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Effect of Strategic Orientation on the Profitability of Insurance Companies in Nigeria

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Abstract
Insurance business plays a vital role in the country's risk management system through risk bearing, providing vehicle for investors and other financial investment services. It also contributes significantly to the Gross Domestic Product (GDP). Despite the importance of the insurance industry for economic development, the performance of Nigerian insurance industry is sub-optimal in terms poor profitability attributed to the inability of Insurance companies' managers to recognize the relevance of strategic orientation such as proactiveness, customer orientation, aggressiveness, and competitor orientation in the performance of insurance companies in Nigeria. This study therefore investigated the effect of strategic orientation on organizational performance of selected Insurance companies in Lagos State, Nigeria.A mixed sampling technique comprising of proportionate and simple random sampling techniques was used to select a total sample size of 498 employees of the 10 selected insurance companies. Multiple linear regression analysis was used to test the hypothesis formulated. The results obtained from the analysis revealed that strategic orientation dimensions have no significant effect on profitability of selected insurance companies in Nigeria (R^{-2} = 0.004, $F_{(4,425)}$ = 1.485, p > 0.05). The study recommends that Insurance companies in Nigeria need focus more attention on proactiveness, customer orientation, aggressiveness, and competitor orientation in order to increase their profitability.

Key words: *Aggressiveness, Competitor orientation, Customer orientation, Proactiveness, Profitability, Strategic orientation*

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I. Introduction

In environments that customers are free to choose better services, companies without a competitive advantage, are always in danger of losing much of the market and thus reducing their performance. Insurance companies in Nigeria have been faced with increased difficulty as a result of the persistent changes in the business environment. This is compounded by the fact that insurance uptake is relatively low at less than 1% in a country with a population of over 170 million citizens. The Nigerian Insurance industry contributes a meagre 0.7% of the total GDP of Nigeria. The poor performance of the insurance sector has been attributed to so many internal and external environmental factors and the inability of business managers to recognize the relevance of strategic orientation in the performance of insurance companies in Nigeria (Nwoji, 2019).

According to Nwoji (2019), the Nigerian insurance sector has in the past ten years achieved an average growth rate of 35.07 per cent in both life and non-life classes of business. A breakdown of this showed that life business recorded a higher growth rate of 27.64 per cent, while non-life grew by 7.43 per cent in the last 10 years. Available statistics revealed poor performance in 2016 when the sector recorded -0.50 per cent increase in premium generation (Nwoji, 2019). The sector has witnessed a consistent decline in life business premium. The sector recorded a 37.21% 28.25%, 35.02% and 27.59% growth in life business in 2011, 2012, 2014 and 2017 consecutively (Nwoji, 2019). For the non-life segment, the insurance sector witnessed highest increase in premium in 2008, when the sector's premium grew by 22.1 per cent. This was followed by 2009, when the industry's premium in non-life business grew by 19.6 per cent and was closely followed by 2011 and 2012 when it increased by 11.80 per cent and 11.63 per cent respectively. Nevertheless, the sector recorded the worst performance in premium generation in 2015 and 2014 when growth stood at -3.50 per cent and -1.31 per cent respectively (Osinuga, 2018).

Evidences also showed that the Nigerian insurance sector suffered a setback in the last two quarters of 2017, contracting 1.9% and 15.7% in Q3 and Q4 respectively despite growth recorded in the overall economy. It however rebounded in Q1:2018, expanding 18.1% relative to 1.95% growth recorded by the economy as a whole. At 0.3%, Nigeria has the lowest insurance penetration level (measured as insurance gross premium written as a proportion of GDP) amongst notable African countries such as South Africa (14.7%), Kenya (2.8%), Angola (0.8%) and Egypt (0.6%). Similarly, the sector's insurance density (a measure of industry gross premium per capita) is still one of the lowest when compared to peers – South Africa (US$762.5), Egypt (US$22.8), Kenya (US$40.5) Angola (US$30.5) and Nigeria (US$6.2) (Proshare, 2018).

