuneration (Filatotchev, 2009; Ogbechie, 2012). The fraudulent discovery activities and personal-serving habit by managerial officers, against shareholders' interests is due to disconnection between principles and managerial officers due to widespread owners status, has thrust the corporate stakeholders' business to take governance seriously (Garba & Otomewo, 2015). Even developing economies like Nigeria have recognized the necessity of sound governing administration, which is wary of investing in commercial enterprise that does not to be adhered to good principles of governance (Kajola, 2008; Junaidu & Sani, 2014). The research has holistic aim: in exploring governance of corporate's impact and the sustainability of insurance's firms in Nigeria. To achieve this, specific objectives have been formulated as follows: To investigate size of board's influence on the Nigerian insurance firms' assets' return. To assess the composition of board's impact on the Nigerian insurance firms' assets' return. To determine how audit committee affects the on the Nigerian insurance firms' assets' return.

2. Literature Review

2.1. Conceptual Review

2.1.1. Concept of Corporate Governance

Corporate Governance is defined as structural procedure utilized to maintain the operational affairs of business for commercial enterprise in order to improve prosperous business and assure proper corporate accountability. Additionally Corporate Governance is also referred to as the organization's systemic process directed and controlled towards achieving organizational goals and objectives (Muiithi, 2009). Mang'unyi (2011) expresses Governance of Corporate has an internally systemic control that encompasses ethics, processes, policies, human-being serving the shareholders and stakeholders' necessities by leading and coordinating managerial activities with sound occupation knowledge, objective, accountable skill, and trustworthy (Organization of Economic Cooperation and Development [OECD], 2010; Najjar (2012). Furthermore, it outlines the regulations and processes for making decision on corporate matters and groups the structural achievable company objectivity goals and supervising performed sustainability (OECD, 2010).

2.1.2. Concept of Insurance Company

Insurance is defined as the identification of buyers' procedural stages of a contract against potential losses resulting from the accidental occurrence of a particular known forms of event after an agreed premium has been considerable paid. Nonlife as general insurance and life insurance are two main primary forms of insurance businesses. While life insurance policies are contracts with insurance companies that provide sum-assured after the death of the life-assured as a lump sum benefit. Non-life (general) insurance policies, such as homeowners' and auto insurance policies, pay out based on the loss from a specific financial event following the insured's passing, to beneficiaries (Igbojekwe, 2006; Balogun & Ajao, 2016). In 1997, the National Insurance Commission (NAICOM) established by the federal character had given autonomy to the NAICOM to govern the affair of insurance industry as whole. In another view, Insurance Act, 2003 and 2004 (as amended) also specified the businesses of insurance in accordance with their registration through Companies and Allied Matters Act, 2004. In relation to accounting and auditing, the International Financial Reporting Standard on Insurance Contract for insurance commercial enterprise contract from IFRS 4 has to be adapted to financial adequacy in terms true and fair of accounting to the Nigerian insurance stakeholders. In 2005 and 2009, merger and acquisition, and a code of sound corporate governance were established and implemented for the sustenance of the Nigerian insurance industry aligning with reporting guidelines from IFRS Standards.

2.1.3. Concept of Sustainability

Sustainability is synonymous to profitability as a mere means of a goal or objective of a firm, which is also known as metric performance for a successful firm that manages the scarcely limited resources. The maximization of adequate profit is what unifies all

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stakeholders participated in the formation, operation and finance of a firm especially the shareholders, which all of them are contended that the successfulness of a commercial enterprise surely and essentially encourage them in order for them to have payment of taxes, interest, salaries, and dividends to the government, lenders, employees, and shareholders respectively (Osundina *et al.*, 2016). As a result of this, effectiveness and efficiency of corporate governance adequately improves sustainability and performance, and assures the stakeholders' goals would be fulfilled through the company's obligations (Coles, Daniel, & Naveed, 2008).

2.2. Review of Related Theory

2.2.1. Theory of Stewardship

This theoretical review indicated that all company's directors must behave like stewards and dedicate to ensuring and acting to ultimate objectives and goals for company's interests against their own mission. Regardless of directors' interests, the trustworthy stewardship of directors is paramount to prudently operate, control, organise and direct in line with the interest of the company and all stakeholders involved (Davis, Shoorman, & Donaldson, 1997). The directors' personal needs are met while they strive to accomplish organisational goals (Kluvers & Tippett, 2011). But how well the organisational framework supports appropriate action determines how well the stewards perform (Davis, Shoorman, & Donaldson, 1997). This approach emphasised the idea that company leaders and managers should serve on directors' board of the commercial enterprise since they perform the role of stewards (Harvey-Pamburai, Chamisa, Abdulla, & Smith, 2015; Coles *et al.*, 2008; Mashayekhi & Bazaz, 2008).

