Corporate Governance and Insurance Firms Performance: Empirical Study of Nigerian Experience

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Abstract
The study investigates the relationship between corporate governance and performance of insurance firms in Nigeria. The data used for the study is derived from five consecutive years (2006 and 2010) audited financial reports of 10 insurance firms listed on the Nigerian stock exchange. This represents 50 firms-years time series observations. Using Pooled Least Square method, the data is processed with E-views software to derive statistical results. The results show varying positive relationship between corporate governance and firm's performance. The board size, CEO status, audit committee, dividend policy and annual general meeting, all indicate positive relationship between corporate governance and performance of insurance firms in Nigeria. However, the results show negative relationship between block-holders and institutional ownership in relation to firms' performance. The outcome emphasises the importance of good corporate governance structure in Nigerian insurance firms and the economy at large. The study contributes to knowledge on the subject in two major ways: first, it delivers a more robust and simple understanding of the impact of corporate governance on firm's performance; and second, It fills knowledge gap because no study has been conducted on corporate governance and firm's performance in the Nigerian insurance industry.

Key words: *Insurance, Firm's performance, Corporate governance, Insurance firms, Nigeria.*

1.0 Introduction

The recent global financial crisis has negatively impacted economy of countries, resulting to major challenges in insurance companies. The crisis was aggravated by corporate scandals around the world. These events suggest failing corporate governance. For instance, the recent financial scandals due to accounting frauds and funds management in large institutions as Adelphia, Enron, and WorldCom were traced to the behaviour of top executives and their excessive risk taking which does not serve the best interest of shareholders and other stakeholders. The crisis emanated from excessive risk-taking (Kashyap *et al.,* 2008); thus increases the level of risks faced by firms (Raber, 2003). This highlights the importance of appropriate corporate governance structure for managing firms' risks. Insurance is a key component of the financial services sector. Insurance activity promotes growth by providing a platform for efficient risk management, promotes long term savings, encourages accumulation of capital and mobilises domestic savings for productive investment (Arena, 2008). Insurance services are essential for economy stability and development. A virile insurance sector is a yardstick for measuring healthy economy and efficiency of financial services sector (Vadlamannati, 2008; Marijuana *et al*., 2009). Insurance promotes business

activity by providing protection to enhance the safety of firms' investments. Good corporate governance positively impact firm's performance (Claessen *et al.*, 2002; Gompers *et al.*, 2003; OECD, 2009a). It is therefore necessary that insurance sector should adequately play its role; and imbibe good corporate governance practice to promote and strengthen the insurance industry.

The paper is organised into eight sections. Section one introduces the study. The second section highlights scope, objectives and significance of study. The third section establishes the study theoretical framework and reviews the literature. It also discusses four complementary theoretical perspectives on corporate governance. The fourth and fifth section focuses on corporate governance and firm performance; and develops the study hypotheses respectively. Section six outlines the methodology, and section seven explores empirical results. Finally, the last section highlights the study conclusions and recommendations.

2.0 Scope, Objectives and Significance of Study

The study contributes new dimensions and understanding to the literature on the impact of corporate governance on firms' performance, particularly the Nigerian insurance firms. The objectives of the study include:

a) To contribute to the ongoing debate on the relationship between corporate governance mechanisms and firm performance;

b) To review complementary theoretical perspectives on corporate governance; and

c) To identify corporate governance mechanisms and their impacts on performance of insurance firms in Nigeria.

Studies conducted in the developed countries confirm that there is positive relationship between good corporate governance and firms' performance (Coase, 1937; Jensen and Meckling, 1976; Fama and Jensen, 1983; Harris and Raviv, 1988; Vishny and Shleifer, 1997; OECD, 2009a). However, little research has been done on the subject in developing countries, and even less in Nigeria. Moreover, studies conducted so far on the subject of corporate governance in Nigeria have concentrated exclusively on firms quoted on the Nigerian Stock Exchange (Sanda *et al.*, 2005; Kajola, 2008; Babatunde and Olaniran, 2009; Duke and Kankpang, 2011). Specifically, no study has been conducted on corporate governance and performance in the Nigerian insurance industry. The study intends to fill this gap and contribute to knowledge on corporate governance and performance of insurance firms in Nigeria. Furthermore, the study is imperative to facilitate rapid expansion of the insurance sector so as to attain its importance in the Nigerian economy.