Furthermore, the insurance sector in Nigeria has been plagued with poor performance as a result of loss of profitability. The insurance industry's return on equity (ROE) hovered at around 8.4% in 2016 (FY2015: 8.6%) weakened slightly in 2017 as the economy recovers from the recession. The Industry's low ROE reflects its weak profitability compared to the average yield on 364-day treasury bills of 13.7% in 2016. The industry's low ROE reflects its weak profitability (Nigeria Insurance Association, (NIA), 2017). The profitability is hampered by weak investment returns, rising maintenance and acquisition expenses as well as increasing claims. Furthermore, Arebi, Awoniyi, and Ladipo (2017) and Ufomadu (2017) asserted that lack of a proactive response by insurance companies to respond to the demands of the market has contributed to the poor profitability of suffered by several insurance companies in Nigeria.

Several studies have examined the influence of the strategic orientation such as proactiveness, customer orientation, aggressiveness, and competitor orientationon profitability in large business organisations and in diverse segments of the economy (Awang, Khalid, Yusof, Kassim, Ismail, Zain, & Madar, 2009; Baek-Kyoo & Robert, 2017; Bonekeh, 2018; Boohene, Marfo-Yiadom, & Yeboah, 2012; Gurjeet, Mahesh, & Subhash, 2016; Jayani & Yan, 2017; Marino & Weaver, 2002; Rezart & Genc, 2017). However, there is paucity of research on the effect of proactiveness on profitability in the insurance sector especially in developing country like Nigeria. Gurjeet, Mahesh, and Subhash (2016) suggested that further studies on the interaction between proactiveness and profitability should also be considered in other service offering firms such as hospitality, insurance and tourism to enhance generalizability of empirical findings. It is in line of this that this study investigates the effect of strategic orientation on profitability of selected insurance companies in Nigeria.

II. Literature Review

This section discusses strategic orientation dimensions (proactiveness, customer orientation, aggressiveness, and competitor orientation) and profitability.

2.1 Strategic Orientation

Strategic orientation is an option that can create capabilities dynamically in a constantly changing business environment and enable companies to respond quickly to these changes (Al- Barghouthi, 2014). Eitrem and Oberg (2018) stated that strategic orientation refers to how a company responds to factors in the business environment. Therefore, such orientation is often portrayed as a predictor of high performing firms which have a competitive advantage (Jaakkola, 2012). Consequently, firms that adopt a strategic orientation will be able to predict the potential for external changes in the business environment and adapt to them.Jaakkola (2012) maintained that strategic orientation includes customer, competitor, and technology information generation; dissemination; and response implementation. Dimensions of strategic orientation in this study include proactiveness, customer orientation, aggressiveness and competitor orientation.

2.1.1 Proactiveness

Kozubíková, Sopková, Krajčík, and Tyll (2017) defines proactivity as defining your goals and your future and arriving there as planned. Proactivity is a state of mind and the will, largely driven by ones consciousness, to sustain a vision, to fulfill a mission, to attain a challenging goal and to achieve a define objective. It is envisioning a future towards which one device the strategic parameters for influencing, impacting and recreating the environment within which to operate in line with that vision. It is a determination to excel in one's own chosen field (Kozubíková, *et al.*, 2017).

Zhang and Zhang, (2012) argued that no firm can be sustained without being proactive, innovative and be prepared to venture into untested risk. Proactiveness should be linked to knowledge for coordinating inputs at below market value and converting such inputs into output for ensuring a high performance. Organizations need proactive employees who actively seek to alter and improve their work environment and seek to capitalize and make things happen that will lead to greater organizational outcomes (Parker& Wang, 2015; Ghitulescu, 2018; Wihler, Blickle, Ellen, Hochwarter & Ferris, 2017).

2.1.2 Customer Orientation

According to Mahrokh and Bahareh (2016), customers see quality as the capacity to satisfy their needs and wants. Organizations rely on their customers, so they must understand the current and future needs, and achieve their needs, and work to exceed their expectations. This is achieved through research and understand all the needs and expectations of the customer in terms of products, services and delivery date, price and reliability, and to link the goals established with the needs and expectations of the client, and follow the way of ensuring a balance between the needs and expectations of customers and other stakeholders (owners, employees, suppliers and the community), and inform all levels in the facility this needs and expectations, and measure customer satisfaction and act according to the results, customer relationship management to achieve the common interest (Al-Damen, 2017).

