

**Corporate Governance, Industry Characteristic and Quality of
Accounting Information: Evidence from Listed Insurance Companies
in Nigeria**

BY

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DECLARATION

I hereby declare that this thesis titled Corporate Governance, Industry Characteristics and Quality of Accounting Information: Evidence from Listed Insurance Companies in Nigerian is my own work and has not been previously presented or submitted by me and to the best of my knowledge, by any other person for any course or qualification at this or any other academic or research institution. I also declare that the information provide herein are mine and those that are not are duly acknowledged by means of references.

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PREVIEW

CERTIFICATION

This dissertation has been read, checked and approved as meeting part of the requirement for the award of Master of Science (M.Sc) degree in Accounting in the Department of Accounting and Finance, School of Business and Governance, College of Humanities, Management and Social Sciences, Kwara State University, Malete, Nigeria.

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PREVIEW

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This project is dedicated to my loving Mother who in the course of this work gave up the ghost and also to my wife- Mrs. Idowu Ayodele and my children Ayomide, Ayobami and Ayomiposi

PREVIEW

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PREVIEW

ABSTRACT

The global economic crisis has increased the focus on the role of board of directors in ensuring integrity and transparency in corporate reporting of companies world-wide. Board characteristics are crucial in an organisation saddled with the responsibility of making decisions and determining the ability of monitoring management in carrying out its responsibilities efficiently and effectively. Consequently, this study examined the relationship between corporate governance mechanism and quality of accounting information. The specific objectives were to (i) examine the effect awareness of risk of takeover on risk and quality of accounting information of listed insurance companies in Nigeria; (ii) evaluate the effect of level of competition on quality of accounting information of listed insurance companies in Nigeria; (iii) examine the effects of Board attitude toward risk-takings on quality of accounting information of listed insurance companies in Nigeria; and (iv) determine the effect of ownership structure and the quality of accounting information of listed insurance companies in Nigeria. Primary data were collected through self-administered questionnaires using the 23 listed insurance companies on Nigerian Stock Exchange (NSE). Data collected were analyzed using multiple regression analysis to identify the relationship between corporate governance mechanism, industry characteristics and quality of accounting information. The results of the study revealed that Awareness of risk of takeover is positively related at 0.05%(0.33), level of competition is significantly positively related at 0.05%(0.50), board attitude toward risk taking is significantly positively related at 0.05%(0.53) level of significant to the quality of accounting information and ownership structure had significant positive relationship with the quality of accounting information at 0.05%,(0.37) level of significance. In line with these findings, the study concluded that awareness of risk of takeover, level of competition, board attitude toward risk-taking and ownership structure had a strong positive significant relationship with the quality of accounting information. Based on the findings this study therefore recommended that, the insurance companies in Nigeria should continue to put more emphasised on corporate governance mechanism such as awareness of risk of takeover, level of competition, board attitude toward risk-taking and ownership structure that promote quality of accounting information. In addition, Management of insurance companies should consider the appointment of full-time directors whose main responsibility is to ensure that sufficient attention is paid to the risk management, takeover market, information disclosure and ownership structure that enhances quality of accounting information.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Across the globe, the preparation of financial information is based on existing regulations to provide objective and reliable financial statements. Accounting is a system that produces information. It is used to register and quantify the facts or events that occurred during a period, to inform about the company economic and financial situation and about the results achieved. This information is useful to make predictions and decision by the management. The financial information can be managed by using the flexibility of the accounting normative (Stolowy & Breton, 2003). The usefulness of accounting information for decision-making majorly depends on qualitative characteristics which are relevance (predictive value and confirmatory value) and reliability (free from errors and prejudices).

All management acts are reflected in the financial statements of the companies (Ferrer & Ferrer, 2016). However, the ambiguity of some norms allows subjective judgments and the exercise of discretion in the accounting of operations. This discretion results in accruals change of the financial statements (changing assets and liabilities as well as items of the income statement). There are several econometric models used in studying accruals (Jones, 1991; Dechow, Sloan, & Sweeney, 1995). The information provided by the accounting system is one of the focus of research in accounting to study the quality of information provided (Herath & Lu, 2017).

