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Sequence of Manuscript

I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
X. Appendices (if necessary)
XI. Author Biographies (optional)

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FINANCIAL PERFORMANCE OF QUOTED INSURANCE COMPANIES IN NIGERIA: DOES AUDIT COMMITTEE INDEPENDENCE AND BOARD SIZE MATTERS

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ABSTRACT

The study examines the e ect of corporate governance mechanism on ÿnancial performance of quoted insurance companies in Nigeria. It speciÿcally examines how Audit committee Board size and Firm size a ect performance of insurance companies in Nigeria. The population of the study is 38 insurance companies in which 11 insurance companies were selected using ÿlters. The study covers a period of 12 years 2011 to 2022. Secondary data was used from annual ÿnancial statement of the sampled insurance companies. Four hypotheses were formulated and were tested using regression analysis. The study shows Board size has a positive signiÿcant e ect on ÿnancial performance while composition of audit committee show a signiÿcant negative e ect on ÿnancial performance of the selected insurance companies. The research concludes that a robust and statistically significant positive effect of board size on financial performance within Nigerian insurance firms exist and hence underscores the strategic importance of having a larger board. It is recommended that given the significant positive effect of board size on financial performance, organizations in the Nigerian insurance sector should consider increasing their board size to 15 as recommended by NAICOM

Keywords: Board Size, Audit Committee, Firm Size, Corporate Governance, Financial Performance.

1. Introduction

Financial Performance is the capability of an entity to expand and deal with its available resources in several different ways to maintain competitive advantage. High performance implies that management are effective and efficient in utilization of the entity's resources which in turn improve the economy at large. Effective financial performance is attributable in proper implementation of corporate governance mechanism.

Corporate governance is about ensuring that the business is run well, and investors obtain a fair return. The OECD (1999) offers a comprehensive concept of corporate governance. Corporate governance is defined as "the framework by which business corporations are directed and controlled. Corporate governance mechanism looks at controls put in place by companies and ensures that things are done correctly as outlined in the Code of Corporate Governance (2023)

The basic role of corporate governance is regulating the board's actions. It is a control and monitoring system in which the board of directors oversees the work of management to maximize shareholder value (Jebran & Chen, 2020). The importance of corporate governance to the performance of the financial system cannot be overstated, since the two are inextricably interwoven. According to Yunana (2009), "good corporate governance systems foster the establishment of robust financial systems – whether they are primarily bank-based or market-based, which have an undeniably favorable influence on economic growth and poverty reduction." Effective corporate governance improves enterprises' access to external finance, resulting in more investment, as well as better growth and employment."

Insurance firms give distinct financial services to any economy's growth and development. Such specialized financial services include the insuring of risks inherent in economic organizations as well as the mobilization of huge sums of capital through premiums for long-term investments. The risk-absorption role of insurers fosters financial stability in financial markets and provides economic entities with a sense of security. The ability of insurance firms to cover risk in the economy is dependent on their ability to generate profit or value for their shareholders. A well-developed and evolving insurance business benefits the economy by providing long-term financing for development (Charumathi, 2012; Ahmed, Ahmed, & Ahmed, 2010;

Insurance companies like any other form of business are essential for the purpose of making profits. The ability of insurance companies to make profit led to growth and development of the business and by extension the growth of the economy. It has been observed that financial performance of insurance companies has been dwindling. The contribution of insurance sub sector to the country Gross Domestic Product (GDP) is not on an upward trend it goes up and later goes down this can be seen as obtained from the National bureau of statistics report, it indicates that from 2017 to 2022. In 2017 it grows by 2.83%, in 2018 it decreases to 2.72%, 2019 it rose to 3.19%, while in 2020 it came down to 3.07%, 2021 and 2022 contributed 3.66% and 3.95% respectively. to the country GDP. (Nigeria Bureau of Statistics 2017-2022). This movement up and down will potentially affect the contributions of insurance companies to various stakeholders and gross domestic product of the country. Several factors are responsible for causing such under performance one of which may be improper implementation of corporate governance mechanism. It is argued that proper implementation of governance codes will defines a client decision as to where and how a business should discharge its operation. While this can be considered as a laudable objective there is however a concern as to whether insurance companies in Nigeria implement corporate governance mechanism as provided. If yes, why is it that the performance of the insurance companies is below expectation? Could it be that the code has no significant bearing with the financial performance of insurance companies?

