

**EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF LISTED INSURANCE COMPANIES IN  
NIGERIA**

**By**

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**BEING A DISSERTATION PRESENTED AND SUBMITTED TO  
THE  
DEPARTMENT OF ACCOUNTING AND FINANCE,  
COLLEGE OF HUMANITIES, MANAGEMENT AND SOCIAL  
SCIENCES, KWARA STATE UNIVERSITY, MALETE,  
NIGERIA.**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
AWARD OF MASTER OF SCIENCE (M.Sc.) DEGREE IN  
ACCOUNTING**

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**AUGUST, 2019.**

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## **DECLARATION**

I, Akeem Omotayo Ajisafe, declare that this is a record of research work carried out by me at the Department of Accounting and Finance, College of Humanities, Management and Social Science, Kwara State University, Malete. Nigeria. The said report has not been submitted for any degree or examination in any other University to the best of my knowledge. All quotations are distinguished by quotation marks and the sources of information are acknowledged by means of references.

.....

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.....

Date

## CERTIFICATION

This is to certify that this thesis titled “Effect of Corporate Governance on Financial Performance of Listed Insurance Companies in Nigeria” written by Akeem Omotayo, AJISAFE with matriculation number: 15/27/MAC006 has been read and approved as meeting the requirement for the award of Master of Science (M.Sc.) Degree in Accounting, of Kwara State University, Malete, Nigeria.

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## **DEDICATION**

This project is dedicated to my loving wife, Alhaja Fatima Ajisafe.

## ACKNOWLEDGEMENTS

I am most grateful to Almighty Allah for His mercies and gift of strength, ability, knowledge, wisdom and understanding throughout the course of this programme.

My deepest appreciation goes to my supervisor, Prof. Kenneth Sola Adeyemi for his guidance and useful comments in the completion of this research. I also appreciate the effort of the Head of Department Dr Emmanuel Inomeola. The following lecturers are equally appreciated for their contributions to this thesis: Dr Sanni Mubaraq, Dr Mustapha R., Dr. Olaniyi T.A., Dr. Brimah A., Dr Arikewuyo, Dr. Biala, Prof Odedokun and all staff of the department for their assistance during the period of my research work.

My special appreciation goes to my parent. You shall live to reap the fruits of your labour. My special and warm appreciation to my love and dearest, Alhaja Fatima Omowunmi for her love, care, support, patience and understanding during the course of this programme. Almighty Allah shall always be with you and grant your wishes.

I will not fail to appreciate my mother in law, Alhaja Sidikat Titilayo Wopa for her unflinching support both morally, financially and spiritually. My appreciation goes to Mrs K.A Babatunde, the coordinator of Accounting Unit, Kwara State College of Education Ilorin Kwara State. I appreciate all staff of school of Basic and Remedial Studies Kwara State College of Education Ilorin for their support in the course of this programme. I am highly indebted to Mr Abdulrauf Isiaka for his assistance as well. My sincere appreciation also goes to Mr. Lawal Wahab, Mr. Abdulmumeen Olatunji (aka Gbarada), Mr. Badmos Yunus, and Barrister Abdulganeey Bello. Worthy of appreciation are my siblings Rev. Femi and Pastor Faith Kolawole, Hajia Ganiyat Yusuf, Olori Mutiat

Oyetero, Abdulrahman Ajisafe and Kafayat Ajibade. Finally, I am grateful to all that may have contributed in one way or the other to the successful completion of this project.

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## ABSTRACT

*The persistent increase in reported cases of frauds and other accounting scandals around the world has heightened the debate on the effectiveness of corporate governance mechanisms at safeguarding the shareholders' investment. Against this background, this study examines the effect of corporate governance on financial performance of listed insurance companies in Nigeria. The specific objectives of the study are to: (i) examine the extent to which board remuneration affects the financial performance of listed insurance companies in Nigeria; (ii) assess the effect of board size on financial performance of listed companies in Nigeria; and (iii) evaluate the extent to which board gender diversity affect the financial performance of listed insurance companies in Nigeria. The population of the study consists of thirty-four (34) listed insurance companies on the Nigeria Stock Exchange as at 31st December, 2018 and on which twenty-three companies were selected as its sample size through purposive sampling technique. Descriptive and panel regression analysis were employed using the secondary data from the annual reports and accounts of the sampled companies for the period 2013-2018. Random-effect regression analysis was employed in testing the hypotheses one to three raised in the study. The study found out that board remuneration has no significant negative effect on financial performance of listed insurance companies in Nigeria at 95% confidence level (t-value of -1.56;p-value of 0.120). This implies that board remuneration has no influence on the financial performance of listed insurance companies in Nigeria. The empirical result of the study also revealed that board size has significant positive effect (t-value of 10.98;p-value of 0.0001) on financial performance of listed insurance companies in Nigeria at 5% significance level. This implies that board structure with large number of directors would support and provide effective advice to the management of the firm and increase monitoring activities, thereby improving the performance of firms. The result of the study further revealed that board gender diversity has significant positive effect (t-value of 2.13; p-value of 0.033) on financial performance of listed insurance companies in Nigeria. This implies that the degree of gender diversity on the board will enhance the board's ability to monitor top management as well as board independence, hence improves financial performance of firms. The study therefore concludes that, corporate governance positively influences financial performance of listed insurance companies in Nigeria. The study recommends that National Insurance Commission (NAICOM) should ensure that the minimum number of directors on board is complied with as contained in the code of corporate governance (CCG, 2016) this will increase the opportunity of having more knowledge and skills and creating better opportunities and more resources as well as providing useful advice to the firm management for better performance of the firm.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

The persistent increase in frauds and accounting scandals around the world in the last three decades has heightened the debate on the effectiveness of corporate governance in safeguarding the shareholders' investment. This has been attributed to weak corporate governance leading to loss of public confidence in making investment decisions. This has serious effect on corporate performance of insurance companies' ability to maintain operations in a sustainable manner. In recent times, accounting scandals of various dimension have been recorded such as the cases of Enron in the United States of America (2001), WorldCom (2002), Xerox (2001), Parmalat in Italy (2003), and Ahold and Tyco in Europe (2002). For instance, corporate profits were overstated for four years in the case of Enron while in WorldCom (2002), it was reported that operating expenses were capitalized which led to the overstatement of the company's profits (Egbunike, Ezelibe & Aroh, 2015). Nigeria has had her own bitter experience of these corporate scandals due to weak corporate governance as evidenced in the cases of Cadbury Nigeria Plc. (2006), Afribank Plc. (2009), Intercontinental Bank Plc. (2009), and Oceanic Bank plc (2009) (Yasser, Entebang & Abu-Manjor, 2011).

In responding to these problems, regulatory authorities in different parts of the world have formulated, revised and ensured tightening of Codes of Corporate Governance in order to ensure effective corporate practices. For instance, in the United States of America, Sarbanes-Oxley Act was enacted in 2002 in order to regulate the publicly

quoted companies. In addition, there were the revisions of United Kingdom Codes of Corporate Governance (2010), Kenyan Codes of Corporate Governance (2012), and so on.

Corporate governance involves the relationships among many stakeholders of the corporation and the goals for which the corporation is governed (Dar, Naseem, Rehman & Niazi, 2011). The boards perform monitoring functions through social and professional networking and interlocking directorates (Lang and Lockhart, 1990). Abdullah and Valentine (2009) classified corporate governance into Audit quality, Audit committee, and board characteristics.

Indicators of corporate governance were specified in the various codes of corporate governance which include audit committee, external auditors and board of directors amongst others. Board of directors can further be synthesized into board structure, board composition, board independence, board size, board committee, board meeting, board gender diversity and Chief Executive Officer Duality. However, this study focuses on three indicators of the board which are board compensation, board gender diversity and board size; this is to enable an in-depth study of the selected variables.

In every business organization, the stakeholders are divided into internal and external stakeholders. The internal stakeholders are the employees, executives, management and the board of directors while the external stakeholders include the shareholders, debt holders, creditors, suppliers, customers and communities affected by the activities of the corporation (Dar, Naseem, Rehman and Niazi, 2011). These stakeholders have great influence on the activities and performance of firms.

Firm performance is of great importance to all stakeholders. The performance could be seen from both financial and non-financial content. The financial measures include the accounting based and market based valuation while the non-financial performance includes customers' satisfaction, employees' satisfaction, quality of the product, et cetera. Firms that usually report better financial result have high tendency to attract investors. Better financial result may not be achieved if the corporate governance put in place by a firm is weak as a result of incompetent board, leading to wrong decision making, hence, poor financial result.

Insurance sector is an important sector in the financial industry. Insurance companies deal with safeguarding the interest of people from loss and uncertainty in order to reduce or eliminate risk of loss to life and property (Chand, 2012). This sector contributes to the general economic growth of the society by providing stability to the functioning of process as well as developed financial institutions and reduce uncertainties by improving financial resources. Therefore, this study examines the effect of corporate governance on financial performance of insurance firms in Nigeria.

## **1.2 Statement of the Problem**

The spate of corporate failures in Nigeria has led to loss of stakeholders' investment and loss of public confidence in the reported financial performance of firms in the country. This has raised many complaints on the extent of weakness of corporate governance which causes several adverse effects on the firm's financial performance. These had led to failures and accounting scandals of firms in Nigeria such as in the case of Cadbury Nigeria Plc, Intercontinental bank Plc, Afri bank Plc, among others. The weaknesses of

corporate governance have led to inability of corporate firms to meet the expectations of their various stakeholders and inability to improve firm value, hence, enormous financial losses.

The directors' remuneration system is a cause for concern. It has been observed that directors always awarded better reward (salaries) to themselves despite company making small profit. When directors receive better rewards (in form of salary and other compensation), they would decide to ignore any irregularities in the reported profits, thereby reducing the long term survival of the firm. (In the case of Cadbury Nig plc. where senior managers and directors turn blind eyes to the irregularities in the financial statement because they have received extra bonuses and compensation). Moreover, a firm with large board size usually experiences delay in decision making due to different opinions on the debate of investment opportunities, thereby affecting the return on investment adversely and consequently leading to poor financial results. A large board size creates internal conflicts among the directors as well as gives room for the board to be controlled by the chief executives officer rather than the board controlling the CEO and the management. In addition, board with gender diversity tends to be more open to conflict of interest, thereby leading to slow decision making and will make the board to be less effective. It has also been argued that women are known to be risk averter, high rate of absenteeism and their view are mostly marginalized, (for instance, the case of Bunmi Oni in the Cadbury report, 2008), therefore may affect the financial performance of firms negatively.

Previous research studies (Adekunle, 2014; Mudashiru, Bakare, Babatunde & Ishame, 2014; Huiting, 2014; Sumedrea, 2016) conducted on the effect of corporate governance

on financial performance of firms showed mixed findings ranging from positive, negative to no correlation results. To the best of the researcher's knowledge, most of the reviewed literatures show that the effect of directors' remuneration and gender diversity on the financial performance of insurance firms in Nigeria has been neglected to some extent. However, it was observed that a very large number of these studies had used return on asset, profit margin and return on equity as proxy for financial performance. More so, most of the studies reviewed focused on banking industry and manufacturing sector. This study therefore uses market to book value to measure the financial performance of insurance firms in Nigeria. Hence, this study fills the gaps identified in the literatures.

### **1.3 Research Questions**

The following research questions are posed in order to address the issues raised:

- i. To what extent does board remuneration affect financial performance of listed insurance companies in Nigeria?
- ii. What is the effect of board size on the financial performance of listed insurance companies in Nigeria?
- iii. To what extent does board gender diversity affect the financial performance of listed insurance companies in Nigeria?

### **1.4 Objectives of the Study**

The general objective of this study is to evaluate the effect of corporate governance on financial performance of listed insurance companies in Nigeria. To achieve this, the following specific objectives were pursued to:

- i. Examine the extent to which board remuneration affects the financial performance of listed insurance companies in Nigeria.
- ii. Assess the effect of board size on the financial performance of listed insurance companies in Nigeria.
- iii. Evaluate the extent to which board gender diversity affect the financial performance of listed insurance companies in Nigeria.

### **1.5 Statement of Research Hypotheses**

The following hypotheses were formulated and tested in the course of the study.

H<sub>01</sub>: Board remuneration has no significant effect on financial performance of listed insurance companies in Nigeria.

H<sub>02</sub>: Board size does not have significant effect on the financial performance of listed insurance companies in Nigeria.

H<sub>03</sub>: Gender diversity has no significant effect on the financial performance of listed insurance companies in Nigeria.

