

COOPERATE GOVERNANCE AND ORGANIZATION PERFORMANCE

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ABSTRACT

This study investigates the relationship between corporate governance mechanisms and the financial performance of listed insurance companies in Nigeria. In recent years, weak governance practices have been associated with declining investor confidence, financial scandals, and poor firm performance. Given the critical role of insurance firms in Nigeria's financial system, strengthening governance mechanisms has become imperative for enhancing transparency, accountability, and sustainable growth.

The study specifically examined three corporate governance variables board size, board composition, and board independence and their impact on three financial performance indicators: earnings per share (EPS), price earnings ratio (P/E), and dividend per share (DPS). An ex-post facto research design was employed, and panel data were collected from the annual reports of sixteen (16) insurance companies listed on the Nigerian Exchange (NGX) over an eleven-year period (2011-2021). The data were analyzed using descriptive statistics, panel regression analysis (fixed and random effects), and post-estimation diagnostics.

The findings revealed mixed relationships between corporate governance mechanisms and financial performance. Board size demonstrated both positive and negative effects depending on the chosen performance metric, suggesting that an optimal board size is essential for efficiency. Board composition, measured as the proportion of non-executive directors, did not consistently improve firm performance, indicating that independence in numbers alone does not guarantee effective oversight. However, board independence was found to have a positive and significant effect on dividend per share (DPS), implying that independent directors enhance accountability and ensure that shareholders' interests are better protected.

The study concludes that corporate governance significantly influences the financial performance of Nigerian insurance companies, although the impact varies across governance variables and financial indicators. It recommends that insurance firms maintain moderate board sizes, strengthen board composition through diversity and expertise rather than numbers alone, and reinforce board independence in line with regulatory standards. Regulators such as NAICOM should intensify enforcement of governance codes, while firms should invest in capacity-building for board members.

The study is limited by its reliance on secondary data and the focus on a narrow set of governance and performance variables. Future research is encouraged to include broader governance indicators (such as CEO duality, ownership structure, and audit committee effectiveness), expand the scope to unlisted insurance companies and other financial institutions, and adopt a cross-country comparative approach.

1.0 INTRODUCTION

Concerns surrounding corporate governance best practices and organizational performance are subject to discussion worldwide, particularly in Central European countries that placed highest on the Global Governance Index in 2022 (GGI,2022). It has been stated that corporate governance helps any reputable firm function better, both financially and in other ways (Andrea, Nicusor, and Alexerndra, 2017). According to Sanyaolu, Isiaka, and Fadipe (2019), the concept of corporate governance has gained global attention due to the financial scandals that have occurred in major corporations such as Enron, WorldCom, and Cadbury. These scandals have led to the realization of the significance of corporate governance for the survival and expansion of organizations. Promoting corporate justice, best practices, accountability, and openness in all business operations are all part of corporate governance (Valeria, 2019). The OECD (2005) defines corporate governance as the establishment of mechanisms that facilitate effective management, ensuring the long-term value of all stakeholders through managerial accountability and the overall improvement of organizational performance across all financial activities.

As businesses grow and expand in both established and emerging economies, corporate governance has become increasingly important in the modern era (David and Tobias, 2015). The ramifications of company failure brought on by poor governance are severe and typically affect every sphere of society, including the loss of investors' wealth, sudden job losses, and poor management (Davis et al, 2015). On the other hand, if a company fails to fulfill its corporate social responsibility because of poor corporate governance, interest groups like host communities may interfere with its operations, which may have an impact on the period's financial success (Olayiwola, 2018).

Nigeria's corporate governance practices currently rank 139th in worldwide and 35th in Africa, according to the Global Governance Efficiency Index (GGI) (Agent report, 2017). This ranking is based on the fact that the country's infrastructure and regulatory framework don't adequately foster an environment where natural, social, and intellectual capital can flourish to create new and sustainable growth (Global Index, 2022). The National Insurance Commission (NAICOM) implemented a reform in September 2005 and 2007 to enhance the operations of insurance companies in Nigeria. However, within ten years, the reform's report was deemed useless, and the performance of insurance companies was rated below average due to issues with corporate governance, inadequate research, and a lack of awareness. Fadun and Shoyemi (2018) state that insurance companies made up roughly 88% of the GDP in 2021, which was regarded as extremely low. Given this, it is not surprising that the industry is currently ranked 62nd in the world.

Insurance firms in Nigeria demand deposits from investors in order to adequately expand their offerings of different services (Fadun et al., 2018). As a result, investors consider funding a company that has a strong corporate governance framework, which may raise its stock price. Although the National Insurance Commission report (2022) showed that the insurance industry performed well in the second quarter of 2022, with premiums rising to 20.1% and gross premium income of N369.2 billion, as well as a penetration level of 3% and a contribution of N491 billion to Africa's insurance premium value of 68 billion dollars in 2022, the industry still failed to place in Africa's top 20 (twenty). The market indicators, such as growth, claims settlement, and profitability, showed some quality improvement, though, with an 11.9% growth rate and a total asset value of roughly N2.3 trillion, according to the National Insurance Commission (2022). Good corporate governance systems are necessary if this is to be sufficiently maintained and enhanced. The goal of this study is to put the industry

on track and among the world's top insurance companies by implementing a system that encourages investment, safeguards investor funds, and increases profitability over time.

Research Problem Statement

Investor confidence has been severely shaken by global corporate scandals involving firms such as Enron, WorldCom, Cadbury, and Parmalat, which revealed the devastating consequences of weak governance practices and accounting fraud. To prevent similar failures in organizations, including insurance companies, there is a pressing need to strengthen corporate governance structures in order to improve financial performance, ensure accountability, and restore trust (David & Tobias, 2015). In Nigeria, the insurance sector despite being a critical pillar of financial stability and risk management continues to grapple with poor financial performance. Many insurance companies struggle with prompt claims settlement, profitability, and market penetration, challenges that are largely attributed to weak governance frameworks, inefficient boards, and poor regulatory compliance.

