E-ISSN: 1115 - 8530 P-ISSN: 3026-8958
MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT
VOL. 06 NO. 7 – OCTOBER, 2024

THE EFFECT OF FIRMS CHARACTERISTICS ON FINANCIAL PERFORMANCE OF LISTED INSURANCES FIRMS IN NIGERIA

***SAKANAU SHAFIE; *BELLO USMAN; & **ALTO GARBA GWARMAI**

*Department of Business Administration, College of Business Administration and Management. **Department of Banking and Finance, College of Business and Management.

DOI Unique ID: 10.70382/mejfrbd.v6i7.013

Key Words:
Performance, Firms, Characteristics, Insurance Firms, Effect.

Abstract

The study tried to investigate the effect of firms characteristics on financial Performance of listed insurance firms in Nigeria.The study adopted an ex-post facto research design, the population consisted of 18 insurance Companies listed on the Nigeria stock exchange as at 31st December, 2023. A sample size of eight (8) insurance firms was used in the course of the study. The sample size was selected using purposive sampling technique. Based on the findings of the study, it implies that sales growth has no significant effect on the ROA of listed insurance companies in Nigeria this findings is contrary to that of Dalton (2019) which found that board size has effect on ROA. Consequent upon the findings of this study, the following recommendations were made that listed insurance firms should trade cautiously in managing equilibrium between their liabilities and assets.

Introduction

Financial performance is the process of measuring the results of an organization policies and operations in terms of monetary value. These results are reflected in the firm's profitability, liquidity or leverage. Gauging the financial performance of a business organization allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Normally, financial ratios are used to determine the financial performance of an organization as well to designed and implemented financial management (Padachi, 2019). The financial performance tells investors about the general well-being of a firm. They also act as tools for both corporate insiders (management and board members) and outsiders (research analysts and investors) to analyze how well the company is doing especially regarding competitors and identify where strengths and weaknesses lie (Rai & Prakash, 2019).

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

The performance of banks has been of myriad interest in academic research. According to (Nyathira, 2020) bank's performance is an obviously a multidimensional concept including four components: financial and market performance, human resource performance, organizational efficiency, and customer concentrated performance.

Firms can be distinguished from one another on the basis of different financial and non-financial characteristics including size, value, financial performance, structure, leverage, liquidity etc. These characteristics are unique to specific companies and raise a perception in the mind of the users of that information regarding the performance and future of the company. According to Safdar, Lang & Lundholm, 2021, in the current era where all critical decisions of firm management quickly reach the markets as well as information users, an important issue regarding financial research is the impact of these characteristics on financial performance.

Growth is another characteristic of firm that is perceived to influences financial performance (Yasuda, 2020). Sales and income growth can be expected to influence rate of return and market value measures in both simulated and actual industries. It is unclear if growth in one year will affect financial performance and market value measures in a succeeding year in simulated and actual environments. Asset growth, which can be used as a proxy for plant and equipment expenditures, and research intensity, may also affect sales and income growth in a base year or succeeding year, indirectly affecting financial performance and market value (Kugari, 2021).

Firm characteristics are those incentives variables that affect the firm's decisions both internally and externally. They refer to ownership structure internally and externally, levels of diversification, financial leverage, financial performance and liquidity (Lang & Lundholm, 2021). A firm is required to maintain a balance between liquidity and financial performance while conducting its day to day operations. Liquidity is a precondition to ensure that firms are able to meet its short-term obligations and its continued flow can be guaranteed from a profitable venture. The importance of cash as an indicator of continuing financial health should not be surprising in view of its crucial role within the business (Collett & Hrasky, 2019).

The primary desire of any firm is to earn more profits and enhance the wealth of its stakeholders. The performance of any organization not only plays the role to increase the corporate value of that particular entity but also points toward the development of the whole sector and the overall success of the economy (Ahmed, Lang & Lundholm, 2019). In this regard, there should be constant sound financial management including the efforts to improve financial performance in order to meet the goal of business owners (Gitman, 2022).

However, due to challenges in internal and external environment, most organizations are unable to meet their objectives. In other words, performance is a function of the ability of an organization to gain and manage its resources in several different ways so as to develop competitive advantages (Iswatia & Anshoria, 2022).

Financial performance is an important issue to various stakeholders who have a direct or indirect interest in the entity. In spite of these critical roles that profit plays in the going concern of manufacturing firms, the financial performance position of most listed insurance firms operating in Nigeria in relation to firm age, firm size, firm growth, loss ratio, liquidity and leverage of the firm have not drawn much consideration of researchers in area of finance (Alhassan, Lang & Lundholm, 2019). This may be ascribed to absence of comprehensive assessment of factors that play

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

important role in profit realization and maximize`````````ation of manufacturing firms in Nigeria. Therefore, it is of interest to know the extent to which firm specific characteristics affect the financial performance of listed firms with a major focus on listed insurance firms in Nigeria.

Financial performance of the firm is another dimension of the firm's characteristics (Kaguri, 2021). EPS (Earning per share), which is a function of financial performance usually have significant positive influence on market return as shown in many past researches. This indicates that the higher the firm's EPS, the higher market adjusted return and abnormal return that can be resulted by firm's stock, because a higher EPS means higher profit obtained from every dollar price earned by the firm. Investors/shareholders consider current earnings, future earnings, and earnings stability are important, thus they focus their analysis on firm's financial performance (Oloidi & Bolade, 2019). They concern financial condition which will affect firm's ability to pay dividend and avoid bankruptcy.

There are several elements that determine financial performance. Some are external (macroeconomic variables) and others are internal (within the firm). It is generally understandable that macroeconomic forces such gross domestic product, inflation rate, regulatory policies and the likes, affect financial performance to a great extent. There are many literatures to this effect, Hamdan & Yusnidah (2021). But to what extent do internal factors within the firm affect their performance? Though many literatures/researches abound that investigated the relationship of firm characteristics and performance (Panu, Peng & Dennis, 2022; Kogan, 2019; Safdar, Hazoor, Toheed & Ammara, 2021; Onufe & Oladutire, 2018) only few are obtainable that investigated firm characteristics and financial performance. It is against this backdrop that this research investigation was conducted.