### **1.6 Justification and Significance of the Study**

The growing concern by investors, regulators, policy makers and the general public on the continuous failures of firms across the country has necessitated the interest of the present study on the effect of corporate governance on the development and sustainability of firms in modern day business. Different studies had been conducted on the effect of corporate governance on financial performance (See Adekunle, 2014; Fratim &

Tettamanzi, 2015; Arora & Sharma, 2016; Green & Harmony, 2017; and so on). These studies had provided conflicting results ranging from positive, negative and uncorrelated results. However, studies reviewed in the Nigerian context are yet to examine the effect of board remuneration on the financial performance of firms (See Hassan & Ahmed, 2012; Mudashiru, Bakare, Babatunde & Ishamel, 2014; Adekunle, 2014; Oyewale, Okolo & Olweny, 2016). More so, the previous studies had largely focused on manufacturing and banking industry. There are scarce studies on the Nigerian insurance sector. Therefore, this study examined the effect of corporate governance on financial performance of listed insurance companies in Nigeria.

The finding of the study will be relevant to the academia field as it will provide empirical evidence on the scanty research knowledge on the effect of executive remuneration and gender diversity on financial performance. Most of the previous studies in Nigeria context focused on other variables of corporate governance such as board size, board composition, and board independence and so on. It will also serve as reference for future researchers on the effect of corporate governance on financial performance.

The finding will also be relevant to policy makers and regulators in reviewing and improving various policies, rules and regulations that can enhance the quality of board participation of directors. It will also assist them in making pragmatic policies on the issue of gender mix on the board as well as the regulation of the range of basic salary and other bonuses of the directors.

## **1.7 Scope of the Study**

The study examined the effect of corporate governance on the financial performance of listed insurance companies in Nigeria. The study was restricted to listed insurance companies. This is because recently, several insurance companies in Nigeria have gone out of business, some were recently delisted and some have been acquired or merged due to poor financial performance which may be connected bad corporate governance practice. The study covered the period of 2013 to 2018. This period was chosen because new operational guide lines on premium collection and remittance was released by NAICOM in 2013 to protect the interest of policy holders and other stakeholders from the excesses of insurance practitioners. The last published annual report and account of firms is for 2018 accounting year. Twenty-three (23) insurance companies were selected for the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Conceptual Review**

This chapter discusses the concepts of corporate governance and financial performance; the theories related to corporate governance and financial performance as well the review of previous empirical studies on the subject matter.

##### **2.1.1 Corporate Governance**

One of the most important aspects which investors take into consideration when making an investment decision is the level of implementation of effective corporate governance which usually safeguard the return on their investments. Therefore, corporate governance is a key element for improvement of investors' confidence, increase of competitiveness as well as improvement of economic growth.

Corporate governance has been viewed in different ways by different scholars in order to suite their respective work. This is attributed to the differences in countries code of corporate governance framework and cultural situation of the country under consideration. The organization for Economic Corporation and Development (OECD, 2004) defines corporate governance as “the principles that involves a set of relationship between a company's management, board, shareholders and other stakeholders, as well as providing the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”. Cadbury committee Report (1998) also defines the term corporate governance as the

system by which companies are directed and controlled. In simple term, it defines the legal, ethical and moral value of a corporation in order to safeguard the interest of its stakeholders.

The code of corporate governance for banks and discount houses in Nigeria (2014) defines corporate governance as “the rules, processes, or laws by which institutions are operated, regulated and governed which is developed with the primary purpose of promoting a transparent and efficient banking system that will engender the rule of law and encourage division of responsibilities in a professional and objective manner.

Therefore, it could be deduced from the definitions above that the term corporate governance refers to the set of rules and regulations that ensure effective relationship among the company’s management, its board, shareholders and other stakeholders which ensure that the objectives of the company is achieved as well as monitoring the performance of the company’s management.

Good corporate governance can help to prevent corporate scandals, fraud and potential civil and criminal liability of companies. Effective corporate governance also enhances image and reputation of a company as well as making it more attractive to investors, suppliers, customers and other stakeholders of the company (Todorovic, 2013). The structure of company’s corporate governance determines distribution of rights and responsibilities between various actors in the company such as boards, managers, shareholders and other stakeholders, and lay rules and procedures for making corporate decisions. Moreover, corporate governance regime has strong implications for company, employment systems, trading relationships and capital markets (Dar, Naseem, Rehman &

Niazi, 2011). Therefore, sound corporate governance practices help companies to improve their performance and attract investment while enabling them to realize their corporate objectives, protect shareholders' rights, meet legal requirements, and demonstrate to the member of the public how they conduct their business activities.

In ensuring that a company has effective corporate governance in place, it must comprise some parties. The parties involved in ensuring effective corporate governance are the board of directors; shareholders; audit committee; chief executive officer and the management (Nigerian code of corporate Governance, 2016). Hence, one of the effective ways of ensuring effective corporate governance is through the establishment of board of directors. This is because setting up an effective board of directors is to solve the agency problem that usually arise between the principal (shareholders) and the agent (management), that is, the board of directors serve as a monitoring mechanism.

The board of directors has the responsibility of ensuring that corporate behavior conforms to best corporate governance practices. This requires directors to exhibit certain behavioral forms such as informed and deliberative decision-making, division of authority, effective monitoring of management and even handed performance of duties owed to the company and shareholders (Dar, *et al*, 2011).

Corporate governance and accounting walk hand in hand; one cannot function without the other. Good corporate governance has become the deciding factor that enables companies to maintain a strong financial position in their respective markets. Most corporate governance failures in events across the globe have usually found the accounting department at fault. The accounting department is the gatekeeper of all

corporate governance activities in organisations. Good corporate governance builds the faith of customers in companies, thereby leading to lower capital costs in investments (Emily, Rajab & Kyaw, 2014). Accounting is the key enabler of good corporate governance and is considered an effective means of improving the corporate governance in organisations. Accounting professionals periodically compile data to report companies' internal activities to stakeholders. However, all accounting processes in organisations are rigorously controlled and monitored by certain global standards and regulations (Beridze, 2016).

The scope of work in corporate governance is wide, and ensuring transparency and accountability in the everyday undertakings of companies is the most critical task. Accountants shoulder the responsibility of organisations in disclosing the correct information not only to the shareholders but also to the stakeholders. Accountants play a huge role in building the trust of stakeholders in a company's brand. In corporate governance, the role of accountants is two-fold. The first is to report the flow of capital in and out of various departments and monitor the undertakings carried out with the capital and where the capital is being invested. The second is to ensure a proper framework of accountability and transparency to address the interests of stakeholders (Qasim, 2004).

The industry-wide regulations make it mandatory for companies to disclose certain information to the general public. For instance, companies in the US have to strictly follow the Sarbanes–Oxley Act (SOX) and the revised listing rules for the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) to comply with the industry regulations on financial disclosures, committee and board nominations and auditing policies. Similarly, enterprises in the UK

have to follow the rules mandated by the UK Corporate Governance Code that was published by the Financial Reporting Council of the UK. Over the past few decades, several instances of corporate dishonesty have surfaced, which have led to more stringent corporate governance norms and policies. For example, in Nigeria, Cadbury Schweppes, a major global player in the confectionery and beverages markets, was fined a whopping 21.2 million naira for presenting incorrect account details between 2002 and 2005. The instances of corporate dishonesty have surfaced, which have led to more stringent corporate governance norms and policies. For example, in Nigeria, Cadbury Schweppes, a major global player in the confectionery and beverages markets, was fined a whopping 21.2 million naira for presenting incorrect account details between 2002 and 2005. (Amit Argawal, 2018)

### **2.1.2 Corporate Governance Mechanisms**

The board is accountable and responsible for the performance and affairs of the company; define company strategic goals and ensure that its human and financial resources are effectively deployed towards attaining those goals (Nigerian Code of Corporate Governance, 2016). More so, the board must also ensure good corporate governance by ensuring that the company carries on its business in accordance with its Articles of Association and Memorandum of Association as well as ensuring conformity with the laws of the country, observing the highest ethical standards on an environmentally sustainable basis. Therefore, for the board to perform these duties effectively, the board of directors must possess some characteristics such as adequate size, independence, competence, gender diversity, effective remuneration, audit committee, regular meeting, structure and multiple directorships (Azutoru, Obinne & Chinelo, 2017).

### **2.1.2a Board Size**

The size of the board refers to the number of directors (both executive and non executive directors) serving on the board. According to Nigerian code of corporate governance (2016), the board should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The code states that membership of the board should not be less than five (5). It clearly states that majority of the board members should be non executive directors, at least one of whom should be an independent director. However, the Nigerian code of corporate governance for banks and other discount houses (2014) states that the size of the board of any financial institution shall be limited to a minimum of five (5) and a maximum of twenty (20) and shall have at least two (2) non-executive directors as independent directors.

There are different views on the contribution of board size to the financial performance of firms. One school of thought argued that a large board size will support and provide more effective advice to the management of the firm due to complexity of business environment and the organisation's culture and gather much more information. In addition, it is observed that larger board size increased monitoring activities thereby ensuring that the shareholders' wealth is protected and as a result lead to better firm performance (Hassan & Ahmed, 2012; Akbar, 2014; Arora & Sharma, 2015). In contrast, another school of thought observed that the larger the board size, the higher the agency problems in the board room. Consequently, larger board size lead to more director free-riding problems and internal conflicts among the directors. More so, a large board size is

more likely to be controlled by the chief executive officer (CEO) rather than the board controlling the management, thereby increases the problem of coordination and communication, hence, leads to agency problems and costs (Kiran, 2014; Narwal & Jindat, 2015; Marwa, Amon, Lui & Fkhreldin, 2017).

### **2.1.2b Directors' Remuneration**

Another important aspect of corporate governance mechanisms is directors' remuneration. Directors remuneration refers to the payment made for services or employment of directors on the board of company or corporation (Mohammed, Abdullahi & Masuod, 2009). They further explained that the directors' remuneration includes the basic salary and other monetary and non-monetary benefits of the executive and directors' fees, and sitting allowance paid to the non-executive directors in a financial year. The financial crisis in the last two decades has made different regulatory authorities in different countries to regulate the remuneration and incentives systems of the board of directors. For instance, Green bury Report (1995) in the United Kingdom was used to regulate the compensation of the board of directors in the United Kingdom. Sarbanes-Oxley Act (2002) was enacted to deal with the issue of corporate compensation in response to corporate scandals (such as Enron and worldcom) in the United States.

In Nigeria, the code of corporate Governance (2016) also regulates the components of directors' remuneration. The code states that the level of remuneration should be sufficient to attract, motivate and retain skilled and qualified persons needed to run the company successfully. However, the code of corporate governance for banks and discount houses in Nigeria (2014) states that financial institutions shall align executive

and board remuneration with long-term interests of the company and its shareholders and where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking. It further states that the remuneration of executives are to be determined by non-executive directors and the executive directors shall not receive sitting allowances and directors' fees while the non- executive directors shall not receive benefits, salaries, whether in cash or in kind, other than those mentioned.

The arguments on the effect of directors' remuneration on the performance of firms have been conflicting. Some researchers (Lee, Leu & Yeo, 2005; Khalid & Rehman, 2014) argued that increase in remuneration of the board of directors lead to better efficiency of a company because companies with higher pay scales attract exceptionally talented board members that positively influence the company's performance. In contrast, it has been criticized that high levels of directors' compensation may compel directors to turn a blind eye to irregularities as well as making wrong decision that will affect the performance of the firm adversely. (Khalid & Rehman, 2014; Ruperalia & Njuguna, 2016).

### **2.1.2c Board Gender Diversity**

Another characteristic of corporate governance that may affect financial performance is board gender diversity. Board gender diversity refers to the presence of female directors in the corporate board of directors (Dutta & Bose, 2007; Campbell & Mingeuz-Vera, 2008; Ekadah & Mboya, 2016). The inclusion of women in every angle of decision making depends on the culture, norms and social values of the country. In some countries, women are placed at different social, moral and authoritative status (Mirza, Mahmood & Andleeb, 2012). For example, in the United Kingdom and many European

countries, the participation of women in the labour market is lower as compared to men (Curdova, 2005). Recently, it was reported that in the United States of America, United Kingdom and some European countries, female representation in the board has increased and it has doubled since 1999 (Ekadah & Mboya, 2016). In Nigeria, women are placed in high status, thereby reduced the participation in decision making especially high managerial position due to heterogeneous cultures in Nigeria.

The issue of board gender diversity has created arguments globally. It was argued that board gender diversity of directors promotes better understanding of the market place by matching diversity of directors to that of customers and employees, thereby increasing market penetrability. Carter, Beridze, (2016) observed that board gender diversity enhances the board's ability to monitor top management because increase in the number of female directors may increase board's independence since women tend to ask questions that male directors may not ask. However, board gender diversity might reduce firm's performance as it may lead to conflicting opinions; thereby decision making becomes time consuming and less effective. Moreover, women are more risk-averse than men; women increase the cost of the firm due absenteeism from the board meeting in making effective decision (Ahren & Dittmar, 2011; Dobbin & Jung, 2011).