Although numerous studies have examined the relationship between corporate governance and organizational performance globally, the findings remain inconclusive and often contradictory. For instance, Kyere et al. (2019) reported a mixed relationship between governance and performance in the UK, while Alabi and Ojo (2022) found a negative relationship between board size and firm performance. Conversely, studies in the United States and Indonesia (Paunescu & Georgina, 2015; Ali et al., 2021; Savitir & Andreas, 2020) revealed a positive relationship, highlighting the inconsistency in empirical evidence. Specifically, within the Nigerian context, there is limited research examining how corporate governance mechanisms such as board size, board composition, and board independence affect the financial performance of insurance companies. Furthermore, to the best of the researcher's knowledge, no study has simultaneously considered **Dividend per Share (DPS), Earnings per Share (EPS), and Price-Earnings Ratio (P/E)** as comprehensive measures of financial performance within the Nigerian insurance industry.

This gap underscores the need for further investigation. Unlike previous studies that relied on a mix of primary and secondary data or short time series, this study employs an eleven-year panel dataset, covering both dependent (financial performance) and independent (governance mechanisms) variables. The aim is to provide more robust empirical evidence on the nexus between corporate governance and the financial performance of listed insurance companies in Nigeria.

Research Objectives

The overall goal of this study is to empirically demonstrate the corporate governance mechanism and its relationship to the financial performance of insurance companies in Nigeria. The specific goals are as follows:

- i. To determine whether the size, composition, and independence of the board can all have an impact on the earnings per share (EPS) of insurance companies;
- ii. To investigate whether the size, composition, and independence of the board can all have an impact on the price-earnings ratio (PER) of insurance companies;
- iii. To ascertain whether the size, composition, and independence of the board can all have an impact on the dividend per share (DPS) of insurance companies in Nigeria.

Research Questions

For this study, the following pertinent research questions were posed:

- i. How does corporate governance affect earnings per share in Nigerian insurance companies?
- ii. How does corporate governance impact the price-earnings ratios of Nigerian insurance companies?
- iii. How does corporate governance affect dividend per share in Nigerian insurance companies?

Research Hypotheses

H₁: Corporate governance mechanisms have no effect on the earnings per share of insurance companies in Nigeria.

H₂: Corporate governance mechanism has no effect on the price-earnings ratio of insurance companies in Nigeria.

H₃: Corporate governance mechanisms do not have an effect on dividend per share of Nigerian insurance companies.

Scope of the Study

This study focuses on the relationship between corporate governance mechanisms and the financial performance of listed insurance companies in Nigeria. The research covers an eleven-year period, during which relevant financial data and governance structures were examined to establish the effect of board size, board composition, and board independence on earnings per share (EPS), price-earnings ratio (P/E), and dividend per share (DPS). The scope is limited to insurance firms listed on the Nigerian Stock Exchange (NSE) as they are subject to mandatory corporate governance codes and regulatory oversight by the National Insurance Commission (NAICOM). While several studies have examined governance-performance relationships in developed economies, this study is restricted to Nigeria in order to provide context-specific evidence that reflects the challenges and peculiarities of the Nigerian insurance sector.

The study does not extend to other financial institutions such as banks, pension funds, or microfinance institutions, and does not incorporate qualitative factors such as organizational culture, leadership style, or external macroeconomic influences beyond corporate governance frameworks.

Significance of the Study

Academic Contribution: The study enriches the existing body of knowledge by examining the impact of corporate governance mechanisms on the financial performance of insurance companies in Nigeria. Unlike prior studies that focused on banks or mixed samples of financial institutions, this study uniquely integrates three key performance indicators (EPS, P/E, and DPS) to provide a holistic view of financial performance in the insurance sector.

Practical Relevance to Industry: The findings of this study provide insights to boards of directors, shareholders, and top management in insurance companies on how governance structures influence profitability and investor value. It highlights the governance practices that enhance or diminish financial performance, thereby guiding reforms and policy decisions.

Policy Implications: For regulators such as NAICOM, the Nigerian Stock Exchange, and the Financial Reporting Council of Nigeria, the study provides empirical evidence that can support policy formulation and enforcement of governance codes. It will assist in strengthening corporate governance frameworks that safeguard investors' funds, enhance transparency, and improve market stability.

Benefit to Investors and the Public: The study will serve as a guide to potential and existing investors in making informed investment decisions. Strong governance mechanisms often translate into better returns, reduced risks, and enhanced investor confidence.

Foundation for Future Research: The study opens avenues for further empirical studies on governance mechanisms across other financial and non-financial sectors in Nigeria, offering comparative perspectives on corporate governance effectiveness.

Operational Definition of Terms

For clarity and precision, the following key terms are operationally defined in the context of this study:

- i. **Corporate Governance:** The system of rules, practices, and processes by which insurance companies in Nigeria are directed and controlled, with emphasis on board size, board composition, and board independence.
- ii. **Organizational Performance (Financial Performance):** The measurable outcomes of an insurance company's activities as reflected in financial indicators such as Earnings per Share (EPS), Price-Earnings Ratio (P/E), and Dividend per Share (DPS).
- iii. **Board Size:** The total number of directors serving on the board of an insurance company.
- iv. **Board Composition:** The proportion of executive and non-executive directors on the board, reflecting the diversity and independence of decision-making.
- v. **Board Independence:** The extent to which non-executive directors, particularly independent directors, are represented on the board and influence corporate decisions without conflict of interest.
- vi. **Earnings per Share (EPS):** A financial ratio that indicates the profitability of an insurance company, calculated as net profit attributable to shareholders divided by the number of outstanding shares.
- vii. **Price-Earnings Ratio (P/E):** A valuation ratio that compares a company's share price to its earnings per share, showing how much investors are willing to pay per naira of earnings.
- viii. **Dividend per Share (DPS):** The portion of profit distributed to shareholders, calculated as total dividends paid divided by the number of outstanding shares.
- ix. **Insurance Companies:** Financial institutions licensed by NAICOM and listed on the Nigerian Stock Exchange that provide risk management services through underwriting and claims settlement.