Customer orientation is an integral component of the firm's overall marketing strategy that provides a unifying focus for the activities of the firm and serves as a tool for the implementation of the marketing concept as a business philosophy (Asikhia, 2010; Taleghani & Tayebi, 2013). A customer-oriented firm emphasizes the customers' present and future needs and has advanced its abilities with regard to customer sensing and customer responsiveness (Ziggers & Henseler, 2015). A firm with a strong customer orientation could outperform its competitors since it better analyzes customer needs, forecasts demand and creates and delivers value in a superior way (Homburg, Muller, & Klarmann, 2011). Also, customer-oriented organizations get information about customers' needs and wants for the present and future to provide superior value-added offerings (Julian, Mohamad, Ahmed & Sefnedi, 2014).

2.1.3 Aggressiveness

The aggressive approach involves the use of resources for the improvement of the market situation. This dimension of strategy orientation requires much investment and emphasizes on the development of market share (Johnson, Martin & Saini, 2012). A company is aggressive when it uses its resources to excel competitors and looks for market share increase tow in the competition (HeidarzadehHanzaee, Khoshpanjeh & Rahnama, 2011) and tends to have a strong challenge with competitors for acquiring efficiency (Ferrier, 2001).

Aggressiveness dimension measures the business ability to engage organizational resources in executing aggressive strategies and the pursuit of increased market share as a means to achieving business unit profitability. The firm aims to possess higher market share ahead of competitors (Abiodun, 2009). This strategy takes the form of cost leadership (Chang, Lin, Wea & Sheu, 2002; Miller, 1988; Hitt, Hoskisson & Ireland, 2007; Porter, 1980; Thompson & Strickland, 1999; Wright & Mcmahan, 1992). A firm is said to have a high degree of competitive aggressiveness if it forcefully takes a large number and a large variety of actions to outperform its competitors in the marketplace. Strategic managers can use aggressiveness to counter industry trends that threaten survival or market position.

2.1.4 Competitor Orientation

Competitor orientation refers to considering competitors, building bridges with them, and being prepared for dealing with their activities in competitive markets (Bayat & Hamdi, 2017). Competitor orientation is monitoring the organization's current and predicted future competitors to develop awareness of their information and strategies (Chin, Lo, & Ramayah, 2013). According to Modding (2012), the competitor's orientation can be interpreted as an understanding of short-term strengths and weaknesses, as well as the long-term capabilities and strategies of competitors that currently exist as potential competitors that will emerge.

Competitor-oriented organizations develop a comprehensive evaluation of targeted and possible rivals and utilize the substantial awareness to beat the rivals as well as achieve sustainable competitive advantage and performance (Shehu & Mahmood, 2014). Competitor orientation is the key part of a firm's strategic orientation which focuses on understanding the strengths and weaknesses of existing and potential competitors (Agirre, Peinares & Agirre, 2014). Shehu and Mahmood (2014) stated that competitor orientation assists organization to recognize the competitive market conditions by obtaining information about competitors, competitor's activities, offerings and market capabilities. Additionally, Kumar,Jones, Venkatesan, and Leone(2011) said competitor orientation is necessary for an organization which pursuing cost leadership in order to obtain new ideas for greater efficiency.

2.1.5 Profitability

Profitability refers to money that a firm can produce with the resources it has. The goal of most organization is profit maximization (Niresh & Velnampy, 2014). Profitability involves the capacity to make benefits from all the business operations of an organization, firm or company (Muya & Gathogo, 2016). Profitability portrays the efficiency of the management in converting the firm's resources to profits (Muya & Gathogo, 2016). Thus, firms are likely to gain a lot of benefits related increased profitability (Niresh & Velnampy, 2014). One important precondition for any long-term survival and success of a firm is profitability. It is profitability that attracts investors and the business is likely to survive for a long period of time (Farah & Nina, 2016). Many firms strive to improve their profitability and they do spend countless hours on meetings trying to come up with a way of reducing operating costs as well as on how to increase their sales (Schreibfeder, 2006).

Various measurements for business profitability have been used by researchers (Abor, 2007; Boso, Story & Cadogan, 2013; Kapaya & Raphael, 2016; Pratheepan, 2014). They normally employ assets values as their numerators, because business assets are considered as key drivers for profitability (Pratheepan 2014). These measures include but are not limited to the following accounting measures; return on assets (ROA): calculated as the ratio of net income to total assets, return on equity (ROE): calculated as the ratio of net income over total equity, return on capital employed (ROCE): calculated as the ratio of net income over total capital (equity and long-term liabilities) used in financing the business, net profit and gross profits margins. These are calculated based on values from financial statements or accounting records for the case of entrepreneurs who may not be regularly preparing financial statements (Mumtaz, Shahnaz, Bashir & Umara, 2013).