### **2.1.3 Financial Performance**

Financial performance which assesses the fulfillment of a firm's economic goals has long being an issue of interest in managerial researches. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit. Kothari (2001) defined the value of a firm as the

present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. To (Eyenubo 2013) it is the success in meeting pre-defined objectives, targets and goal within a specified time target. Qureshi, (2007), put forward four different approaches in which the value of a firm has been identified in corporate finance literature. These include the financial management approach which focus on the evaluation of cash flows and investment levels before identifying and assessing the impact of financing sources on firm value; and the capital structure approach which studies the impact of capital structure changes on the value of firm and how different factors impact directly or inversely on the debt and equity component of the firm's capital structure; the resource based approach which explains the value of firm as an outcome of firm's resources; and finally, the sustainable growth approach which is a summary of the above three approaches to firm value, taking into account the firm's operating performance, its investment and financing needs, the financing sources, and its financing and dividend policies for sustainable development of firm's resources and maximization of firm value. Hence, this study focuses on market to book value to measure the financial performance.

The Market to Book ratio (also called the Price to Book ratio), is a financial valuation metric used to evaluate a company's current market value relative to its book value. The market value is the current stock price of all outstanding shares (i.e. the price that the market believes the company is worth). The book value is the amount that would be left if the company liquidated all of its assets and repaid all of its liabilities. The book value equals the net assets of the company and comes from the balance sheet. In other words,

the ratio is used to compare a business's net assets that are available in relation to the sales price of its stock.

The market to book ratio is typically used by investors to show the market's perception of a particular stock's value. It is used to value insurance and financial companies, real estate companies, and investment trusts. It does not work well for companies with mostly intangible assets. This ratio is used to denote how much equity investors are paying for each dollar in net assets.

The market-to-book ratio is calculated by dividing the current closing price of the stock by the most current quarter's book value per share.

Where, Net Book Value = Total Assets – Total Liabilities

A low ratio (less than 1) could indicate that the stock is undervalued (i.e. a bad investment), and a higher ratio (greater than 1) could mean the stock is overvalued (i.e. it has performed well). A low ratio could also indicate that there is something wrong with the company. This ratio can also give the impression that you are paying too much for what would be left if the company went bankrupt. The market-to-book ratio helps a company determine whether or not its asset value is comparable to the market price of its stock. It is best to compare Market to Book ratios between companies within the same industry.

## **2.2 Theoretical Review**

Different theories had been formulated relating to corporate governance and financial performance. These theories include agency theory, stakeholders' theory, resourced based

theory and stewardship theory. The researcher examined the originator of these theories, the philosophy behind the theories and how they relate as well as their relevance to the concept being discussed.

### **2.2.1 Agency Theory**

The Agency theory developed by Jensen and Meckling (1976) recognized conflicts of interest between owners and agents in modern corporate entities due to the divergent goals arising from wide separation of ownership and control. Fama and Jensen (1983) indicate that the managers possess superior knowledge and expertise about the firm and are therefore in a position to pursue self-interests rather than shareholder interests. According to Fama and Jensen (1983), managers expropriate shareholders through asset stripping, diversion of corporate opportunities, overpaying executives and use the profits of the firm to benefit themselves rather than the investors. Consequently, shareholders' interests are compromised if managers maximize their interest at the expense of firm profitability and market value.

One of the theoretical principles underlining the issue of corporate governance is the agency theory resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints such as inadequate capital and managerial expertise to manage the funds, they employ the services of managers to invest their funds in profitable ventures to generate good returns and the managers rewarded for their service.

Agency problem however arises because the actions of managers do not always promote the interest of the financiers; some of their actions are very detrimental to the fortunes of the financiers. Thus, agency problem as described by Jensen and Meckling (1976)

focuses on the consumption of perquisites by managers and other types of empire building (La Porta *et al.*, 2000). It is interesting that, these managers often tend to entrench themselves in power. According to Shleifer and Vishny (1989), managers can expropriate shareholders by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm. Managerial expropriation of funds can also take more elaborate forms than just taking cash out, such as transfer pricing (Shleifer and Vishny, 1997). Such transfer pricing, asset stripping, and investor dilution, though often legal, have largely the same effect as theft (La Porta *et al.*, 2000).

Additionally, managerial expropriation could also take the form of diversion of corporate opportunities from the firm, installing possibly unqualified family members in key managerial positions, or overpaying executives, using the profits of the firm to benefit themselves rather than return the money to the investors (La Porta *et al.*, 2000). As a result of the interest of the opportunistic, self-interested managers, there was an agency loss which is 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).

The remedies to this conception of the agency problem within corporate governance involves the acceptance of certain 'agency costs' involved either in creating incentives or sanctions that will align executive self-interest with the interest of shareholders, or incurred in monitoring executive conduct in order to constrain their opportunism (Roberts, 2004). Thus principles of corporate governance are meant to control the internal and external entrenchment practices of executives through internal and external control

mechanisms which either align the interest of executives with the shareholders or monitor them directly (Boyd, 1994; Gibbs, 1993; Hill *et al.*, 1988; Walsh *et al.*, 1990).

### **2.2.2 Stewardship Theory**

The stewardship theory emerged as a result of the seminar work by Donaldson and Davis (1991). The theory is based on the assumption that the interest of shareholders and the interest of management are aligned therefore management is motivated to take decisions that would maximize performance and the total value of the company. The theory believes that there is greater utility in cooperative than individualistic behaviour and hence whilst the actions of management would be maximizing shareholder wealth, it would at the same time be meeting their personal needs. The managers protect and maximize shareholders wealth through firm performance, because by so doing, their utility functions are maximized (Davis *et al.*, 1997).

To achieve this goal congruent, the shareholders must put in place appropriate empowering governance structures and mechanisms, information and authority to facilitate the autonomy of management to take decisions that would maximize their utility as they achieve organizational rather than self-serving objectives. For CEOs who are stewards, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion (Donaldson and Davis, 1991). Davis *et al.*, (1997) identified five components of the management philosophy of stewardship as trust, open communication, empowerment, long-term orientation and performance enhancement.

The stewardship theory considers managers to be good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns. Davis *et*

*al.*, (1997) argue that stewards derive a greater utility from satisfying organizational goals than through self-serving behavior. The theory suggests that managers tend to be more motivated to act in the best interest a firm than in their private interest. The theory is based on the assumption that the interest of shareholders and the interest of management are aligned and therefore management is motivated to take decisions that would maximize performance and the total value of the company (Davis *et al.*, 1997). The stewardship theory therefore suggests that managers should be given autonomy based on trust, which reduces the cost of monitoring and control of the managers and directors.

Under this theoretical framework, executive directors can influence performance positively as they understand a company's business better, leading to efficiency in decisions making. The stewardship theory is credited for uniquely focusing on governance structures that facilitate rather than monitor and control. The theory therefore takes a more relaxed view of the separation of the role of chairman and CEO, and supports the appointment of a single person for the position of chairman and CEO and a majority of executive directors rather than NEDs. Thus the validity of interrelationship between corporate boards and firm performance has to be evaluated with due consideration to the principles of the stewardship theory. However, the stewardship theory contradicts the agency theory as managers are considered to pursue their own interests which are detrimental to firm performance.

### **2.2.3 Stakeholder Theory**

The stakeholder's theory holds that corporations serve a broader purpose than just maximizing the wealth of shareholders. It is therefore considered an extension of agency theory given the need to take care of stakeholders key to the achievement of a firms

objectives through improved customer relations, employee motivation and supplier stability. The theory articulated by Freeman (1994) directs how managers operate and emphasizes the need to have corporate accountability to groups or individuals that interact with a firm and that affect or are affected by the achievement of the firm's objectives. Freeman *et al.* (2004) indicates that the theory encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and service to its stakeholders.

Consequently, organizations are expected to take into account the interests interest groups linked to it through social, environmental and ethical considerations (Donaldson and Preston, 1995; Freeman *et al.*, 2004). However, one of the key concerns in corporate governance is to identify the relevant stakeholders. According to Freeman *et al.* (2004), a stakeholder is any group of individuals who can affect or be affected by the activities of the firm, in achieving its objectives. Clarkson (1994) argues that any stakeholder is relevant if they have invested in a firm and their investment is open to risk from the activities of the organization. Wheeler and Sillanpaa (1997) identified stakeholder as varied groups comprising of investors, managers, employees, customers, business partners, local communities, civil society, the natural environment, future generations and non-human species.

The stakeholder theory is relevant in corporate governance studies as it directs managerial behavior in corporate entities. It recognizes stakeholders as a mechanism to ensure efficient operation of a company. Freeman (1994) argues that the managers react to pressures put forth by stakeholders as it gives them legitimacy and relevance. The

current governance approaches also underscore the economic value created by people who come together and cooperate to improve firm performance. Managers must therefore develop relationships and inspire their stakeholders to give their best to enhance the value the firm. Consequently many firms have developed governance practices highly consistent with the stakeholder theory. The stakeholder theory like the resource dependency theory, proposes the representation of the various interest groups on the organization's board in order to attract crucial resources from the environment. According to Turnbull (1997), they are considered instrumental to corporate success as their participation in corporate decision-making can enhance returns, efficiency and corporate value. The involvement of stake holders also ensures consensus building and to avoid conflicts in a firm (IFC, 2009). The involvement of stakeholders incorporate management is therefore expected to contribute positively to firm performance. However, the key limitations of the stakeholder theory in corporate governance studies is to identify the relevant stakeholders who have legitimate interests on the firm and can be affected by company's policies and operations. The theory has also been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. (Clackson, 1994).

This study therefore, adopted agency theory as it explains the separation of ownership and control.

## **2.3 Empirical Review**

The previous empirical research works were reviewed in order to clearly bring out the gap in the literature. The empirical review was done for the various economies, globally and Nigerian in particular.

### **2.3.1 Empirical Review on Board Size and Financial Performance**

#### **2.3.1.1 Empirical Studies from Developed Countries**

Fratim and Tettamanzi (2015) assessed the relationship between corporate governance and performance in Italian listed companies. Regression analysis was used to analyse the data obtained from the annual report and accounts of one hundred and eighty-two (182) Italian listed companies for 2003 and 2007. The result shows that there is a positive significant relationship between board size and firm performance. (Q-ratio, Tobin's Q).

#### **2.3.1.1 Empirical Studies from Developing Countries**

Yasser, Entebang and Abu Mansor (2011) examined the relationship between corporate governance and firm performance in Pakistan. Data was sourced from the annual report and accounts of 30 Pakistani listed firms between 2008 and 2009. Multiple regression analysis was used to analyse the data collected, and the results reveal a significant positive relationship between financial performance (ROE, PM) and board size.

Khatab, Mashood and Zaman (2011) investigated the relationship between corporate governance and firm's performance. Data was obtained from the annual report and accounts of twenty (20) firms listed on the floor of Karachi stock exchange for the periods 2005 to 2009, the data obtained was analysed with the use of multiple regression

analysis. The result found out that the board size of the firm is insignificant to the firm's performance (Tobin's Q, ROA and ROE)

Dar, Naseem, Rehman and Nazi (2011) studied the effect of corporate governance on firm performance of twelve (12) oil and gas companies listed on the floor of Karachi Stock Exchange of Pakistan. Multiple regression analysis and Ordinary least square (OLS) method were employed in analyzing the data collected from the audited financial statement of the sample firms for the periods 2004-2010. The study found out that board size has significant and positive effect on ROE but not on profit margin.

Tornyeva and Wereko (2012) investigated the relationship between corporate governance and the financial performance of insurance companies in Ghana. Data was sourced from the combination of financial statement of insurance companies collected from national insurance commission in Ghana for the periods 2005 to 2009. Panel data analysis was used to analysis the data. The result found that there is a significant positive relationship between board size and the firm performance (ROA).

Velnampy (2013) examined the impact of corporate governance on firm performance using Sri Lankan manufacturing companies. Data was sourced from the annual report and accounts of twenty-eight (28) manufacturing companies selected as sample for the periods 2007-2011. The result of the multiple regression analysis shows that board size has no significant impact on ROA and ROE.

Kumar and Singh (2013) examined the effect of corporate board size on firm value for selected Indian companies. Data was sourced from the annual report and accounts of one hundred and seventy-six (176) Indian firms listed on the floor of Bombay stock exchange

for the periods 2008 to 2009, and was analysed with the use of linear regression analysis. The result documented a negative relationship between board size and firm value.

Kiran (2014) examine the relationship between gender diversity in board composition and firm performance OLS regression analysis was used to analyse data collected from the financial statement of fifty (50) Finnish listed companies for the periods of 2011 and 2012. The result depicts that board size has insignificant negative effect on financial performance (ROA).

Akbar (2014) examines the relationship between corporate governance and firm performance. Data was sourced from the financial statement of twelve (12) textile firms listed on the floor of the Karachi Stock Exchange in Pakistan for the periods 2007 to 2011. Pane regression analysis was used to analyse the data collected. The study document that board size has a positive and significant relationship with return on asset (ROA) and that the impact of board size on ROE was insignificant.

Emily, Ragab and Kyaw (2014) investigated the relationship between corporate governance and firm performance on the Egyptian market. Data was sourced from the financial statement of thirty (30) companies out the active fifty (50) companies listed on the floor of Egyptian stock market for the periods 2004 to 2010. The result of the correlation analysis depicts that board size does not have any significant effect on the operation of the firms (ROA, ROE, and Tobin's Q).