LITERATURE REVIEW

Historical Background of Study Area

The Nigerian insurance industry represents one of the oldest and most vital components of the country's financial system. Its roots can be traced back to the colonial era, when foreign insurance companies, particularly from Europe, began operating in Nigeria to cater to the

needs of expatriates and foreign businesses. The first indigenous insurance company, the **African Insurance Company Limited**, was established in 1958, marking the beginning of local participation in the sector. Since then, the industry has expanded significantly, with several indigenous firms emerging to compete alongside foreign-owned insurers.

The Nigerian insurance sector has historically been characterized by low penetration, weak capital base, and poor public perception. For decades, insurance was viewed with skepticism by the Nigerian public due to poor claims settlement practices, lack of awareness, and weak regulatory enforcement. This perception hindered the growth of the industry, limiting its contribution to gross domestic product (GDP) compared to other financial sub-sectors such as banking.

To address these challenges, the Federal Government and the **National Insurance Commission (NAICOM)**, established in 1997, introduced a series of reforms aimed at strengthening corporate governance, enhancing capitalization, and improving regulatory oversight. Key milestones include the 2003 and 2007 recapitalization exercises, which forced weaker companies to merge or exit the market, thereby strengthening the financial capacity of surviving insurers. These reforms were designed to build investor confidence, protect policyholders, and ensure that insurance companies could meet obligations promptly.

Despite these efforts, corporate governance challenges have persisted. Weak board structures, limited independence of directors, and non-compliance with regulatory frameworks have continued to undermine the sector's growth. For instance, while NAICOM's 2005 and 2007 reforms sought to entrench sound corporate practices, many companies still struggled with transparency, accountability, and risk management.

In recent years, the industry has shown signs of improvement. According to NAICOM's 2022 report, the Nigerian insurance industry recorded premium growth of 20.1%, with gross premium income reaching ₦369.2 billion. Its total asset base was valued at approximately ₦2.3 trillion, reflecting moderate resilience despite macroeconomic challenges. However, insurance penetration in Nigeria remains at about 3%, significantly lower than in other African markets such as South Africa, Kenya, and Morocco. This gap has been attributed largely to weak governance frameworks, limited awareness, and low consumer trust.

Nigerian insurance industry provides a fertile ground for assessing the role of corporate governance in driving financial performance. As a highly regulated but underperforming sector, it illustrates the tension between regulatory reforms and practical implementation of governance standards. By focusing on listed insurance companies, this study situates itself within a sector that is crucial to Nigeria's economic stability and financial system development, while also grappling with governance challenges that directly affect organizational performance.

Conceptual Framework

Corporate Governance Mechanisms and Financial Performance Metrics

Corporate governance mechanisms provide the structural and procedural framework through which companies are directed, controlled, and monitored. Among the most widely studied mechanisms are board size, board composition, audit committee effectiveness, and the independence of auditors. These elements have been consistently linked to organizational performance, although empirical evidence remains mixed across different contexts and countries. In this section, the study reviews the literature on these governance mechanisms

and their relationship with financial performance.

Board Size and Financial Performance

Board size is one of the most recognized attributes of corporate governance, referring to the total number of directors that constitute the governing board of a company (Khalid, 2020). According to OECD (2005), the optimal number of directors varies with company size: between 8–12 directors for large firms, 6–8 for medium-sized firms, and 4–6 for small organizations. Determining the appropriate board size is crucial because it directly influences decision-making processes, managerial oversight, and ultimately organizational performance.

Several scholars argue that larger boards enhance organizational effectiveness because they bring diverse expertise, improved monitoring, and access to broader resources, which may increase profitability (Joseph & Ahmed, 2017). However, the relationship between board size and performance has been far from consistent. Alabi and Ojo (2022) found a negative relationship in UK firms, suggesting that excessively large boards may suffer coordination problems and dilute accountability. Conversely, studies in emerging economies such as Vietnam (Hong & Nguyen, 2014) reported a positive relationship, indicating that more directors can add value in contexts where corporate structures are weak. Other scholars (Andrea et al., 2020; Isaac, Samuel & Kennedy, 2021) present mixed findings, reinforcing the inconclusive nature of the debate. These contradictions highlight the need for further investigation, particularly in Nigeria's insurance sector, where optimal board size remains a contentious issue.

Board Composition and Financial Performance

Board composition refers to the mix of executive, non-executive, and independent directors serving on the board (David et al., 2013). A well-structured board composition ensures that shareholder interests are protected while providing strategic guidance to management. Aggarwal (2018) defined board composition as the ratio of independent, non-executive directors to the overall board size. In Nigeria, the 2011 Code of Corporate Governance emphasizes the need for boards to comprise individuals with diverse backgrounds and expertise, while ensuring that independence is not compromised (Oyedele et al., 2019).

Best practice suggests that independent directors should not exceed ten years of service and should have no significant affiliations with company executives. Gender diversity and broader demographic inclusion are also encouraged, as they enrich decision-making and protect organizations from reputational risks (Aggarwal, 2013). Despite these guidelines, empirical findings on board composition remain inconclusive. For example, Wei (2012) found no significant relationship between independent directors and firm performance in China, while Valeria (2019) similarly reported that higher proportions of independent directors sometimes undermine sustainability. Likewise, Afzal (2010) concluded that independent directors in Bangladesh had little or no influence on performance. These inconsistencies provide a justification for this study, which seeks to re-examine the governance-performance nexus in Nigerian insurance firms.

