**BOARD OF DIRECTORS’ NATIONALITY AND FINANCIAL PERFORMANCE OF LISTED INSURANCE FIRMS IN NIGERIA**

**SUNDAY OSEIWEH OGBEIDE (Ph.D)**

**Department of Accounting and Finance,**

**Faculty of Humanities, Social and Management Sciences,**

**Elizade University, Ilara- Mokin, Ondo State, Nigeria**

**Email:** **sunnyogbeide2017@gmail.com** **(Corresponding Author)**

&

**KAYODE AYOBAMI ADEDIRAN**

**Department of Accounting and Finance,**

**Faculty of Humanities, Social and Management Sciences,**

**Elizade University, Ilara- Mokin, Ondo State, Nigeria**

**ABSTRACT**

*This study examined board of director nationality and the financial performance of listed insurance firms in Nigeria.A sample of forty two listed insurance firms using the simple random sampling technique for the period 2010 t0 2021 was selected. The data was first subjected to robustness tests and then analyzed using descriptive statistics and the panel ordinary least squares (POLS) estimation method. Findings revealed that board nationality exerted a negative and non-significant impact on the insurance firms’ financial performance. While interlocking board membership was positive and not significant, board director reputation capital was positive and significant on the insurance firms’ financial performance. The study recommends that there is need for regulators to design a framework to checkmate the proportion of foreign directors’ inclusion in insurance firms’ board. Firms in Nigeria should be mandated to disclose proportion of board nationality as it will guide researchers in carrying out critical analysis for policy recommendations.*

**Keywords: Board Nationality, Board Gender Diversity, Board Reputation, Capital, Financial Performance**.

**1. Introduction**

Board nationality simply refers to foreign board members in firms. Board nationality as one of the characteristics of board of director is an important component of corporate governance and they provide the motivating framework for companies to attract financial and human capital, perform efficiently and avoid managerial manipulation and shareholders’ expropriation. Board nationalities are very valuable to companies and they often provide management with prestige, visibility and commercial networking and contracts.

Board nationality otherwise referred to as foreign board members is germane towards the operational and financial performance of firms. However, the capacity of foreign board members to enhance firms’, especially listed insurance firms’ financial performance is premised on the requisite knowledge they have about the market environments, their adequacy in the board, their financial skills and professionalisms. In most countries’ corporate governance regulations, including Nigeria, there is hardly a segment of it that spells out the modalities of foreign directors’ inclusion on the board of listed insurance companies. In attempt to promote diversity, existing board members in firms may resent nationalities coming to occupy a seat in the corporate board perhaps due to biased perception, discriminations and segregation. These behavioural characteristics are more prevalent in a country where there is weak institutional framework. There is no doubt this may contribute negatively to the operational performance of listed insurance firms, smooth decision making and quality of financial reporting.

Board nationality is one of the characteristics of board of directors in a typical quoted company, including insurance firms. It attracts and intertwines with other characteristics of the board of directors which among others include interlocking board membership, board of director reputational capital, board gender diversity and financial literacy of the directors. Yetim, Iskandar and Nga (2014) investigation on board attributes and foreign shareholdings in Malaysian listed firms reported a strong nexus between interlocking board membership and board nationality. When a foreign board member occupies multiple seats in the board of several firms, there is the tendency for the promotion of multiple directorships. Multiple directorship, otherwise referred to as interlocking board membership enables companies to have advantageous contracting relations with external parties such as getting funds from financiers on the basis of their reputation.

In Nigeria, the corporate governance code of best practices has not explicitly stated the prerequisite for interlocking board members’ inclusivity in insurance firms. This may be one of the factors which seem to limit researchers over the years in analyzing the impact of board interlocks on insurance firms’ operation and financial performances in developing countries in the Nigerian corporate environment. Similarly, the constant corporate board room squabbles and unhealthy politicking among existing directors in boards’ appointment and managerial positions in the corporate world may be a contributing factor for the low encouragement of board interlocks in developing countries, Nigeria inclusive. This poor encouragement of boards interlock diversity culture in Nigerian firm, requires timely policy thrust by the government through regulators to enhance corporate governance best practice towards promoting firms’ operations, financial performance and maximization of shareholders’ wealth.

While plethora of researches such as Richardson (1987); Geletkanycz and Boyd (2011); Pye, Kaczmarek and Kimino (2015) critically examined the implication of interlocking board membership on firm performance in developed nations of the world, the same cannot be largely said in developing countries such as Nigeria. This gap may be adduced to differences in regulation among varying climes. Another main reason for such challenge in the developing countries, is variable measurement problem and data constraint. Still, the researches on the association between interlocking board membership and firm financial performance in the developed countries are inconclusive (see, Zona & Gomez-Mejia, 2015; Horton, Millo, & Serafeim, 2012; Pombo & Gutierrez, 2011; Devos, Prevost, & Puthenpurackal, 2009; Fich & Shivdasani, 2006; Phan, Lee, & Lau, 2003; Fligstein & Brantley, 1992; Meeusen & Cuyvers, 1985). This study therefore seeks to examine the subject in a developing clime, specifically in the Nigeria context with a view to building on the findings of prior studies and extending the frontier of knowledge in insurance sector.