Dechow and Sloan (2004) perceives accounting information quality (AIQ) as the degree to which the accounting information reported, fairly reflects the current financial status and performance of a firm. The authors also stressed that this information have to be useful to its users. In the literary world, AIQ as indicated by Kukah (2015) is sometimes used in lieu of Earnings Quality (EQ). Some researchers that used the terms interchangeably in their studies include Paulo, Martins and Girao (2014) and Evert and Wagenhofer (2011). It is believed that similar metrics can be adopted for

measurement for the two terms. These measures include; accrual quality, conservatism, predictability, persistence and value relevance.

Kukah (2015) is of the belief that the most important metrics for measurements are conservatism of accounting, persistence in earnings and earnings management quality. Paulo et al (2014) opined that quality of accounting information is bi-dimensional; quantitative and qualitative where quantitative refers to earnings quality, earnings persistence and accounting conservatism. Qualitative encompasses features such as relevance, reliability, timeliness among similar others.

There are four (4) qualitative characteristics of accounting information that serve as the basis for decision making purposes in accounting: **Relevance**: information makes a difference in decision making. **Reliability**: information is verifiable, factual, and neutral. **Comparability**: information can be used to compare different entities. **Consistency**: information is consistently presented from year to year. These qualities make accounting information understandable and useful for decision and reporting purposes: the goal of financial reporting is to provide useful information to current and potential investors, creditors, and other users of accounting information (e.g., government, standard-setting bodies) to make investment, credit, and other decisions.

Organization for Economic Co-operation and Development (OECD) and the Cadbury Report's definition of Corporate Governance are the most popular in the literary world (Paulo, Martins & Gira 2014). OECD defined it as the "procedures and processes according to which an organization is directed and controlled" and it is defined by the Cadbury Report (1992) as "the system by which companies are directed and controlled".

One valuable perception of corporate governance is that it is found upon a series of underlying principles and concepts. Bureau for Public Procurement (2012) indicated that the principles and concepts include fairness, openness and transparency. Makokha (2014) indicates that the concept of fairness is in the ideology that the deliberations of directors, system and values underlying the company has to be balanced by taking into account everyone with a legitimate interest in the company and respect their rights and views. The views of minority and foreign shareholders should be respected during decision-making.

1.2 Statement of the Problem

Corporate governance, industry characteristic and quality of accounting information is of paramount importance and if executed effectively, it can prevent corporate scandals, fraud and enhance a company's image in the public eye as a self-policing company that is responsible and worthy of shareholder and debt holder capital. The importance of responsibility, accountability, transparency and fairness are raising the issues of their effect on the performance of the firm and the managers as well. Financial scandals and the collapse of institutions such as Enron, WorldCom, Commerce Bank and XL Holidays has forced many firms to concentrate more on good corporate governance and to develop and implement several effective mechanisms in order to have the investors' confidence and faith back again (Young, 2003). Good corporate governance, industry characteristics and quality of accounting information has become essential for improving firm performance, ensuring investor rights, enhancing the investment atmosphere and encouraging economic development (Braga-Alves & Shastri, 2011). It is quite logical to assume that the strength in a firm can influence its performance and the fairness of accounting information reported.

The management of insurance business in Nigeria has been faced with serious challenges despite the relevance of this service in the country. There are lots of risks associated with this industry. The perceived ethics of a company are said to affect its reputation. There is great evidence that the main reasons for these financial scandals are the administrative and accounting corruptions, taking into account that the reason behind the administrative and accounting corruption (Akinbola & Isaac, 2010).

1.3 Research Questions

Following the problems statement above, the following research questions were raised;

- i. Examine the effect of awareness of risk of takeover on quality of accounting information of listed insurance companies in Nigeria?
- ii. How does level of competition in the industry affect the quality of accounting information of listed insurance companies in Nigeria?