3.0 Theoretical Framework and Review of Literature

Insurance is a contractual obligation between two parties, insured (buyer) and insurer (seller), whereby the insurer undertakes to indemnify the insured in the event of insured loss(es) in exchange for payment of premium, subject to the contract terms and conditions (Thoyts, 2010). Insurance plays a vital role and enhances growth of insurance activity, giving the process of financial integration and liberation (Kugler and Ofoghi, 2005). Meanwhile, executives' risk-taking behaviour has triggered the interest of investors and policymakers in corporate governance practices in the insurance industry (Baranoff and Sagar, 2009). Good corporate governance by organisation, including insurance firms, culminates to higher firm's market value, lower cost of funds and higher profitability (Black *et al.*, 2006; Claessen, 2006). Moreover, recent study on insurance sector development and economic growth in Nigeria reveals that insurance sector growth and development positively and significantly affects economic growth (Oke, 2012).

Corporate governance is highly relevant in managing firms in the current global and dynamic environment. Hence, there is greater need for accountability due to the emergence of globalisation, which de-emphasises lesser governmental control. Corporate governance entails firms' economic and non-economic activities. Basically, it deals with problems of conflict of interest design to prevent corporate misconduct and aligns the interests of stakeholders through incentive mechanism (Shleifer and Vishny, 1997). Good corporate governance contributes to nation's economic growth and development; as it increases investors' confidence and goodwill, ensures transparency, accountability, responsibility and fairness. The benefits of good corporate governance practices to a firm, among others, include: increasing firm valuations and boast profitability (Gompers *et al*., 2003); facilitating greater access to financing, lower cost of capital, better performance and favourable treatment of stakeholders (Claessen *et al*., 2002); and promoting better disclosure in business reporting, thereby facilitating greater market liquidity and capital formation (Frost *et al*., 2002).

The literature on corporate governance provides some form of meaning on governance which includes words like manage, govern, regulate and control. Hence, corporate governance models can be flawed as social scientists may develop their own scopes and concepts about the subject. There is therefore no universally accepted definition of corporate governance. For the purpose of this study, corporate governance is view as a set of rules which governs the relationship between a firm management, shareholders and stakeholders (Ching *et al.*, 2006). However, the understanding of corporate governance can be deciphered from an examination of a number of theories that attempt to explain the basis and rationale behind the concept. The subsequent literature is reviewed from four complementary theoretical perspectives: agency theory, stewardship theory, resource decency theory and stakeholder theory.

3.1 *Agency theory*

Agency theory is one of the theoretical principles underlining the concept of corporate governance. It has its roots in economic theory exposited by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The principle emerges out of separation of ownership and control. It focuses on the relationship between the principals (e.g. shareholders), the agents (e.g. company executives) and the managers. According to this theory, shareholders (who are the owners or principals of the company) hire agents to perform work; while, the principals delegate the running of the business to directors or managers (who are the shareholder's agents) (Clarke, 2004). The agency theory focuses on problems that can arise when one parts (the 'principals') contracts with another part (the 'agents') to make decisions on behalf of the principals. Agency problems may occur because agents can hide information and manage firms' in their own interest; for example, as in the cases of Adelphia, Enron, WorldCom and Parmalat). According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building (La Porta *et al*., 2000).

Ideally, shareholders expect the agent to act and make decisions in the principal's interest. However, the agent may not necessarily act and make decisions in the best interests of the principals (Padilla, 2000). Although, the first detailed description of agency theory was presented by Jensen and Meckling (1976); its potential issues and problems were highlighted by Adam Smith (1776), and subsequently explored by Ross (1973) and Davis *et al*. (1997). The loss arising from misappropriated interest of opportunistic and self-interested managers can be described as 'agency loss'. Agency loss represents the extent to which returns to the residual claimants, the owners, fall below what they would be if the owners exercised direct

control over the company (Jensen and Meckling, 1976). Agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Daily *et al.* (2003) argue that two major factors influence the prominence of agency theory. One, the theory is conceptually and simple theory that reduces firm to two participants: managers and shareholders. Two, agency theory suggests that employees or managers in firms can be self-interested. Notwithstanding the setbacks in terms of managers' self-interest, Roberts (2004) argues that the remedy to agency problems within corporate governance involve the acceptance of certain agency costs as either incentives or sanctions to align both the executives' and shareholders' interests. In other word, agency theory highlights the significant role of corporate governance to facilitate compliance by curtailing executives' self-serving inclinations to compensate their risk through opportunistic means (Lubatkin, 2005)