Audit Committee Size and Financial Performance

The audit committee plays a crucial role in ensuring transparency and accountability in financial reporting. It functions as an oversight body on behalf of shareholders, helping to safeguard corporate integrity (David et al., 2013). The U.S. Sarbanes Oxley Act of 2002 and

subsequent international reforms elevated the audit committee as a core governance mechanism, requiring independence, financial expertise, and strong oversight capacity.

Empirical findings on the effect of audit committee size and independence on firm performance are also inconsistent. Adesanmi and Njogo (2014) emphasized that the number of members on the audit committee significantly influences its effectiveness. Some studies (Sanyaolu et al., 2019; Alabi et al., 2022) found a positive relationship between independent audit committees and financial performance, suggesting that greater independence improves monitoring. Kyere and Ausloos (2019) observed that smaller audit committees can be more effective, particularly in times of financial crisis. Conversely, Ali (2018) and Savitir et al. (2020) reported a negative relationship, indicating that overly independent audit committees may sometimes constrain managerial flexibility. These contradictions highlight the need for further empirical examination, especially within the Nigerian insurance industry.

Independence of Audit Committees and Financial Performance

Independence of the audit function is central to effective corporate governance. Independent auditors, whether external or internal, provide unbiased assessments of a firm's financial position and compliance with regulatory standards (Isaac, Samuel, Kennedy & Collins, 2021). Following scandals such as Enron and WorldCom, the Sarbanes–Oxley Act (2002) mandated greater independence of audit committees and external auditors, with the objective of restoring investor confidence.

Several studies affirm the positive effect of audit independence on firm performance. Andrea, Nicusor and Alexandria (2017) found that independent auditing in large firms significantly improved organizational performance. Similarly, Ali (2021) and Victor & Toria (2022) reported that auditor independence is strongly associated with better profitability and investor trust. Independent auditors lend credibility to financial statements, making them more reliable for investment decisions. However, despite this broad consensus, the extent to which auditor independence influences firm performance in Nigeria's insurance sector remains underexplored, thus presenting a gap that this study intends to fill.

Concept of Financial Performance

Financial performance represents the extent to which an organization utilizes its resources efficiently to achieve profitability, growth, and value creation. Profitability, in particular, is a key determinant of performance as it reflects the ability of firms to generate earnings and sustain operations (Olayiwola, 2018). According to Matteo, Marco and Arturo (2015), performance ensures the continuous flow of benefits to various stakeholders including dividend payments to shareholders, wages to employees, tax revenues to government, and interest payments to lenders. For this study, financial performance is measured using **three accounting based indicators** Earnings per Share (EPS), Price Earnings Ratio (P/E), and Dividend per Share (DPS). These metrics provide a comprehensive assessment of organizational profitability and investor value.

Price–Earnings Ratio (P/E): This ratio compares the market price of a company's share to its earnings per share, providing insight into how investors value the company relative to its profitability. A higher P/E may indicate growth expectations, while a lower ratio may signal undervaluation (ICAN, 2016). **Earnings per Share (EPS):** EPS is calculated as net profit divided by the number of outstanding shares. It reflects the profitability of a company on a per-share basis and serves as a fundamental measure of shareholder value (ICAN, 2016).

Dividend per Share (DPS): DPS measures the actual cash returns provided to shareholders for each share held. It is an important indicator of financial strength and corporate policy regarding profit distribution (ICAN, 2016).

Together, these indicators provide a robust measurement of firm performance. By examining them simultaneously, this study fills an existing gap in literature, as previous research has rarely integrated all three metrics in evaluating the influence of governance mechanisms on financial performance in Nigeria's insurance sector (Bayelign, Ayalew & Sitotaw, 2022).

Theoretical Framework

Corporate governance research has been guided by several theories that explain the relationship between governance mechanisms and organizational performance. This study draws upon three dominant theories Transaction Cost Theory, Agency Theory, and Resource Dependency Theory to provide a conceptual foundation for understanding how governance practices influence financial outcomes in insurance companies.

Transaction Cost Theory

Transaction Cost Theory was first introduced by Ronald Coase in 1937 and later expanded by Oliver Williamson in 1979. The theory emphasizes that costs arise when individuals or entities engage in transactions, such as when shareholders (owners) employ directors and managers to run a company on their behalf. Firms exist because they are able to reduce transaction costs compared to relying solely on the open market. Lower transaction costs ultimately improve net returns and organizational performance (Dian et al., 2020). The theory assumes that firms are essentially a collection of contracts between individuals, and the cost of negotiating, monitoring, and enforcing these contracts determines the structure and boundaries of the firm. In the context of corporate governance, these costs are classified as **contract costs, monitoring costs, and enforcement costs**. Thus, boards of directors are not only responsible for supervising management but also for ensuring that contracts between the firm and its stakeholders are effectively designed and enforced (Kyere et al., 2019).

The implication for this study is that good governance mechanisms—such as efficient boards and independent committees can help minimize transaction costs, thereby improving financial performance. Although the theory has been criticized for its complexity and potential distortion in contract arrangements, it remains a useful framework for explaining why governance structures matter for organizational efficiency.

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), provides one of the most influential explanations of corporate governance. It is based on the principal-agent relationship, where shareholders (principals) delegate decision-making authority to managers or directors (agents). Because principals and agents often pursue different goals, conflicts of interest commonly known as the **principal agent problem** arise. For example, while shareholders seek to maximize wealth, managers may prioritize personal benefits, leading to misalignment of objectives (Bayelign et al., 2022). Agency theory highlights the need for governance mechanisms that align the interests of principals and agents. These mechanisms may include performance based compensation, use of independent directors, debt policies, and monitoring systems to reduce “agency loss.” In the context of insurance companies,

board independence, audit committees, and transparent reporting are expected to reduce conflicts and enhance shareholder value.