- iii. To what extent does board attitude to risk-taking affect the quality of accounting information of listed insurance companies in Nigeria?
- iv. What is the effect of ownership structure on the quality of accounting information on listed insurance companies in Nigeria”?

1.4 Objectives of the Study

The general objective of the study is to examine the effect of corporate governance, industry characteristics and quality of accounting information among listed insurance companies in Nigeria. To achieve this, the following specific objectives are to:

- i. Ascertain the effect of awareness of risk of takeover on quality of accounting information of listed insurance companies in Nigeria
- ii. Assess the level of competition in the industry on the quality of accounting information of listed insurance companies in Nigeria.
- iii. Examine the extent of board attitude towards risk-taking affect the quality of accounting information among listed insurance firms in Nigeria.
- iv. Assess the effect of ownership structure on the quality of accounting information among listed insurance firms in Nigeria.

1.5 Hypotheses of the Study

To statistically make inferences and draw conclusions, it is imperative to state hypothesis in a study. The hypotheses for the study are stated in null forms.

H₀₁: Awareness of risk of takeover has no significant effect with quality of accounting information of listed insurance companies in Nigeria.

H₀₂: Level of competition has no significant effect on quality of accounting information of listed insurance companies in Nigeria.

H₀₃: Board attitude toward risk-taking has no significant effect on quality of accounting information of listed insurance companies in Nigeria.

H₀₄: Ownership structure has no significant effect on the quality of accounting information of listed insurance companies in Nigeria.

1.6 Justification for the Study

Issues surrounding corporate governance, industry characteristics and quality of accounting information are germane, in the sense that managers are always innovative in their approaches when exploiting the weakness of the firms and level of risk differences in a system. Although quite a number of studies have been carried out on these, nevertheless, it is important to always examine this field to determine the trends and bring to limelight the current status of corporate governance related issues in organizations and institutions.

Methodologically, most of the previous studies reviewed used Pearson's correlation technique (Murei, Kidombo and Gakuu, 2017), T-test (Weber 2017; Effiom and Edet, 2019; Chin 2020), descriptive analysis (Bourkhr and Najar 2017; Zweni, 2017; Mkanjala, 2017), and analysis of variance (Yodbutr 2017; Victor and Etieno, 2017; Mathenge, Shavulimo and Kiama, 2017); Chi-square (Olusola, 2014; Ezeagba and Adigwe, 2015) and ordinal logistic regression (Saheb *et al.*, 2019) statistical method in explaining the relationship between the dependent and independent variables of their studies.

This study employed the use of regression analysis in testing the relationship between the dependent and independent variables. This statistical method is unique as it carries out some robust diagnostic test such as confirmatory factor analysis (CFA), composite reliability test, discriminant and convergent validity tests, resampling of the sample through bootstrapping or jack knife, amongst others before the regression results.

Conceptually, based on the extant literature reviewed, it was observed that prior studies had not examined the influence of awareness of takeover on risk and level of competition on quality of accounting information as a whole (Rooney 2020; Effiom & Fodio, 2019). More so, the previous literature reviewed had all focused on implementation (Kurtz 2017; Rooney 2020; Effiom & Fodio, 2019) and processes (Alade, Abiodun and Olusola, 2014; Ogbomuda, 2020; Chin, 2020) of

corporate governance. Hence, this study is unique as it considers corporate governance, industry Characteristics and quality of accounting information on listed insurance companies in Nigeria.

The outcome of this study would be relevant to the academic field of knowledge, policy makers, practitioners and the member of the public. In the area of academic field of knowledge, findings on industry characteristics, to quality of accounting information and internal and external mechanism would serve as basis of knowledge for both researchers and Insurance companies analysts. It will serve as a point of reference for future researchers that may intend to conduct empirical study in the same area of the subject matter.

In addition, this study will be of importance to the government as its insurance regulatory agency, NAICOM will have a broader and recent understanding of corporate governance practices in insurance companies and hence develop new policies to address probable loopholes in the NAICOM Code.