3.2 *Stewardship theory*

Stewardship theory has its roots from psychology and sociology. The theory is based on the assumption that the interest of shareholders and the interest of management are aligned; hence management is motivated to take decisions that would maximise firm's performance and total value. The theory advocates that there is greater utility in cooperative than individualistic behaviour (Donaldson and Davis, 1991); in that, managers maximise their utility functions, while maximising shareholders' wealth (Davies *et al*., 1997). To achieve these goals, the shareholders must authorise the appropriate empowering governance structure, mechanisms, authority and information to facilitate the management autonomy, built on trust, to take decisions that would minimise their liability while achieving firm's objectives (Donaldson and Dave, 1991). Thus, stewardship theory recognises the need for executives to act more autonomously to maximise the shareholders returns.

Unlike agency theory, stewardship theory stresses the role of top management as stewards, expected to integrate their goals as part of the organisation. This suggests that stewards are satisfied and motivated when organisational goals are attained. Davis *et al*. (1997) identify five components of the management philosophy of stewardship: trust, open communication, empowerment, long-term orientation and performance enhancement. Daily *et al*. (2003) argue that executives and directors are inclined to protect their reputations by ensuring that their organisations are properly operated to maximise financial performance. Shleifer and Vishny (1997) affirm that managers work to maximise investors profit and to establish a good reputation to enable them retain their positions. Stewardship theory also advocates unifying the role of the CEO and the chairman in order to reduce agency costs (Abdullah and Valentine, 2009). Finally, Donaldson and Davis (1991) shows that combining both stewardship theory and agency theory improved firm performance, rather than separated.

3.3 *Resource Dependency Theory*

The resource dependency theory was developed by Pfeffer (1973) and Pfeffer and Salancik (1978). The theory emphasises the importance role played by board of directors (BODs) in providing access to resources that would enhance the firm's performance. The boards perform these functions through social and professional networking (Johannisson and Huse, 2000), linkages with the external environment (Hillman *et al*., 2000) and interlocking directorates (Lang and Lockhart, 1990). Firms require resources to function properly, because accessibility to resources enhances organisational functioning, performance and survival (Daily *et al*., 2003). The resource dependency theory is highly relevant to businesses, as diverse background of the directors enhance the quality of their advice (Zahra and Pearce, 1989). The theory favours larger boards, as coordination and agreement are harder to reach in

larger boards (Booth and Deli, 1996; Dalton *et al*., 1999). However, Cheng (2008) shows that large BODs do not seem to be associated with a higher firm value.

Abdullah and Valentine (2009) classify directors into four categories: insiders, business experts, support specialists and community influentials. One, the insiders are current and former executives that provide expertise in specific areas of the firm. Two, the business experts are current, former senior executives and directors of other large for-profit firms that provide expertise on business strategy, decision making and problem solving. Three, the support specialists are specialists like lawyers, bankers, insurance company representatives that provide support in their individual specialised field. Lastly, the community influentials are political leaders, university faculty, members of clergy, leaders of social or community organisations. Outside directors play positive role in monitoring and control function of the board because firm value increases with the number of outside directors (Coles *et al*., 2006; Boubakri, 2011). However, Brick and Chidambaran (2008) observe that board independence (i.e., higher percentage of outsiders) is negatively related to firm risk when measured by the volatility of stock returns.

3.4 *Stakeholder Theory*

Agency theory 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. The stakeholder theory holds the view that managers in organisations have a network of relationships to serve; this include employees, shareholders, suppliers, business partners and contractors. The theory was developed by Freeman (1984) with emphasis on the need for managers to be accountable to stakeholders, including shareholders. According to Freeman (1984:229), stakeholders are "*any group or individual that can affect or is affected by the achievement of a corporation's purpose*". To facilitate adequate protection of stakeholders' interest, stakeholder theory proposes the representation of various interest groups on the organisation's board to ensure consensus building, avoid conflicts, and harmonise efforts to achieve organisational objectives (Donaldson and Preston, 1995).