Conceptual Model

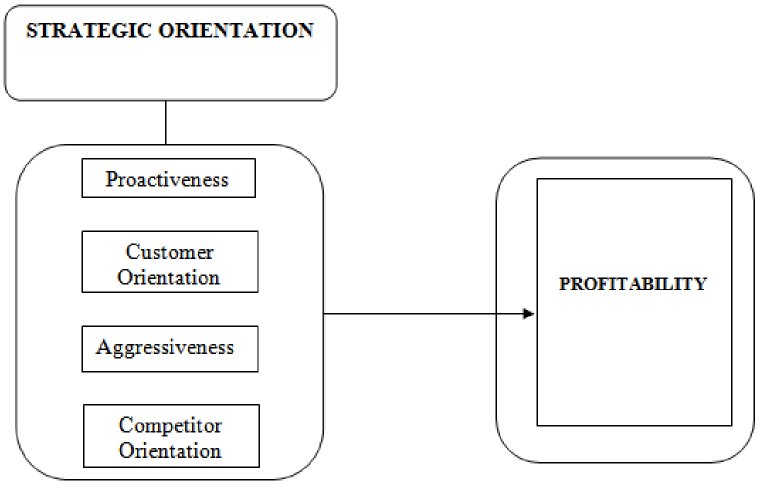

Figure 1: Strategic Orientation and Profitability

The figure above presents the conceptual model based upon the review of literature and it shows the effect of strategic orientation (proactiveness, customer orientation, aggressiveness, and competitor orientation) on profitability.
Based on the conceptual model, the research hypothesis of the study is as follows:
H_0: Strategic orientation dimensions have no significant effect on profitability of selected insurance companies in Nigeria.

2.2 *Theoretical Review*

The theoretical perspective of this study is anchored on environment-strategy-performance theory and configuration theory. Consequently, a combination of both the environment-strategy-performance theory and the configuration theory will be appropriate nexus in explaining the role of firm’s strategic orientation on firm performance. These theories are relevant to thus study because organizations must respond to the dynamic environment according to the demands whether to be proactive, aggressive, adopt a customer oriented strategy or a competitor oriented strategy according to the demand of the environment.

The environment-strategy-performance theory assert that organizational performance of a firm is enhanced when the strategic orientation and the environmental conditions have a fit that maximises the effectiveness of operations of the firm (Matsumo & Mentzer, 2000). In addition, it is therefore incumbent upon the firms to continuously modify their strategies to fit their external environments (Ombaka, Machuki, & Mahasi, 2015). The environmental strategy performance theory highlights the scope of strategic orientation process that must be integrated into the environmental conditions (Kropp & Zolin, 2005). The theory focuses on satisfying the expectations or needs of segment customers who demand improved products and services (Kropp & Zolin, 2005).According to Ombaka, *et al* (2015), organizations should take cognizance of the external factors that affects the strategic efficiency and the earning over the average returns of an organization in the industry in which the organization operates. Welch and Welch (2005) assert that it is important for a firm to assess its overall operating conditions that affect the firms in the long and short-term period. To be successful, firms should be cognizant of the risks existing in their operation and should be proactive to efficiently deal with the doubts in the business fields. To effectively deal with this doubts and attain strategic competitiveness, Kacperczyk (2009) posit that organizations must know and fully understand the competitive environment in which they operate.

The Configuration theory was propounded by O’Cass and Ngo in 2007. The theory posits that there is need for a strategic fit between a firm’s strategic focus and internal organization characteristics and which should lead to improved performance. The configuration theory appreciates that a firm’s level of leverage will influence its ability to build, integrate and reconfigure internal and external capabilities so as to address the rapidly changing business environments. Configuration theory therefore refers to an organization's ability to produce new and innovative forms of competitive advantage given market positions and path dependencies (Johnson, Sholes & Whittington, 2008). This theory is relevant for this study because it influences an organization's ability to build, integrate and reconfigure internal and external capabilities so as to address the rapidly changing business environments.