The following research questions are raised for the purpose of this research.

To what extend:

i. Does audit committee independence significantly improve return on equity of Nigerian insurance companies?
ii. Does Board Size significantly improve return on equity of Nigeria insurance companies?

Objectives of the Study

The overall objective of the study is to evaluate the effect of corporate governance mechanisms on the financial performance of listed insurance businesses in Nigeria. The specific objective are to:

i. Examine the effects of Audit Committee independence on the return on equity of Nigerian insurance companies.
ii. Evaluate the effect of Board Size on the return on equity of Nigerian insurance companies.

Hypotheses of the study

The following hypothesis are formulated in null form for the purpose of the study:

$H0_1$: Audit Committees independence has no significant effect on the performance of Nigeria insurance companies.

$H0_2$: Board Size has no significant effect on the performance of Nigeria insurance companies.

2.0. Literature Review

2.1 Conceptual Review.

2.2 Concept of Financial Performance

Companies must earn a profit in their operations to survive and grow over time. According to (Kajola, 2008), firm performance is a critical concept that denotes how a firm's financial resources are prudently used to achieve its overall goal. According to (Pandey 2010), a significant profit must be earned in order to continue the operation of the firm, to be able to get funds from investors for expansion and growth, and to pay to the social overheads for the welfare of society. Mazviona et al.(2017) posits performance as the capability of an entity to expand and deal with its available resources in several different ways to maintain competitive advantage. High performance implies that management are effective and efficient in utilization of the entity's resources which in turn improve the economy at large

Financial performance is the measurement of a company's achievements and profitability based on its financial statements and other key financial indicators (Adewara et al., 2023; Nguyen et al., 2023). It investigates the company's capacity to generate revenue, reduces expenses, produce profits, and create value for its shareholders and other stakeholders (Kolawole et al., 2023; Kumo et al., 2023). The analysis of the financial data will help investors, shareholders to make well-informed decisions (Dagunduro et al., 2022).

There are numerous measures for measuring the performance of a firm. Previous studies such as Araoye (2019), Ibe et al (2017), Abdullahi (2017) Ebere & Ibinachukwu (2016) have employed return on assets (ROA), while Aribaba &Ahmed (2017) and Akeem et al (2014) employed return on equity (ROE) and Tobin's Q as measures of firm performance. However, there has been a great controversy as to whether or not these measures are the best proxies for firm performance. Some have argued that accounting rates of returns such ROA and ROE only convey little information about economic rate of return. There is also a serious contention that market based measures are superior to accounting based performance measures because the latter is subject to executives' manipulation, making the market based measures more edge.

2.2.1 Concept of Corporate Governance

Corporate governance is about ensuring that the business is run well, and investors obtain a fair return. Corporate governance refers to the system of regulations, practices, and procedures that guide the direction and control of a company (Bala et al., 2022). It is a fundamental concept within the sectors of business and finance, comprising the frameworks, processes, and practices through which companies are directed, controlled, and operated (Basyith, 2016). Its purpose is to establish and maintain a harmonious equilibrium between the concerns of a wide range of parties involved, encompassing shareholders, executives, staff members, clientele, suppliers, and society at large (Dada et al., 2023). The primary objective of corporate governance is to ensure that organizations are managed with responsibility and ethics, emphasizing accountability, transparency, fairness, and integrity, by implementing effective governance structures and mechanisms, companies strive to boost their long-term sustainability, manage risks, and generate value for both shareholders and other stakeholders (Balagobei & Keerthana, 2023).