Despite board nationality is intertwined with interlocking board membership to influence a firm operation, there is however a red flag. For example, board nationality breeds multiple directorships and when directors occupy multiple seats, they can become less committed to assigned duties. This under commitment causes them to compromise their ability to provide meaningful managerial and external auditor monitoring in most firms across developing climes. For instance, a glance in the contents of the corporate governance code of best practices in Nigeria indicates that the provision and condition(s) for board nationality and interlocking board membership inclusion in insurance firms’ board are not defined. Especially in Nigeria, insurance firms appear to lack board nationality and interlocking board membership. Studies which have investigated the link between board nationality and interlocking board membership towards financial performance of listed insurance firms also lack empirical evidence. Hence, this research is undertaken.

As noted by Yatim et al. (2014), foreign or outside directors who serve on multiple boards can gain both valuable experience and reputational benefits. The number of seats occupy by a director in the board of several firms might be an indication of a good reputation. Hence, Ogbeide Adesuyi and Ogeh (2021) accentuated that directors who sit on the board of other insurance firms’ have consciously defined their reputational capital. One of the influencing variables of board interlocks in firms is net worth and integrity (Okpamen & Ogbeide, 2020). Board directors with high integrity are in high demand in multinational firms globally. Conventionally, board directors are saddled with the responsibility of managing the resources of the owners – shareholders. They are expected to demonstrate competence, professionalism and integrity in the discharge of their assigned onerous duties to maximize the wealth of the shareholders and satisfy interest of other stakeholders in the business environments(Okpamen & Ogbeide, 2020).

One of the fundamental factors usually considered when appointing a director in an insurance company’s board, besides level of education, financial skills and years of experience is integrity (Okpamen & Ogbeide, 2021). Integrity is necessary at effectuating fiduciary duty by board members. Integrity is a social intangible capital which has spiral positive effects in the firm. In the light of dynamism in corporate world, integrity on the part of board of directors may be regarded as a reputational capital. To protect their own reputational capital, board of directors do ensure adherence to quality accounting information disclosure, ethical standards and also demand for optimal performance with a view to attaining the goal of maximizing the wealth of the shareholders and other stakeholders at large (Fredriksson, Kiran & Niemi, 2018). With increase in reputational capital by board directors, there is the likelihood for optimal performance demanded by them. Board directors are sometimes vehement at demanding for additional external assurance on financial statements particularly when they are skewed at protecting their reputational capital.

Similarly, one of the attributes expected from board directors in a typical insurance company by shareholders and stakeholders is a good reputation. A potential investor does take into consideration the reputation of a firm and its directors before taking investment decision. Stakeholder such as suppliers might restrict credit lines if the board directors are perceived to have a bad financial reputation. Thus, the reputational capital of board of directors is a mirror image of the core values of an insurance firm which has consequential spiral effects. Board director reputation is fundamental to the effective, efficient management and success of an insurance firm.

It is the hub upon which minimization of agency costs hinge on in an insurance firm. Through it, directors avoid the tendency to engage in rent extraction and thereby enhance the firm market value. A good reputation may be regarded as a social intangible capital to a company. The ability of board directors to enhance firm performance is largely dependent on the reputation they have. In today’s corporate world, reputation of directors is one of the main value-drivers of corporate performance and it is an essential intangible asset affecting financial outcomes of firms worldwide (Velte, 2017).

Given the prevailing economic factors adversely affecting businesses globally and in the emerging market of Nigeria in specific, it is difficult for insurance firms to thrive successfully, mitigate risks, meet the policy coverage on the insured and operate optimally without reputational capital of directors in place. Alan Greenspun (2001) cited in Klewes and Wreschniok (2009) surmise that overtime and in the past two decades, reputation has become the most important corporate value expected of directors by shareholders and other stakeholders to promote the operational and financial performance of companies. In the expression of Cao, Myers and Omer (2012), concern for reputation capital makes board directors to behave ethically in a way and manner that is in the interest of shareholders and other stakeholders. Reputational capital of board directors boosts their sense of responsibility as well as their specialized knowledge which in turn enhances their professional judgment about the operational and financial performances of firms (Du et al. 2017).

The association between board director reputation capital and firms’ financial performance has been relatively investigated in developed countries (e.g, Larcker & Richardson, 2007; Jackson, 2015, Fich &Shivdasani, 2007; Francis, Huang, Rajhopal & Ziang, 2008; Fredriksson, Kiran & Niemi, 2018). The researches (e.g Ingley and Walt, 2003; Nierderkofler (2019) on the effect of board director reputation on firm performance in developed markets are inconclusive. The research of Nierderkofler (2019) mainly focuses on corporate reputation and its translation to performance of firms. This study takes a departure from it to verify the relationship between board director reputational capital, board nationality, interlocking board membership and the financial performance of listed insurance companies in Nigeria.