Stakeholder theory has been criticised for over saddling managers with responsibility of being accountable to several stakeholders without specific guidelines for solving problems associated with conflict of interests. Freeman (1984), however, contends that the network of relationships with many groups can affect 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. Similarly, Donaldson and Preston (1995) contend 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. Due to the complex nature of stakeholder theory, Donaldson and Preston (1995) assert that stakeholder theory cannot be a single theory, but categorised them into three different approaches: descriptive, instrumental and normative. Consequently, Jensen (2001) suggests that managers should pursue objectives that would promote the long-term value of the firm by protecting the interest of all stakeholders. The implication is that managers are expected to consider the interests and influences of people who are either affected or may be affected by company's policies and operations (Frederick *et al*., 1992).

4.0 Corporate Governance and Firm Performance

The literature reveals inconsistencies in research findings regarding relationship between corporate governance practices and firm performance. The inconsistencies could be attributed to restrictive nature of data. Most of the studies on the relationship between corporate governance and firm performance confirm causality (Abor and Adjasi, 2007). However, the evidence indicates between a strong and very weak relationship. Studies that have demonstrated these varying positive relationships include: Hossain *et al*. (2000), Black (2001), Drobetz *et al*. (2003), Gompers *et al*. (2003), Gemmill and Thomas (2004), Klapper and Love (2004), Nevona (2005), Bebchuk *et al*. (2006), Black and Khana (2007), Bruno and Claessens (2007), Chhaochharia and Laeven (2007), El Mehdi (2007), Kyereboah-Coleman (2007), Larcker *et al*. (2007), Wahab *et al*. (2007), Brown and Caylor (2009), and Duke and Kanpang (2011). Some studies have however argued against a positive relationship between corporate governance and firm performance (Bathala and Rao, 1995; Hutchinson, 2002; Gillan *et al*., 2006; Ferreira and Laux, 2007; Pham *et al*., 2007). Nevertheless, some studies could not established any relationship (Park and Shin, 2003; Singh and Davidson, 2003). This lack of unanimity continues to render the discussion interesting and inconclusive.

Notwithstanding these conflicting results, the literature generally attests to the importance of good corporate governance in enhancing firm performance. This is further confirmed by the attention given to issues of corporate governance by governments, regional bodies, and private institutions. Moreover, the OECD (2009b) on the corporate lessons from the 2007 global financial crises, concludes that the crises was largely due to failures and weaknesses in corporate governance arrangements resulting to excessive risk taking by financial institutions.

5.0 Hypotheses Development

In this section, we consider some characteristics of corporate governance and developed hypotheses there from. The empirical literature on corporate governance and firm performance identifies a number of characteristics of corporate governance that influence firm performance. The main hypothesis determines whether all the independent variables together, which represent the corporate governance, have effect on the dependent variable which reflects the firm's performance. The first hypothesis states:

H_1: There is no positive relationship between corporate governance and performance of insurance firms in Nigeria.

5.1 Board size

According to Jensen (1993), a value-relevant of corporate boards is its size. The number of directors constituting the board of a company can influence its performance positively (Sundgren and Wells, 1998; Anderson *et al*., 2004; Mak and Kusnadi, 2005) or negatively (Yermack, 1996; Liang and Li, 1999). Limiting board size is believed to improve firm performance. However, there is no scientific limit as to the size of the board, or any level identified as optimal for the size of the board. Jensen (1993), and Lipton and Lorsch (1992) argue that larger boards are less effective and easier for powerful CEOs to control. Likewise, Eisenberg *et al*. (1998) and Mak and Kusnadi (2005) emphasis that small size boards are positively related to high firm performance. When a board becomes too large, it becomes difficult to coordinate and tackle strategic problems of the organisation. A study on corporate governance mechanisms and firm performance in Nigeria, reports that firm performance is positively correlated with small, as opposed to large boards (Sanda *et al*., 2005). We therefore develop the second hypothesis as follows:

H_2: The size of the board of directors is negatively related to firm performance.

5.2 CEO Status

Several studies have examined the separation of CEO and chairman of the board, suggesting that agency problems are higher when the same person occupies the two positions. Generally, separation of office of board chair from that of CEO seeks to reduce agency costs for a firm. Abor and Adjasi (2007) demonstrate that duality of the both functions constitute a factor that influences the financing decisions of the firm. Brickley *et al*. (1997) suggest that the combination of the two positions result to conflict of interest and higher agency cost. Furthermore, Yermack (1996) shows that firms are more valuable when the CEO and the chairman of the board positions are occupied by different persons. Meanwhile, Kajola (2008) establishes a positive and statistically significant relationship between performance and separation of the office of board chair and CEO; while, Liang and Li (1999) do not find a positive relation on the separation of the position of CEO and board chair. The third hypothesis is developed from the discussion:

H_3: The separation of CEO and board chairman positions is negatively related to firm performance.