2.2.2 Concept of Audit Committee

Board of directors are liable for appointing a sub-committee known as audit committee and it is charged with responsibility of financial reporting oversight. Audit committee effectiveness has proven to strengthen the control environment of both internal and external auditors (Muniandy, 2007; Krishnan, 2005). The committee plays greater role in selecting high quality audit firm (Chen *et al*., 2005), it also ensure the independence of auditors is remains intact (Abbott *et al.* 2003b), and the determining of audit plan adequacy and its pocedures (Dezoort and Salterio, 2001; Simunic and Stein, 1996). The establishment of an audit committee among listed firms with at least three non-executive directors that have relevant experience in accounting and finance was the mandate given in the 2016 GCC of Nigeria. The audit committees have a general mandate and responsibility of monitoring the entire financial reporting process of the listed firms.

2.2.3 Concept of Board Size

This is measured as total no of directors in the company. Board Size is the number of directors that exist on the board which includes the executive and the non-executive directors. The number of directors may vary interms of country and industry among others (Zabri et al 2016). In Nigeria the total no of Board size is Fifteen (15). Therefore, there is no standard board size. Some companies adopt a small board size with the belief that monitoring would be efficient, better and faster decision making while some prefer the larger board size with the argument that larger board size will enhance qualitative decisions.

2.3 Review of Related Studies

Appah and Tebepah (2023) conducted a study to investigate the impact of various corporate governance mechanisms on the financial performance of consumer goods manufacturing companies in Nigeria. The research spanned from 2011 to 2020 and focused on exploring the connections between board size, board independence, board compensation, and board diligence with return on equity. The results revealed that board size had an insignificant negative association with return on equity, whereas board independence demonstrated a significant negative correlation.

Eklemet et al (2023) explore the effect of corporate governance mechanism on a bank's performance using quantitative research method approach. Data from 20 licensed banks in Ghana was collected for specified study period of 2013 to 2022. The result of regression analysis revealed that audit committee independence and corporate governance mechanism accounted for 77.83% of the variation of the bank's performance for the period under study. Furthermore, the study revealed a significant and positive relationship between non-executive director, audit committee independence, and the bank's performance.

In research conducted by Okonkwo et al 2022 The study examined the effect of corporate governance on selected insurance companies using panel data which span from 2016 to 2020 This research statistically pinpoints the impact of corporate governance on the financial performance of insurance companies in Nigeria The researcher subjected the data to statistical examinations using the panel least square regression and the Granger causality test and the findings revealed that, in line with expectation, board size positively predicted return on assets in insurance companies. This prediction was found to be insignificant,

Emmanuel et al (2022) investigates effect of corporate governance mechanism on financial performance of quoted non-financial companies on the Nigerian stock exchange. Ex-post facto research design was used and a sample of 75 quoted non-financial companies with complete and comprehensive published annual reports for the period under review 2010- 2019 was used for the study. The generalised least square (GLS) regression was employed to investigate the relationship existing between the variables. The result reveals that Board size has a positive and significant effect on return on equity and net profit margin.

Peter et al. (2022) conducted a study to explore the influence of corporate governance mechanisms on the financial performance of consumer goods companies listed in Nigeria. The research revealed that top management team and CEO characteristics had a significant positive impact on return on equity, while audit committee independence and external auditors' independence had a significant negative effect.

2.4 Theoretical Framework

Theory of Agency

The Agency Theory describes interactions in which one person delegated responsibility for running the firm to another. (McColgan 2001) provided a much broader perspective on agency theory and corporate governance. His research was primarily concerned with the areas in which managers' interests diverged from those of shareholders. He kept in mind the agency relationship and the agency cost that these interactions entail. He built on the work of (Jensen & Meckling 1976), who described the agency relationship as a sort of contract in which the principal retains the agent to carry out the firm's activities on his behalf. Also, agency theory is regarded as one of principles that is most important in determining the relationship between the shareholders (principals) and managers (agents) of the firm (Ali & Ahmed, 2021; Alam & Chouaibi, 2022).