III. Methodology

The study adopted cross sectional survey research design. The choice of survey research design is on the ground that a survey obtains stronger data representation and better approximation with the reality experienced. It encompasses measurement procedures used to measure different relationships and hypothesis with clearly defined information.This study sought to do that among 10 selected best insurance companies in Nigeria as at March, 2019. The population for this study consisted of 1057 employees of 10 selected best insurance companies in, Nigeria as at March, 2019. These insurance companies have been selected because they are the market leaders. Further, these insurance companies are well-known to the public. They are: AXA Mansard Insurance PLC, AIICO Insurance Plc, Custodian & Allied Insurance Ltd, Industrial and General Insurance Plc (IGI), Lasaco Assurance Plc, Leadway Assurance Company Limited, Mutual Benefit Assurance Plc, Niger Insurance Plc, Anchor Insurance, and Royal Exchange General Insurance Co. Ltd.

The population of this study comprise of top, middle and lower management (administrators and experts in insurance supervision) employees in the selected insurance companies. The sample size was 498 determined using Cochran's formula of sample size determination. Krejcie and Morgan (1970) in Ojeka (2011) agrees with the sample as they proposed the population proportion of 0.05 as adequate to provide the maximum sample size required for generalization. A mixed sampling technique comprising of proportionate sampling technique and simple random sampling technique was adopted for this study.To carry out this study, given the research objective, having completed a literature review, a 25-item adapted questionnaire covering 4 dimensions namely: proactiveness, customer orientation, aggressiveness, and competitor orientation, and profitability based on a 6-point Likert scale was used as shown in appendix A and Appendix C. The expert opinion was sought for in order to validate the content and the structure of the questionnaire during the pilot study. An internal consistency method using Cronbach's Alpha was use determine the reliability of the questionnaire (Obadara, 2007). To this end, 49 copies of questionnaire were distributed among experts and academics and were collected upon completion. The Cronbach's Alpha values are: 0.838, 0.860, 0.948, 0.881, and 0.870 for proactiveness, customer orientation, aggressiveness, competitor orientation, and profitability respectively.Thus, the questionnaire was of high reliability. For testing the hypothesis, multiple regression analysis and the results were reported.Data analysis was conducted using the Statistical Package for the Social Sciences (SPSS version 24.0).

IV. Results

This section deals with analysis, presentation and interpretation of the findings of this study. A total of 498 copies questionnaire were distributed to the respondents, out of which 432 copies were rightly filled and returned to the researcher. This represents a response rate of about eighty-eight percent (86.7%), which was considered adequate for this study.

In this research, multiple regression analysis was used to test the hypothesis with profitability as the dependent variable, and strategic orientation dimensions as the independent variable. The data for strategic orientation dimensions were generated by adding all scores of all items for each strategic orientation dimensions, while that of profitability was generated by adding scores for all the items for the variable. Data from four hundred and thirty two (432) respondents were analyzed. The results of the multiple regression analysis are shown in Table 4.1.

Table 1: Multiple Linear Regression AnalysisTest Results

Model	*B*	*Sig.*	*t*	*F*	R^2	*Adjusted* R^2	*F(Sig.)*
(Constant)	17.595	0.000	6.024	1.485	0.014	0.004	0.206
Proactiveness	-0.074	0.523	-.639				
Customers Orientation	0.228	0.111	1.597				
Aggressivenes s	-0.073	0.611	-.508				
Competitor Orientation	0.099	0.515	.651				

a. Dependent Variable: Profitability

Table 1 shows results of multiple linear regression analysis on the effect of strategic orientation (proactiveness, customer orientation, aggressiveness, and competitor orientation) on profitability of insurance companies in Nigeria. The results revealed that customers orientation (B = 0.228, t = 1.597, $p = 0.111>0.05$) and competitor orientation (B = 0.099, t = .651, p = 0.515>0.05) have positive and insignificant effect on profitability while proactiveness (B = -0.074, t = -0.639, p = 0.523>0.05) and aggressiveness (B = -0.073, t = -0.508, p = 0.611>0.05) have negative and insignificant effect on profitability of surveyed insurance companies in Nigeria. The results showed that strategic orientation dimensions did not influence profitability of insurance companies in Nigeria. The adjusted coefficient of multiple determination was 0.004 which indicates that strategic orientation dimensions explained only 0.4% of the changes in profitability of surveyed insurance companies in Nigeria. The remaining 99.6% changes are explained by other variables or factors not captured in the current model. Further, the F-statistics (df = 4,425) = 1.485, p>0.05 indicates that the overall model is not significant in predicting the effect of strategic orientation dimensions on profitability of surveyed insurance companies in Nigeria. Therefore, the hypothesis was not rejected. This implied that strategic orientation have no significant effect on profitability of insurance companies in Lagos State, Nigeria.