5.3 Institutional Ownership

The nature of a company's ownership structure influences its performance. The company's share ownership structure could either be widely-dispersed or concentrated ownership where the firm's shares are owned by few largest shareholders, mostly by institutions. The presence of large shareholders in a firm's capital structure would greatly impact the firm's performance positively. This is because these shareholders are able to influence management decision and also have the resources to monitor management activity and the power to remove non-performing managers from office. Depending on the involvement and influence, institutional shareholding is a key signal to other investors of the potential profitability of a firm. This could lead to increase demand for the firm's shares and improve its market valuation (Kyereboah-Coleman, 2007). We developed the fourth hypothesis as follows:

H_4: There is no positive relationship between institutional shareholding and firm performance.

5.4 Audit Committee

Audit committees are sub-committee of the board of a firm. To facilitate independence of the audit committee, the committee must consist of non-executive directors with a membership of not less than three. This is necessary in order to enhancing the credibility and integrity of financial information produced by the company and to increase public confidence in its financial statements. Klein (2002) and Anderson *et al*. (2004) establish a strong association between audit committee and firm performance; while, Kajola (2008) shows no significant relationship between both variables. This lack of consensus presents scope for deeper research on the impact of audit committee on firm's performance. We therefore develop the fifth hypothesis:

H_5: There is no positive relationship between the size of audit committee and corporate performance.

5.5 Dividend Policy

A firm's dividend policy states how profit would be appropriated when declared. The profit could either be used to pay dividend to shareholders or retain for investment in the company. Firm's dividend helps investors to determine which company to invest. Firms may have to raise funds from the financial market for investment, if they pay more of their profit in the form of dividend to the shareholders. Companies with more generous dividend policy are

likely to attract more investors and this could positively impact their performance. This leads to our sixth hypothesis:
H_6: There is negative relationship between dividend policy and firm performance.

5.6 Block-holders

Block-holders connote the number of shareholders who own shares in the company. Shareholders play a major role in a firm decision process, especially if they have voting rights. Good corporate governance emphasises that shareholders are not just suppliers of fund, but also ideas and direction. Therefore, shareholders serve as a monitoring agency because they participate, directly or indirectly, in the firm's operations. This leads to our seventh hypothesis:
H_7: There is negative relationship between block-holders and firm performance.

5.7 Annual General Meeting

The Annual General Meeting (AGM) is the highest decision making body of a firm. AGM offers shareholders the opportunity to take part in the governing process of the company. It serves as a monitoring mechanism and enhances transparency of the firm's operations. It is a period of accountability by the directors, of their stewardship, to shareholders and the renewal of their mandate to continue in office. Major decisions are taken by the shareholders at the meeting which determine the strategic direction of the company. These processes would help to improve the firm's performance. This leads to the eighth hypothesis:
H_8: There is negative relationship between annual general meeting and firm performance.

6.0 Methodology

6.1 Data Collection and Processing

The data used for the study is derived from the literature and audited financial statements of the firms for the period of 2006-2010. The method employed for the study is Pooled Least Squares and the software used for data processing is E-views. It provides various statistics such as standard deviation, t-statistic, f-statistic, probability, mean, median, mode, maximum value, minimum value and range.

6.2 Sample

The sample frame is the total number of insurance firms listed on the Nigerian stock exchange. The total observations are 10 firms for five consecutive years (2006-2010). This represents 50 firms-years time series observations.

6.3 Model Specification

The economic model used is given as: $Y = \beta_0 + \beta F_{it} + e_{it}$ (1)

Where, Y is the dependent variable, β_0 is constant, β is the coefficient of the explanatory variable (corporate governance mechanisms), F_{it} is the explanatory variable and e_{it} is the error term (assumed to have zero mean and independent across time period).