Similarly, apart from the theoretical juxtaposition of Iwu-Egwuonwu (2011) on the connectivity between corporate reputation and organization performance in Nigeria and the empirical study conducted by Okpamen and Ogbeide (2020), studies in the context of Nigeria on how board nationality, interlocking board membership, and board director reputation capital contribute to insurance firms’ financial performance are yet to gain ascendancy, hence this study is undertaken with a view to contributing to the debate. The assessment of the relationship between board nationality and firms’ performance has been researched on in developed countries and developing alike but with varied findings. Austin, Ujunwa and Ifeoma (2012); Igbinosa and Ogbeide (2015) and Osiregbemhe (2017) findings on the research between board nationality and firms’ performance are mixed in the context of Nigeria. This also creates a gap for further researches in literature.

This is also peculiar to some researches in developed countries like Germany and U.S with inconclusive results. Examples include Sharma (2016); Oxelheim and Randoy (2015). In the context of Nigeria, apart from the researches of Okpamen and Ogbeide (2021) which examined the effect of board director reputation capital on firm financial performance, followed by the study of Ogbeide, Adesuyi and Ogeh (2021) which assessed the relationship between interlocking board membership and firm financial performance, Onyali and Okerekeoti (2018) which examined board heterogeneity and corporate performance of firms in Nigeria using board size, board women director and board independence, we find no studies which have jointly examined the effect of board nationality, alongside interlocking board membership and board director reputation capital on the financial performance of listed insurance firms in Nigeria. From the studies mentioned above, it was discovered that none employed the panel ordinary least squares (POLS) as a method of data analysis.

This constitutes a research gap in literature this present study seeks to fill with a view to adding to knowledge. Apart from the introductory section, section two deals with the empirical review of literature; section three is the methodology, section four is data analysis and discussion of findings while section five is conclusion and recommendations from the study.

**2. Literature Review**

**2.1 Theoretical Literature**

Board nationality is the ratio of foreign board members to total board size of a firm. The potential advantages of foreign board membership have received serious attention in corporate governance studies globally (Marimuthu & Kolandaisamy, 2009). First, with foreigners on the board, a large stock of qualified candidates would be available for the board with broader industry experience (Austin et al., 2012). This significantly results to efficiency in the firms’ management, increase in the firms’ performance and stock price appreciation. Second, because of their different backgrounds, foreign members can add valuable and diverse expertise which domestic members do not possess (Lee & Farh, 2004). Foreign board members can also help assure foreign minority investors that the company is managed professionally in their best interests (Oxelheim & Randoy, 2001). On the other hand, opponents to this view argue that foreign board members may be less informed about domestic affairs and therefore, less effective (Austin et al., 2012). Also, changing the board language to fit foreign members may be costly and add to adjustments problems (Hassan, Samian & Silong, 2006).

Interlocking board membership as a corporate governance indicator has no defined proportion for inclusion in corporate governance code of best practices in developing countries unlike in developed nations of the world. For instance, the research of Yatim et al. (2014) state that the recommended limits of multiple directorship in several emerging economies are significantly higher than the best practices suggested in many developed countries. In the United States for instance, few multiple directorships are considered as a best practice while in other countries such as India, the limits are higher; ranging from ten to twenty-five. Sarkar and Sarkar (2009) stress that multiple directorship are quite pervasive in India with 72 percent of directors holding more than one directorial position. The author stress that the higher limit of multiple directorships often reported in emerging markets may be due to the supply constraints in the market for corporate directors. Mizruchi and Galaskiewicz (1994) had posited that if interlocking is a successful method of cooptation, all things being equal, heavily interlocked companies should perform more profitable than less interlocked firms. However, empirical evidence on this proposition around the world is ambiguous.

Reputation of board of directors mainly consists of managerial reputation which may translate to product reputation and financial reputation of a firm. Managerial reputation is often associated with adherence to ethics and professionalism in the day-to- day systematic management of firms by executive directors. Product reputational capital which primarily concerns with the satisfaction derived by consumers of a firm’s product is a function of board directors’ reputation and core values. It also concerns how board directors actually follow the legal and structural processes leading to the production of the final product brought into the market place for sales and usage. Financial reputational capital of directors is about prudent handling of finances of the company gear towards the satisfaction of the resources owners. If directors amass wealth for themselves through higher remuneration and engagement in rent seeking, their financial reputational capital may be at stake. All things being equal, the higher the reputational capital of board of directors, better is the improvement in the overall operating and financial performances of a firm. While board director reputational capital is theoretically explored in literature, the empirical verifiability in the context of Nigeria is lacking.