LITERATURE REVIEW

Conceptualization

Concept of Financial Performance

Financial performance principally reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time (Ishii and Metrick, 2019). Return on Assets (ROA) is a financial metric that measures a company's efficiency in generating profits from its assets. It is calculated by dividing net income by average total assets. ROA provides insight into how well a company utilizes its resources to generate earnings. A higher ROA indicates effective asset utilization and better profitability. ROA is a crucial metric for investors and analysts to assess a company's operational efficiency and financial health. A study by Palea and Pastoriza (2014) emphasizes ROA's importance in evaluating management effectiveness and overall company performance. Additionally, ROA is commonly used in conjunction with other financial ratios to gain a comprehensive understanding of a firm's profitability, such as return on equity (ROE) and return on investment (ROI). In summary, Return on Assets is a key financial metric that measures a company's ability to generate profits relative to its asset base, aiding investors in evaluating the efficiency of resource utilization and overall financial performance (Palea & Pastoriza, 2014).

Companies can be distinguished from one another on the basis of different financial and nonfinancial characteristics including firm size, value, financial performance, structure etc. These

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

characteristics are unique to specific companies and raise a perception in the mind of the users of that information.

Empirical Review

Khaled, Abdulkareem and Chew (2018) in their study entitled "the association between firm characteristics and corporate financial disclosures: evidence from UAE companies" provides empirical evidence of the impact of firm specific characteristics on corporate financial disclosures amongst UAE companies. A total of 153 public joint-stocks companies, listed and unlisted, were incorporated at the time of study. Both descriptive statistics and multiple regression analyses are used to test the relationship between the characteristics of UAE firms and the extent of their financial disclosure. Eight hypotheses were established to examine the relationship between a number of explanatory variables (namely, type of industry, listing status, and return on equity, liquidity, market capitalization, foreign ownership, non-executive directors, and audit committee) and the extent of disclosure in corporate annual reports. The results of this study show that listing status, industry type, and size of firm are found to be significantly associated with the level of disclosure. This finding not only provides support for previous studies, but also is of relevance to those in the UAE who want to understand corporate disclosure and should also be of interest to UAE user-groups. Conclusions drawn from this study may be of interest to policy makers and regulators who want to improve corporate financial disclosure in their countries.

Olowokure et al. (2019) examined the effect of sales growth on financial performance of listed insurance firms in Nigeria. Using secondary data from the published reports of thirteen listed insurance firms in Nigeria for over a period of ten years between 2019 and 2018, they sought to find the determinants of financial performance and report the findings of the impact of structural characteristics like age, size and level of leverage on financial performance. Using prior studies as a guide, they also developed a model for loan loss provisions and generated the residuals, using these residuals know as abnormal loan loss provisions as the dependent variable for the multiple regression analysis, the study did not find any evidence of significant relationship between firm age, size, leverage and financial reporting growth on financial performance of listed insurance firms in Nigeria for the period of 2017-2019. The listed insurance firms are nine (9) in numbers out of which a sample of seven (7) were used for the study. Firm attributes as the independent variable was proxy with firm size, leverage, institutional ownership, financial performance, liquidity and firm growth, while the residuals from the modified Jones model was used to proxy earnings quality. The study adopts multiple panel regression techniques and data were collected from secondary source through the annual reports and accounts of the firms. The findings revealed that leverage, liquidity and firm growth has a significant positive impact on earnings quality while firm size, institutional ownership and financial performance have a significant but negative influence on earnings quality of listed insurance firms in Nigeria. It is recommended among others that the insurance firms may choose to go for more debt especially where the interest rate is considerably low and also increase their liquidity asset and turnover as it has been found empirically to enhance the quality of the firms' reported earnings.

Waweru and Riro (2021) while studying leverages and firm characteristics using 37 listed firms in Kenya for five-year period 2016 to 2017 and employing accounting accrual approach to measure

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

leverages finds that the financial performance of firms that are not highly geared were not compromised. They therefore concluded that investors can rely more on the financial reports of firms with lower debt to equity ratio.

Shehu and Ahmad (2021) also studied firm characteristics and financial performance in Nigeria using 24 listed firms and adopting correlation research design. Their regression result shows that leverage has significant effect at 5percent level on earnings quality.

Huang et al. (2018) also documented an insignificant relationship between firm age and financial performance using the year of incorporation of such firms to measure the firm age. There is a paucity of research in this area and we are yet to come across any work with a divergent result. This study will like to validate or refute these previous findings using data from deposit money banks.

Hassan (2018) investigated firm attributes and earnings quality of listed insurance firms in Nigeria for the period of 2018-2019. The listed insurance firms are nine (9) in numbers out of which a sample of seven (7) were used for the study. Firm attributes as the independent variable was proxy with firm size, leverage, institutional ownership, financial performance, liquidity and firm growth, while the residuals from the modified Jones model was used to proxy earnings quality. The study adopts multiple panel regression techniques and data were collected from secondary source through the annual reports and accounts of the firms. The findings revealed that leverage, liquidity and firm growth has a significant positive impact on earnings quality while firm size, institutional ownership and financial performance have a significant but negative influence on earnings quality of listed insurance firms in Nigeria. It is recommended among others that the insurance firms may choose to go for more debt especially where the interest rate is considerably low and also increase their liquidity asset and turnover as it has been found empirically to enhance the quality of the firms' reported earnings.

Waweru and Riro (2021) while studying leverages and firm characteristics using 37 listed firms in Kenya for five-year period 2016 to 2017 and employing accounting accrual approach to measure leverages finds that the financial reporting quality of firms that are not highly geared were not compromised. They therefore concluded that investors can rely more on the financial reports of firms with lower debt to equity ratio.

Shehu and Ahmad (2021) also studied firm characteristics and financial performance in Nigeria using 24 listed firms and adopting correlation research design. Their regression result shows that leverage has significant effect at 5percent level on earnings quality.