Similarly, it is also very important to frequently study accounting information as it is a huge determinant in the flow of local and foreign investment organizations. When investors lose confidence in the quality of financial reports of firms, there tends to be a decline in the level of investment of such firms. Hence, it is of high importance for researchers to constantly examine the quality of accounting information reported by organizations.

Basically, this study draws its major significance from the reality that the insurance industry is vital to any economy. The confidence level is increased when investors perceive that the industry is positioned to provide adequate insurance protection to the rising insurable business risks. Hence, the result and the recommendations of corporate governance, industry characteristics on quality of accounting information are of high importance to the Nigerian economy.

1.7 Scope of the Study

This study examined the effects corporate governance, industry characteristic on quality of accounting information of listed insurance companies in Nigeria. This study focused on all the 23 listed insurance firms listed on the Nigeria Stock Exchange (NSE) as of 2020 as the sample frame.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviewed related concepts, theories, empirical evidence and gaps of the study. Specifically, the conceptual section of the chapter discusses the concept of corporate governance, corporate governance in the Nigerian insurance industry, mechanisms of corporate governance, Industry characteristics and quality of accounting information. The theoretical segment of the study examines relevant theories of the variables of the study, which include agency theory, stakeholder theory, stewardship theory, contingency theory and information asymmetry theory. Empirical studies across various developmental phases of global economies were also reviewed. Past relevant and related research in developed economies, developing and Nigeria were reviewed which assisted in discovering the gaps in the studies.

2.1 Conceptual Review

This section reviewed the concepts of corporate governance, insurance industry, mechanisms of corporate governance and quality of accounting information.

2.1.1 Corporate Governance

Corporate governance is a multifaceted term and uniquely complex. Various scholars and authors have all tried to carve out a perfect description of the term.

Corporate governance is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002).

Corporate governance, as a concept is difficult to define, as what constitutes it varies from country to country due to differences in culture, legal systems and historical developments (Wong, 2011). However, there can be no dispute that effective accountability to all shareholders, including the diverse interests of other stakeholders such as lenders, employees and government is the essence of corporate governance (Lawal, 2012). Shah, Butt and Saeed (2011) describe it as the way in which

an organization is administered, directed or controlled. The authors proceed to state that corporate governance provides the set of rules and regulations that affect how corporations are run and managed, through specifying the distribution of responsibilities and rights among stakeholders. Relatedly, Lawal (2012) asserts that corporate governance involves a set of relationships between a company's management, its board of directors and stakeholders that provides the structure through which the objectives of the company are set and the means of attaining those objectives.

Corporate governance (CG) was defined by Jayashree (2006) as a process that allows directors to be accountable to shareholders in the management of a company with the best interest of the company and the shareholders at heart while still managing such company with total adherence to ethics and value. Jayashree (2006) buttressed it further as company management via directors with integrity, transparency and being accountable to the management. Corporate governance was viewed by Oyejide and Soyibo (2001) from two angles; the Board angle which the authors regarded as the heart of a market and a democratic environment and; the narrow one which is concerned with the structures installed in a corporate body within which it receives its values, mission and vision.

It was stated by Lemo (2010) that corporate governance encompasses the rules of an entity that guides the management of a company which is supervised by the Directors with the aim of protecting the financial and economic interest of shareholders not directly engaged in the management of such firms. It was added by Mensah (2003) that Corporate governance can be described as an institutional procedure providing guidelines and frameworks that checks excesses of controlling managers. Momoh and Ukpong (2013) deduced that Corporate governance is a system that guides the management and control of organisations. The authors continued that the aim is for transparency and accountability in an organisation to ensure fulfilment of responsibilities to its consumers, environment, employees and shareholders.

Although corporate governance have been exhaustively defined by Zain-aldini Maymand (2011) as a mechanism for managing, directing and supervising the activities of the company with the aim of creating value for shareholders. However, for the purpose of this study, we considered a definition that embraces a wider view (i.e. including the shareholders' perspective) of corporate governance. Hence, corporate governance is defined as the set of structures, processes, customs, policies, laws,