**2.2 Theoretical Framework**

This study relies on the upper echelon theory and resource dependency theory respectively to examine the joint effect of board nationality, interlocking board membership and board director reputation capital on the financial performance of quoted insurance companies. The upper echelon theory developed by Hambrick and Mason (1984) states that organization’s outcome; strategic choices and performance level are partially predicted by managerial background and characteristics. The theory describes how board directors’ behavior towards firm performance is a function of personal experiences and values (Hambrick & Masson, 1984). Conventionally, board director prior long standing work experiences are imperative (Hambrick, 2007). Terjesen et al. (2016) in explaining further the upper echelon theory, emphasized that a board consisting of interlocking directors, nationality and reputation with vast and diverse set of knowledge and skills is likely to influence the company financial performance.

Marimuthu and Kolandaisamy (2009) in a research contributed that one of the most effective theories that can be used to underpin studies on board heterogeneity is the upper echelon theory. In the context of the upper echelon theory, it is likely that in a relatively stable environment, team homogeneity and specifically board interlocks will positively promote firm profitability; but in a turbulent environment, especially discontinuous environment; team heterogeneity and board interlocks may negatively affect a firm profitability (Marimuthu & Kolandaisamy, 2009). The quoted firms in Nigeria have operated under a harsh corporate environment occasioned by macro-economic challenges over the years. Researches that have examined the association between interlocking board membership and firm financial performance in the context of the upper echelon theory on the empirical fronts in the emerging economy of Nigeria are scarce, hence this study is undertaken.

In the view of Terjesen, Searly and Singh (2009), this theory does suggest that greater board diversity and characteristics may further contributes to better board effectiveness and performance. Resource dependency theory is a guiding theory on the association between gender diversity and firm financial performance. This theory views board directors to bring unique and valuable resources and healthy relationship to their corporate boards. In the case of networks, early works by Ibarra (1992 and 1993) showed that compared to foreign managers in firms do have more diverse networks. In the expression of Drago, Millo, Ricciuti and Satella (2011), board nationalities, multiple directorship and directors with high integrity are good at social- political- economic networking.

**2.3 Empirical Review**

Ararat, Aksu and Cetin (2010) aimed to determine the relationship between board diversity and performance using variables like gender, ethnic, educational and nationality background in Turkey. They made use of Tobin’s Q as a measure of financial performance in the empirical study. Results found that higher diversity leads to an increase in market-to-book ratio of firms in such countries as Turkey. Darmadi(2013) aimed to determine the relationship between board diversity and performance in Indonesia. The author made use of gender, nationality, age, and return on equity (ROE) as diversity and financial performance variables respectively. The results showed that nationality diversity has no impact on the financial performance for a sample of Indonesian companies. Schwizer et al. (2012) determined the relationship between the presence of foreign directors in board and financial performance. Primary and secondary data were collected from the U.S. firms using ROE as financial performance measure. The study found that a significant negative relationship exists between foreign directors and performance.

Daniel, McConnel and Naveen (2013) conducted a study primarily on the advisory role of foreign directors in U.S firms while eliminating those not incorporated in U.S. Their study was carried out on S&P 1500 firms with sample size encompassing 1998 through 2007. The study used Tobin’s Q measured as the sum of book value of debt plus market value of equity divided by the book value of assets as the proxy for firms’ value. They concluded that it is not the mere addition of a foreign director that adds value to the firms, but that value is only added when firms’ themselves can benefit from the director’s advisory services in a foreign country. Miletkov, Poulsen and Wintoki (2012) conducted a study on the implication of having foreign independent director and its impact on firms’ performance. They used a cross-section of more than 20,000 firms’ from 98 countries. They used the ordinary least square (OLS) regression technique to test their hypothesis by measuring firms’ performance in terms of ROA. They found negative significance between the presence of foreign independent directors and firms’ performance in countries with developed capital market, better education and legal institution but more negative significance with countries with less developed countries. Their results also suggest that the further away a foreign director is from his host country, the more negative is the effect of the director on firms’ operating performance, and this supports the idea that the physical distance from company headquarter hampers the foreign directors' ability to effectively monitor management. Thus, study hypothesize that board nationality does significantly influence financial performance of quoted firms in Nigeria.

The nexus between interlocking board membership and firm performance is mixed on the empirical fronts. Richardson (1987) report that interlocked companies perform better than firms without the presence of interlocked membership. Shropshire (2010) through the use of diffusion model reported that interlocking board membership diversity is a key variable that can effectively influence firm performance with a view to deeply reconciling the competing views of resource dependency and agency theory. The author concluded that the level of board interlock is likely to create favourable conditions for the reception of ideas available through the interlocking ties and positively impacts on firm performance.