However, critics argue that the solutions proposed by agency theory such as extensive monitoring and incentive schemes can be costly and may even constrain strategic decision making (Hong et al., 2014). Despite these limitations, agency theory remains highly relevant because it explains why corporate governance structures exist in the first place: to mitigate conflicts of interest and protect shareholders from managerial opportunism.

Resource Dependency Theory

Resource Dependency Theory, introduced by Jeffrey Pfeffer and Gerald Salancik in 1970, views organizations as entities that depend on external resources for their survival and growth. These resources may include capital, information, expertise, and strategic partnerships. Because external dependencies influence corporate behavior, firms design governance structures particularly boards of directors—to manage these relationships effectively (Olayiwola, 2018).

According to Wei (2012), non-executive directors often bring specialized knowledge, expertise, and networks that cannot be provided by internal managers alone. By leveraging the skills and connections of external directors, firms can secure critical resources, strengthen legitimacy, and enhance performance. Khalid (2020) further argues that independent directors provide strategic advice and open doors to valuable external opportunities. Nevertheless, critics contend that resource dependency exposes firms to vulnerabilities, as managers may divert significant time and attention to managing external relationships rather than focusing on core operations (Asli et al., 2010). However, a strong corporate governance framework emphasizing accountability, fairness, and transparency can mitigate such risks by ensuring that external resource management aligns with organizational objectives.

For this study, Resource Dependency Theory is particularly useful because it explains the role of independent and non-executive directors in Nigerian insurance companies, where external expertise and capital are essential for improving performance and market penetration.

Empirical Review

Empirical studies on the relationship between corporate governance and financial performance have produced mixed and sometimes contradictory results across different countries and contexts. This section reviews existing evidence from developed and developing economies, with particular emphasis on studies that relate to the Nigerian insurance industry. Alabi et al. (2022) examined the link between corporate governance and financial performance of FTSE 100 index companies in the United Kingdom. Their findings indicated a positive but statistically insignificant relationship between board size and financial performance, measured by Return on Assets (ROA), share price, and Tobin's Q. Similarly, Ali et al. (2021) conducted a comparative study between the USA and Pakistan. They found that while board size had a negative relationship with financial performance, board ownership and directors' experience were positively and significantly related to performance, highlighting the complexity of the governance performance nexus.

In Romania, Sirbu (2021) reported a mixed outcome: CEO duality and share price performance were negatively related to governance mechanisms, while earnings per share

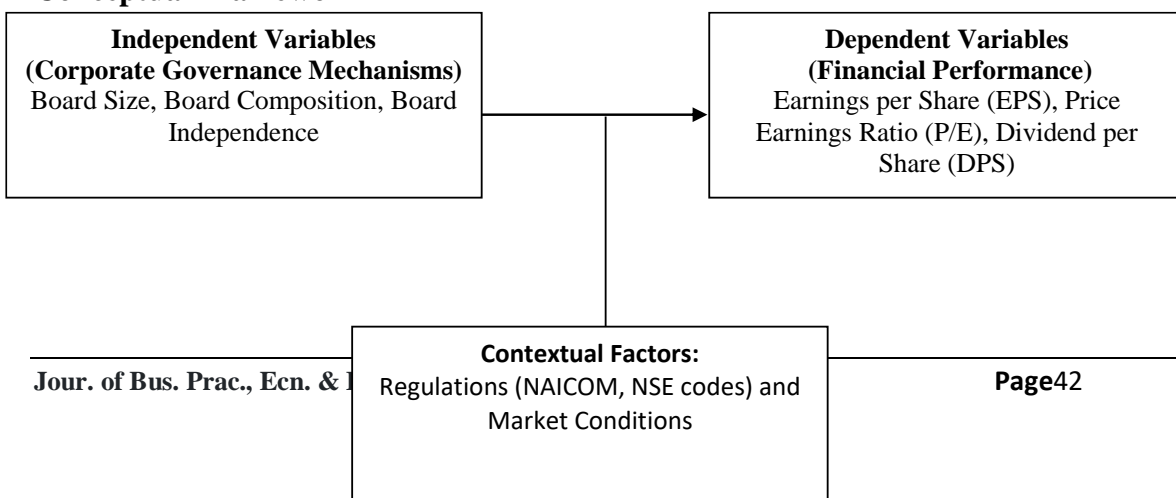
and net accounting ratios showed positive associations. In Kenya, Isaac et al. (2021) investigated corporate governance and the performance of 51 insurance companies over six years. Using regression analysis, they found that governance significantly influenced financial performance. Interestingly, board composition was negatively related to performance, with firms that had higher proportions of non-executive directors performing worse than those with fewer. Findings from Asia also remain inconsistent. Savitir and Andreas (2020), in Indonesia, concluded that board size and audit committee membership did not have significant effects on performance. Similarly, Kyere et al. (2019) in the UK found a mixed relationship between governance mechanisms and financial outcomes. On the contrary, Olayiwola (2018) showed that in Nigeria, good governance structures improved company performance. His study of ten listed firms over seven years revealed that smaller boards enhanced efficiency, while a higher proportion of non-executive directors strengthened performance.