Valipour and Moradbeygi (2019) also studied the relationship between corporate debt financing and earnings quality collecting data from 81 firms listed on Tehran Stock Exchange (TSE) during the period 2017 to 2019 and using multiple regression analysis, they reported a significant negative relationship between debt and earning quality. However, the work of Nedal et al. (2017) did not find any significant positive relationship between leverage and financial performance.

Effect of Firms Sales Growth on Financial Performance

Lee (2019) in his study to investigate effect of size of firm performance dubbed "does size matter in firm performance: evidence form US public firms" found firm size to be a key determinant in explaining financial performance of 7,158 US publicly held companies in US stock exchanges using

data of over 20 years period between 2017 to 2020. The researcher used panel data and run a multi variate regression of firm size amongst other control variables against firm performance as measured net income plus advertising expenses over total assets.

Tahir, Sabir, Alam and Ismail (2021) investigated the impact of firm's characteristics on stock return: a case of non-financial listed companies in Pakistan. They asserted that the unique characteristics of the firms have some power to predict the expected returns. This study was conducted with an attempt to bridge the gap in the literature by offering empirical evidence about firm's characteristics and their effect to stock returns. The secondary data of 307 Nonfinancial companies listed in Karachi Stock Exchange (KSE) were collected from the B-Recorder and Basic Balance Sheet Analysis (BBA) issued by the State Bank of Pakistan for the period from 2018 to 2020. Market Capitalization (MC), sales Growth (SG), Earnings per Share (EPS) and Book to Market value (BMV) were taken as independent variables while Stock Market Returns as dependent variable. First two independent variables were used as proxies for size effect while later as value effect. Economic techniques like Correlation Matrix, Multiple regression analysis, Unit root test and Granger Causality were applied for empirical testing of the data. Results revealed that MC, EPS and BTM value had significant impact while sales growth had no effect on stock market returns.

Dogan (2021) studied the relationship between firm's age and productivity in Istanbul. Data was collected from 200 companies listed on the Istanbul Stock Exchange from 2018 to 2019. Correction analysis was used to analyse the collected data. The result shows a negative relationship between age and financial performance.

Darabil, Ataeizadeh and Abdi (2018) investigate the relationship between firm growth opportunities and changes ratio in retained earnings of companies listed in Tehran stock Exchange. A sample of 101 companies listed in Tehran Stock Exchange during the period data were analysed using SPSS 20 software, Eviews 7 and Mineable 16. Results of study of test of hypothesis indicate that there is significant and inverse relationship between company's growth opportunities and changes ratio in retained earnings of companies.

Ekonomisi and Dergisi (2018) investigated the interaction between firm growth and financial performance using panel data on 137 Turkish listed manufacturing firms over the period 1997-2012. Using system-GMM (Blundell and Bond, 2018) growth and profit regressions are estimated. According to results there is a statistically significant positive relation between current profits and current growth. The impact of current growth on current profits in the case of Turkish manufacturing firms. The results suggest that lagged profits affect current profits positively and legged financial performance is a significant determinant of current profits. Moreover, the link between current profit and lagged profits is much stronger than the link between current growth and current profits.

Effect of Firms' Leverage on Financial Performance of Firms

Selahattin and Aynur (2018) conducted a study on Equity Returns, Firm-Specific Characteristics and Sector Rotation: Evidence from Turkey. The study examines the firm-specific characteristics that effect on equity returns depending on sector rotation scheme throughout four financial cycle stages for an important emerging market, Turkey. For this purpose, using panel data for twenty-five nonfinancial equities selected from ISE-100 companies and twenty-six firm-specific

characteristics in 2020 to 2021 it is analysed empirically whether firm-specific factors that effect on equity returns differ among equity groups classified by sector rotation scheme throughout financial cycle stages. The firm-specific characteristics have been reduced in five factor indexes which labelled liquidity, financial performance, efficiency, growth, and valuation using factor analysis.

Robert, Mohamed and Onesmus (2019) explored the effect of corporate size on financial performance and market value of listed firms in Kenya. Data for companies which were active in the Nairobi stock Exchange (NSE) between 2017 to 2018 were used. Panel correlation and multiple regression methods were used in the empirical estimations. Result indicates that there is a position significant relationship between firm size and financial performance, whereas firm size insignificantly position predicts financial performance. In addition, the result shows that corporate size has no statically significant impact on firm market value.

Mirie and Murigu (2019) conducted a study on The Determinants of Financial Performance in General Insurance Companies in Kenya. The study adopted a descriptive research design. The contribution of the general insurance industry in Kenya to the gross domestic product is at 2.08%. This is low and hence the need to establish factors that can influence improved performance of some of the key players – the general insurance companies. The study was therefore to establish the factors that affect the financial performance of general insurers in Kenya. The study employed multiple linear regressions, with return on assets as the dependent variable, and considered all the general insurance companies in Kenya for the period 2009-2012. Financial performance was positively related to leverage, equity capital, management competence index and negatively related to size and ownership structure. The study did not find a relationship between performance and retention ratio, liquidity, underwriting risk and age.

Ibrahim and Hussaini (2019) conducted a study on Firms' Specific Characteristics and Stock Market Returns (Evidence from Listed Food and beverages Firms in Nigeria). The data for the study was purely from secondary sources obtained from the annual reports of the sampled firms as well as NSE fact book. Data was analysed using several options of multiple panel data regression. But the most robust of all is OLS regression as suggested by 'Breusch and Pagan Lagrangian Multiplier Test for Random Effect'. The study adopted both correlation and ex-post facto research design. Because of the mix of opinion in the literature, the mix of empirical findings, and the limited empirical works on the relationship between firms' specific characteristics and Stock Market Returns particularly with reference to listed food and beverages firms in Nigeria, it is not out of place to conduct further research on this area to ascertain position. Findings revealed that Market Capitalization has a significant negative impact on Stock Market Returns of listed food and beverages firms in Nigeria; while the impact of Debt-to-Equity Financing and Earnings per Share on Stock Market Returns are found to be positive and statistically significant.