2.2.2. Agency Theory

In 1776, Smith's work suggested that managerial officers should desist from certain activities in the owners' best interests if they are not shareholders or stockholders in the commercial enterprise. An agency theory explained the association relationship a shareholder (as the principal) and director (as appointed person) known as the agent in order to take on specific tasks on behalf of the shareholder. At times, the agent officer might often deviate to play in the utmost prudent principal's interests if utility maximization of efforts integrated or collided with the principle's officer (Jensen & Meckling, 2004). However, agency model also explained that non-executive directors (independent directors positively impacted on company's performance) is ought to have been part of the directors board's composition so as to check and balance productive performance from managers in accordance with the assurance of making independent decision (Malik, & Makhdoom, 2016).

2.2.3. Resource-Dependency Theory

A company's board performs a vital responsibility in creating operational resources to the managerial officers, who then utilise it to implement and execute for organisational objectives and goals, which the board should offer the executives with intangible resources, financial, materials, and human assistance so as to assist the executives for innovative development in discharging their capacities with the necessary experience, and educational mentorship and coaching. Additionally, the connectivity of organizational network and other resources should have put and drawn by the board members in order to show the integration and separation of duties between them. The board of directors should have approved any major company' management choices and decision especially the promotion and appointment of specialists to a company's board of directors so as to prudently and diplomatically highlight the need for having external directors (Francis, Hasan, & Wu, 2015; Mori, 2014; Ujunwa, 2012).

2.2.4. Stakeholders Theory

Wheeler, Colbert, and Freeman (2003) studied the sociological and organizational disciplines as a combination to build up for stakeholder theory, which a collective personnel or single person who can influentially impacted by the organization's goals accomplishment is considered a stakeholder. This stakeholder model stated that internal managers of a company have been tied with a network of internal environment such as employees, labour unions, business partners, suppliers in order to serve for responsibility to him. In fact, the agency model in respect with the shareholder-director-employee association is not strong with theory of stakeholder model.

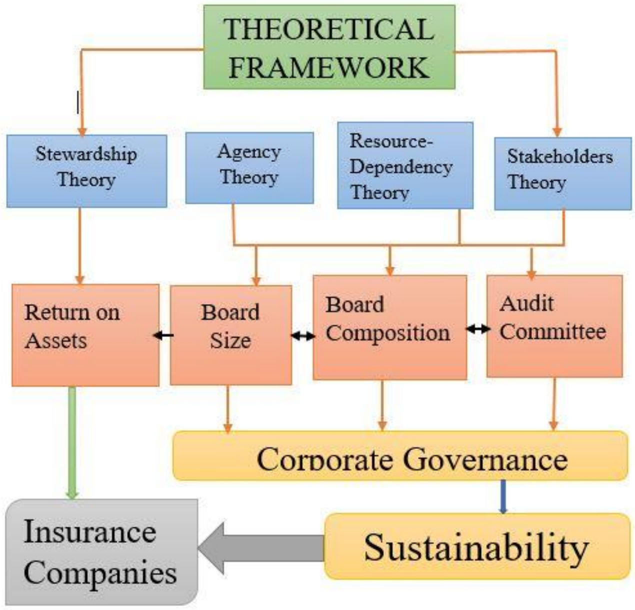

Figure 1: Theoretical Framework
Source: Authors' Design, 2024

2.3. Empirical Review

Haruna, Ame, Oyedokun, and Jaji (2022) studied corporate governance mechanisms and listed Nigerian insurance companies' financial performance. The research investigated corporate governance mechanisms and listed Nigerian insurance companies' financial performance. Ex-post facto and regression statistical techniques were adapted as the research design and inferential statistics respectively. It was revealed that there was independence of board but there was failed to align with corporate governance practices. The board size with female minimum number of directors did engage surpass than a less female gender among the director's board. The recommendations stated that the board independency as well as sizeable one should often continue to maintain in order to embrace a sound corporate governance guidelines, ethical conduct and code in line with objectives and goals of insurance companies, which stakeholders, stockholders and shareholders would build on their trustworthy and confidence.

