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Analysis of the Financial Performance of Quoted and Non-Quoted Insurance Firms in Nigeria Using Asset Base and Revenue as Determinants

Osirim, Monday[1], Wadike, Chile George[2] & Davies, Stanley Diepiriye[3]
[1-3]*Department of Accountancy, Ken Saro Wiwa Polytechnic, Bori, Rivers State, Nigeria*

Abstract: The thrust of this paper is to contribute to the unending controversies as to what constitute the financial metrics of firms. The study is hinged on the philosophy and perception that quoted firms perform better than unquoted firms. Data for the study was sourced from insurance annual financial statements. The one for quoted firms were obtained from the Stock Exchange while unquoted insurance financial reports were sourced from various publications and firms audited accounts. The population of the study comprises licensed insurance firms in Nigeria. A sample of ten (10) insurance firms was selected; five apiece for both quoted and unquoted firms using their five years financial performance from 2015 to 2019.A panel data fixed effect was used to determine the financial performance of the selected firms. Empirical results indicate that asset base and revenue have positive impacts on the financial performance of quoted insurance firms while only revenue has a positive relationship with the financial performance of unquoted insurance firms. The study concludes that there is a difference in the financial performance of quoted and unquoted insurance firms and quoted insurance firms are stronger in terms of asset base and capacity to generate revenue. Hence, it was recommended that regulatory agencies should relax some of the listing requirements to accommodate the listing interest of unquoted insurance firms.

Keywords: asset base; revenue; quoted; unquoted; financial performance, insurance

1. Introduction

Every enterprise including insurance companies is concerned with its financial performance as improved performance could lead to growth and sustainability. The industry growth used as a measure of financial performance is based on the belief that growth is a precursor to the attainment of sustainability, competitive advantage and profitability (Markman, 2002). The rate of growth of an enterprise arguably is a function of the profit margin of the enterprise. The most widely emphasized goal of a firm is to maximize the value of the firm to its owners which is the driving force that makes a firm to succeed (Kannadhasan, 2008).

Most investors commit their resources to entities with large revenue base, great profitability potentials and future growth and stability. The process of growth and financial performance have been analyzed by researchers at the macro-economic level to the detriment of smaller (unquoted) companies. Therefore, the comparison of the financial performance of quoted firms with open access to the financial market and unquoted firms with no access is imperative. A quoted firm is a firm that has sought and received listing for its shares on the Stock Exchange (Sec, 2005). Such quoted firms have numerous owners and can easily trade and transfer its equity shares. The motivation to be listed in the stock exchange results from the need to boost capital to meet present and future business growth, diversify its shareholders base, improve the debt-equity ratio and in some cases raise money to retire existing short-term facilities.

A quoted firm promotes economic growth and development in the aspects of improvement in aggregate consumption and investment. In this regard, Barlett (2000) states that the main mechanism through which the quoted firms affect the economy is through the so called wealth effect. The rise in stock prices raises wealth and an increase in wealth encourages consumers to increase their spending on consumption goods and investment thereby increasing the wealth of a nation that could trigger economic growth and development. In all, quoted firms allow for efficient transfer of funds between two parties: the borrowers and the lenders. Consequently, all borrowers and lenders are better off than they would have been if the transaction was not consummated provided such resource is prudently utilized.

Unquoted firms are those firms that are not listed in the Stock Exchange. Firms might be unquoted because of their small size and inability to meet listing requirements for stocks which include annual revenue bracket, listing fees and minimum number of outstanding shares. According to Hallberg (2000), unquoted firms have a big potential to bring about social and economic development. However, they are limited by capital outlay, and other resources. High rate of business mortality, inability to access

the capital market for fund raising, poor management practices, among other factors are some of the identified challenges that unquoted business are facing in developing economy.

The relationship between unquoted firms and the Nigerian economy is controversial. Some strands of literature posit that unquoted firms have positive effect on the Nigeria economy. Ojukwu (2006) argues that unquoted firms stimulate indigenous entrepreneurship, provides employment to greater number of people, mobilize and utilize domestic savings and raw materials, provide intermediate raw materials or semi-processed products to large scale enterprises. In the same vein, Davesquare (2005) said that the relationship between unquoted firms and the Nigerian economy is easily noticeable. The unquoted firms contribute to the economy in terms of output of goods and services, job creation at relatively low capital cost especially in the fast growing service sector, provide a vehicle for reducing income disparities, develop a pool of skilled and unskilled labour on the basis of future industrial expansion, improve the backward and forward linkage between economic, social, geographical and diverse sectors of the economy.