Osunsan, Nowak, Mabonga, Pule, Kibiroge, and Baliruno (2019) examined the effect of firm age on the performance of firm's operation in Kampala, Uganda using both financial (net profit before tax) and nonfinancial (operational) performance indicators. Data were collected from a sample of 409 firms. Two hypotheses were formulated for the study, namely: (i) There is a significant difference between firm age and the level of performance (ii) There is a significant position relationship between firm age and performance. ANOVA and regression analysis were used to test

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

the hypothesis. Both hypotheses were accepted after the analysis implying that firm age has a strong positive relationship on firm performance. The study also found that both financial and non-financial indicators could be used as effective measures of performance suggestion was made that emphasis should not only be placed on starting up, but also on the sustainability and longevity of the firms that are operational in Kampala, Uganda.

Rafiq, Salim and Smyth (2022) examined the impact of research and development (R&D) on the financial performance and sales of mining firms, in China and United States (US) and the moderating effect of firm age. Panel data were obtained from a combined 168 major US and Chinese mining firms from 2019 to 2021. Coarsened Exact Matching (CEM) method was used in analysing the collected data. The result suggests that R&D activities play a significant role in increasing sales and generating profits for both US and Chinese mining firms. On average, a firm engaging in R&D activities earns 4% to 11% higher sales and generates 4% to 13% more profits than firms that do not engage in R&D activities. Result also shows that R&D is negatively related to profit and sales in the relatively younger Chinese mining firms. Explanation was offered that the average age of Chinese mining firms much lower than US mining firms, Chinese mining firms suffer from the liability of newness. Consistent with this explanation, it was observed that, in the mining industry, firm age moderates the relationship between R&D activities and financial performance.

Still in Ethiopia, Yuvaraj and Abate (2021) examined the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio, liquidity ratio, growth and tangibility of assets) on financial performance measured by Return on Assets. The sample of the study included nine of the listed insurance companies over nine years (2003-2019). From the regression results; growth, leverage, volume of capital, company size, and liquidity were identified as most important determinants of financial performance. Hence, growth, size, and volume of capital are positively related. In contrast, liquidity ratio and leverage ratio are negatively but significantly related with financial performance. The age of companies and tangibility of assets were found not to be significantly related with financial performance.

Dogan (2021) studied the effect of firm size on financial performance of 200 companies listed at the Istanbul Stock Exchange using data from the year 2008 to 2019 by using multiple regressions model. He introduced other control variables in his study such as liquidity which was measured by total current assets over total current liabilities, leverage measured as total debt over total assets as well as firm age measured by number of years in operations. He found that firm size and liquidity are positively related to financial performance as measured by ROA, while leverage and firm age were negatively related to financial performance measured by ROA. Issa (2021) examined the effect of some selected firm characteristics on financial performance of firms listed in the agricultural sector of the Nairobi Securities Exchange. The study adopted a correlational research design and used multiple linear regressions as method of analysis. He found that of the variables used to represent firm characteristics, only liquidity had statistically significant effect on financial performance of listed agricultural firms measured by ROA. The other variables; firm size, leverage, and firm age, though they had positive coefficients showed no significant effect on financial performance. The study recommends that management of firms should focus their effort on those firm specific variables that positively affect their long-term financial performance.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Sumaira and Amjad (2021) studied the determinants of financial performance in insurance sector of Pakistan with a panel data set of 31 insurance firms (life insurance and non-life insurance sector) of Pakistan from 2006-2019. To examine the determinants of financial performance, panel data techniques (fixed effects and random effects models) were employed and then Hausman specification test was applied to select the more effective model. The test proved that fixed effects model was the more appropriate model for the study. The outcome of the study showed that leverage, firm size, and age of the firm are significant determinants of financial performance, while sales growth and liquidity were not significant.

Yazdanfar (2021) examined financial performance determinants among micro firms using Swedish data of a sample of 12,530 micro firms from four different industries namely healthcare, transport, metal and retail trade industries having approximately 87,000 observations from data collected from the year 2006 to 2022. He found that there was a positive and significant relationship between firm growth, firm size, productivity and firm financial performance measured by ROA. The study also revealed a significant and negative relationship between firm age and firm financial performance explaining that younger firms were more profitable than older firms. The researcher employed the OLS multiple regression analysis and correlation in the analysis of the collected data. He went ahead and analyzed all the four industries separately by running another multiple regression to see whether the results will vary, but all the findings were similar as the combined regression.

Alhassan, Bajaher, and Alsherhri (2019) carried out a study on the determinants of financial performance of eleven (11) banks listed on the Saudi Stock Exchange from 2022-2012. Parts of their independent variables were firm size and leverage. Using multiple linear regressions, they found that, of all the independent variables used in the study only firm size calculated as the natural logarithm of total assets had a significant effect on the financial performance of the listed banks measured by return on assets.

Idris and Bala (2022) carried out a study on the effect of firm specific characteristics on financial performance of listed Foods and Beverage companies in Nigeria. They studied 9 firms out of a population of 21 firms using OLS regression for a period of 7 years from 2022-2021. Their finding revealed that firm specific characteristics have both positive and negative significant effects on financial performance measured by stock market returns. They therefore, recommended that firms should pay more attention to those factors that are peculiar to their industry environment.

Mohammed and Usman (2016) examined the impact of corporate attributes on the financial performance of listed pharmaceutical firms in Nigeria using a panel data of five sampled firms for a period of ten years (2004-2021). They extracted data from the annual accounts of the selected firms. Multiple regression technique was employed to examine the influence of corporate attributes on the financial performance of listed pharmaceutical firms in Nigeria. The study reveals that firm size, leverage, and growth have positive and significant relationship with financial performance implying that they have impact in increasing share price. However, the relationship between liquidity and financial performance was found to be insignificant and negative, indicating that liquidity has no influence in enhancing share price of listed pharmaceutical firms in Nigeria. The study therefore, recommended that firm size, leverage, and firm growth should be enhanced

in view of their influence in increasing financial performance, while liquidity should not be given any attention in an effort to raise profit.