V. Discussion

The aim of this study was to investigate the effect of strategic orientation on profitability of insurance companies in Lagos State, Nigeria. The results showed that strategic orientation dimensions did not influence profitability of insurance companies in Nigeria. Specifically, the results revealed that customer orientation and competitor orientation had positive and insignificant effect on profitability while proactiveness and aggressiveness had negative and insignificant effect on profitability of surveyed insurance companies in Nigeria. The findings of this study did not agree with most previous studies on the influence of strategic orientation dimensions(proactiveness, customer orientation, aggressiveness, and competitor orientation) on profitability of organisations (Ghorbaninia & Aligholi, 2016; Sarker & Palit, 2015; Adams,Quagrainie, and Klobodu,2017; Ambad & Wahab, 2013; Amin, 2015; Lomberg,Urbig, Stöckmann, Marino, & Dickson, 2017; Tang,Tang, & Katz, 2014; Uddin,Bose, & Yousuf, 2014) who found the relationship between proactiveness and financial performance to be statistically significant. Similarly, the findings of this study is not consistent with those of LeRoux and Bengesi (2014), who found that profitability was significantly and positively associated with proactiveness and competitive aggressiveness. Firms characterized by proactiveness initiate actions that competitors must react to, leading the way in products and services (Eggers, Kraus, Hughes, Laraway, & Syncerski, 2013). Empirically, proactiveness leads to better performance in terms of sales and employee growth, profitability, product and customer performance (Krauss, Rigtering, Hughes, & Hosman,2005; Baba & Elumalai, 2011). Ahimbisibwe and Abaho (2013) found that proactiveness had a significant and positive influence on export performance measured by sales and profitability. Boohene, Marfo-Yiadom, and Yeboah (2012) discovered that there was a strong and positive relationship between proactiveness and firm financial performance.

VI. Conclusion and Recommendations

This study investigated the effect of strategic orientation on profitability of selected insurance companies in Nigeria.The results of the regression analysis indicated that strategic orientation dimensionshad no significant effect on the profitability of surveyed insurance companies in Nigeria. Hence, an action must be taken in this direction. However, across the surveyed Insurance companies, it was established from the respondents perceptions' that return on asset, gross profit margin, net profit margin, return on equity, and cost improvement measures of profitability are moderately high. These further confirm results of the regression analysis. Therefore, the management of Insurance companies in Nigeria need to focus more on proactiveness, customer orientation, aggressiveness, and competitor orientation in order to improve their profitability. Also, they need to build diverse capabilities to foresee changes in market needs; quickly respond to variations in market needs; competitors' action; and develop creative mindsets to doing things in different ways to increase their profitability.

Limitation of Methodology

A number of limitations were noted. First, the study focused on selected insurance companies in Nigeria. This therefore limits the applicability of the results to other insurance companies in Nigeria or to other non-insurance or service organizations. Secondly, the limitation of this study include: participants' honesty, perception and emotions at the time of filling the questionnaire which arisen from the self-report questionnaire. However, the limitation were suppressed by the researchers by elaborating the questions whenever required. Thirdly, the study was based on primary data collected from the respondents. Primary data may be non-reliable at times and the respondents can be biased in their responses. The study therefore suffers from the limitations inherent in all primary data. Another limitation is that the study used cross-sectional data which limits its implication on long term effects of strategic orientation on performance of insurance companies. The study thus recommends the use of a longitudinal design to evaluate the application of strategic orientation in insurance companies and performance over time.

The study suggests that this study should be replicated in other sectors of the economy to study non-insurance service organizations. Such a study will provide results that can be compared to the present one or generalized to other industries. The study also suggests that more studies should examine the determinants of strategic orientation. This is important in order to inform firms on what they need to focus on more for them to be better oriented to trade in the market with others.

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