Shungu, Ngirande and Ndlovu (2014) investigated the impact of corporate governance on the performance of commercial banks in Zimbabwe. Multi regression analysis was used to analyse the data collected from financial statement of five sampled banks for the

periods 2009 to 2012. The result depicts that there is a positive relationship between board diversity and commercial bank performance. It also shows that there is a negative relationship between board size and bank performance (ROE).

Qasim (2014) examines the relationship between corporate governance and firm performance with evidence from UAE. Pooled regression analysis was used to analyse the data obtained from the financial statement of two hundred and eighty-three (283) companies listed on the floor of Abu Dhabi stock exchange for the period 2007-2011. The result found that there is significant positive impact of board size on firm performance (Tobin's Q and ROA).

Narwal and Jinda (2015) studied the impact of corporate governance on the profitability of Indian textile sectors. Data was sourced from the annual report and accounts of Indian textile companies for the period 2009 to 2014, and was analysed with the use of correlation and OLS regression analysis. The result shows that board size has no significant association with the profitability (PAT)

Arora and Sharma (2015) studied the impact of firm performance on board characteristics with evidence from India. Panel regression analysis was employed to analyse the data source from the annual report and account of 20 manufacturing companies choosing as samples. The result revealed that large board size has negative impact on firm performance (ROA, ROE, NPM, Tobin's Q).

Arora and Sharma (2016) studied the impact of corporate governance on firm performance. Data was collected from the annual report and account of twenty (20) industries of the Indian manufacturing sector listed on the floor of Bombay stock

exchange for the period 2001 to 2010 and was analyzed with the use of panel data regression analysis. The study document that board size is negatively related to firm performance (ROA).

Marwa, Amon, Lui and Fakhredin (2017) assessed the impact of board characteristics on firm financial performance with evidence from the Egyptian listed companies. Data was sourced from the annual report and accounts of the most active one hundred (100) companies listed on the floor of Egyptian Stock of Exchange for the periods 2005-2010. The data was analysed with the use of panel regression analysis. The result shows that board size has insignificant positive impact on return on asset (ROA) while the board size has insignificant negative effect on Tobin's Q.

Abdulsamad, Yusoff and Lasyud (2018) examined the influence of board characteristics on firm performance. Board of director was proxy with CEO duality, independent director, board size and board meeting while financial performance was proxy with return on asset (ROA) and earnings per share (EPS). Data was sourced from annual report of three hundred and forty-one (341) Malaysian public listed companies, for the period ranging from 2003 to 2013. Data collected was analysed using panel regression model. The result shows that board meeting shows that board meeting has negative influence on firm performance. It also shows that independent of director and board size has positive influence on ROA.

Zhou, Owusu and Maggina (2018) examined the characteristics of board of directors and audit committees and the formation of audit committee with firm performance. Secondary data was sourced from the annual report of the listed firm on the website of

Athens Stock Exchange (ASE) during the period 2008 to 2012. Descriptive research design was employed in the study. The result suggested that firms having large board size had better performance.

Kao, Hodgkinson and Jaafar (2018) assessed the effect of ownership structure and board of directors on firm's value. The study employed panel regression to analyse the data sourced from the sampled companies listed on the floor of Taiwan Stock Exchange from 1997 to 2015. The result found out that the higher the proportion of independent directors, the smaller the board size the stronger the firm's performance.

Chugh, Meador and Kumar (2018) studied the relationship between the financial performance and some characteristics of corporate governance for Indian firms. Data was sourced from audited financial statement of forty-one (41) companies listed on the floor of National stock exchange in India for 2009 and analysed using regression analysis. The result confirmed that board size and financial performance are positively related and highly significant (ROA and ROE).

### **2.3.1.1 Empirical Studies from Nigeria**

Ayoni and Sampson (2013) investigate the relationship between corporate governance and organizational profitability. Data was sourced from five (5) companies listed on the floor of Nigeria Stock Exchange. Data collected from annual report of 22 insurance companies. The analytical design employed in the study was reliability and inferential statistics. The study found that there is significant relationship between corporate governance and insurance industry financial performance.

Mudashiru, Bakare, Babatunde and Ishmael (2014) investigated the relationship between corporate governance and the performance of organizations. Data was sourced through questionnaire administered to sixty-four (64) respondents in the organization selected. Data was analyzed with the use of parametric test (regression analysis and Pearson's product moment correlation). The result shows that large board size is positively associated with the performance of organizations.

Garba and Abubakar (2014) investigate the relationship between board diversity and financial performance of insurance companies in Nigeria. Corporate governance was proxy with gender diversity, ethnic diversity, board size, board composition and foreign directorship. Twelve (12) listed insurance companies were selected for the study. Firm performance was measured using ROA, ROE and Tobin's Q. The study found that gender diversity and foreign directors have positive influence on insurance companies' performance. It also indicates a negative and significant relationship between board composition and performance of insurance companies in Nigeria.

Adekunle (2014) examines the relationship between corporate governance and financial performance of selected quoted firms in Nigeria. Data was sourced from the financial statement of selected companies and the ordinary least square regression analysis was used to analyse the data collected. The result found that there is a positive and significant relationship between board size and firm performance (ROA and PM).

Akeem, Tererk, Temitope and Feyitimi (2014) examined the impact of corporate governance on the performance of the Nigeria insurance company. Data was obtained from the annual report and accounts of three sampled insurance companies listed on the

floor of Nigerian stock exchange between 2002 and 2008. Multiple regression analysis was employed to analyse the data collected. The result showed no significant evidence to support the fact that board size help promote insurance firm performance (ROE) in Nigeria.

### **2.3.2 Empirical Review on Board Gender Diversity and Financial Performance**

#### **2.3.2.1 Empirical Studies from Developed Countries**

Kakabadse, Figueira, Nicolopoulou, Yang, Kakabadse and Ozbilgin (2015) investigated on how the relationship between gender in the boardroom and corporate governance operates. Data was sourced from qualitative study involving thirty (30) companies with women directors in the United Kingdom. The result shows that the presence of minority women on the board has an insignificant effect on board performance.

Comi, Grasseni, Origo and Pagani (2017) studied the effect of corporate gender quotas on firm performance in Belgium, France, Italy and Spain. Data was sourced from the financial statement of four (4) European countries for the period of between 2010 and 2014 with more than four hundred thousand observations. The study document that gender quotas has an insignificant effect on firm performance except in Italy where there was a positive impact on productivity.

Green and Harmony (2017) investigate the effect of female directors and board committees on firm performance of large European firms. Data was sourced through the primary data base on BoardEx of EUROTOP 100 firms for the period 2004 to 2015 for firms in Europe (Belgium, Denmark, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom). The result of the panel regression

analysis shows that female board representation has positive effect on firm performance. Sourced from the database of ninety (90) US banks for the period of 1999 to 2015, was analysed using panel regression analysis. The study found out that there is a u-shaped relationship between gender diversity on board and various measures of bank performance.

In the study of Owen and Temesuary (2017) examined the performance effects of gender diversity on bank board in the USA. The data sourced from the data base of ninety (90) US banks for the period of 1999 to 2015, was analysed using panel regression analysis. The study found out that there is a U-shaped relationship between gender diversity on board and various measures of bank performance.

Martinez and Alvarez (2019) assessed how board characteristics influence firm performance. The study examined how board size, board independence, CEO duality, female directors and board compensation affect firm performance. Data was sourced from the Thompson data base. The result reported that large board with independent and female directors tends to increase firms' value; the result also shows that CEO duality has a positive impact on firm performance, and board compensation does not affect the firm performance.

### **2.3.2.1 Empirical Studies from Developing Countries**

Matlala (2011) examine the effect of board gender diversity on financial performance of publicly listed companies in South Africa. Data was sourced from the financial statement of seventy (70) companies with twenty five percent or more of female representation on the boardroom for the periods 2003 to 2010. The regression analysis result shows that

gender diversity has no significant effect on financial performance (ROE, ROA, and Tobin's Q) of sample firms in South Africa.

Mirza, Mahmood, Andleeb and Ramzan (2012) examined the impact of gender diversity on firm performance with evidence from Pakistan companies. The data collected from the financial statement and business recorder's website of three hundred and ninety five (395) non-financial listed companies on the floor of Karachi Stock Exchange Pakistan for the periods 2004-2009 was analysed with the use of panel regression analysis. The result indicates that gender diversity is negatively related with firm performance (ROA, ROE).

Wanyama and Olwery (2013) studied the effect of corporate governance on the financial performance of listed insurance companies in Kenya. The study proxy corporate governance with board composition, CEO duality, board size and leverage, while performance was proxy with ROE and ROA. Descriptive research design was adopted in the study. The population of the study was made up of all the insurance companies listed on the floor of the Nairobi Securities Exchange as at December 2012. A stratified random sampling technique was used to obtain the sample size of the study. Both primary and secondary data were used. Secondary data was sourced from the documentary information from company annual accounts for the period 2007-2011. The study revealed that a strong relationship exist between the corporate governance practices and firm performance.

Kiran (2014) examine the relationship between gender diversity in board composition and firm performance OLS regression analysis was used to analyse data collected from the financial statement of 50 Finnish listed companies for 2011 and 2012. The result

depicts that the issue of gender does not matter and the impact of gender diversity on the performance of the firm is insignificant (ROA).

Huiting (2015) investigates the effect of gender board diversity on a firm's financial performance in USA. The data collected from the Association of Religion Data Archive (ARDA) and ORBIS for the periods 2005 to 2014 was analysed with 2 stage least square regression analysis. The result provides that gender board diversity positively affects firm's financial performance (ROA).

Sumedrea (2016) evaluates the relationship between gender diversity and firm performance in seeking for sustainable development. Descriptive analysis was employed in analyzing the data collected from the financial report of sixty (60) Romanian companies listed on the floor of Bucharest Stock Exchange for the period 2014. The study found out that gender diversity has positive relationship with ROA, ROE and ROS.

Iren (2016) studied the impact of boardroom diversity on firm financial performance. Annual report and account of 60 firms listed in Abu Dhabi and Dubai stock exchange was used in data collection and was analysed with use of regression analysis. The result shows that gender diversity has no significant impact on financial performance of firm (ROA, ROE and Tobin's Q).

Christiansen, Lin, Pereira, Topalova and Turk (2016) evaluated the link between gender diversity in senior corporate position and financial performance of two (2) million companies in Europe. Data was sourced from the financial statement of companies that have data on ORBIS data base for 2013 and was analyzed with the use of panel

regression analysis. The study document a positive association between return on asset (ROA) and gender diversity.

Beridze (2016) assessed the relationship between boardroom gender diversity and firm performance with evidence from the banking sector in Georgia. Panel data analysis was employed in analyzing the data collected from the annual report and accounts of nineteen (19) commercial banks in Georgia for the periods 2005 to 2014. The study revealed that the presence of one (1) woman on board has significant negative impact on performance of banks while the presence of two or more women on board has significant positive impact on banks performance in Georgia (ROA).

Ruuska (2017) investigates the relationship between female board members in publicly listed companies and firm financial performance. Ordinary least square (OLS) regression analysis was used to analysed the data collected from the annual report of 82 publicly listed companies from NASDAQ OMX Helxinki stock exchange (Finland) for the year 2016. The result found that there is a significant positive relationship between firm financial performance (ROA, ROE) and board diversity in Finland.

Marwa, Amon, Lui and Fakhredin (2017) assessed the impact of board characteristics on firms' financial performance with evidence from the Egyptian listed companies. Data was sourced from the annual report and accounts of the most active one hundred (100) companies listed on the floor of Egyptian Stock of Exchange for the periods 2005-2010. The data was analysed with the use of panel regression analysis. The result shows that gender diversity has insignificant negative impact on Return on Asset (ROA) while gender diversity has significant negative impact on Tobin's Q.

Irean, Chan and Rozaimah (2017) investigated the relationship between gender diversity and in a firm's board of directors and financial performance of firms listed on Bursa Malaysia. Data was sourced from the financial statement of seventy-six (76) non-financial firms listed on FTSE Bursa Malaysia Top 100 index for the periods 2009 -2013 and was analysed with the use of panel regression analysis. The finding of the study shows that a higher degree of female representation on the board increases a firm's financial performance (Tobin's Q).

Joshi (2017) assessed whether gender diversity improve firm performance or not with evidence from India. Data was sourced from financial statement of publicly listed companies that has board gender diversity composition was analysed using regression analysis. The result showed that there is insignificant effect of gender diversity on financial performance (employee productivity and Total output of the firm).

Scholtz, Kieviet (2017) studied whether diversity of a board influences company performance. Top 100 companies listed on the floor of Johannesburg Securities Exchange in 2013 to 2015. Performance was measured using Tobin's Q and ROA. The result documented that the proportion of women on a board and a board size are significantly positively related with the performance of South African companies.