Peng, Mutu, Sauerwald and Wang (2015) investigated board interlocks and corporate performance among Chinese firms listed in Hong Kong between 1990 and 2012. The findings indicate that network centrality and interlocks help to improve performance in varying degrees. Ahmad (2018) investigated interlocking directorates and financial performance in Pakistani Business Groups from 2011 to 2015 for a sample of 55 public limited companies. Panel regression method was used to analyze the data. The finding indicates that vertical interlocking directors increase the performance of group firm by supporting in coordination and promotion of transactions between group members firm and holding firm. Pombo and Gutierrez (2010) investigated the impact of outside directors, board interlocks and non- financial firm performance in Colombia. A sample of 335 firms per year for the 1996-2006 period was examined. The study established a positive relation between the levels of board interlocks with firm return-on-assets.

Fligstein and Brantley (1992) empirical study revealed a negative relationship between interlocking directors and profitability for large sample of US firms. In the view of Devos, Prevost and Puthenpurackai (2009), interlocking board membership is negatively correlated with performance of firms; the poorly performing firms are more likely to have interlock directors on their board and market reacts on the announcement of appointment of directors that create interlocks. Danoshana and Ravivathani (2013) conducted a research using data collected from 145 Italian manufacturing firms for the period 2001 to 2006. The study specifically examined impact of interlocking board members on the return on assets of the sampled firms in the period. The finding indicates that board members who serve on multiple boards exert a negative effect on firm performance; but the effect is dependent relatively on its resources. The research outcome also indicates that firm with fewer resources perform better when their board members also serve on boards of firms with more resources. In contrast, the research stress further that firm with greater resources performs worse when their board members also serve on boards with more resources constraints.

Contrary to these findings, Kiel and Nicholson (2006) and Geletkanyez (2011) established no direct nexus between interlocking board members and firm financial performance. The author supported the evidence that the effect of interlocking board membership on firm performance is contextual and concentrated on the firms’ externalities such as industry growth, concentration and firm diversification. Hashim (2018) suggests that the number of inter directors should be moderate to avoid non- linear relationship with firm operation and financial performances.

They asserted that interlock directors have the knowledge, expertise, skills and stronger incentives to actively monitor the actions of management and improve quality of financial reporting. From all the literature examined, it can be observed that empirical studies on the association between interlocking board membership and firm financial performance in the context of Nigeria are not available, thus prompting the reason to fill the research gap through this study. Zona and Gomez-Mejia (2015) in study on board interlocks and firm performance in the context of agency–resource dependence perspective on a sample of 145 Italian companies, established that interlocking directorates may exert either a positive or a negative effect on firm performance. Lamb (2017) in a study sought to investigate if the number of interlocking directors influences firm financial performance in an exploratory meta-analysis. The finding indicates little evidence of a systematic impact of interlocking board directors on financial performance of firms. The finding is suggestive that interlocking directors may not have an influence on firm financial performance.

Ogbeide, Adesuyi and Ogeh (2021) examined interlocking board membership and financial performance of listed firms in Nigeria. A sample of fifty (50) listed non- financial firms was selected from the population using the systematic random sampling technique. The data for the period, 2007 to 2018 was analyzed using the descriptive statistics, correlation matrix and the general method of moment (GMM). Findings revealed that the one lag value of the returns on equity is statistically significant and positively correlated with the firms’ financial performance. Interlocking board membership (IBM) exerted a negative and significant impact on the firms’ financial performance. Board size exerted a positive impact on the performance of the firms, suggesting that a relatively large board size engenders conflicts in decision making and may hamper financial performance of firms. Firm size was positive and significant on the firm performance in the reference period.

Okpamen and Ogbeide (2020) examined the impact of board director reputation capital on financial performance of listed firms in Nigeria. The population of the study consists of all the listed non- financial firms in Nigeria. A sample of fifty (50) firms was selected and data were collected over the period 2007 to 2018. Descriptive statistics and system general method of moment estimation methods were used to undertake the data analysis. Findings reveal that board director reputational capital exerted a positive and significant impact on financial performance of the firms. Board size and firm size were negative on firm financial performance in the reference period. The study concludes that board reputational capital is a significant driver of corporate financial performance in Nigeria irrespective of the size of the board. From the empirical review above, it is obvious that there is inadequacy of literature on the implication of board nationality, interlocking board membership and board director reputation capital on the financial performance of firms in Nigeria.

Ingley and Walt (2003) found no causal relationship between corporate reputation and financial performance. This may be due to weaknesses in the existing measure of reputation, or due to unobserved variability in the intervening variable of managerial exploitation of the reputation. Nierderkofler (2019) research shows that corporate reputation has a strong positive association with operating performance indicators, viz-a-viz sales growth and profit margins. Similarly, the research fails to reveal any evidence of a significant correlation between corporate reputation and operating performances and operating expenses or salaries expenses. It can be observed that the research of Nierderkofler (2019) mainly focuses on corporate reputation.