Okonkwo, Anachedo, Jeff-Anyeneh, and Uba (2022) studied corporate governance practices and selected Nigerian insurance companies' financial performance. The research investigated corporate governance practices and selected Nigerian insurance companies' financial performance. Ex-post facto, panel least square regression and granger causality statistical techniques were adapted as the research design and inferential statistics respectively. Outcomes disclosed that size of board was

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significantly and positively predicted as proxy for governance of corporate on performance of finance selected Nigerian companies. Recommendations stated, size of boar and competency should be adequately possessed and provided by insurance companies in order to have a diversified knowledge among board of committee and directors.

Zelalem, Abebe, and Bezabih (2022) studied governance of corporate and Ethiopian insurance companies' performance of finance through emerging economy. The research investigated governance of corporate and Ethiopian insurance companies' performance of finance through emerging economy. Explanatory and econometric panel data from regression technique were adopted methods respectively. Outcomes disclose board remuneration, board size, financial disclosure and management soundness have directly and significantly impacted on insurance companies' performance of finance. Only dividend payout and debt revealed to be indirectly and significantly impacted on insurance companies' performance of finance. Recommendations stated that the properly sound corporate governance frameworks should be available on ground by all directors as well as the stakeholders in order to enhance performance of finance, and the adoption of properly regulated governance of corporate's structures should also develop by policymakers and regulator so as to improve better performance for commercial enterprise.

Elegunde *et al.* (2020) studied the evaluation of governance of corporate practices and selected Nigerian insurance firms' financial performance. The research evaluated the evaluation of governance of corporate practices and selected Nigerian insurance firms' financial performance. Ex-post facto and regression statistical techniques were adapted as the research design and inferential statistics respectively. Outcomes from data tested showed governance of corporate was significant and influenced the Nigerian selected insurance companies' performance of finance. Recommendations stated that the insurance industry should imbibe with corporate governance accountability movement through a sound framed corporate reporting that would cover all area of socio-economic responsibility of environment and sustainability.

Oyedokun (2019) studied characteristics of board and Nigerian performance of finance from quoted deposit money banking. The research investigated characteristics of board and Nigerian performance of finance from quoted deposit money banking. Ex-poste fact and multiple panel regression analysis were employed as research design and inferential data respectively. The outcome showed that board characteristic and gender revealed to be positively significant on Nigerian performance of finance from quoted deposit money banking. Even, meeting board and board size showed significant negatively and negatively non-significant respectively on Nigerian performance of finance from quoted deposit money banking. The recommendations stated that the properly sound corporate governance frameworks should be available on ground by all directors as well as the stakeholders in order to enhance performance of finance, and the adoption of properly regulated corporate governance structures in accordance risk management practices should also be developed by policymakers and regulator in order to ensure better performance of commercial banks enterprise.

Aribaba, and Ahmodu (2017) studied corporate governance mechanisms and quoted Nigerian insurance companies' financial performance. The research investigated corporate governance mechanisms and quoted Nigerian insurance companies' financial performance. Ready-made (ex-post facto) and panel OLSR (ordinary least-square regression) methods were employed as the research design and inferential statistical techniques respectively. The outcomes disclosed independent board, size of board, and composition of audit committee indirectly significant, but board gender diversity was singlehandedly and directly significant to influence performance of finance. Despite this, all of corporate governance proxies have non-significant influence on return on equity (performance). The recommendations stated that all stakeholders and directors of insurance commercial enterprises should focus the rules and regulations for governance of corporate practices in Nigeria.

2.4. Research Gap

The research gap observes for the empirical literatures shows the consistency association with governance of corporate practices and sustainability for some commercial enterprises. Data's limited nature may be the cause of the discrepancies. The study's outcomes showed that profit margin is strongly and favourably significant impacted by the board (Oyedokun, 2019; Elegunde *et al.*, 2020). Almost all of them employed the same techniques to collect and analyse their data (Oyedokun, 2019; Elegunde *et al.*, 2020; Haruna *et al.*, 2022; Okonkwo *et al.*, 2022; Zelalem *et al.*, 2022). Only one researcher adopted Panel OLS regression statistical technique (Aribaba, and Ahmodu, 2017). Only one author investigated on Deposit money banks' firm as well as recommended to cognisant with risk management practices as their culture (Oyedokun, 2019).