Gomez and Blanco (2018) examined the relationship between the presence of women in corporate positions and the financial performance of companies. The study employed the use of panel data models on the annual report of 54 sampled Colombian public businesses for the period 2008 to 2015. The result depict that women's presence in corporate governance positions is positively associated with firm performance. The result also

found out that there is a relationship between women at the top corporate governance structure and firm profitability.

Handa (2018) assessed the effect of corporate governance on financial performance of selected Indian banks. Panel regression analysis was used to analyse the data collected from the annual reports of seventy (70) selected banks for the period of 2008 to 2015. The result of the study indicates that the presence of female directors on board has significant influence on bank performance (ROE & ROA).

Ahmadi, Naka and Bouri (2018) investigate the relationship between the board size board independence, CEO duality, CEO tenure and gender diversity. Data sourced from the annual report of 40 companies for the period 2011 to 2013. Panel regression analysis was employed to analyse the data collected. The result shows that there is a significant relationship between board gender diversity and firm performance.

Anderson and Wallgreen (2018) evaluate the relationship between gender diversity on board and financial results. A sample of 100 Swedish companies listed on the floor of Nasda Stockholm for the time period 2013 to 2016. Data was sourced using qualitative approach. Data collected was analysed using OLS. The result depict that the presence of one or more women on board has a positive effect on financial performance.

Unite, Sullivan and Shi (2019) assessed the impact of board diversity on performance of Philippine firms. The data collected from the annual reports of two hundred and sixty-five (265) firms for the period 2003 to 2014, was analysed using panel regression analysis. The study indicates that greater board diversity did not significantly affect either short term or long term firm value.

Abdelzaher and Abdelzaher (2019) examined the effect of women on board and firm performance. Data was collected from one hundred and fourteen (114) sampled across various companies listed on the floor of Egyptian Stock Exchange for the year 2013. Data was analysed using Tobin's Q ratio. The result shows that market did not have a bias against women directors.

Ekadah and Mboya (N:D) analysed the effect of board gender diversity on the performance of commercial banks in Kenya. Data was sourced from the financial statement of thirty-two commercial banks chosen as sample for the periods 1998-2009. The result of the stepwise regression analysis shows that board diversity has no effect on performance of banks in Kenya (ROA).

Siantar (N:D) examine the effects of board gender diversity on firm performance and directors compensation in India. The data collected from the financial statement of all the firms listed in the NSE for the periods 2006 to 2015 was analysed with the use multivariate ordinary least square (OLS) regression analysis. The study found out that the presence of women on the board has no significant effect on firm performance (ROA).

Daunfedt and Rudholun (N:D) determined whether increasing gender diversity on the board of directors improves firm performance. Data was sourced from the annual report and accounts of twenty thousand, four hundred and eighty-seven (20,487) limited companies in Sweden for the periods 1997 to 2005. Panel regression analysis result shows that more gender diversity in the boardroom is found to have a negative impact on financial performance (ROA) after two years.

### **2.3.2.3 Empirical Studies from Nigeria**

Oyewale, Oloko and Olweny (2016) evaluate the impact of board gender diversity on the financial performance of listed manufacturing companies in Nigeria. Univariate regression analysis was employed in analyzing the data collected from the financial statement of thirty-four (34) listed manufacturing companies for the periods 2006-2015. The result depicts that there is a significant linear relationship between board gender diversity and financial performance (ROE) of listed manufacturing companies in Nigeria.

### **2.3.3 Empirical Review on Board Remuneration and Financial Performance**

#### **2.3.3.1 Empirical Studies from Developed Countries**

As at the time of filing this study, no empirical study was found in the developed countries on the impact of board remuneration on financial performance.

#### **2.3.3.2 Empirical Studies from Developing Countries**

Khalid and Rehman (2014) assessed the impact of directors remuneration on financial performance of seventy (70) non-financial Pakistani corporate firms listed on the floor of karrachi stock exchange for the period of 2007 to 2011. Description survey analysis was employed to analyze the data collected from the annual report and accounts for the period 2007 to 2011. The study found that there is significant impact of association of remuneration of directors with the performance of firm in Pakistan. (ROA, ROE, EPS, SG).

Muller (2014) investigates the relationship between company performance and board compensation characteristics for companies listed on the floor of Europaen stock market.

The study employed return on asset (ROA) to measure operating performance. The result of the finding proved that there is a significant relationship between non executive directors' basic fee and financial performance of firms.

Okiro, Aduda and Omoro (2015) assessed the effect of corporate governors and capital structure on performance of firms listed at the East Africa community security exchange. Data was obtained from the financial statement of 98 companies listed at the East Africa security exchange for the period 2009 to 2014 and was analysed with the use of multiple regression analysis. The result indicates that board remuneration has no significant effect on firm financial performance (ROA).

Narwal and Jinda (2015) studied the impact of corporate governance on the profitability of Indian textile sectors. Data was sourced from the annual report and accounts of India textile companies for the period 2009 to 2014, and was analysed with the use of correlation and OLS regression analysis. The result shows a strong positive association between directors' remuneration and profitability (PAT).

Ruparelia and Njuguna (2016) evaluate the relationship between board remuneration and financial performance in the Kenyan financial services industry. Data was sourced from the audited financial statement of twenty (20) financial services companies listed on the floor of Nairobi securities exchange for the periods 2003 to 2013. The result of the pooled cross-sectional data analysis depicts that the board remuneration positively influence financial performance (ROE, ROA, DY and EPS).

Raithatha and Komera (2016) evaluate the relationship between executive compensation and firm performance among Indian firms. Data was sourced from the PREWESS data

base maintained by centre for monitoring Indian Economy (CMIE). Return on Equity (ROE) and Return on Assets (ROA) were used to measure performance. Consolidated executive pay used as the proxy for pay. Variables such as size, leverage and risk are used to proxy pay. The study found out that there is significant pay performance among the sampled firms.

Kirsten and Toit (2018) examined the relationship between remuneration and financial performance for companies listed on the Johannesburg stock exchange. The data sourced from the financial statement of forty-two (42) consumer goods and service industry listed on the Johannesburg stock exchange for the period of 2006 to 2015 was analysed using pearson correlation coefficient and generalized least square regression analysis. The result of the study revealed that remuneration policies in place for South Africa executive directors within the consumer goods and service industry seem to be affected by the share price of the company.

Handa (2018) assessed the effect of corporate governance on financial performance of selected Indian banks. Panel regression analysis was used to analyse the data collected from the annual reports of seventy (70) selected banks for the period of 2008 to 2015. The result of the study revealed that average remuneration of directors has significant influence on bank performance (ROE & ROA).

Young, Kyung, Lian and Murthy (2018) evaluate the influence of directors' remuneration on firm performance. Panel data was used with fixed effect model. The result documented that non executive directors' remuneration have a significant negative relationship with firm performance.

Afrifa and Adesina (2018) examined the relationship between remuneration level of sampled of listed small and medium enterprises (SMEs) directors and firm performance over the period 2005 to 2012. Panel regression analyses were used to analyse the data gathered from the report of 802 SMEs of eight years period (2005-2012). The study reported that the existence of directors' remuneration level maximizes firm performance.

Chou and Buchdadi (2018) studied the relationship between executive compensation and firm performance in the banking industry in Indonesia. Data was sourced from sample of three hundred and twenty four (324) banks year selected from listed banks in Indonesia during the period 2006 to 2015. Panel regression was used to analyse the data collected. The study revealed that performance on pay and pay on performance are valid in Indonesia.

Honda (2018) investigates the role of board structure in the financial performance of selected banks for the period 2018 to 2015. Data was sourced from sample of 70 firms and analysed using panel regression. The result depict that chairman CEO/duality, average remuneration of directors, board committee and female directors has significant influence on bank performance.

Aslam, Haron and Tahir (2019) examined the interrelationship between pay and performance of CEOs/board of directors in an emerging market, Pakistan. Data was sourced from the annual report of 50 sampled firms listed on the floor of Karachi Stock Exchange. Generalized to investigate the relationship between the pay and performance. The result indicates a weak two-way relationship between the firm performance and CEO/Executive director remuneration.

Siantar (N:D) examine the effects of board gender diversity on firm performance and directors compensation in India. The data collected from the financial statement of all the firms listed in the NSE for the periods 2006 to 2015 was analysed with the use multivariate ordinary least square (OLS) regression analysis. The result shows that director compensation has insignificant effect on firm performance (Tobin's Q).

### **2.3.3.3 Empirical Studies from Nigeria**

Hassan and Ahmed (2012) studied the relationship between corporate governance and firm performance. Data was sourced from the annual report of twenty-five (25) non-financial firms listed on the floor of the Nigerian stock exchange (NSE) for the periods 2008 to 2010. Univariate OLS multiple regression analysis was used to analyse the data obtained. The result of the study depicts that there is a positive significant relationship between executive compensation and firm performance (EBIT)

## **2.4 Summary and Gap Identified in the Literature**

This chapter provides a detailed review of the concept, theoretical and empirical discussions relating to the study. The study discussed the concepts of corporate governance and financial performance. Theories relating to corporate governance and financial performance were also examined. The empirical studies were viewed from the developed and as well as Nigerian companies. The review of the previous studies showed that there are still gaps left unfilled. Hence, this study provides further evidence in order to fill the gaps identified in the literature. The body of literature reviewed on the effect of corporate governance on the financial performance showed that, little research studies in Nigeria has used market to book value (MBV) to measure the financial

performance in their studies. The previous studies largely used return on asset, profit margin and return on equity.

In addition, it was observed that there are fewer studies in Nigeria on the effect of board remuneration and board gender diversity on financial performance. More so, these studies were based on non-financial listed firms and manufacturing companies respectively. Furthermore, none of the studies has covered the effect of corporate governance on financial performance up to the period of 2017. Therefore, it could be clearly seen from the empirical studies reviewed that there exist gaps and unanswered questions in the Nigerian context on the effect of corporate governance on financial performance of the listed insurance firms in Nigeria.

## **2.5 Theoretical Framework**

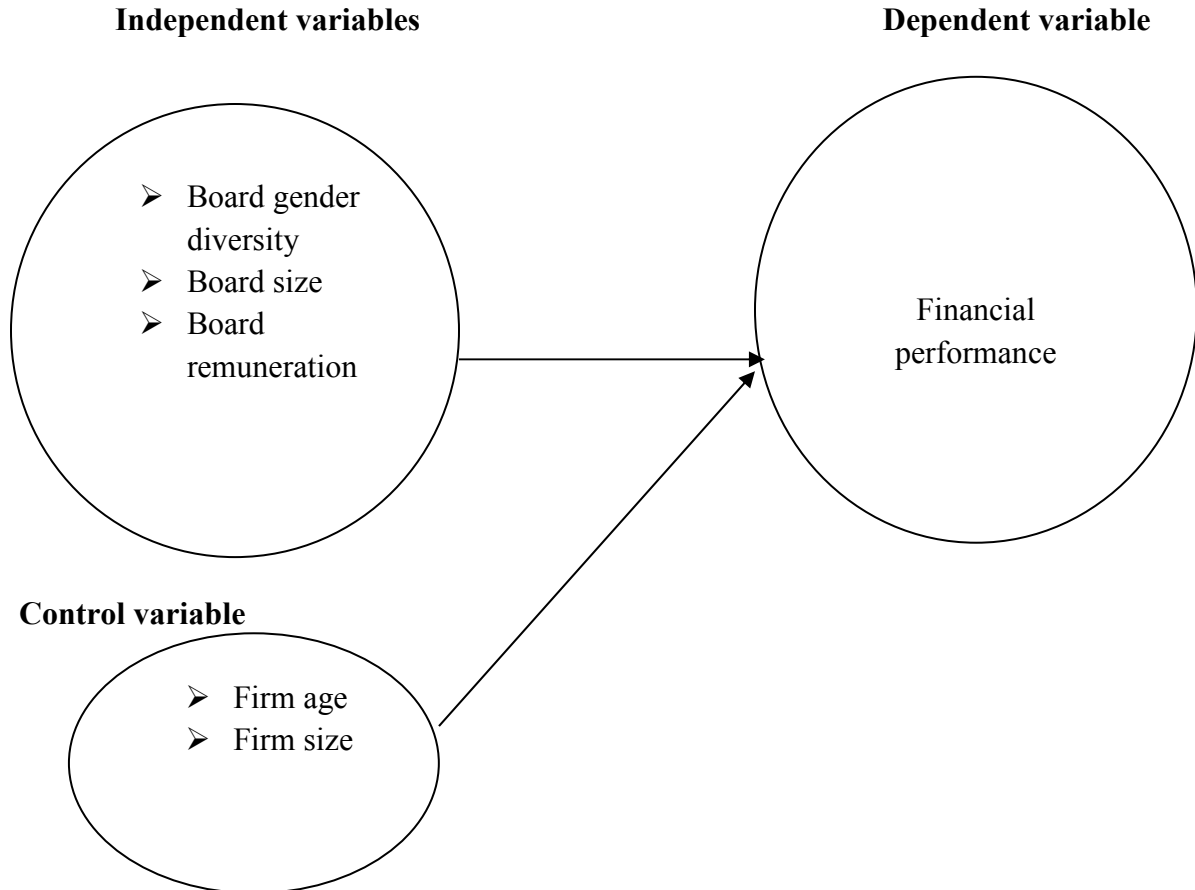
This study was anchored on the agency theory. The agency theory tends to solve the problem of information asymmetry between the principal (shareholders) and the agents (the management). The management has opportunistic behavior of manipulating the profit stated in the financial statement by reporting better financial result, thereby leading to good compensation and bonuses. Therefore, to reduce the opportunistic behavior of the management, there is need for better corporate governance to be put in place in order to perform their oversight function in ensuring that the financial statement is of high quality and the financial results are reliable for various decision making and long term survival of the firm.