The study independent variables include: board size, CEO status, institutional ownership, audit committee, dividend policy, block-holders and annual general meeting. The firm performance measurement mechanisms employed are rate of equity (ROE) and profit margin (PM). It is however difficult to get the required information relating to market value and performance of Nigerian firms. In the empirical literature, Tobin's Q has been used extensively as a proxy for measuring firm's performance. To mitigate this problem, many

scholars (see Sanda *et al*., 2005; and Kajola, 2008) used modified form of Tobin's Q to study corporate governance and firms' performance in Nigeria. This study does not follow their line of assumption, as the various modifications made on the original Tobin's Q are considered to be subjective and may influence the outcome of the study.

By adopting the economic model as in equation (1) above for this study, equation (2) below evolves.

$$PERF_{it} = \beta_0 + \beta_1 BSize + \beta_2 CEOS + \beta_3 IOWNERS + \beta_4 AUDCOM + \beta_5 DPolicy + \beta_6 BHolders + \beta_7 AGM + e_{it} \quad (2)$$

Variables and their descriptions, as used in the study are shown in Table 1.

Table 1: Variables and measurement

VARIABLES	**MEASUREMENT**
Firm Performance	
Rate of Equity = ROE	Net profit as a percentage of shareholders equity
Profit Margin = PM	Profit after tax as a percentage of turnover
Independent Variables	
Board Size = BSIZE	Number of directors on the board
CEO Status = CEOS	A binary that equal one if the CEO is chairman of the board and 0 if otherwise
Institutional Ownership = IOWNERS	Percentage of shares held by institutions
Audit Committee = AUDCOM	Number of members and affiliates of audit committee
Dividend Policy = DPOLICY	The profit used to pay dividend to shareholders or retained for re-investment in the firm
Block-holders = BHOLDERS	Number of shareholders who own shares in the company
Annual General Meeting = AGM	AGM where major decisions about the firm is taken

7.0 Empirical Results

7.1 Descriptive Statistics

Table 2 below shows the descriptive statistics of all the variables used in the study.

Table 2: Descriptive statistics

Observation (n) = 50							
Variables	**Mean**	**Median**	**Mode**	**Std Dev.**	**Min.**	**Max.**	**Range**
Firm Performance							
ROE	0.9024	0.4745	0.10	1.5703	-1.98	9.37	11.35
PM	0.0243	0.0495	0.02	0.1837	-1.56	0.38	1.94
Independent Variables							
BSIZE	9.2565	8.9995	9.00	2.3154	5.00	16.00	11.00
CEOS	0.2566	1.0000	1.00	0.3512	0.00	1.00	1.00

IOWNERS	0.6753	0.0761	0.08	1.3020	4.00	16.00	12.00
AUDCOM	0.8657	0.8295	0.83	0.1175	1.00	4.00	3.00
DPOLICY	0.5300	7.0176	7.01	2.1112	2.00	10.00	8.00
BHOLDERS	0.8600	0.0120	0.06	0.2110	4.00	8.00	4.00
AGM	0.9500	5.0110	1.00	0.3210	1.00	6.00	5.00

The mean ROE of the sampled firms is about 90% and the mean PM is 2.4%. The results indicate that, on the average, for every N100 turnover of the sampled firms, N2.50 was the profit earned. The average board size of the 10 firms used in this study is 9, while the proportion of the firms with dividend policy is about 7. Institutional ownership constitutes 68% of ownership on the average meaning 32% of ownership is held by individual investors.

On the average 53% of the companies have dividend policy whilst 47% of them are without. Most of the companies, that is, 95% held regular shareholders annual general meeting in the last five years. The result also indicates that 25.6% of the sampled firms have separate persons occupying the posts of the chief executive and the board chair, while mere 74.4% of the firms have the same person occupying the two posts. A majority of the firms (86.5%) have audit committees composed of at least 83% of outside members. The Nigerian Companies and Allied Act, 1990 prescribes a 6-member audit committee (3 members representing the shareholders and 3 representing the management/ directors). One can therefore infers that majority of the boards of the sampled firms are independent.

7.2 Regression Results and Discussion

7.2.1 Regression Results

For the main hypothesis (hypothesis 1), the f-statistic value is used to reject or accept it. On the other hand, the t-statistic value is used to accept or reject other hypotheses (hypotheses 2-9) which measure the relationship between independent variables and ROE individually.