Finally, Uwuigbe, Uwuigbe, Adeyemo, and Ogunbajo (2022) examined the effect of corporate attributes on the financial performance of companies by employing the annual reports of thirty selected companies listed on the Nigerian Stock Exchange (NSE) for a period of 5 years (2016-2019). They used Ordinary Least Square (OLS) regression to test for the effects of the selected corporate attributes on financial performance. They tested for the relationship between leverage, firm size, firm age and return on assets using Pearson's product moment correlation coefficient. Of the three corporate attributes employed in the study, only firm age showed a positive statistically significant relationship with financial performance measured by return on assets. They therefore observed that older firms perform better than younger ones. They recommended that companies should pay adequate attention to financial leverage, because firms that are highly leveraged are at the risk of insolvency. Their finding supports the argument that, older firms are likely to perform better than younger firms because they are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of inventiveness, and can therefore enjoy superior financial performance.

As can be observed from the review of empirical literature, the effect of different firm characteristics on financial performance of firms have been studied, both abroad and in Nigeria, but to the best of the researchers' knowledge no empirical evidence has been provided from the consumer goods sector in Nigeria on the subject measuring financial performance in terms of Return on sales. This therefore, necessitated for a study on the effect of firm characteristics on financial performance of listed consumer goods companies in Nigeria to be carried out.

Theoretical Framework

Resource Dependence Theory

Resource Dependence Theory (RDT) is a framework that explains the relationship between organizations and their external environments, particularly in terms of resource acquisition and dependence. This theory suggests that organizations are dependent on external resources, such as financial capital, technology, and information, to survive and compete in their respective industries. The degree of dependence on these resources varies among organizations based on their strategic choices and environmental conditions (Pfeffer & Salancik, 1978).

RDT proposes that organizations seek to reduce their dependence on external resources by developing internal capabilities and reducing reliance on external sources. This can be achieved through strategies such as vertical integration, diversification, and alliance formation (Pfeffer & Salancik, 1978). Vertical integration involves the internalization of previously outsourced activities or functions within the organization. Diversification involves expanding into new product lines or markets to reduce dependence on a single industry or resource. Alliance formation involves collaborating with other organizations to share resources and knowledge (Pfeffer & Salancik, 1978).

However, RDT also suggests that organizations must balance the need to reduce dependence with the need to maintain access to critical resources. This is because complete independence is often not feasible or desirable due to the high costs of developing internal capabilities or the strategic

importance of external resources (Pfeffer & Salancik, 1978). Therefore, organizations must carefully manage their dependence relationships to ensure access to critical resources while minimizing negative consequences such as exploitation or loss of autonomy (Pfeffer & Salancik, 1978).

Resource Dependence Theory emphasizes the importance of understanding the external environment and managing dependence relationships as critical factors in organizational success. By recognizing the interdependencies between organizations and their environments and developing strategies to manage these relationships, organizations can reduce their vulnerability to external shocks and enhance their competitive advantage (Pfeffer & Salancik, 1978).

RESEARCH METHODOLOGY

The study adopted an ex-post facto research design, the population consisted of 18 insurance Companies listed on the Nigeria stock exchange as at 31st December, 2023. A sample size of eight (8) insurance firms was used in the course of the study. The sample size was selected using purposive sampling technique. This technique was adopted because as at the time of conducting this study not all the data relating to the insurance company were readily available. Secondary data were used, and data were collected from the annual reports of the insurance firms in Nigeria for the period of 2018 to 2023. The analysis techniques used for this study inferential statistics such as descriptive statistics, correlation and simple linear regression analysis which are used to test hypotheses one to three. At the post- estimation stage Hausaman specification and Cooks Weisberg confirmatory test is used to choose between fixed and random effect model for the study. Stata statistical software was used for this study.

Model Specification

The model is stated below:

$ROA_{it} = \beta_{oit} + \beta_1 SG_{it} + \beta_2 LV_{it} + E_{it}$

Where:

ROA = Return On Assets

B_0 = constant

$\beta_1 - \beta_2$ = coefficient of the explanatory variable

SG = Sales Growth

LV = leverage

i = Insurance companies

t = year

DATA PRESENTATION AND ANALYSIS

Table 1: Descriptive statistics

Variables	N	Min	Max	Mean	SD	Skewness	Kurtosis
ROA	43	10.45	18.18	14.56	1.783	-0.341	2.458
SG	43	3.97	71	29.86	16.699	0.561	2.993
LEV	43	18.02	21.99	20.09	0.986	-0.162	2.496
Valid N (listwise)	43						

Source: Stata output (See Appendix for software analysis) N= 230

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

As indicated in table 1, the value of the average value for ROA, the mean value within the period of this study was 14.5606. Its maximum value is 18.1753 while the minimum value is 10.44616. The average value of the 14.5606 with standard deviation of 1.7833 signifies that the data deviate from both side of the mean value by 1.8 approximately. This implies that there is a no dispersion of the data from the mean, because of the value of standard deviation which is not closed to the mean. The kurtosis value of 2.458156 also suggests that majority of the data are higher than mean, as such the data did not meet the Gausian distribution assumption. Similarly, the coefficient of Skewness -0.3412962 implies that the data is negatively skewed, and thus, the data did not meet the symmetrical distribution assumption.

For SG, the mean within the period of this study was 3.97. SG in Nigeria insurance industry was at its maximum when the value was 71 while the least SG was in when the value was 67.03. As revealed by the value of the skewness (-0.561) of SG indicating that the degree of departure from the mean of the distribution though negative reveals that in the overall there was inconsistent decrease in SG over the period of the study. However, the value of the Kurtosis which was 2.993 which fell within the normal value indicates that the degree of peakedness within the period of this study were normally distributed as most of the values did not hover around the mean.