Agency theory posits that to achieve this, it recognizes that in a large corporation with widely dispersed ownership, small board size do not have the capacity and resources to

monitor the managers but adequate board size with experienced members. It also argued that the principal can limit divergences by establishing appropriate incentives for the agent and by incurring monitoring and bonding costs to protect owners' interests which could subsequently lead to better financial performance of the firm. It also posits that women directors bring in additional expertise, market networks and ethical views crucial in decision making and consequently improving firm financial performance. When there is room for more diverse board, it could lead to offer of better opinion on complex issues, and sharing more diverse knowledge and experience through open communication between members and staff as well as formulating adequate strategies for problem solving, thereby leading to better performance of the firm. Hence, a firm with better corporate governance mechanisms (better board remuneration, large board size and gender diversity) will experience better financial performance, long term sustainability and have competitive advantage.

## 2.6 Conceptual Framework

Corporate governance Mechanism



**Figure 2.5.1 Conceptual Model**

**Source: Researcher's Design, (2019).**

Figure 2.5.1 shows the dependent and the independent variables in the study. The dependent variable of the study is the financial performance proxy with market to book value (MBV) while the independent variable is the corporate governance proxy with board size, board gender diversity and board remuneration.

## **CHAPTER THREE**

### **METHODOLOGY**

This chapter discusses the procedures used in collecting the data for the study as well as the data analysis technique employed. It also discusses research design, the study population, the sampling procedure and the model specification.

#### **3.1 Research Design**

The research design adopted for this study is ex-post facto research design. Ex-post research design is a quasi-experimental design which involves the use of secondary data in which the researcher can neither control nor manipulate, thereby preventing the researcher from determining the variations of the result. This research design was adopted because the data used were already in existence in the annual report and accounts of the sampled companies. The study was carried out after the event has taken place.

#### **3.2 Population of the Study**

The population for this study comprises of all the thirty-four (34) insurance companies listed on the floor of the Nigerian Stock Exchange as at 31st December, 2018.

#### **3.3 Sampling Technique and sample size**

Purposive sampling technique was employed. The criterion used in selecting the sample of the study was that any of the insurance companies that did not have up to date financial reports for the 2013-2018 period was disqualified from the sample. This period was chosen because new operational guide lines on premium collection and remittance was released in 2013 by NAICOM. Consequently, only twenty-three (23) listed insurance

companies scaled through the conditionality as some insurance companies were merged while some were delisted during the period covered by the study. As a result, all the twenty-three (23) qualified listed insurance companies constituted the sample size.

### 3.4 Model Specification

The study examined the effect of corporate governance on the financial performance of listed insurance companies in Nigeria. The study adapts the model of Akeem, Edwin, Temitope and Feyintimi (2014). The model of Akeem, *et al.*, (2014) was stated as:

$$FP = \beta_0 + \beta_1 BSIZE + \beta_2 BCOMP + \epsilon$$

**Where:**

FP= Financial performance

BFSIZE= Board size

BCOMP= Board composition

The model of the present study is a modified and an extension of Akeem, *et al.*, (2014) model. This is because their model made use of two variables (board size and board composition) to proxy corporate governance. Therefore, the model of this study used three variables (board remuneration, board size and board gender diversity) to measure corporate governance and market to book value (MBV) ratio to measure financial performance and also included two control variables.

The model of this study is specified as:

$$FP = f(CG) \dots\dots\dots (1)$$

FP =  $f$ (board remuneration, board size and board gender diversity)

The model was transformed into an explicit form as:

$$MBV_{it} = \beta_0 + \beta_1 BREM_{it} + \beta_2 BSIZE_{it} + \beta_3 BGD_{it} + \beta_4 FAGE_{it} + \beta_5 FSIZE_{it} + \varepsilon_{it} \dots \dots \dots (2)$$

**Where:**

$MBV_{it}$  = Market to book value ratio of the company at  $it$ h time

$BREM_{it}$  = Board remuneration of the company at  $it$ h time

$BSIZE_{it}$  = Board size of the company at  $it$ h time

$FAGE_{it}$  = Age of the company at  $it$ h time

$FSIZE_{it}$  = Size of the company at  $it$ h time

$\varepsilon_{it}$  = Error term (5% significance level)

$B_0$  = Constant of the coefficient

$\beta_1, \beta_2, \beta_3$  = parameters of the estimate

$\beta_4$  and  $\beta_5$  = Control parameters

***a-priori Expectation***

The *a-priori* expectation of the study is that board remuneration, board size and board gender diversity should improve the financial performance ( $\beta_1, \beta_2$  and  $\beta_3 > 0$ ) while firm age and firm size are also expected to lead to increase in the financial performance of firms.

### **3.5 Sources and Method of Data Collection**

The data used for this study was mainly sourced from the annual reports and accounts of the sampled companies for the period 2013 - 2018. The reason for the use of the financial reports and accounts was that both the dependent and the independent variables are always stated in the financial statement. Moreover, the annual reports and accounts are easily accessible as a medium through which companies communicate the corporate financial performance to the shareholders and other stakeholders.

### **3.6 Data Analysis Technique**

The study employed both descriptive and inferential statistics in analyzing the data. The descriptive statistics used were the mean, standard deviation, minimum and maximum values. The inferential statistics used is panel regression analysis which was used to proffer answer to the research questions as well as test the research hypotheses. This technique was used as a result of the nature of the data collected for the study because the data is in form of longitudinal data which comprise of time series and cross-sectional data of twenty-five companies over five years period (that is, one hundred and twenty-five firms' year observations). It was assumed that the data of the companies selected as sample could vary and the variation could either be fixed effect or random effect. The result of the Hausman test shows that random effect regression is appropriate for this study.

Prior to the testing of hypotheses, multi-collinearity test was done using Variance Inflation Factor (VIF) analysis in order to know whether the explanatory variables are linearly related and heteroskedasticity test was conducted through Breusch Pagan/Cook

Weisberg test. Normality test was carried out in order to test the normal distribution of the data collected. The statistical tests usually employed in testing for normality which are available in most of the statistical programs are skewness and kurtosis and Jarque-Bera.

### 3.7 Definition and Measurement of Variables

There are two variables in the study which are dependent and independent variables. The independent variable is corporate governance. The parameters used to measure corporate governance were board size, board gender diversity and board remuneration.

**Table 3.6.1 Measurement of Variables**

<b>Variables</b>	<b>Measurement of variable</b>	<b>Previous Studies</b>
<b>Dependent variable</b>		
Financial performance	Measured as the market to book value ratio. The market to book value is calculated by dividing the current closing price of the stock by the net book value per share.	Kumar and Singh (2013); Kakabadse, <i>et al.</i> (2015); Comi, <i>et al.</i> (2017).
<b>Independent Variables</b>		
Board Size	Measured as the number of	Kiran (2014); Narwal and Jinda

	directors on the board in a year	(2015) Marwa, <i>et al.</i> (2017)
Board gender diversity	Measured as percentage of female to male directors in the board in a year	Kiran (2014); Huiting (2015); Green and Harmony (2017); Unite, <i>et al.</i> (2019).
Board remuneration	Measured as natural logarithm of the total remuneration received by the board members	Narwal and Jinda (2015); Handa (2018); Kirsten and Toit (2018)
<b>Control variables</b>		
Company's age	Number of years the company has been listed on the floor of Nigerian Stock Exchange	Ahmed and Hamdan (2015); Arora and Sharman (2016); Comi, <i>et al.</i> (2017).
Company's size	Natural logarithm of total asset of the firm	Naser Najjar (2012); Ruuska (2017); Unite, <i>et al.</i> (2019).

**Author's computation, (2019).**

Previous studies have shown that the financial performance of firms could also be affected by other external factors. The external factors represent the control variables employed in this study in order to show their effects on the financial performance of the firms. The control variables used are firm's age and firm's size. It has been argued that the larger the size of the firm, the higher the likelihood of having a better financial performance. Uwuigbe (2011); Tornyva and Wereko (2012); and Emile, *et al.*, (2014) observed that larger firms are most likely to perform better than their smaller counterparts

because they are open to greater windows of opportunity and a larger market which could lead to high level of sales and larger profit at the end of the financial year.

Furthermore, the higher the age of a firm, the better the financial performance. Yasser (2011) and Qasim (2014) argued that a firm that has its stock traded on the floor of Stock Exchange has a good reputation which could increase the level of their sales and consequently better financial performance of firms. Therefore, the control variables used are expected to influence financial performance positively.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS**

This chapter deals with the analyses of data collected through annual reports and the interpretation of the empirical result. The hypotheses were tested using panel regression analysis technique. It also dealt with discussion of findings and the policy implications of the findings.

#### **4.1 Descriptive Analysis**

Table 4.1 shows descriptive analysis of the data collected through mean, standard deviation, minimum and maximum values, in order to depict the snapshot of both dependent and the independent variables. The dependent variable is financial performance proxy by market to book value while the independent variable is corporate governance proxy with board size, board gender diversity and board remuneration while firm age and firm size represents the control variables for the period of 2013 to 2017.

**Table 4.1 Descriptive Result**

Variables	Mean	Std. Dev.	Min.	Max.
MBV	1.8225	1.5441	-0.57	10.08
BDS	9.1130	2.4877	4	17
BDGEND.	0.1416	0.1362	0	0.5
BDREM	4.7712	0.6309	3	6.76
FAGE	19.8261	7.8004	10	30
FSIZE	7.2493	0.6280	6.6	9.97

**Source: Author's Computation, (2019).**

The result in table 4.1 revealed that financial performance measured through market to book value, has an average value of 1.8225 with a standard deviation of 1.5441 and minimum and maximum values of -0.57 and 10.08 respectively. The mean value implies that the firms, on average, contribute 1.8% to market value of their firms during the period under review. The standard deviation of 1.5441 indicates there is wide dispersion of the data from the mean value. The minimum and maximum value of 0.57 and 10.08 implies that, during the period under review, the minimum market to book value (MBV) was 0.57 and the highest market to book value is recorded by the sample firms was 10.08.

Table 4.1 also shows that the board size has a mean value of 9.1130 with standard deviation of 2.4877. The mean value of 9.1130 indicates that, on average, the sample firms have nine (9) directors on board within the period under review. The standard

deviation of 2.4877 implies that the data is widely dispersed from the mean value. The minimum and maximum values are 4 and 7 respectively. This indicate that, during the period under study, some of the sample insurance companies have as low as four (4) members on their board while some have seventeen (17) members.

The result in table 4.1 revealed that the mean value of board gender diversity is 0.1416 while the standard deviation is 0.1362 with minimum and maximum values of 0 and 0.5 respectively. The mean value indicates that the sample firms have an average of 14% of women on their board during the period under review. The minimum value of zero (0) implies that some firms do not have women as part of their board member while the year with highest women on the board was when companies have 50% of women on their board.

Table 4.1 also revealed that board remuneration has an average value of 4.7712 with a standard deviation of 0.6310 while the minimum and maximum values of 3 and 6.76 respectively. On the average, the remuneration received by the board of directors of the sample firms is 4.77 million naira. The standard deviation of 0.6310 implies that the data is 63% deviated from the mean value. The minimum remuneration paid to board of directors within the period under review was N3, 000,000 while the maximum amount received by the board of directors of the sample firms was N6.76 million naira.

For the control variables, firms' age and firm size, the result in table 4.1 shows that the mean value of firms' age was 19.8261 with a standard deviation of 7.8004. This means that the average age of the sample firms is around twenty (20) years. The firms' age also has minimum and maximum values of 10 and 30. This indicates that firm with youngest

age is ten (10) years while the oldest company is thirty (30) years. This means that the sample firms could be said to be matured enough to provide adequate information as well as having good corporate governance in place.

Table 4.1 also revealed that firms' size has an average value of 7.2493 with a standard deviation of 0.6280, while the minimum and maximum values are 6.6 and 9.97 respectively. It implies that the average value of the total assets of the sample firms is around 7.2493 billion naira. The standard deviation of 0.6280 implies that the data is widely dispersed from the mean value by 63%.

## 4.2. Preliminary Analyses

This sub-chapter shows the preliminary analysis conducted in order to test the reliability of the data set as well as the fitness of the model. These include the normality distribution test, multicollinearity test, Heteroskedasticity test and Hausman test.