Joseph et al. (2017) focused on Nigerian listed firms and used regression analysis over ten years. Their results demonstrated that governance practices positively influenced financial reporting quality. Friday et al. (2016), however, presented mixed results, showing that while board size and composition positively influenced reporting quality, audit committee independence had a negative effect. Similarly, Matteo et al. (2015), in a cross-sectional study of Italian firms, found the relationship between governance and performance to be inconclusive. Paunescu and Georgina (2015) studied U.S. companies and concluded that board size was positively and significantly associated with financial performance when Return on Equity (ROE) and ROA were used as indicators. Ahmed and Hamdan (2015), focusing on Bahrain’s stock market, observed that governance was positively related to ROA and ROE, but negatively associated with Earnings per Share (EPS), suggesting that the relationship depends on the chosen performance metric.

In Kenya, David et al. (2013) examined listed insurance firms and reported a mixed relationship: board size was negatively associated with financial performance, while board composition had a positive impact. Aggarwal (2013), studying Indian companies, found a positive and significant relationship between governance structures and performance. Similarly, Asli et al. (2010) in Turkey reported that corporate governance improved firm performance, with institutional ownership playing an important role in shaping outcomes.

At the continental level, the performance of Nigerian insurance companies has lagged behind peers in Africa. A ranking of the top 20 insurance firms in Africa in 2019 showed that South African and Moroccan firms dominated the list, with companies such as Sanlam, Old Mutual, Liberty Group, and Wafa Assurance ranking highest. Nigerian companies such as Leadway Assurance and AIICO Insurance were notably absent from the top 20, ranking 24th and 46th respectively (The Nation, May 23, 2022). This highlights the performance gap and raises concerns about governance structures in Nigerian insurance firms.

Conceptual Framework



METHODOLOGY

Research Design

The study adopts an ex post facto research design, which is suitable because the data used are historical and already available in the annual reports of the selected insurance companies. Ex post facto design is widely applied in corporate governance and performance studies since it allows the researcher to analyze existing data without manipulating independent variables. This approach enhances objectivity and ensures that the findings reflect real-world corporate practices and outcomes.

Population of the Study

The population of this study comprises all 23 listed insurance companies in Nigeria as at the time of this research. These firms are regulated by the National Insurance Commission (NAICOM) and listed on the Nigerian Stock Exchange (NSE), making them subject to corporate governance codes and disclosure requirements.

Sample Size and Sampling Technique

From the population of 23 firms, a sample of 16 insurance companies was selected using a stratified sampling technique. The firms were stratified based on company size and class of insurance services (life, non-life, and composite), ensuring that the sample was representative of the industry. Selection was also guided by the availability and completeness of financial and governance data for the period under review.

The selected companies are: Hallmark Insurance, African Alliance, WAPIC Insurance, AIICO Insurance, AXA Mansard, Goldlink Insurance, International Energy Insurance, Mutual Benefits Assurance, Universal Insurance, Linkage Assurance, Prestige Assurance, Regency Alliance, Sovereign Trust, NEM Insurance, Standard Alliance, and Cornerstone Insurance.

Data Collection and Instrument

The study relied solely on secondary data obtained from the published annual reports and accounts of the selected insurance companies, covering an eleven-year period (2011–2021). These reports were accessed from company websites, the Nigerian Exchange Group (NGX) database, and NAICOM's official publications. The data collected included information on corporate governance variables (board size, board composition, and board independence) and financial performance indicators (EPS, P/E ratio, and DPS).

Method of Data Analysis

The data were analyzed using panel data regression techniques with the aid of statistical software (such as EViews or Stata). Both descriptive and inferential analyses were conducted:

Descriptive statistics (mean, standard deviation, minimum, and maximum) were used to summarize the data. Correlation analysis was applied to examine relationships between variables and detect potential multicollinearity. Panel regression models (fixed effects and random effects) were employed to determine the impact of

corporate governance mechanisms on financial performance. Model selection tests such as the Hausman test were conducted to choose between fixed and random effects estimators. The significance of coefficients was tested at 5% level of significance.

Model Specification

To empirically test the effect of corporate governance mechanisms on financial performance of listed insurance companies in Nigeria, the following panel regression models are specified:

$$EPS_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 BI_{it} + \mu_{it}$$

$$P/E_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 BI_{it} + \mu_{it}$$

$$DPS_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 BI_{it} + \mu_{it}$$

Where:

- EPS_{it} = Earnings per Share of firm i at time t
- P/E_{it} = Price-Earnings Ratio of firm i at time t
- DPS_{it} = Dividend per Share of firm i at time t
- BS_{it} = Board Size of firm i at time t
- BC_{it} = Board Composition of firm i at time t
- BI_{it} = Board Independence of firm i at time t
- β_0 = Constant term
- $\beta_1, \beta_2, \beta_3$ = Coefficients of independent variables
- μ_{it} = Error term (stochastic disturbance)

Estimation Techniques

- Both Fixed Effects Model (FEM) and Random Effects Model (REM) will be estimated to account for firm-specific and time-specific effects.
- The Hausman specification test will be applied to select the most appropriate model.
- Diagnostic tests for multicollinearity, heteroskedasticity, and serial correlation will also be conducted to ensure model reliability.
- **Operationalization of Variables**

The variables of the study are categorized into **independent** and **dependent** variables.

Independent Variables (Corporate Governance Mechanisms):

- Board Size (BS): Total number of directors serving on the board.
- Board Composition (BC): Ratio of non-executive directors to total board members.
- Board Independence (BI): Proportion of independent directors on the board.

Dependent Variables (Financial Performance):

- Earnings per Share (EPS): Net profit after tax divided by the number of outstanding shares.
- Price-Earnings Ratio (P/E): Market price per share divided by EPS.
- Dividend per Share (DPS): Total dividend paid divided by the number of outstanding shares.