1. Methodology

A correlational design is used for the study. A correlation research design investigates relationship between variables without researcher manipulating or controlling any of them. A correlation reflects the strength of the relationship between two or more variables. This study investigated the relationship between ROE as the dependent variable against Audit Committee and Board Size as independent variables. The population of the study comprises of thirty-eight (38) quoted insurance companies on the Nigerian Exchange Group (NXG) as at 31st December 2022. The use of listed insurance companies was made due to data availability and their reliability. Also for a firm to be selected it must be listed in the NXG at the beginning of 2011 and must remain listed up to 2022. Out of the 38 listed insurance firms, 15 were found to have been satisfied. Also, for a firm to be selected a company must have all the necessary data required for the purpose of the study. As a result of employing filter (i) the number of companies reduced from 38 to 15, On employing filter (ii) the number of companies reduced from 15 to 11 The number of companies that will therefore be used for the purpose of the study is 11

The study employs panel multiple regression technique for the purpose of evaluating the data. In an effort to evaluate the reliability, validity and fitness of the technique, the study uses the following diagnostic tests, Shapiro-Wilk test of normality, Multicollinearity test, Heteroscedasticity test and Hausman specification test.

3.1 Model Specification

The study employs Multiple regression model. The model expressed Financial Performance (FP) as a function of audit committee independence (CAC) and board size (BSZ).

The model is mathematically expressed thus:

$ROE = \alpha + \beta\, CAC_{it} + \beta_2 BSZ_{it} + \beta_3 FSZ_{it} + \varepsilon$

Where:

α = Constant

$\beta_{1-}\beta_3$ = Coefficients or gradients of the independent variables

ε = Error term

CAC= Composition of audit committee

FSZ = firm size

BSZ = Board size

Variables Measurement

Table 1 below presents the variable measurements of all the study variables.

Table 1. Variable Measurement

Variable Type	Variable Name	Measurement	Source
Dependent	Return on Equity	Proportion of Net Income to total assets	Sanda, et al (2010)
Independent	Audit committee independence	Proportion of independent directors on the audit committee	Atu et al (2014)
Independent	Board Size	Total number of directors on the board	Akeem et al (2014)
Control	Firm Size	Natural Logarithn of Total Assets	Musallam, (2020)

Source: Author's Compilation from Literature, 2024

4.0. Results: Analysis and Discussion of Findings

4.1 Descriptive Statistics

Table 2 presents the summary of statistics from the data obtained from the annual reports of the sampled banks for the period in form of average, standard deviation, minimum and maximum values.

Table 2.Descriptive statistics

Variables	Obs	Mean	Std dev.	Min	Max
ROE	132	0.0930	0.1549	-0.7358	.4703
BS	132	9.7424	2.9386	4.000	18.00
CAC	132	0.5042	0.0354	0.4295	0.8300
FS	132	7.5695	1.0470	6.1611	12.7096

Source: Stata Output (2024)

The results show that Return on Equity (ROE) has an average ROE of 0.093, indicating a moderate overall return. The standard deviation of 0.154 suggests a degree of variability in the ROE values, (the data is highly variable and spread out ranging from -0.7358 to maximum of 0.4703, that is why the figure of standard deviation is higher than the mean at 0.1549 and 0.093 respectively) while the range from a minimum of -0.735 to a maximum of 0.470 shows the diversity of returns, including periods of negative equity. The dataset for board size reveals an average size of 9.742, reflecting the central tendency of the observed board sizes. With a standard deviation of 2.939, there is a high degree of variability in board sizes, suggesting diversity among the companies under consideration. The range from a minimum of 4 to a maximum of 18 signifies the spread of board sizes.

For the composition of the audit committee the results reveal an average composition level of 0.5042, reflecting the central tendency of the observed values. The low standard deviation of 0.035 suggests a relatively tight clustering around the mean, indicating a high degree of consistency in the composition of audit committees. With a range from a minimum of 0.429 to a maximum of 0.83, companies exhibit a relatively narrow span of values, suggesting the limited variability and specific composition levels within the audit committees.