1.1 Statement of problem

Quoted and unquoted firms in Nigeria especially insurance firms have been facing a lot of challenges in recent times. Some are seen declaring a low financial performance with little leverage and small branch network; few are seen declaring high profits with high leverage and large branch network. The unanswered question is whether quotation in the stock exchange offers any benefits to insurance firms as compared to not being quoted. Several related studies on financial performance focused on corporate governance, ownership structure, profit sharing and managerial ownership to the exclusion of the financial performance of unquoted insurance companies and most of these studies with contradicting outcome were carried out in developed countries. Among such studies are (Ahmadu, Amina & Tukur 2005; Henrik, 2002; Englbert & Michaela, 2005; Sanghoo, 2006). This research is thus embarked upon to investigate and find answers to the question of whether quotation of insurance firms or lack of it offers any advantage or not.

2. Theoretical Review

2.1 Marris's Theory of Growth

The study is anchored on Marri's theory of growth .According to Marris (1964), managers of large firms aim at promoting the growth and security of their firms. Incentives are given to employees for the purpose of expanding the size of the firm beyond profit-maximizing size and to steady growth rate. If the firm's choice is that of a higher growth rate, it will spend more on advertisement, research and development in order to create more demand and new products. Hence, he retains higher proportion of current profits for such growth promoting activities. Consequently, dividend to shareholders will be reduced and the share prices will fall. Besides, Marris emphasized the ever present threat of takeover if the resources of the enterprise are inefficiently managed.

2.2Empirical Review

Ajao and Ogieriakhi (2018) investigated the relationship between firm specific factors and performance of insurance firms in Nigeria over the period 2009 to 2017 for quoted insurance firms in the stock exchange. The result shows that there is a significant relationship between insurance performance and firm's age. Ahmed et al. (2011) examined the determinants of performance of insurance firms in Pakistan from 2001 to 2007 using regression analysis. Their findings show that leverage, risk, and size had significant relationship with performance while liquidity, growth, tangibility and age had no significant nexus with performance. Alomari and Azzam (2017) investigated the influence of micro and macro economic factors on the performance of quoted companies in Jordanian insurance sector. They use panel data from 2008 to 2014. The study concluded that leverage, liquidity and underwriting risk had negative but significant influence on performance while size had significant positive impact on performance.

Tomas (2008) investigated the performance of quoted and non-quoted companies in Europe using a dimensional panel data employing some financial ratios. The results showed that quoted firms in Europe performed significantly better not only in terms of profit, but also in terms of cash flow generation. Atje and Jovanovic (1993) investigated a cross country of quoted firms and economic growth over the period 1980 – 1988. They found a significant correlation between average economic growth and market capitalization for forty countries. In a similar study by Levine and Zervos (1998), they employed data on 47 countries from 1976 through 1993 and found that stock liquidity are strongly related to growth, capital accumulation and productivity.

Obiora (1987) investigated the financial performance of quoted and unquoted registered firms in

Nigeria. He used Multivariate Analysis and financial ratios for the firms investigated. The findings showed that quoted firms performed better than unquoted firms in Nigeria. Schoubben and Hulle (2004) examined the difference between quoted and unquoted firms in Belgium. Panel data from quoted and unquoted firms were used and result showed that quoted firms are less leveraged than unquoted firms.

Walker and Petty (1978), compared the financial profile of large and small firms using ratios of liquidity, profitability, leverage, business risk and dividend indicators. They concluded that there exist differences in the financial performance of large and small firms. With respect to profitability, small firms were more profitable than large firms. They argued that the result could be the nature of the small firms used. Sanghoon (2006) investigated the ownership structure and financial performance of South Korea. He used panel data for South Korea firms from 2000 through 2006. The study shows that ownership structure is related to financial performance.

3. Methodology Source of data:

Data for the study was sourced from insurance annual financial statements. The one for quoted firms were obtained from the Stock Exchange while unquoted insurance financial reports were sourced from various publications and the firms audited accounts.

Population of study: It comprises licensed insurance firms in Nigeria. For quoted insurance, the population comprises insurance firms quoted before 2020. The reason for this is to capture firms that must have benefited from the benefits of being quoted.

Sample Size: Ten (10) insurance firms were selected; five apiece for both quoted and unquoted firms using their five years financial performance from 2015 to 2019.

Method of data analysis: A panel data fixed effect was used to determine the financial performance of the selected insurance firms.

3.1 Model Specification

The study is guided by econometric/mathematical function specified as follows:

$$\mathbf{FP = \beta_0 + \beta_1 AB_1 + \beta_2 REV_2 + ut \ (i)}$$

Where $\beta_1 - \beta_2$ = parameters to be estimated; Ut = Stochastic error term

We formally re-write the model in a fixed effects (regression) model as: $FPit = a_1 AB_{1it} + aREV_2 it + Uit$

.....(3)

Where: fp stands for financial performance; ab = asset base (firm's total worth) ; rev = firm's revenue proxy by annual income); i represents the ith cross sectional unit and t for the time period.