Onyali and Okereteoti (2018) examined the effect of board heterogeneity on performance of firms in Nigeria. Specifically, the study examined the effect of board size, women on board and board independence on return on assets of listed manufacturing firms on Nigerian Stock Exchange. The study adopted ex-post facto research design. Population of the study is made up of seventy six manufacturing firms listed on the Nigerian Stock Exchange as at the year, 2016 while thirty two firms was used as sample of the study. The secondary data used in the study were sourced from the publications of Nigeria Stock Exchange and annual reports of the sampled firms. Multiple regression analysis was used for data analysis. Findings of the study revealed that board size, women on board and board independence have significant and positive effect on return on assets of manufacturing firms listed on Nigerian Stock Exchange.

This study takes a departure from it to verify the relationship between board of director reputational capital and the financial performance of listed companies in Nigeria. It can be observed in the reviewed literature that none-of the studies have investigated the effect of the joint nexus between board nationality, interlocking board membership, board director reputation capital and the financial performance of quoted insurance companies. This study therefore hypothesis that board director nationality, interlocking board membership and board director reputation capital do not have significant effect on quoted insurance firms’ financial performance in Nigeria.

**3. Methodology**

This study examines the effect of board nationality, interlocking board membership and board director reputation capital on quoted insurance firms’ financial performance using causal-research design. The study population consists of listed insurance firms in the insurance sector in Nigeria. Forty two (42) listed insurance firms were selected using the simple random sampling technique in the period 2010 to 2021. This represents about six hundred firm- annual observations. Thedescriptive statistics and panel least squares (POLS) were employed to analyze the data. The robustness tests were also carried out using E-view 8.0 software. The model used is in the study is adapted from the studies of Pombo and Gutierrez (2010); Zona and Gomez-Mejia (2015); and Lamb (2017). The models were modified, stated in a stochastic form as follow:

$ROE\_{it}= β\_{0}+β\_{1}Bnat\_{it}+β\_{2}Ibm\_{it}+β\_{3}Bodrc\_{it} + β\_{4}\sum\_{}^{}control variable\_{it}++ε\_{it}…$……….(1)

Where, $ROE\_{it}=$ return on equity of $i$ firm in $t$ period; $Bnat\_{it}$ Board nationalityof $i$ firm in $t$ period; $Ibm\_{it}=$ Interlocking board membership of $i$ firm in $t$ period; $Bodrc\_{it}=$Board director reputation capital of $i$ firm in $t$ periodand $\sum\_{}^{}Control variables\_{it}$= consists of firm size; $i=$ Individual firm in the sample size; $t=$ Period the study covers; $ε=$ Error term acting as a surrogate in the models and $β\_{0}=$ Intercept .A-priori expectation of the study using the parameters of estimation is: $β\_{1}- β\_{4}>0 $This apriori signs imply that the explanatory variables in the model are expected to impact on the firm financial performance in line with the theoretical framework of the study

**Table 1:** Measurement of the Variables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S/N** | **Variables** | **Type of Variables** | **Measurements**  | **Sources** |
| 1. | Financial Performance | Dependent variable | Measured using return on equity (ROE)  | Rossi, Nerino and Capasso (2015) |
| 2. | Return on equity (ROE) | Dependent variable | Computed with the formula: profit after tax/ equity. | Rossi, Nerino and Capasso (2015) |
| 3. | Board Nationality | Independent Variable | Measured by the number of foreigners on the firm board, divided by total board size | Igbinosa and Ogbeide (2015) |
| 4.  | Interlocking Board membership | Independent Variable | Total number of busy directors. A busy director is a dummy variable equal to 1 if the number of directorships held by a board member within firms affiliated with the business group or other businesses groups is more than one, and 0 otherwise. Restricted only to firms in the sample | Haynes and Hillman (2010); Pombo and Gutierrez (2011) |
| 5. | Board director reputation capital | Independent Variable | Measured as the total compensation directors earn from their directorships  | Fredriksson et al., (2018) Okpamen and Ogbeide (2020) |
| 6.  | Firm Size | Control Variable | Using the total Assets of the firms | Gu, Lee and Rosset (2005) |

 **Source: Authors’ compilation from Literature, 2023**

**4. Empirical Analysis and Discussion of Findings**

This sub-section involves the analysis of the data, interpretation and discussion of results obtained from the estimation methods employed.

**Table 2:** Descriptive Statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **ROE** | **BNAT** | **IBM** | **BODRC** | **FSIZE** |
| Mean | 8.66 | 2 | 0.33 | 54.44 | 7.15910 |
| Standard Deviation | 2.44 | 12.52 | 16. 98 | 16.81 | 0.76 |
| Skewness | 3.152 | 4.66 | 0.77 | -4.64 | 0.24 |
| Kurtosis | 12.122 | 8.16 | 2.22 | 6.28 | 2.45 |
| Jargue-Bera | 55578.432 | 20000.33 | 44476.112 | 34122.30 | 8.81502 |
| Probability | 0.000 | 0.001 | 0.000 | 0.000 | 0.000 |

**Source: Authors’ Computation from E-view 8.0 Version**

Table 1 points out that the return on equity (ROE) has a mean of 8.66% while the standard deviation is 2.44, suggesting that the insurance firms experienced approximately 9% variability in the return on equity in the reference period. This variability may not be unconnected with systematic and unsystematic risks across the insurance firms. While return on equity was positively skewed at 3.152, implying the variable was symmetrical around its mean in the period observed, the kurtosis which indicates the peakedness or flatness of the distribution of the series stood at 12.122. It suggests that the distribution is peaked (leptokurtic). The Jargue-Bera statistics of 55578.432 with P- value of 0.000 is statistically significant at 5% level, an indication that the data was distributed normally.