### 4.2.1 Normality Distribution Test

Table 4.2.1 Normality Distribution Table

Variables	BDS	BDGEND	BDREM	FAGE	FS
Skewness	0.756	0.639	0.851	0.184	2.099
Kurtosis	0.512	-0.788	2.385	-1.722	1.776

**Source: Author's computation, (2019).**

The data collected was subjected to normality distribution test through skewness and kurtosis. The assumption of skewness and kurtosis is that data is normally distributed if

their results do not fall outside the range of -3 and +3 (Peck. Olsen & Devore 2008). Therefore, the result in table 4.2.1 indicates that the data does not suffer from normality distribution problem as the skewness lies between 0.184 and 2.099 while the kurtosis lies between -1.722 and 2.669.

#### 4.2.2 Multicollinearity Test- Variance Inflation Factors (VIF)

**Table 4.2.2 Multicollinearity Test Table (VIF)**

Variable	VIF	1/VIF
BDS	2.47	0.4044
BDGEND	2.37	0.4226
BDREM	2.25	0.4444
FAGE	1.15	0.8723
FS	1.94	0.5155
Mean VIF	2.04	

**Source: Author's Computation, (2019).**

Table 4.2.2 shows the result of multi-collinearity with the use of variance inflation factor (VIF) in order to show whether there is problem of collinearity among the independent variables or not. There will be problem of perfect multicollinearity if the variance inflation factor (VIF) is 10 and above (Wooldridge, 2004). The result in table 4.2.2 revealed that there is absence of perfect multi-collinearity problems among the

independent variables as the mean variance inflation factor (VIFs) of the independent variable is 2.04 which is less than 10.

#### 4.2.3 Breush and Pagan Test for Heteroskedasticity

**Table 4.2.3 Breusch and Pagan/Cook Weisberg Test**

Variable	Coefficient	P-value
Model	1.25	0.6424

**Source: Author's Computation, (2019).**

The result in table 4.2.3 shows the outcome of heteroskedasticity test in order to check if the variances of the error-term of the different observations vary. There is a problem of heteroskedasticity if the result is of the P-value is less than 5% significant level. Therefore, the result in table 4.2.3 implies that the model did not face heteroskedasticity problem as table 4.2.3 shows that the P-value is 0.6424.

#### 4.2.4 Hausman Test

**Table 4.2.4 Hausman Test**

Variable	Chi <sup>2</sup>	P-value
Model	28.91	0.0612

**Source: Author's Computation, (2019).**

Table 4.2.4 shows the result of the hausman test. Hausman test was carried out in order to determine the model that is appropriate between random-effect and fixed-effect. The rule

of thumb for Hausman test is that if the P-value is less than 0.05, fixed-effect result is to be used and random-effect if otherwise. Based on the result in table 4.2.4, random-effect regression result is more appropriate as shown by P-value of 0.0612 which is greater than 5% significance level.

### 4.3 Restatement and test of Hypotheses

**Table 4.3 Regression Result**

Variables	Coefficient	Std. Error	t-value	P-value
BDS	0.5780	0.0526	10.98	0.000
BDGEND	1.8477	0.8681	2.13	0.033
BDREM	-0.3790	0.2436	-1.56	0.120
FAGE	-0.0097	0.0261	-0.37	0.709
FS	0.0937	0.3632	0.26	0.796
Constant	-2.3842	2.4778	-0.96	0.336
F-Stat	124.27			0.0000
Adjusted R <sup>2</sup>	0.6174			

**Source: Author's Computation, (2019).**

Table 4.3 shows the results of the effect of corporate governance on financial performance of listed insurance companies in Nigeria. The test of hypotheses was based on random-effect regression analysis based on the result of the Hausman test in table

4.2.4. The results from table 4.3 indicate that the independent variables of the model explained 61.74% of the variations in the dependent variable (financial performance) of listed insurance companies in Nigeria, as shown by the coefficient of determination ( $R^2$ ). The remaining 38.26% represents other independent variables that are not included in the model. The table 4.3 also shows that the model is fitted as evidenced by F- statistic of 124.27 which is significant at 1% as indicated by P-value of 0.0000.

Therefore, following the fitness of the model, the test of hypotheses formulated in chapter one was carried out. The test of hypotheses was conducted using coefficient figures and P-value.

#### **4.3.1 Restatement and Test of Hypotheses One**

$H_{01}$ : Board remuneration has no significant effect on financial performance of listed insurance companies in Nigeria.

The result in table 4.3 shows that board remuneration has no significant negative effect on financial performance of listed insurance companies in Nigeria as shown by coefficient (-0.3790) with P-value (0.120) at 5% level of significance. This leads to the acceptance of null hypothesis, thereby leading to rejection of the alternative hypothesis. The null hypothesis states that board remuneration has no significant effect on financial performance of listed insurance companies in Nigeria. The result implies that whether members of the board receive attractive and better reward or not, it will neither improve nor worsen the financial performance of listed insurance companies in Nigeria.

### **4.3.2 Restatement and Test of Hypothesis Two**

H<sub>02</sub>: Board size does not have significant effect on the financial performance of listed insurance companies in Nigeria.

The result in table 4.3 also indicates that board size has significant positive effect on financial performance of listed insurance companies in Nigeria as indicated by coefficient of 0.5780 with P-value of 0.0001. This leads to the rejection of the null hypothesis, thereby leading to the acceptance of the alternative hypothesis. The alternative hypothesis states that board size has significant effect on the financial performance of listed insurance companies in Nigeria. The result implies that larger board size will lead to 0.58% increase in the financial performance of listed insurance companies in Nigeria. This also implies that board structure with larger number of directors would support and provide more effective advice to the management of the firm, increase monitoring activities, which could subsequently increase the financial performance of firms as well as ensuring that the shareholders' wealth is maximize and protected.

### **4.3.3 Restatement and Test of Hypothesis Three**

H<sub>03</sub>: Gender diversity has no significant effect on the financial performance of listed insurance companies in Nigeria.

Furthermore, the result in table 4.3 shows that board gender diversity has significant positive effect on the financial performance of listed insurance companies in Nigeria, as shown by coefficient of 1.8477 with t-value of 2.13 and P-value of 0.033. This result leads to the rejection of null hypothesis which states that board gender diversity has no significant effect on the financial performance of listed insurance companies in Nigeria,

thereby leading to the acceptance of alternative hypothesis. The alternative hypothesis states that board gender diversity has significant effect on financial performance of listed insurance companies in Nigeria. This implies that if the number of women on board increases by one (1), it will lead to 1.85% in the financial performance of listed insurance firms in Nigeria. This shows that board gender diversity will enhance the board's ability to monitor top management as well as board independence which could improve the financial performance of firms.

For the two control variables (firm age and firm size) employed in the study, the result in table 4.3 indicates that firm age has insignificant negative effect on financial performance as shown by coefficient -0.0098 and p-value of 0.709. The result implies that whether a firm has been listed (old) for a very long time or not, it does not imply that the company will perform better than the new companies (newly listed companies). This does not concur with the a-priori expectation of the study, as the researcher expects that old firms would have a better financial performance compared to younger firms.

In addition, the result in table 4.3 also indicates that firm size has insignificant positive effect on financial performance of listed insurance companies in Nigeria, as evidenced by coefficient of 0.0937 with t-value of 0.26 and P-value of 0.796. This implies that irrespective of the size of the company, whether large or small, it has no influence on the financial performance of listed insurance companies in Nigeria. The result does not agree with the a-priori expectation of the study, as the researcher expects that the larger the size of a firm, the better the financial performance.

Overall, the result implies that the better and stronger the level of corporate governance, the higher/better the financial performance of listed insurance companies in Nigeria.

#### **4.4 Discussion of Findings.**

Based on the empirical analysis and hypotheses conducted, the study revealed that corporate governance measured through board size and board gender diversity have significant positive effect on financial performance while board remuneration has insignificant negative effect on financial performance of listed insurance companies in Nigeria.

The study found out that board remuneration has insignificant effect on the financial performance of listed insurance companies in Nigeria. This implies that whether directors are highly remunerated through their salaries, allowances and other packages or not, it would neither increase nor decrease the financial outcome of the company. The result does not concur with the assumption of the agency theory which posits that directors that are highly remunerated could be encouraged to contribute his/her own quota to the success of the firm, monitor the activities of the management effectively as well as creating competitive advantage for the firm in the market which could subsequently affect their financial performance positively. The result is in line with the findings of Okirio, *et al.* (2015) and Santar (N:D) where they found out that board remuneration has insignificant effect on financial performance of their sample firms. The result contrasts the findings of Hassan and Ahmed (2012); Khalid and Rahman (2014); Narwal and Jinda (2015) and Ruparelia and Njuguna (2016) as they found out that board remuneration have significant positive effect on financial performance. In addition, the result is not in

tandem with the a-priori expectation as the researcher expects that board remuneration should be able to motivate the directors, thereby giving their best to the success of the company and subsequently influencing the financial performance of firms.

The study also found out that board size has significant positive effect on the financial performance of listed insurance companies in Nigeria. This confirms the argument of agency theory which posits that larger board size would improve board performance by performing their monitoring roles effectively, reducing Chief Executive Officer (CEO) domination on the board as well as making it difficult to adopt golden parachute contracts which might not be in the interest of the shareholders when compared with small board size. The result implies that the larger the board size, the higher the likelihood of having more knowledge and skills at their disposal, creating better opportunities and more resources as well as providing support and useful advice to the firm management for effective decision making, thereby improving financial performance of firms. The result confirmed the a-priori expectation of the researcher that larger board size could offer firm the opportunity of pool of talents and wide range of expertise which could help in making better decisions. The findings corroborates with the outcome of Tomyeva and Wereko (2012); Qasim (2014); Mudashiru, *et al.* (2014); Adekunle (2014); Fratim and Tettamanzi (2015) as they all found out that board size has significant positive effect on financial performance. The result contradicts the findings of Kumar and Singh (2013); Shungu, *et al.* (2014) and Arora and Sharma (2016) where they found out that board size has significant negative effect on financial performance of their sample firms.

Furthermore, the study found out that board gender diversity has significant positive effect on the financial performance of listed insurance companies in Nigeria. This implies

that board gender diversity would lead to creativity, innovation as well as promoting better understanding of the market place as stakeholders prefer board with mix gender to board with only men. This is because board with mix gender could increase market penetrability, relate better with customers, leading to competitive advantage and more sales, thereby resulting to better financial performance. This finding confirmed the argument of the agency theory which states that board gender diversity enhances the ability of the board to monitor top management as well as increasing board independence because women usually have the boldness of asking questions that male directors could not ask and they are usually difficult to compromise when they hold higher managerial positions. More so, women exhibit greater diligence in monitoring activities as they demand greater accountability for manager's performance. The result validate the a-priori expectation of the researcher as he expects that board gender diversity would improve the financial performance of the sample firms because the presence of women on board could provide different perspective and ideas as well as commitment.

The result is in line with the findings of Huiting (2015); Sumedrea (2016); Christiansen, *et al.* (2016); Oyewale, *et al.* (2016); Ruuska (2017); Irean, *et al.* (2017) as they found out that board gender diversity has significant positive effect on financial performance. The result contradicts the findings of Mirza, *et al.* (2012) and Beridze (2016); where they revealed that presence of women on board worsen the financial performance of firms.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The continuous increase in the reported cases of corporate failures in the world has led to loss of stakeholders' investment and loss of public confidence in the effectiveness of corporate governance. This has raised many complaints on the weakness of corporate governance due to its several adverse effects on the firm's financial performance which have led to the failures and accounting scandals of firms globally. The study examined the effect of corporate governance on financial performance of listed insurance companies in Nigeria. To achieve this objective, the study examine the extent to which board remuneration affect the financial performance of listed insurance companies in Nigeria; assess the effect of board size on the financial performance of listed insurance companies in Nigeria; and evaluated the extent to which board gender diversity affect the financial performance of listed insurance companies in Nigeria.

The study reviews different literatures on corporate governance and financial performance. The reviews were divided into three; the conceptual review; theoretical framework and empirical review. The study critically examines the concepts of corporate governance; corporate governance variables; and the concepts of financial performance. This study was guided by the assumption of agency theory. The agency theory was propounded by Mitnick in 1973 where he defined agency theory to be the study of the agency relationship and the issues that arise from this, particularly the dilemma that the principal and the agent, while working towards the same goal, may not always share the same interests. Jenssen and Meckling, 1976 further explained that the agency problem

arises due to the agent (management) acting in their own benefit and in an opportunistic manner on the expense of the principal (owners/shareholders) (Jensen and Meckling 1976). Conflicts and dissimilar interests lead to information asymmetries between the two parties and the principals had to identify ways to motivate the agents and to ensure that they act in the best interest of the principals. Therefore, agency theory is essential to this study as it recognizes the monitoring role of the board as a mechanism to control management opportunistic behaviors. The results of the previous studies were empirically reviewed and were divided into international and local studies. The international studies were further divided into studies in the developed and developing nations for easier understanding.