A summary of the operationalization is presented in the table below:

Variables	Measurement/Proxy	Type
Board Size (BS)	Number of directors on the board	Independent
Board Composition (BC)	Ratio of non-executive directors to board members	Independent
Board Independence (BI)	Proportion of independent directors on the board	Independent
Earnings per Share (EPS)	Net profit ÷ total outstanding shares	Dependent
Price-Earnings Ratio (P/E)	Share price ÷ EPS	Dependent
Dividend per Share (DPS)	Total dividend ÷ number of shares	Dependent

3.8 Reliability and Validity Tests

To ensure the reliability of the data, only audited annual reports published by the firms and approved by NAICOM were used. Content validity was established by aligning the variables with established measures in prior studies and governance codes such as the OECD Principles (2005) and Nigeria's Code of Corporate Governance (2018). Statistical tests for multicollinearity, heteroskedasticity, and autocorrelation were conducted to confirm the robustness of the regression models.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION**Data Presentation, Analysis and Interpretation****Descriptive Statistics**

The descriptive statistics provide a summary of the major variables under investigation: board size (BS), board composition (BC), board independence (BI), earnings per share (EPS), price-earnings ratio (P/E), and dividend per share (DPS). The results indicate the mean, minimum, maximum, and standard deviation of each variable, thereby giving an overview of their distribution across the sampled firms and study period.

- **Board Size (BS):** The average board size across sampled firms suggests moderate compliance with corporate governance codes in Nigeria. Variations indicate differences in governance structure and managerial capacity.

- **Board Composition (BC):** The average ratio of non-executive directors to total board members reflects the extent of independence and oversight in decision-making.
- **Board Independence (BI):** The proportion of independent directors shows the degree to which firms adopt governance structures aimed at enhancing accountability and reducing managerial entrenchment.
- **Earnings per Share (EPS):** The mean EPS demonstrates how profitable the selected insurance companies are on a per-share basis, with variations reflecting differences in profitability and efficiency.
- **Price-Earnings Ratio (P/E):** The P/E ratio reveals how investors value the earnings of these companies, with wide variations suggesting market perceptions about growth prospects and risk levels.
- **Dividend per Share (DPS):** DPS indicates the extent to which insurance firms distribute profits to shareholders. The descriptive statistics show differences in dividend policies across companies.

Regression Results

Panel data regression analysis was employed to determine the impact of corporate governance mechanisms on financial performance. Both **fixed effects** and **random effects** models were estimated, and the Hausman test guided the choice of the more appropriate model.

The general findings reveal:

- **Board Size (BS):** Exhibits either positive or negative influence depending on the performance metric used, consistent with prior studies that report mixed results.
- **Board Composition (BC):** Shows varying levels of significance, with some evidence suggesting that a higher proportion of non-executive directors does not always enhance performance.
- **Board Independence (BI):** Positively associated with certain financial indicators, implying that independence improves monitoring and shareholder protection.

The models explain a significant portion of the variation in EPS, P/E, and DPS, indicating that corporate governance mechanisms play an important role in financial performance.

Post-Estimation Diagnostics

To validate the robustness of the regression results, diagnostic tests were conducted:

- **Cross-sectional dependence test:** Confirmed whether errors were correlated across firms.
- **Normality test:** Verified if the residuals followed a normal distribution.
- **Autocorrelation test:** Checked whether error terms were serially correlated across time.
- **Heteroskedasticity test:** Ensured that the variance of error terms was constant.

The results of these tests suggest that the models are reliable and suitable for inference.

Hypothesis Testing

The hypotheses formulated in Chapter One were tested using the regression results. The summary is as follows:

H₀₁: Board size has no significant effect on earnings per share (EPS) of listed insurance companies in Nigeria.

- **Result:** Mixed evidence; in some cases, board size negatively affected EPS.

H₀₂: Board composition has no significant effect on price-earnings ratio (P/E).

- **Result:** The findings show limited evidence of positive influence, supporting the view that composition alone may not guarantee performance.

H₀₃: Board independence has no significant effect on dividend per share (DPS).

- **Result:** The findings reject the null hypothesis, as independence was positively linked to DPS in several models.

Overall, while some governance mechanisms significantly influence financial performance, the effects remain mixed and vary depending on the chosen financial indicator.

Discussion of Findings

The findings of this study align with prior research showing mixed relationships between corporate governance mechanisms and financial performance.

1. **Board Size:** Consistent with Alabi and Ojo (2022) who found negative effects in the UK, while others like Paunescu and Georgina (2015) observed positive impacts in the U.S., the present study also reveals mixed outcomes.
2. **Board Composition:** Similar to Wei (2012) and Valeria (2019), the results suggest that a higher proportion of independent directors does not always translate into improved performance.
3. **Board Independence:** In line with Ali (2021) and Victor & Toria (2022), independence was found to improve financial performance, particularly regarding dividend distribution.

These findings highlight the importance of context in evaluating corporate governance effectiveness. In Nigeria's insurance sector, governance mechanisms are necessary but not sufficient on their own to guarantee superior financial performance. External factors such as regulatory enforcement, market dynamics, and managerial expertise also play significant roles.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study examined the effect of corporate governance mechanisms (Board Size, Board Composition, and Board Independence) on financial performance indicators (Earnings per Share, Price–Earnings Ratio, and Dividend per Share) of listed insurance companies in Nigeria, covering the period of eleven years (2011–2021).

The key findings are summarized as follows:

Board Size and Financial Performance: The relationship between board size and financial performance was found to be mixed. While in some cases, larger boards negatively affected performance, in others, moderate board sizes improved financial outcomes. This suggests that board size alone does not guarantee efficiency; rather, the quality of directors may be more important.

Board Composition and Financial Performance: Board composition (measured as the proportion of non-executive directors) showed inconsistent effects across performance metrics. In several cases, higher proportions of non-executive directors did not significantly improve earnings per share or price–earnings ratio. This aligns with prior evidence that independence in itself may not always ensure better oversight.