Board nationality has a mean of 2, suggesting at least there were two foreign members which were represented in the board of the insurance firms. It however has a high standard deviation of 12.52.This goes to show that there is high level of under-representation of foreign board members in the listed insurance firms sampled in this study in the reference period. The scantiness of the foreign board members is very risky for the insurance firms as revealed by the high standard deviation. Again, the fewness of foreigners on the board means that the insurance firms may not have potential to mitigate agency problem and reduce engagement in rent extraction by committee members and line managers which are often considered to be detrimental to earnings and shareholders’ wealth. Board nationality was skewed at 4.66, implying the variable was symmetrical around its mean in the period observed while the kurtosis stood at 8.16. It suggests that the distribution is peaked (leptokurtic). The Jargue-Bera statistics of 55578.432 with P- value of 0.000 is statistically significant at 5% level, an indication that the data was distributed normally.

Interlocking board membership has a low value of 0.33% among the insurance firms in the period. This suggests that multiple directorship representation on board of listed insurance firms in Nigeria is very scanty. This effect may undermine the benefits accruable from having these sought after strategists and experts in companies, and consequently impact negatively on insurance firms’ operational and financial activities. The standard deviation which shows the variability from the mean is 16.98, an indication of high risk since the proportion of board interlocks was very low in the insurance firms’ board. The skewness is positive (0.77) and the kurtosis platykurtic (2.22). The Jarque-Bera value of 44476.112 is significant and distributed normally in the reference period.

On an average, board of director reputational capital has the highest mean value of 54.44 percent with a standard deviation of 16.81. This suggests high reputation of the board members and practices of good corporate governance towards enhancing the insurance firm and investors’ confidence in the stock market. The skewness is negative while the kurtosis is positive and platykurtic, implying the distribution is flat around mean of the variable in the period. The Jargue-Bera value of 34122.30 with a probability value of 0.00 (P= 0.00) is statistically significant at 5% level. It is an indication that the variable is normally distributed in the period.

Firm size mean value is 7.15910 billion naira in the reference period. The figures reported are a pointer that the sampled insurance firms invested heavily in total assets perhaps to enable them optimize the benefit of economy of scale and capital allowance. The result obtained is quite similar to the empirical value obtained by Ilaboya et al. (2016) of N7.155946 billion. It is an indication that the sampled insurance firms made huge investments fixed assets. The standard deviation is 0.76, the skewness and kurtosis are positive (0.24 and 2.66). The Jarque – Bera value of 8.811502 (p < 5%) is statistically significant at 5% level.

**Table 3:** Robustness Tests

|  |
| --- |
| Variance inflation factors (VIFs) |
|  Coefficient variance Centered VIF |
| IBM | 250.85 | 1.138 |
| BNAT |  |  |
| BODRC | 8.702 | 1.367 |
| FSIZE | 138.123 | 1.525 |
| Breusch – Godfrey – serial correlation LM test |
| F-statistic = 0.633 | Prob.F(2, 598) | 0.531 |
| Obs \* R-squared = 1.276 | Prob.Chi-Square (2) | Pro. Chi-square (2) 0.528  |
| Heteroskedasticity test |
| F-statistic 6.095 | Prob. F(3, 598) | 0.001 |
| Obs \* R-squared 15.001 | Prob. Chi-square (3) | 0.001 |
| **Ramsey Reset Test** |  |  |
| t-statistic = 0.367 | Df = 537 | 0.713 |
| F-statistic = 0.135 | Prob.F (1, 598) | 0.713 |

**Source: Researchers’ Computation from E-view 8.0 Version**

The diagnostic table above shows that the variance inflation factor (VIF) statistic is less than 10 (centered VIF < 10) for each of the variables. This indicates absence of multicollinearity among the explanatory variables. The ARCH: Heteroskedasticity test shows the presence of homoscedasticity (0.001< 0.05), thus confirming the constant variance assumption of the ordinary least square estimator. The Breusch-Godfrey serial correlation LM test result of 0.531 > 0.05) points out the absence of higher order correlation. The Ramsey Reset Test result of (0.713> 0.05) substantiate validity of the regression model.