3. Methodology

The research primarily adheres on the governance of corporate impact and sustainability in insurance companies through secondary sources of data collection. The data collected is from insurance companies especially their financial reports. Multiple variation regression model has to be adapted as the inferential statistical tools to analyse collected data. More so, ex-post facto methodology was adapted to this research. Sample size of the research is all registered insurance companies and five selected insurance companies based on their premium income earnings and their nature of registration. The financial statements of the listed commercial enterprise of insurance from 2010 to 2019, through Nigerian Insurers Association (NIA) for study period must be gathered and used as documentary source so as to ascertain the governance of corporate's impact on sustainability in Nigerian insurance companies.

3.1. Model Specification

The multiple ordinary least square regression statistics as the inferential statistics is employed to capture the governance of corporate's impact on sustainability in Nigerian insurance companies, variables' associations with one and others in the long-term such as size of board, composition of board and committee of audit. The model has to be designed below (Haruna *et al.*, 2022):

$$ROA = f(SOB, COB, COA) - - - - - - - - - - - - - 1$$

To be able to capture the sustainability (ROA)'s response to size of board (SOB), composition of board (COB) and committee of audit (COA) is expressed as follows:

$$ROA = \beta 0 + \beta 1SOB + \beta 2COB + \beta 3COA + \xi - - - - - - 2$$

Where:

ROA= Return on Assets
α = Intercept
SOB = Size of Board
COB = Composition of Board

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COA = Committee of Audit
β_0 = Constant
$\beta 1 - \beta 3$ = Coefficient of the explanatory variables
ξ = Error term

4. Results and Discussions

The section shows data presentation obtained from various issue, analysing and interpreting of result. This section will further test hypotheses stated in chapter one and the chapter will be closed by discussed outcomes.

4.1. Descriptive Statistics

Table 1: Descriptive Statistics

	ROA	SOB	COB	COA
Mean	0.037569	10.09804	13.96078	5.607843
Median	0.034500	9.000000	16.00000	6.000000
Maximum	0.078100	17.00000	17.00000	12.00000
Minimum	0.011700	6.000000	8.000000	3.000000
Std. Dev.	0.016025	2.858355	3.340424	2.350136
Skewness	0.342391	0.969416	-0.807637	1.356910
Kurtosis	2.411786	3.394058	1.973154	4.865610
Jarque-Bera	1.731708	8.317999	7.784986	23.04630
Probability	0.420692	0.015623	0.020394	0.000010
Sum	1.916030	515.0000	712.0000	286.0000
Sum Sq. Dev.	0.012840	408.5098	557.9216	276.1569
Observations	50	50	50	50

Source: Author's Computation, 2024

The table 1 discloses the description of statistical independent and dependent parameters in the model through the following mean, maximum, minimum and skewness. The measures of mean as an average value disclose return on asset, and size of board disclose 0.037569 and 10.09804 respectively. When average value of board composition is 13.96078. Consequently, the average value of audit committee is 5.607843.

The maximum and minimum values for dependent and independent factors are disclosed below. 0.078100, and 0.0117 is for return on assets value for maximum and minimum respectively. 17.000, and 6.000 is for board size for maximum and minimum respectively. Likewise, 17.00000, and 8.000 is for board composition for maximum and minimum respectively. While audit committee has 12.00 and 3.00 as its maximum and minimum value respectively. This explains that all the variable below the maximum values. The skewness is a metric for the symmetry of a series' distribution around their mean. All parameters, rather than composition of board (COB) lesser than zero, have skewness greater than zero.

Table 2: Regression Statistical Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.087836	0.018464	4.757071	0.0000
SOB	-0.000383	0.000992	-0.386099	0.7019
COB	-0.001605	0.000870	-1.843500	0.0743
COA	-0.004218	0.001404	-3.004066	0.0051

Effects Specification			
Cross-section fixed (dummy variables)			
Period fixed (dummy variables)			
R-squared	0.576987	Mean dependent var	0.037833
Adjusted R-squared	0.371889	S.D. dependent var	0.016076
S.E. of regression	0.012741	Akaike info criterion	-5.623546
Sum squared resid	0.005357	Schwarz criterion	-4.973458
Log likelihood	157.5886	Hannan-Quinn criter.	-5.375989
F-statistic	2.813234	Durbin-Watson stat	2.217410
Prob(F-statistic)	0.005855		

Source: Author's Computation, 2024

$$ROA = 0.0878 + 0.000383\text{SOB} + (-0.00161)\text{COB} + (-0.00422)\text{COA} + 0.423 - - - 3$$

The coefficient of size of board (SOB), composition of board (COB) and committee of audit (COA) reveal 0.000383, -0.00161 and -0.00422 respectively. Implication of this is that ROA increases with lower Size of Board, but decreases with lower Composition of Board, and Committee of Audit. In terms of magnitude, it implies that every 1unit increase in Size of Board only while Composition of Board, and Committee of Audit will increase and decrease on average lead to 0.00038units, 0.00161units and 0.00422units increase in Assets Return respectively.