The Table also shows firm size, measured as the natural logarithm of total assets, reveal an average size of 7.5695, reflecting the central tendency of the observed logarithmic values. The standard deviation of 1.047 indicates a high degree of variability in firm sizes, suggesting a diverse range of total assets among the companies in the dataset. In addition, the minimum of 6.161 to a maximum of 12.710, illustrates the diversity and magnitude of total assets within the analyzed context.

4.2 Correlation Analysis.

The Pearson analysis of correlation shows the relationship between the independent and the dependent variables and also the relationship among all pairs of explanatory variables themselves.

Table 2. Correlation Matrix

	ROE	BS	ACIN	FSIZ
ROE	1.0000			
BS	0.5781	1.0000		
ACIN	0.0063	-0.0098	1.0000	
FSIZ	-0.3666	-0.1602	0.0648	1.0000

The results of the correlation analysis show that board size has a strong positive correlation (0.578) with financial performance. This indicates that companies having larger boards tend to exhibit better financial performance. However, the composition of audit committee has a positive and weakest relationship (0.006) with return on equity. The control variable, firm size has a negative correlation with financial performance, suggesting that larger firms reported lower performance during the period of the study. Based on the result, multicollinearity does not appear to create a threat to the interpretation of regression coefficients of the independent variables in this model. Therefore, multicollinearity test is conducted.

4.3 Multicollinearity Test and Heteroskedasticity Test

The Variance Inflation Factor (VIF) and Tolerance Value (TV) are within the acceptable limit of less than 10.00 and above 0.10 respectively according to Guajarati (2003). The VIF values range from 1.02 to 1.15. The test confirms the earlier results obtained in the Pearson correlation matrix which shows correlation coefficients of less than 0.80 which reveals lack of multicollinearity. However, the heteroscedasticity result reveals chi2 of 76.97 and probability of 0.000. This means that the homoscedasticity assumption is violated and therefore, the ordinary least squares regression is not appropriate. Consequently, the study employs a fixed effect regression with the robust standard errors to correct for the presence of heteroscedasticity.

On the other hand, the Hausman test compares two estimators, the fixed effects model and the random effects model. Under the null hypothesis given by the test, both are consistent, but the random effects model is a more efficient estimator. Under the alternative, the fixed effects model is consistent, but the random effects model becomes inconsistent. If the P-value of the Chi-square results in the Hausman test is not significant, it will then be safe to utilize random effects. However, if P-value is significant, the fixed effect is utilized. From the results shown above, it is determined that the coefficients are significant at the 1 percent level of significance and thereby we conclude that the coefficients approximated by the random effects are different from estimations by the fixed effects. Therefore, the null hypothesis that says random effects model is better should be rejected and, the alternative hypothesis accepted. This implies that for the model underlying this study, the fixed effects model would be a more efficient estimator.

4.4 Regression Analysis Result

The regression analysis result is presented in Table 4 below.

Table 4. Regression Result

	Coef.	t-value	P>t.
BS	0.02421	4.91	0.001
ACIN	-0.3130	-2.18	0.054
FS	-0.0542	-1.96	0.079
Cons	0.3527	1.29	0.225
R squared	0.4789		
F value	16.09		
Prob>F	0.0002		

Source: Stata Output (2024)

The results indicate that board size has a coefficient of 0.024, t. value of 4.91 and a probability of 0.001. This suggests that board size has a significant positive effect on financial performance. The implication of this result is that one unit increase in board size will lead to 2.4% increase in financial performance.

Furthermore, audit committee independence has a coefficient of -0.313, a t. value of -2.18 and a probability of 0.054, suggesting that audit committee independence has an insignificant negative influence on financial performance. The result implies that one unit increase the independence of the audit committee results in 33 percent decline in return on equity. Lastly, for the control variable, the result indicates that firm size, proxied by total assets, has a coefficient of -0.054, a t. value of -1.96, and a probability of 0.079. This shows that firm size has an insignificant negative effect on financial performance.

Overall, the R-Squared of 0.4789 indicates that corporate governance and firm size explain about forty-eight percent (48%) of the changes in financial performance. The remaining fifty two percent (52%) are explained by the variables not captured in the regression model. Similarly, the significant F value of 16.09 suggests that the model is well fitted in explaining the effect of corporate governance on financial performance.