For LEV, the mean within the period of this study was 18.02. Board independence in Nigeria insurance industry was at its maximum when the value was 21.99 while the least board independence was when the value was approximately 4. As revealed by the value of the skewness (0.162) of LEV indicating that the degree of departure from the mean of the distribution is positive, this revealing that overall there was a consistent increase in board independence over the period of the study. Likewise, as indicated by the value of the Kurtosis which was 2.496 was within the normal value indicates that the degree of peakedness within the period of this study were normally distributed as most of the values did not hover around the mean.

Following the presentation and interpretation of the descriptive statistics of the data collected for the variables of the study which to a large extent suggested that the data is not normally distributed, Shapiro wilk normality test was conducted. The results are presented in Table 4.2 as above

Correlation Matrix Result

Table 3 displays the correlation coefficients between dependent and the independent variables and also the relationship between the independent variables themselves.

	ROA	SG	LEV
ROA	1.000000		
SG	0.134438	1.000000	
LEV	0.795761	0.404835	1.000000

Table 3: Correlation Matrix

Source: Eview Output, 2019

The above table shows the values of the correlation between the independent variables. The matrix of correlation is used to determine the correlation between the study's independent

variables. The variables are found to correlate reasonably well (between -0.74 and 0.5). There is no coefficient of correlation greater than 0.8, so multicollinearity of data is not an issue (Neter, Kutner, Nachtsheim & Wasserman, 1996; Cassey et. al., 1999; Wallace & Naser, 2020).

Discussion of diagnostic test result

	Coefficient	Uncentered	Centered
Variable	**Variance**	**VIF**	**VIF**
ROA	0.507524	7.032868	1.671190
SG	0.000377	4.921242	1.238428
LEV	0.648383	343.6744	1.606332

Table 4: Variance Inflation Factor Source: Eview Output, 2019

Two good ways to determine multicollinearity between the independent variables in a sample are the tolerance values and the variance inflation factor. The result shows that the variance inflation factor was consistently lower than ten (10), indicating a complete lack of multicollinearity (Neter et 'al; 1996; Cassey, 2019). This indicates that the suitability of the research model was consistent with the six independent variables. The tolerance values were also consistently smaller than 1.00, thus extending the fact that the independent variables lack complete multicollinearity (Tobachmel & Fidell, 2016).

Regression Results

The regression result in the table 4.5 shows the effect of the independent variable (sales growth and leverages) on the dependent variables (ROA)

Table 4.4.1 Regression Model Result (ROA) Results

Variables	Coefficient	Standard Error	t-Values	Sig
Constant (ROA)	0.59941	2.58	0.011	
SG	-0.05503	-2.19	0.03	1.39
LEV	-0.02067	-0.94	0.348	2.15
R^2	0.4995			
Wald Chi^2	37.67			
Prob. Chi^2			0	

Table 4.3: STATA Output, 2023

Sales Growth and Financial Performance

The result from table 4.3 reveals that SG has negative but significant effect on financial performance of listed insurance firms in Nigeria. It shows that SG has a coefficient of 0.0550 and p-value of 0.030. This implies negative but significant relationship between SG and financial performance will increase by the coefficient value as such, the study failed to upholds hypotheses

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

one that state that SG has no significant effect on financial performance of listed insurance firms in Nigeria.

Leverages and Financial Performance

The result showed that LEV is negatively and significantly correlated with the financial performance of listed insurance firms in Nigeria. The beta coefficient of the variable is -0.0206729 and the p-value is 0.348 which is significant at 1% level of significance. This indicates that LEV has negative significant impact on the financial performance of firms. The implication of this finding is that the lower the LEV of the insurance company betters the financial performance to be reported by the company. The result provided a basis for rejecting the third hypothesis, which states that LEV has significant effect on the performance of listed insurance firms in Nigeria. This is in line with the findings of Zaitun and Tian (2017), Ngoc and Jeremy (2018), Muhammad et al (2012) and Rasa and Jurgita(2012) who found negative significant relationship between LEV and financial performance and findings of Rafiu, Taiwo and Dauda (2012) who reported positive significant relationship between LEV and insurance firms" financial performance . The result is however in contrast with the findings of Karadeniz et al (2012), Khalaf (2021) and Amara and Bilal (2018) who found that LEV is positively and insignificantly associated with financial reporting of insurance companies in Nigeria.

Hypotheses Testing

The Panel corrected standard error (PCSE) model regression results as shown in Table 4.4 shows all the variables of the study with the directional values of their coefficients (positive or negative), the p-values of their z-scores as well as their effect on the dependent variable at their independent level of significance. From the results, the formulated hypotheses of the study can now either be rejected or fail to be rejected.

Table 4.5 Summary of the Tested Hypotheses

	Hypothesis	Coefficients/ Significance	Finding	Decision
H_{01}	Sales growth has no significant effect on ROA of listed insurance firms in Nigeria	+0.4329267	Positive and significant	Rejected
H_{02}	Leverage has no significant effect on ROA of listed insurance firms in Nigeria	+0.7002688	Positive but not significant	Failed to Reject

Source: ***Researcher's compilation, 2022***

Policy Implication of Finding

Based on the analysis of the study, the following are the findings and their policy implications:
(a) That sales growth has no significant effect on ROA of listed insurance companies in Nigeria.
Based on the findings of the study, it implies that sales growth has no significant effect on the ROA of listed insurance companies in Nigeria this findings is contrary to that of Dalton (2019) which found that board size has effect on ROA.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

(b) Leverages have no significant effect on ROA of listed insurance companies in Nigeria.

Based on the finding, it implies that there exists statistical insignificant relationship between LEV and ROA of listed insurance companies in Nigeria. This is contrary to the result of Staikouras (2017) which found that LEV has negative effect on ROA of listed insurance companies in Nigeria. However, the finding of Omar, (2019) found that that LEV is positively related to ROA.