R-Squared: R-squared statistic shows that explanatory variables in the model (size of board (SOB), composition of board (COB) and committee of audit (COA)) accounted value for 57.7% variation on ROA. Thus, the R-square accounted value shows that the explanatory model value of good satisfactory to be suggested for ROA's predictors.

4.2. Test of Hypotheses

The probability value for size of Board (SOB) is 0.7019 with its significance level of 0.10. Since 0.7019 > 0.10, non-alternative hypothesis is rejected. It is therefore concluded size of Board insignificant impact on the Nigerian commercial insurance enterprise performance of finance.

The probability value for size of Board (SOB) is 0.7019 with its significance level of 0.10. Since 0.0743 < 0.10, alternative hypothesis is accepted. It is therefore concluded composition of Board significantly impacted on the Nigerian commercial insurance enterprise performance of finance.

The probability value for size of Board (SOB) is 0.7019 with its significance level of 0.10. Since 0.0051 < 0.10, alternative hypothesis is accepted. It is therefore concluded committee of audit

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significantly impacted on the Nigerian commercial insurance enterprise performance of finance.

4.3. Discussion of Findings

This research investigates the significantly impacted on the Nigerian commercial insurance enterprise performance of finance. The regression analysis in table 2, ceteris paribus, board size has found to insignificantly add to the reduction of Nigerian commercial insurance enterprise performance of finance over the period under review. The result of correlation from the analyses shows otherwise, that board size positively related to return on asset. This inference concurred with the result of (Haruna, Ame, Oyedokun, & Jaji, 2022). The outcomes disclose that composition of board is resulted to significantly disclose impact on Nigerian commercial insurance enterprise performance of finance but negatively contribute to return on asset of commercial enterprises. The outcome has well non-compromise with the results of (Okonkwo, Anachedo, Jeff-Anyeneh, & Uba, 2022). Moreover, audit committee is significance personnel in an organization. The study found that committee of audit has significantly impacted on the sustainability of Nigerian insurance commercial enterprises.

In collaboration with the previous researchers, Oyedokun (2019); Aribaba, and Ahmodu (2017) results disclosed negatively non-significant association between size of board and ROA, while Okonkwo, Anachedo, Jeff-Anyeneh, and Uba (2022); Zelalem, Abebe, and Bezabih (2022) found a positive and significant relationship between size of board and performance. Consequently, the size of is found statistically insignificant and negatively reduced the sustainability and performance of Nigeria insurance commercial firms. Inference in accordance with the outcomes of his findings showed an insignificantly impacted on size of board on the sustainability of Nigeria insurance commercial firms. Composition of Board and sustainability, on the other hand, have significantly indirect association, which explains that non-executive directors should be moderate with number of executive directors in the appointment of board composition so as not to found weak to turn their returns on asset positively.

5. Conclusion and Recommendations

From the outcomes of the discussion, it is concluded that governance of corporate has succeeded to significantly impact on Nigerian insurance commercial firms. The insurance companies must prepare to meet up with the ethics, rules and regulations guiding the sound governance of corporate's code so as to match with the developed economies. The size of board formation and control span of all stakeholders especially owners (shareholders) should be vast that will not affect their compensatory funds so as not to affect the sustainability of Nigerian insurance companies. In addition to this, board composition also should be the combination of executive directors and non-executive directors so as to have check and balances in the interest of shareholders. Likewise, the members of audit committee have to be appointed in line with major votes without proxy of vote from the shareholders. Nevertheless, the research findings disclose that there is directly significant association between corporate governance and sustainability of Nigerian insurance companies.

Based on the findings, the recommendations among others state that all Nigerian companies of insurance ought to have strictly adhered with the codified sound insurance governance of insurance so as to ensure the collaboration between different stakeholders in the insurance industry in order for the performance improvement and efficient growth of the Nigerian insurance businesses. Insurance managerial teams and the adequately viable regulatory bodies should patiently organise and improve on the ethic practices' governance of corporate and audit committees constituted as well. All insurance firms' audit committee members in Nigeria should appoint nonexecutive directors who are viable experienced financial accounting background.

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