4.5 Test of Hypotheses

$H0_1$: Board Size has no significant effect on the financial performance of insurance companies in Nigeria.

The results in Table 4 indicate that board size has a coefficient of 0.024, t. value of 4.91 and a probability of 0.001. This suggests that board size has a significant positive effect on financial performance. Based on this, the study rejects the null hypothesis that states board size has no significant effect on financial performance among listed insurance companies in Nigeria. The outcomes is in concordance with previous findings of Muyiwa et al (2023), Emmanuel (2022), Okonkwo (2022), Bayeliga (2022), Haruna et al, (2019) and Muhammadu and Buhari (2019) who documented significant positive effect of board size on firm financial performance. This finding is contrary to the finding of Appah and Tebepah (2023), Adebayo et al (2020) and Isaac (2021) Oshim, et al (2024) who reported an insignificant negative association of board size with ROE.

$H0_2$: Audit committee independence has no significant effect on the financial performance of insurance companies in Nigeria.

Audit committee independence has a coefficient of -0.313, a t. value of -2.18 and a probability of 0.054, suggesting that audit committee independence has significant negative influence on financial performance. Based on this, the study reject the null hypothesis that says audit committee independence has no significant effect on financial performance of listed insurance firms in Nigeria. The findings support the previous results of Peter et al (2022), Kuye (2020) , Haddath et al (2021) and Saferi et al (2021) .However, the results is contrary to the study outcome of Eklemet et al (2023), Yunan et al (2022), Ayalew ((2023), Masmoudi et al (2021) and Salehi (2021) who established a significant positive influence of audit committee independence on financial performance.

4.6 Discussion of Findings

Corporate governance practices play a pivotal role in shaping the financial trajectory of firms. This study delves into the intricacies of this relationship by employing regression analysis on key governance variables: board size and audit committee independence. The findings are discussed in conjunction with existing empirical literature and are contextualized within the framework of agency theory. The study aligns with prior research (e.g., Muyiwa et al 2023, Emmanuel 2022, Okonkwo 2022, Bayeliga 2022, Haruna et al, 2019, Olokoyo 2019,) in revealing a significant positive effect of board size on financial performance. This implies that a larger board, by incorporating diverse expertise and perspectives, positively influences decision-making processes and strategic guidance. From an agency theory perspective, this finding supports the contention that an enlarged board acts as a robust monitoring mechanism, mitigating agency problems and fostering better alignment between managerial and shareholder interests.

The study supports the significance of audit committee independence, echoing the sentiments of previous research (e.g., (Peter et al 2022, Kuye 2020,). The significant negative effect suggests that a well-structured and independent audit committee is essential for financial integrity. This finding implies that effective oversight and scrutiny by audit committees may uncover underlying financial issues, leading to improved transparency. From an agency theory perspective, this underscores the role of audit committees as a key mechanism for reducing information asymmetry and mitigating agency conflicts.

5.0. Conclusion and Recommendation:

The research establishes a robust and statistically significant positive effect of board size on financial performance within Nigerian insurance firms. This underscores the strategic importance of having a larger board, suggesting that the diversity of skills, expertise, and perspectives brought by a larger board positively contributes to effective decision-making and overall financial success. The study underscores the insignificant negative effect of audit committee independence on financial performance. This implies that a poorly structured or inadequately independent audit committee may compromise financial integrity. Organizations are urged to prioritize the composition of their audit committees, ensuring the presence of individuals with the requisite expertise and independence to effectively fulfill their oversight role.

In line with the conclusion of the study, it is recommendations that given the significant positive effect of board size on financial performance, organizations in the Nigerian insurance sector should consider increasing their board size to 15 as recommended by NAICOM. Striking a balance that ensures diversity and expertise among board members can contribute to more effective decision-making and strategic guidance. Also, organizations should prioritize enhancing the composition of their audit committees. This involves ensuring the presence of individuals with the requisite financial expertise and independence to effectively fulfill their oversight role, thereby safeguarding financial integrity.

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