CONCLUSIONS AND RECOMMENDATIONS

No doubt, firm characteristics, as shown in numerous existing researches have effect on firm performance. This is even more so when financial performance is discussed. These previous assertions have been culminated by this present study. It has been established in this study that firm characteristics of sales growth and leverage have negative and insignificant effect on return on assets of listed insurance firms. Therefore, this study submits that firm characteristics have negative and insignificant effect on firm performance. Consequent upon the findings of this study, the following recommendations were made:

(1) Listed insurance firms should trade cautiously in managing equilibrium between their liabilities and assets.

(2) Sales growth should be managed properly to ensure that they reflect accordingly

Limitation of the Study

The researcher found it difficult to obtain the data. This was because some of the data sought was not readily available in the financial statements. This explains why the researcher was only able to get data from thirty nine firms out of the possible forty. Another limitation was the quality of the data. It is illusion to derive conclusions from the study since the legitimacy of the situation cannot be ascertained. The data that has been used is only assumed to be accurate. The measures used may keep on deviating from one year to another subject to prevailing condition. Secondary data that had already been retrieved was utilized for the study, unlike the primary data which is first-hand information. The study also considered selected determinants and not all the factors affecting financial performance of non-financial firms quoted at the NEG mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

REFERENCES

Abor, J., (2018). Determinants of the firms characteristics of Ghanaian firms.*African Economic Research Consortium, Research Paper* No. 176.

Adelegan O.J. [2021] An Empirical Analysis of the Relationship between Cash flow and Dividend Charges in Nigeria. *African Development Review*, 15 [1], 35 – 49

Adesola, W.A and Okwong A.E [2019] an Empirical Study of Dividend Policy of Quoted Companies in Nigeria Global Journal of Social Sciences 8 [1], 85 – 101

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Adeyemi, S.B. and C.S. Oboh, (2018). Perceived relationship between corporate firms characteristics and firm value in Nigeria. *International Journal of Business and Social Science*, 2(19): 131-143.

Amir, A.-Z., (2018) the return of the size anomaly: Evidence from the German stock market. European Financial Management 17(1): 145-182.

Anderson, T. W. and Hsiao, C. (2018), Estimation of Dynamic Models with Error Components, *Journal of the American Statistical Association*, 76(375), 598-606. Available at

Babirye, S., Niringiye, A. and Katerega, E.(2018), Firm Size and Rate of Growth of Ugandan Manufacturing Firms', *Journal of Applied Economics and Business Research*,4(3), 178-188.

Bailey, R.F., 2017. Corporate finance: The Modigliani-Miller Theorems. *Economics of Financial Markets*, 4(1): 12-24.

Baltagi, B. H. (2019), Econometric Analysis of Panel Data, Third edition, John Wiley & Sons Inc.

Barba Navaretti, G., Castellani, D. and Pieri, F. (2018), Age and Firm Growth: Evidence from Three European Countries, *Small Business Economics*, 43(4), 823-837.

Bartelsman, E., Scarpetta, S. and Schivardi, F. (2020), Comparative analysis of firm demographics and survival: evidence from micro-level sources in OECD countries, *Industrial and Corporate Change*, 3, 365-391.

Bentzen, J., Madsen, E. S. and Smith, V. (2012), Do Firms' Growth Rates Depend on Firm Size? *Small Business Economics*, 39(4), 937-947.

Besanko, D., Braeutigam, R. R., (2019), Microeconomics, Fourth Edition, John Willey & Sons, Hoboken.

Bhayani, S. J., (2017), Determinant of Financial performance in Indian Cement Industry: An Economic Analysis, *South Asian Journal of Management*, 17(4), 6-20.

Bruni, S., Pittiglio, R. and Reganati, F. (2018), Heterogeneity in Firm Performance during Economic Crisis, *Business, Management and Education*, 12(1), 1–14.

Carr, J. C., Haggard, K. S., Hmieleski, K. M. and Zahra, S. A. (2017), A study of the moderating effects of firm age at internationalization on firm survival and short-term growth, *Strategic Entrepreneurship Journal,* 4(2), 183 192.

Changes in an Emerging Stock Market: The Case of Cyprus *Multinational Finance Journal* 5 [2], 87 – 112

Christian, L., (2019). The risk return trade-off in the long-run: 1836-2003 uncovering the risk–return relation in the stock market Whitelaw working paper 2001-001c

Coad, A., Segarra, A. and Teruel, M. (2021), Like milk or wine: Does firm performance improve with age?, *Structural Change and Economic Dynamics*, 24, 173- 189.

Daft, R.L., (2019). Organization Theory and Design, Academy of Management Journal, 5,611.

Ebaid, I.E., 2019. The impact of firms characteristics choice on firm performance: Empirical evidence from Egypt. *Journal of Risk Finance,* 10(5): 477-487.

Enufe, A.O. and Oladutire, E. O. (2018). Firm Characteristics and Firm Growth in Nigeria. *IMSU Business Journal.* Available at*http://imsubiznessjournals.org/index.php/journals?id=128*

Evans, D. S., (1987), The relationship between firm growth, size and age: estimates for 100 manufacturing industries, *Journal of Industrial Economics,* 35(4), 567-581.

Farinas, J., Moreno, L., (2000), Firms' growth, size and age: a nonparametric approach, *Review of Industrial Organization*, 17(3), 249-265.

Feeny, S., Harris, N. M. and Rogers, M. (2020), A dynamic panel analysis of the financial performance of Australian tax entities, *Empirical Economics*, 30(1), 209-233.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Fortune, A., and Shelton, L. M. (2018), Age Matters: Disentangling the Effect of R&D Investment in the Global Chemical Products Industry, *Business Management Dynamics*, 3(11), 35-54.

Gaur, J. (2019). Financial Performance Measures of Business Group Companies: A Study of Indian Non-Metallic Mineral Products Industries, *The IUP Journal of Business Strategy*, 7(4), 45-53.