Board Independence and Financial Performance: Board independence demonstrated a positive and significant influence on some financial indicators, particularly dividend per share (DPS). This indicates that independence enhances transparency, accountability, and the willingness of firms to reward shareholders.

Overall Governance Effectiveness: The results confirm that corporate governance mechanisms matter for financial performance, but their effects vary depending on the specific financial indicator. Contextual factors such as regulatory enforcement, market perception, and management efficiency also shape the outcomes.

Conclusion

This study concludes that corporate governance mechanisms are important determinants of financial performance in Nigeria’s insurance sector, though their impact is not uniform across all measures of performance.

Board Size: A balanced and moderately sized board is more effective than either very small or excessively large boards.

Board Composition: Simply increasing the proportion of non-executive directors does not automatically improve financial performance.

Board Independence: Independence of directors remains crucial for strengthening corporate accountability and enhancing shareholder returns.

In essence, good governance contributes to improved investor confidence, reduces managerial opportunism, and enhances firm credibility in the capital market. However, corporate governance in Nigerian insurance companies must go beyond formal compliance to embrace genuine transparency and performance-driven oversight.

Recommendations

Based on the findings, the following recommendations are made:

- **Optimal Board Size:** Insurance companies should aim for a moderate board size in line with OECD recommendations (6–12 members), ensuring efficiency, diversity, and effective decision-making.
- **Strengthening Board Composition:** Beyond numbers, the composition of boards should emphasize expertise, experience, and professional competence. Regulators should encourage boards with diverse backgrounds, gender balance, and sectoral experience.
- **Enhancing Board Independence:** Independent directors should be given greater autonomy to perform their oversight functions without undue influence from management. Regulators like NAICOM should ensure compliance with governance codes that mandate independence.
- **Regulatory Enforcement:** Strengthening regulatory supervision and ensuring strict compliance with corporate governance codes is essential to curbing weak governance practices in the insurance industry.
- **Capacity Building:** Continuous training programs for board members should be introduced to enhance knowledge of governance principles and evolving market realities.

Limitation of the Study

While this study provides valuable insights, it is not without limitations:

- **Data Availability:** The study relied solely on secondary data obtained from published annual reports, which may be subject to reporting bias or incomplete disclosure.
- **Scope Restriction:** The study focused only on listed insurance companies in Nigeria, excluding unlisted firms that may provide additional perspectives.
- **Limited Variables:** Only three corporate governance mechanisms (board size, composition, and independence) and three financial indicators (EPS, P/E, DPS) were considered, leaving out other possible variables such as CEO duality, ownership structure, and market-based performance indicators.
- **Time Constraint:** The study covered eleven years; a longer time frame might provide more robust evidence of governance trends and performance impacts.

Suggestions for Further Research

Future researchers are encouraged to build on this study in the following ways:

- **Broader Coverage:** Expand the scope to include unlisted insurance firms and other financial institutions to provide a more holistic view of governance in Nigeria's financial sector.
- **Additional Governance Variables:** Incorporate variables such as CEO duality, gender diversity, ownership concentration, and audit committee effectiveness.
- **Alternative Performance Measures:** Use both accounting-based (ROA, ROE) and market-based indicators (Tobin's Q, stock returns) for a more comprehensive assessment of performance.

- Comparative Studies: Conduct cross-country studies comparing Nigeria with other African countries to highlight regional similarities and differences in governance outcomes.
- Mixed Method Approach: Combine quantitative analysis with qualitative approaches (such as interviews with directors and regulators) to provide deeper insights into governance practices.

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APPENDICES

Appendix I: List of Sampled Insurance Companies

1. Hallmark Insurance Plc
2. African Alliance Insurance Plc
3. WAPIC Insurance Plc
4. AIICO Insurance Plc
5. AXA Mansard Insurance Plc
6. Goldlink Insurance Plc
7. International Energy Insurance Plc

8. Mutual Benefits Assurance Plc
9. Universal Insurance Plc
10. Linkage Assurance Plc
11. Prestige Assurance Plc
12. Regency Alliance Insurance Plc
13. Sovereign Trust Insurance Plc
14. NEM Insurance Plc
15. Standard Alliance Insurance Plc
16. Cornerstone Insurance Plc

Appendix II: Study Variables and Measurements

Independent Variables:

Board Size (BS): Total number of directors on the board.

Board Composition (BC): Proportion of non-executive directors to total board members.

Board Independence (BI): Ratio of independent directors to total board members.

Dependent Variables (Financial Performance):

Earnings per Share (EPS) = Net Income / Number of Outstanding Shares.

Price–Earnings Ratio (P/E) = Market Price per Share / Earnings per Share.

Dividend per Share (DPS) = Total Dividend Paid / Number of Outstanding Shares.

Appendix III: Regression Models

1. $EPS = \beta_0 + \beta_1BS + \beta_2BC + \beta_3BI + \mu$
2. $P/E = \beta_0 + \beta_1BS + \beta_2BC + \beta_3BI + \mu$
3. $DPS = \beta_0 + \beta_1BS + \beta_2BC + \beta_3BI + \mu$

Appendix IV: Descriptive Statistics Output

Variable	Mean	Std. Dev.	Min	Max
BS	9.42	2.13	5	14
BC	0.56	0.11	0.30	0.78
BI	0.44	0.15	0.20	0.70
EPS	1.32	0.58	0.20	3.10
P/E	7.14	3.20	2.40	14.50
DPS	0.65	0.27	0.10	1.20

Appendix V: Hypotheses Tested

- H₀₁: Board size has no significant effect on earnings per share (EPS).
- H₀₂: Board composition has no significant effect on price–earnings ratio (P/E).
- H₀₃: Board independence has no significant effect on dividend per share (DPS).