The study adopted ex-post facto research design. The population of the study comprised the listed insurance companies as at 31st December, 2018 totaling thirty-four insurance firms. The sample size was determined using judgmental sampling technique. The sample size of the study was twenty-three listed insurance companies. The data were sourced from the annual reports and accounts of the sample firms and was analyzed through the descriptive and inferential statistics. The hypotheses formulated were tested using random-effect regression analysis technique. The study adapted the model of Akeem, *et al.*, (2014) which was modified and extended in order to include the variables used in the study.

The study found amongst others that board size and board gender diversity has significant positive effect on financial performance. This shows that both board size and gender diversity improve the financial performance of listed insurance companies in Nigeria.

The study also revealed that board remuneration has no significant effect on the financial performance of listed insurance companies in Nigeria.

## **5.2 Conclusion**

Based on the findings, the study concluded that board size and board gender diversity have positive influence on financial performance of listed insurance companies in Nigeria. This implies that larger board size has higher tendency of providing better advice to management for better decision making which can improve the financial performance of firms and that presence of the women on board of directors would lead to better monitoring of top management which could prevent possible loss of investment thereby increasing the financial performance of listed insurance companies. Both board size and board gender diversity have helped in improving the financial performance of listed insurance companies in Nigeria. The study also concluded that board remuneration has insignificant effect on financial performance of listed insurance companies in Nigeria.

Over all, the study concludes that corporate governance mechanisms have positive influence on financial performance of listed insurance companies in Nigeria.

## **5.3 Recommendations**

Based on the empirical findings of this study, the following recommendations were made:

- i. Based on the result of the study which shows that board remuneration has insignificant effect on financial performance of listed insurance companies in Nigeria, the study recommends that the regulatory body such as NAICOM should review and improve the current remuneration scale for board of directors of insurance companies in Nigeria so

that it can motivate the directors in given more attention and better advice for the success of the company.

ii. Based on the result of the study which shows that board size has significant positive effect on the financial performance of listed insurance companies in Nigeria, the study recommends that the policy makers and regulators should ensure that the minimum number of directors on board is complied with as contained in the code of corporate governance (CCG, 2016).

iii. The study shows that board gender diversity has significant positive effect on the financial performance of listed insurance companies in Nigeria. Therefore, this study recommends that women should be given more consideration in board composition.

#### **5.4 Limitations and Delimitation to the Study**

The findings of this study are limited to Nigerian listed insurance companies and the corporate governance variables covered in this study. This is because there are other proxies of corporate governance that are not captured in this study. Another limitation is that, the study did not conduct a survey of opinions from the stakeholders in the Nigerian insurance companies. This could have increased the robustness of the results. Nevertheless, this did not affect the findings of this study in any way, due to the adequate empirical supportive evidence available in the study as the results are reliable and fit for policy formulation.

#### **5.5 Contribution to Knowledge**

This study examined the effect of corporate governance on the financial performance of listed insurance companies in Nigeria. Previous academic researchers have assessed different ways in which corporate governance variables affect financial performance of

various sectors especially the banking and manufacturing industries in Nigeria. However, there are relatively fewer studies that examine the effect of board remuneration and board gender diversity on financial performance in the insurance companies in Nigeria. More so, none of the previous studies reviewed in Nigeria has used market to book value to proxy financial performance. Hence, this study is unique as it examined the effect of board gender diversity and board remuneration on market to book value of listed insurance companies in Nigeria.

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## APPENDICES

### Appendix I

```
. xtset id year
    panel variable: id (strongly balanced)
    time variable: year, 2012 to 2017
    delta: 1 unit
. summarize MBV bds bdgend bdrem fage fs
Variable |   Obs   Mean  Std. Dev.   Min   Max
-----+-----
    MBV |   138  1.822548  1.544089   -.57  10.08
     bds |   138  9.113043  2.487743    4    17
  bdgend |   138  .1415652  .1361815    0    .5
   bdrem |   138  4.771217  .630931    3   6.76
     fage |   138 19.82609  7.800428   10   30
-----+-----
     fs |   138  7.249304  .6280291   6.6  9.97

. pwcorr MBV bds bdgend bdrem fage fs
      | MBV  bds  bdgend  bdrem  fage  fs
-----+-----
    MBV | 1.0000
     bds | 0.6134 1.0000
  bdgend | 0.1434 0.0193 1.0000
   bdrem | 0.0306 0.3042 0.1514 1.0000
     fage | -0.1381 -0.1084 -0.0638 -0.2157 1.0000
     fs | 0.0240 0.1100 0.1440 0.7369 -0.2896 1.0000
```

```
. reg MBV bds bdgend bdrem fage fs
Source |   SS   df   MS                Number of obs = 138
-----+-----
Model | 121.345224   5 24.2690448          F( 5, 109) = 17.58
Residual | 150.454898 109 1.38032017        Prob > F   = 0.0000
-----+-----
Total | 271.800122 114 2.3842116          R-squared  = 0.4465
                                          Adj R-squared = 0.4211
                                          Root MSE   = 1.1749
```

```
-----+-----
MBV |   Coef. Std. Err.   t P>|t| [95% Conf. Interval]
-----+-----
bds | .4244294 .0473565   8.96 0.000   .3305705 .5182884
bdgend | 1.739152 .8188193   2.12 0.036   .1162785 3.362025
bdrem | -.7860164 .2742643  -2.87 0.005  -1.329599 -.2424335
fage | -.0164464 .0147951  -1.11 0.269  -.0457698 .0128771
fs | .3425122 .2695142   1.27 0.206  -.1916563 .8766807
_cons | -.6981524 1.503837  -0.46 0.643  -3.678708 2.282404
-----+-----
```

```
. estimates store pooled
```

```
. vif
```

```
Variable |   VIF   1/VIF
-----+-----
bds |   2.47  0.404364
bdgen |   2.37  0.422622
brem |   2.25  0.444680
fage |   1.15  0.872379
fs |   1.94  0.515564
-----+-----
```

```
Mean VIF |   2.04
```

```
. estimates store vif
```

```
. xtreg MBV bds bdgend bdrem fage fs, re
```

```
Random-effects GLS regression    Number of obs   = 138
Group variable: id              Number of groups = 23
R-sq: within = 0.6174           Obs per group: min = 5
    between = 0.3653              avg = 5.0
    overall = 0.4242             max = 5
                                Wald chi2(5)    = 124.27
                                Prob > chi2      = 0.0000
```

```
-----+-----
MBV |   Coef. Std. Err.   z P>|z| [95% Conf. Interval]
```

```

-----+-----
      bds | .5779822 .0526421 10.98 0.000 .4748056 .6813888
bdgend | 1.847749 .8681417 2.13 0.033 .1462224 3.549275
bdrem | -3.790421 .2435698 -1.56 0.120 -.8564301 .0983459
fage | -.0097202 .0260863 -.037 0.709 -.0608483 .0414079
fs | .0936854 .3631704 0.26 0.796 -.6181385 .8054863
_cons | -2.384154 2.477777 -0.96 0.336 -7.240495 2.472187
-----+-----

sigma_u | .78796724
sigma_e | .80139506
rho | .49155205 (fraction of variance due to u_i)
-----

```

```
. estimates store random
```

```
. xttest0
```

```
Breusch and Pagan Lagrangian multiplier test for random effects
```

```
MBV[id,t] = Xb + u[id] + e[id,t]
```

```
Estimated results:
```

```

      |   Var   sd = sqrt(Var)
-----+-----
MBV | 2.384212 1.544089
e   | .642234 .8013951
u   | .6208924 .7879672

```

```
Test: Var(u) = 0
```

```
chibar2(01) = 1.25
```

```
Prob > chibar2 = 0.6424
```

```
. estimates store breusch
```

```
. xtreg MBV bds bdgend bdrem fage fs, fe
```

```

Fixed-effects (within) regression      Number of obs   =   138
Group variable: id                     Number of groups =    23
R-sq: within = 0.6320                  Obs per group: min =    5
      between = 0.2994                      avg =    5.0
      overall = 0.3675                      max =    5
                                          F(4,88)        =   37.78
corr(u_i, Xb) = -0.6898                 Prob > F        =   0.0000

```

```
-----+-----
MBV |   Coef.  Std. Err.   t   P>|t|   [95% Conf. Interval]
```

```

-----+-----
      bds | .7173436 .0589379 12.17 0.000 .600217 .8344702
    bdgend | 2.328944 .9288822 2.51 0.014 .4829855 4.174902
    bdrem | -.1208593 .2443637 -0.49 0.622 -.6064808 .3647622
      fage | -.0164464 .0147951 -1.11 0.269 -.0457698 .0128771
       fs | .7133554 .8616399 0.83 0.410 -.9989729 2.425684
     _cons | -9.639017 5.979122 -1.61 0.111 -21.52127 2.243232
-----+-----

```

```

sigma_u | 1.4148117
sigma_e | .80139506
rho | .75709077 (fraction of variance due to u_i)
-----+-----

```

```

F test that all u_i=0: F(22, 88) = 6.65      Prob > F = 0.0000
. estimates store fixed

```

```

. hausman fixed random

```

```

---- Coefficients ----

```

```

| (b) (B) (b-B) sqrt(diag(V_b-V_B))
| fixed random Difference S.E.

```

```

-----+-----
      bds | .7173436 .5779822 .1393614 .0265043
    bdgend | 2.328944 1.847749 .4811948 .3303818
    bdrem | -.1208593 -.3790421 .2581827 .0196818
      fs | .7133554 .0936854 .61967 .7813646
-----+-----

```

```

      b = consistent under Ho and Ha; obtained from xtreg

```

```

      B = inconsistent under Ha, efficient under Ho; obtained from xtreg

```

```

Test: Ho: difference in coefficients not systematic

```

$$\begin{aligned} \text{chi2}(4) &= (b-B)'[(V_b-V_B)^{-1}](b-B) \\ &= 28.91 \end{aligned}$$

```

Prob>chi2 = 0.0612

```

```

(V_b-V_B is not positive definite)

```

```

. estimates store hausman

```

## Appendix II

### Population Frame

S/N	COMPANY'S NAME
1.	ACEN INSURANCE COMPANY
2.	ADIC INSURANCE
3.	AFRICAN ALLIANCE INSURANCE COMPANY LIMITED
4.	AIICO INSURANCE PLC
5.	AXAMANSARD INSURANCE PLC
6.	CONSOLIDATED HALL MARK INSURANCE PLC
7.	CONSOLIDATED HALLMARK INSURANCE
8.	CONTINENTAL REINSURANCE
9.	CORNERSTONE INSURANCE PLC
10	CRUSADER INSURANCE PLC
11	CUSTODIAN INSURANCE PLC
12	GREAT NIGERIA INSURANCE PLC
13	GUARANTY TRUST ASSURANCE PLC
14	GUINEA INSURANCE PLC
15	INDUSTRIAL AND GENERAL INSURANCE PLC
16	INTERNATIONAL ENERGY INSURANCE PLC
17	LASACO ASSURANCE PLC
18	LAW UNION AND ROCK INSURANCE PLC
19	LEADWAY ASSURANCE COMPANY LIMITED

20	LINKAGE ASSURANCE PLC
21	MUTUAL BENEFIT ASSURANCE PLC
22	NAICOM
23	NEM INSURANCE PLC
24	NIGER INSURANCE PLC
25	NIGERIA DEPOSIT INSURANCE CORPORATE (NDIC)
26	PRESTIGE INSURANCE BROKERS LIMITED
27	REGENCY ALLIANCE
28	ROYAL EXCHANGE ASSURANCE (NIGERIA) PLC
29	STACCO INSURANCE
30	STANDARD ALLIANCE
31	STANDARD TRUST ASSURANCE PLC (STACO)
32	UNIC INSURANCE
33	UNITRUST INSURANCE COMPANY LIMITED
34	UNIVERSAL INSURANCE

### APPENDIX III

#### SAMPLE FRAME

S/N	COMPANY'S NAME
1.	AFRICA ALLIANCE INSURANCE LIMITED
2.	AIICO INSURANCE PLC
3.	AXAMANSARD INSURANCE PLC
4.	CONSOLIDATED HALL MARK INSURANCE PLC
5.	CONTINENTAL REINSURANCE
6.	CORNERSTONE INSURANCE
7.	CUSTODIAN ALLIANCE
8.	GREAT NIGERIA INSURANCE PLC
9.	GUINEA INSURANCE
10.	INTERNATIONAL ENERGY INSURANCE PLC
11.	LASACO INSURANCE
12.	LAW UNION AND ROCK INSURANCE
13.	LINKAGE INSURANCE
14.	MUTUAL BENEFIT INSURANCE
15.	NEM INSURANCE
16.	NIGER INSURANCE
17.	PRESTIGE ASSURANCE
18.	REGENCY ALLIANCE
19.	ROYAL EXCHANGE

20.	STACCO INSURANCE
21.	STANDARD ALLIANCE
22.	STANDARD TRUST INSURANCE
23.	UNIVERSAL INSURANCE