Greiner, L. (1972), Evolution and revolution as organizations grow, *Harvard Business Review*, 76, 37-46.

http://chss.uonbi.ac.ke/sites/default/files/chss/AGNES%20WANGUI%20KAGURI_0.pdf

Hui, H., Jasimahbt, C. W., Radzi, W. M., Jenatabadi, H. S., Kasim F. A. and Radu, S. (2021), The Impact of Firm Age and Size on the Relationship among Organizational Innovation, Learning, and Performance: A Moderation Analysis in Asian Food Manufacturing Companies

Huseyin, G., (2018). Value versus growth: Time-varying expected stock returns. *Journal of Portfolio Management*, 11: 9–11.

Interdisciplinary Journal of Contemporary Research In Business, 5(4), 166-174.

Ismail, N.A. and Jenatabadi, H.S. (2018). The influence of firm age on the relationships of airline performance, economic situation and internal operation', *Transportation Research Part A*, 67, 212- 224.

Kaguri, A. W. (2021). *Relationship between Firm Characteristics and Financial Performance of Life Insurance Companies in Kenya.* A Research Project Submitted in Partial Fulfilment of the Requirements for The Award Of Degree In Master Of Science In Finance, University Of Nairobi

Kaguri, A. W. (2021). *Relationship Between Firm Characteristics and Financial Performance of Life Insurance Companies In Kenya.* a research project submitted in partial fulfilment of the requirements for the award of degree in master of science in finance, University of Nairobi.

Kogan, L. (2012). A Theory of Firm Characteristics and Stock Returns: The Role of Investment-Specific Shocks. Available at http://www.nber.org/papers/w17975.pdf

Krishna B. K., Raghuram G. R., and Luigi Z. (2019). What determines firm size?

LiPuma, J. A., Newbert, S. L. and Doh, J. P. (2021). The effect of institutional quality on firm export performance in emerging economies: a contingency model of firm age and size, *Small Business Economics*, 40(4), 817-841.

Myers, S.C. and N.S. Majluf, 1984. Corporate financing and investment decisions when firms have information those investors do not have. *Journal of Financial Economics,* 13: 187-221.

Nwude, E. C., Idam O.I., Agbadua B. O., Udeh S. N. (2016). The Impact of Debt Structure on Firm Performance: Empirical Evidence from Nigerian Quoted Firms. *Asian Economic and Financial Review*, 6(11): 647 – 660.

Obert, M. and Fatoki, O. (2017). Does debt really matter on the financial performance of small firms? A perspective on small manufacturing firms in Bulawayo, Zimbabwe, *African Journal of Business Management*, 4(9), 1709-1716.

Okwo, Ugwunta and Nweze (2012) study the impact of investment in fixed assets on financial performance using firms in Nigeria Brewery Industry. *European Journal of Business and Management ISSN 2222-1905(Paper) Vol. 4, No. 20, 2012.*

Oladutire, E. O. (2018). Firm Characteristics and Firm Growth in Nigeria. *African Social And Educational Journal,* 3(1): 21 – 29.

Oloidi G.A. and Bolade S.K. (2019). An Empirical Determinant of Equity Share Price Of Some Quoted Companies On The Nigerian Stock Exchange. *Journal of Business Management Science,* 1(8): 26 – 43.

Oloidi, G. A. (2019). An Empirical Determinant of Equity Share Price Of Some Quoted Companies On The Nigerian Stock Exchange. *International Journal of Research and Development Organisation,* 2(4): 26 – 43.

Palestrini, A. (2022). Analysis of industrial dynamics: A Note on the Relationship between Firms' Size and Growth Rate, *Economics Letters*, 94(3), 367-371.

Panu C., Peng C. and Dennis P. (2012). Firm Characteristics and Stock Return. *International DSI / Asia and Pacific DSI 2022 Full Paper, 3(2): 32 – 53*

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Perez, Q., Gabriel., and A. Timmermann, (2019). *Business cycle asymmetries in stock returns: Evidence from higher order moments and conditional densities.* FMG Discussion Papers

Pervan, M. and Mlikota, M. (2021). What determines the financial performance of companies: Case of Croatian Food and Beverage Industry, *Ekonomskaistraživanja*, 26(1), 277-286.

Safdar H. T., Hazoor M. S., Toheed A. and Ammara I. (2021). Impact of Firm's Characteristics on Stock Return: A Case of Non-Financial Listed Companies In Pakistan. *Asian Economic and Financial Review*, 3(1):51-61

Sen, S and Ray, R. (2021) Key Determinants of stock Prices in India the ICFAI Journal of Applied Finance 9 [7], 35 – 40

Serkan Y. K. (2018). Macroeconomic Variables, Firm Characteristics and Stock Returns: Evidence from Turkey. *International Research Journal of Finance and Economics,* 16: 35 – 45.

Sharma, S *2019+ Determinants of Equity Share Prices in India Corporate Sector: An Empirical Study" Journal of Arts, Science and Commerce, 2 [4]; 51 – 60

Simons, K [2018] The Relationship between Dividend Charges and Cash flow: An Empirical Analysis Journal of Business Finance and Accounting 21 [4]: 577

Someye, R.O.C, Akintoye, I.R. and Oseni, J.E. (2019) Determinants of Equity Prices in the Stock Market. International Research Journal of Finance and Economics 30, 177 - 189

Srinivasan, P. (2012) Determinants of Equity Share Prices in. A Panel Data Approaches *The Romanian Economic Journal* Year XV [46], 205 – 228

Sunde; T and Sanderson, A. (2009) A Review of the Determinants of Share Prices *Journal of Social Sciences* 5 (3), 188 - 192

Travlos, N; Trigeorgis L. and Vafeas, N [2001] Shareholders Wealth: Effects of Dividend Policy

Uddin, M.B. [2019] Determinants of Market Price of Stock: A Study on Bank Leasing and Insurance Companies of Bangladesh *Journal of Modern Accounting and Auditing*, 3(12): 19 – 33.

Vijayakumar, A. (2019). The determinants of financial performance: An Empirical Investigation Using Indian Automobile Industry, *International Journal of Research in Commerce and Management*, 2(9), 58-64

Yasuda, H. (2019). Firm's Growth and Finance Strategy, *Journal of Finance,* 27(1), 30-45.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]