3.2 Result of Hausman Test

The fixed effects model was used for the interpretation of our empirical analysis as against the random effects given the fact that the results of the hausman test indicate a statistical significance at the 10 percent significant level (p-v > chi 2 = 0.0007 and p-v >chi = 0.0663).

4. Empirical Results

Table 1: The influence of asset base and revenue on the financial performance of quoted insurance firms

Variable	Fixed effects	Random effects
Constant		-3.001
T-Statistic (Constant)		-3.248
Revenue (Log Rev)	0. 9274	-1.1119
Asset Base (Log AB)	0.1155	0.0273
T-statistic (Revenue)	10.748	11.281
T-statistic (Asset Base)	2.214	0.326
Fixed Effect		

-QC1	-1.03	0.57
-QC2	-1.35	0.70
-QC3	-2.99	-0.55
-QC4	-1.88	-0.38
-QC5	-3.01	-0.69
Observations	100	100
R^2	0.97991	0.964032
Adjusted R^2	0.97880	0.96351
Prob (F-stat)	0.000	
Hausman test (p-value)	0.0663	
Method	GLS (cross section Weight)	GLS (variance Components)
SE of regression	0.2276	0.2652
DW statistics	1.95	0.78

The outcomes in the above table showed that the changes in financial performance across firms can be explained by changes in Asset Base and Revenue. The two variables have positive relationship with financial performance and the relationship is statistically significant. Specifically, about 98 percent of the variations are explained by the explanatory variables. The Durbin Watson (DW) statistic in the fixed effects model of 1.95 also showed that the model is free of serial (auto) correlation. The outcome implies that increase in asset base and revenue will increase the financial performance of the firms.

Table 2: The influence of asset base and revenue on the financial performance of unquoted insurance firms in Nigeria

Variable	**Fixed Effects**	**Random Effects**
Constant		-1.488
T-statistic (Constant)		-1.2291
Revenue (Log R)	1.0671	
Asset Base (Log AB)	-0.0280	
T-statistic (Revenue)	11.5521	
T-statistic (Asset Base)	-0.7452	
Fixed Effects		
-UC1	-0.89	-0.51
-UC2	-1.11	0.33
-UC3	-1.40	0.06
-UC4	-1.30	0.18
-UC5	-1.43	-0.07
Observations	100	100
R2	0. 987925	0.903737
Adjusted R2	0.979226	0.897453
Prob (f-stat)	0.000	
Hausman Test (p-value)	0.0007	
SE of regression	0. 637844	0.673817
DW Statistics	1.72	1.68

The outcomes in the above table shows that the aggregate performance of the fixed effects equation is quite satisfactory with a high R^2 of about 98 percent and the computed probability at the 1 percent significance level is quite significant. The DW statistics clearly shows the absence of autocorrelation between the criterion variable (profit) and the predictor (Asset base and Revenue). The positive result of revenue implies that an

increase in revenue increases the financial performance of firms.

Increase in Asset base of firms are negatively correlated with financial performance of the firms for the period under review. This implies that asset base reduces the profit of firms. This may be due to inability of the unquoted firms to mobilize sufficient capital from the capital market for its expansion and growth objectives. Raising of capital mainly by personal savings, cooperative and thrift societies and retained earnings by Nigeria unquoted firms may negatively affect financial performance of the firms.

4.1 Summary of findings and conclusion

Five (5) quoted and unquoted insurance firms were used for the study. The analysis for the quoted insurance firms showed that asset base and revenue of the selected firms had a positive influence on their financial performance. This implies that expansion activities of the firms in the area of increasing asset base and revenue will increase the profit margin (financial performance of the entity) reflecting their ability to expand with access to cheaper funds. The results for unquoted firms showed that only revenue of the firms had a positive influence on their financial performance. This may be due to certain shortcomings associated with unquoted firms such as restricted access to acquisition of funds at relatively lower rates among other factors. The study concludes that there is a difference in the financial performance of quoted and unquoted insurance firms in Nigeria. This difference may have emanated from the large asset base and revenue at the disposal of quoted insurance firms that unquoted insurances could not garnered.

4.2 Policy recommendations

The empirical results have some key implications for insurance firms, other corporate entities as well as regulators.

First, regulators should discard some of the listing requirements that debar firms from listing on the Nigeria stock exchange to enable firms benefit from the advantages attributed to the stock exchange. Second business managers should ensure that necessary steps are taken by their firms to accept the virtue of going public as it will immensely affect positively their expansion objective in no small measure. Third, Significant improvement in the activities of the Nigeria stock exchange is needed especially in the area of sound management, coordination and other regulatory spheres in order to instill the necessary confidence in firms that will attract them to the stock exchange market.

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