**Table 4:** Presentation of Panel Ordinary Least Squares Regression Result

**Dependent Variable: ROE**

|  |
| --- |
| BNAT-2.04 (0.078) \*\*IBM13.33(0.083) \*\*BODRC0.06(0.002) \*FSIZE15.67(0.000)\* |
| R-Square0.842Adjusted R-Square0.763F-Statistics16.156Prob. (F-Statistic)0.003Durbin-Watson Statistics1.981 |

**Source: Authors’ Computation from E-views 8.0 Version**

Table 4 represents the variables in the model. ROE represents return on equity; BNAT represents board nationality; IBM represents board director interlocks; BODRC represents board director reputation capital FSIZE; represents firm size, while probability values are in parenthesis at different significance level with \**p*< 0.01 (significant at 5%) and \*\*\**p*< 0.1 (not significant at 5%).

The result of the panel least squares in table 4 shows that the adjusted R-square reads 0.763, which approximates 76% systematic variation on the insurance firms’ financial performance in the reference period. The F-statistics representing goodness of fit of the regression model is observed to be statistically significant at 5%. The Durbin-Watson statistics of 1.981 portrays the absence of serial correlation in the overall result, thus making it fit for policy prescription purpose. The implication of the study finding is that board nationality, interlocking board membership and board director reputation capital are key variables capable of driving the financial performance of listed insurance firms in Nigeria. The research finding is in tandem with Rossi et.al. (2015); Pye et al (2015); Watkins-Fassler, Fernander-Perez and Rodriquez-Arizo (2016).

Board nationality is negative and not statistically significant at 5% on the financial performance of the listed insurance firms. The inverse nexus between board nationality and the financial performance of the insurance firms may be adduced to its scantiness on the board of the firms. It may also be due to the non- encouragement of the board director characteristics by existing executive board of directors, perhaps because of biased perception, discrimination and segregation. The finding aligns with the research outcome of Igbinosa and Ogbeide (2015); and Darmadi (2013). While the finding of this study agrees with prior researches; this present study may align with the view of Miletkov et al (2012) were they concluded that it is not the mere addition of a foreign director that adds value to the firms, but that value is only added when firms’ themselves can benefit from the director’s advisory services in a foreign country

Interlocking board membership (IBM) has a positive coefficient value (13.33) and is statistically not significant at 95% level. The finding implies that though interlocking board membership is positive, it is not a significant driver of financial performance of listed insurance firms and by extension the wealth of shareholders in Nigeria. The non-significant effect of the board interlocks on the financial performance of the firms may not be unconnected with its scantiness and inability of executive board directors to meaningfully embrace its benefits and encourage its inclusivity. The finding agrees with the research outcome of Ogbeide, Adesuyi and Ogeh (2021) where they accentuated that the non- significance of interlocking board membership on firm financial performance is not unconnected with low encouragement of board interlocks in firms. The study finding also affirms the research outcome of Shropshire (2010); Pombo and Gutierrez (2011); Peng, et al (2015); and Ahmad (2018). The finding fails to agree with the studies of Devos, et al. (2009); Peye, et al (2012); Danoshana and Ravivathani (2013); Lamb (2017); and Hashim (2018).

Board director reputational capital (BODRC) is positive (0.06) and significant at 5%. The finding suggests that board director reputational capital is a key driver of financial performance of insurance firms and shareholders’ wealth maximization in Nigeria. As board director reputational mechanism increases, financial performance increases also, assuming all other factors held constant. The result agrees with the findings of Du et al. (2017); Fredriksson et al., (2018) where they posited that to protect their own reputational capital, board directors do ensure adherence to quality accounting information disclosure, ethical standards and also demands for optimal performance with a view to attaining the goal of maximizing the wealth of the shareholders and other stakeholders at large. Similarly, the finding is in consonance with the research outcome of Okpamen and Ogbeide (2020). Firm size is positive and significant on the firm financial performance in the reference period.

**5. Conclusion and Recommendations**

The effect of board nationality, interlocking board membership and board reputational capital on the financial performance of listed insurance firms in the light of global economic challenges cannot be overemphasized. Insurance firms which are skewed for optimal performance and in the maximization of shareholders’ wealth cannot undermine the implication of employing certain board director characteristics such as board nationality, interlocking board membership and board reputational capital to produce uncommon results. This study concludes that board nationality alongside board interlocking board membership and board reputational capital are key strategic drivers of insurance firm financial performance in the Nigeria clime.

Based on the empirical findings, it is recommended that:

1. There is need for regulators to redesign the corporate governance framework in Nigeria to allow for the proportion of board nationality inclusion in insurance firms’ board. Listed insurance firms should be mandated to disclose this as it will guide researchers in carrying out critical analysis for policy recommendations.
2. There is need for regulators to design a framework to efficiently and effectively monitor the reputation of executive board directors and managers in firms. This will assist to check mate agency costs, demonstration of opportunistic behavior capable of destroying the firm value
3. There is need for insurance firms and non-insurance firms to encourage adequate interlocking members who have diverse professional training, high social net worth and experience (experience hypothesis) to positively influence effective management and financial performance in Nigeria.

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