Table 3: Regression analysis (based on ROE)

Variables	**t- statistic**	**Prob.**
BSIZE	1.8721186	0.0423
CEOS	1.7322153	0.0410
IOWNERS	-1.1321170	0.0751
AUDCOM	1.6870000	0.472
DPOLICY	1.9523110	0.0419
BHOLDERS	-1.0675240	0.0953
AGM	1.6668830	0.0442
R-square	0.525682	
F-statistic	2.422563	
Prob. (F-statistic)	0.048937	

7.2.2 Decision Rules

The decision to accept or reject a null hypothesis is based on the application of decision rules to the regression results. The decision rule is stated below:

T-statistic > 1.654;
Prob. < 0.05; and
F-statistic > 1.81.

If these conditions are achieved, then there is a significant relationship between the independent variable and firm performance. By applying the decision rules on the regression results (see Table 3), the statistical results (summary of findings) achieved is shown in Table 4 below.

Table 4: Statistical results (summary of findings)

Hypothesis	Null Hypothesis (H_o)	Reject/Accept
1 Main hypothesis	**There is no positive relationship between corporate governance and performance of insurance firms in Nigeria.**	Rejected
2	The size of the board of directors is negatively related to firm performance.	Rejected
3	The separation of CEO and board chairman positions is negatively related to firm performance.	Rejected
4	There is no positive relationship between institutional shareholding and firm performance.	Accepted
5	There is no positive relationship between the size of audit committee and corporate performance.	Rejected
6	There is negative relationship between dividend policy and firm performance.	Rejected
7	There is negative relationship between block-holders and firm performance.	Accepted
8	There is negative relationship between annual general meeting and firm performance.	Rejected

7.3 Discussion

7.3.1 *Board Size and Firm Performance*

H_2: The size of the board of directors is negatively related to firm performance.

For the hypothesis, the results shows t-statistic (1.8721186) is more than 1.654, and the probability (0.042) is less than 0.05. This null hypothesis is rejected, as the results indicate statistical positive relationship between board size and firm performance. This is consistent recent studies which show a positive and significant relationship between these two variables (Kajola, 2008, Duke and Kanpang, 2011; Najjar, 2012; Tornyeva and Wereko, 2012).

7.3.2 CEO Status and Firm Performance

H_3: The separation of CEO and board chairman positions is negatively related to firm performance.

The results show positive and significant relationship between CEO status and firm performance, as the t-statistic (1.732) is more than 1.654 and the probability (0.041) is less than 0.05. The null hypothesis is therefore rejected. This implies that most of the sampled firms, in the period under study, have separate persons occupying the posts of chief executive and the board chair. The outcome is consistent with the findings of previous empirical studies

(Yermack, 1996; Kajola, 2008; Duke and Kangang, 2011). However, some studies suggest that firm performance is not affected by the separation or unification of the CEO and chairperson positions (Najjar, 2012).

7.3.3 Institutional Ownership and Firm Performance

H_4: There is no positive relationship between institutional shareholding and firm performance.

Our results show that there is no positive relationship between institutional shareholding and firm performance, as the t-statistic (-1.132) is less than 1.654 and the probability (0.075) is greater than 0.05. We therefore accept the null hypothesis. This is in consonant with Tong and Ning (2004) and Al-Najjar (2010) which show negative relationship between institutional shareholdings and firm performance.

7.3.4 Audit Committee and Firm Performance

H_5: There is no positive relationship between the size of audit committee and corporate performance.

The result shows that there is a statistically significant positive relationship between the size of audit committee and firm performance, as the t-statistic (1.687) is more than 1.654 and the probability (0.0472) is less than 0.05. Therefore the hypothesis is rejected. The outcome is consistent with Kajola (2008) and Tornyeva and Wereko (2012) results which indicate positive relationship between the size of audit committee and corporate performance.

7.3.5 Dividend Policy and Firm Performance

H_6: There is negative relationship between dividend policy and firm performance.

The t-statistic (1.9523) is greater than 1.654, and the probability (0.0419) is less than 0.05. We therefore reject the null hypothesis, as the result shows positive relationship between dividend policy and firm performance. This position is also supported by previous studies (Baker *et al.*, 1985; Pruit and Gitman, 1991; Tornyeva and Wereko, 2012). This suggest that firms with more generous dividend policy are likely to attract more investors and this would positively impact their performance

7.3.6 Block-holders and Firm Performance

H_7: There is negative relationship between block-holders and firm performance.

The t-statistic (-1.06752) is less than 1.654, and the probability (0.0953) is more than 0.05. Based on the regression results, we accept the null hypothesis because the results indicate that the number of block-holders does not affect the firm's performance. This position is consistent with Najjar (2012) which shows that there is negative relationship between block-holders and firm performance.

7.3.7 Annual General Meeting and Firm Performance

H_8: There is negative relationship between annual general meeting and firm performance.

The t-statistic (1.6669) is more than 1.654, and the probability (0.0442) is less than 0.05. The results indicate a positive relationship between performance and annual general meeting. We therefore reject this hypothesis. This suggests that annual general meeting is an accountability

mechanism during which the directors are held accountable to the shareholders, according to Cordery (2005). The result is consistent with Dar *et al*. (2011) findings which establish positive relationship between return on equity and shareholders annual general meeting.

7.3.8 Corporate Governance and Firm's Performance

H_1: There is no positive relationship between corporate governance and performance of insurance companies in Nigeria.

This is the main hypothesis which measure (combine) the impacts of independent variables and their impacts on firm's performance. The f-statistic value is used to reject or accept this null hypothesis. The results show that f-statistic value (2.424653) is greater than 1.81 and the probability (0.048954) is less than 0.05. We therefore reject the null hypothesis because the results show a significant relationship between corporate governance and insurance firm's performance in Nigeria. Generally, the results indicate varying positive relationship. This is consistent with previous studies which have demonstrated varying positive relationships between corporate governance and firm's performance (see Hossain *et al*., 2000; Black, 2001; Drobetz *et al*., 2003; Gompers *et al*., 2003; Gemmill and Thomas, 2004; Klapper and Love, 2004; Nevona, 2005; Bebchuk *et al*., 2006; Black and Khana, 2007; Bruno and Claessens, 2007; Chhaochharia and Laeven, 2007; El Mehdi, 2007; Kyereboah-Coleman, 2007; Larcker *et al*., 2007; Wahab *et al*., 2007; Kajola, 2008; Brown and Caylor, 2009; Duke and Kanpang, 2011; Duke and Kanpang, 2011; Najjar, 2012; Tornyeva and Wereko, 2012).

8.0 Conclusions and Recommendations

8.1 *Conclusions*

The literature reveals that several studies have been conducted and still on-going on the impact of corporate governance mechanisms on firm's performance. The outcome of these studies varies because their findings depend largely on the kind of methodology and data adopted for their study. Using five years (2006 and 2010) data of 10 insurance firms listed on the Nigerian stock exchange, the study examined the relationship between corporate governance mechanisms and performance of insurance firms in Nigeria. Generally, the results indicate varying positive relationship between corporate governance and firm's performance. The board size, CEO status, audit committee, dividend policy and annual general meeting, all indicate positive relationship between corporate governance and performance of the insurance firms in Nigeria. However, the results also show negative relationship between block-holders and institutional ownership in relation to firms' performance.

8.1 *Recommendations*

We conclude that good corporate governance significantly impact firms' performance in the Nigerian insurance industry. The results further emphasise the importance of good governance structure in the Nigerian insurance firms and the economy at large. To ensure that good governance practices are entrenched in Nigerian insurance firms, we put forward the following recommendations:

- Every insurance firm should properly define corporate governance mechanisms and effectively implement them in order to attain the firm's long-term goals, build stakeholders' confidence and generate positive investment flows.
- The recent global financial crisis enormously impacts on the the Nigerian economy, resulting to major problems in insurance companies. Consequently, insurance firms

should focus on good corporate governance to facilitate speedy recover from the crisis.
- There is need for the Nigeria insurance practitioners to collaborate with stakeholders to promote good corporate governance so as to improve the performance of insurance firms in Nigeria. This necessary to ensure rapid expansion of the sector to attain its importance in the Nigerian economy.
- Regarding future research, researchers' efforts should be directed at increasing sample size, corporate governance variables, and study time frame in order to obtain more accurate and reliable results. This study could not investigate other corporate governance characteristics due to data constraints. Future studies could consider other important corporate governance characteristics; such as insider ownership, remuneration committee, nomination committee, CEOs remuneration, capital structure, disclosure and frequency of board meetings. Furthermore, firm's performance is influenced by other factors, other than corporate governance. Issues of social, legal, economic and political environment are equally important. Future studies may examine some of these factors in exploring the impact of corporate governance on firm's performance.

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