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Stakeholders' Satisfaction and Performance of Insurance Firms in Nigeria

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Abstract: *This study examines how support for the interest of three key stakeholders – customers, employees and government - affects the performance of firms in the insurance industry. The study is operationalized using claims expenses as measure for customer satisfaction, wage per employee to measure employee satisfaction, tax payment to measure support for government interest, and net premium income as measure of firm performance. The study performed multivariate regression analysis to test whether stakeholders' satisfaction affects firm performance, using audited financial statement data of quoted 26 insurance firms from 2012 to 2016. Results indicate that customer satisfaction and employee satisfaction are significantly associated with firm performance, while support for government interests is not statistically associated with firm performance. Management of insurance firms should uphold support for employee and customer interests, while regulatory authorities should strengthen mechanisms for prompt validation and settlement of insurance claims.*

Keywords*: Insurance claims, wages, tax, customer satisfaction, employee satisfaction, government interest, stakeholder interests, premium, firm performance.*

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I. Introduction

Investment is a key driver of development in every society as it expands production, provides employment, engenders competition, motivates creativity, and engages managerial talent to harness available human and material resources. Certain investments that are beneficial to society are risky and fraught with uncertainty. In Nigeria, for instance, investments in oil and gas production are capital intensive and risky, but the economy depends on that sector. By providing a mechanism for risk transfer, investors can venture into risky and uncertain investments that promote societal welfare. Even individuals and families benefit from the role of insurance as it provides protection for valuable assets acquired over a long period, and supports good quality life through retirement schemes and protection over certain negative consequences of disability and untimely death.

In its role of providing protection for individuals and investors, as well as fostering economic growth, insurance firms interact with several individuals and groups in the society. While it provides protection for its customers and helps the economy to grow, the insurance industry depends on premiums from these customers for the revenue that will drive and support the business. The insurance firm also needs the commitment from its workforce and a conducive business environment (usually provided and enhanced by government), to run a successful business. Therefore, the key stakeholders of the insurance industry include the policyholders, the employees that help the firms to create value and the government that provides the enabling environment. A firm can hardly become successful if it ignores the interests of stakeholders such as employees, government agencies, customers, community, the environment and even blackmailers and terrorists [1]. Thus, an insurance firm must pay attention to its policyholders, its employees as well as the government and other stakeholders in order to remain competitive.

There is a large volume of literature on stakeholder value and corporate performance. Some of these studies have focussed on specific industries. For instance, Theodoulidis, Diaz, Crotto and Rancati [2] focussed on tourism, Ogden and Watson [3] on water industry, Koys [4] and Namasivayam, Guchait and Lei [5] on restaurants, Pantouvakis and Bouranta [6] on transport, while Behery and Eldomiaty [7], Loveman [8], Reyniersc and Harker [9], and Siddiqi and Sahaf [10], provided evidence on banks. Most of the studies examining the relationship between key stakeholders (such as customers and employees) and financial performance are conducted within a single firm [11]. Among 42 studies on customer engagement and employee engagement reviewed by Mittal et al. [11], only Schlesinger and Zornitsky [12] focussed on insurance firms, but the study examined how these variables are associated with service quality and service capability, not with financial performance.

The literature examining the relationship between stakeholder value and premium income of insurance firms is scanty. Epetimehin and Odunaike [13] reviewed the literature on stakeholder management and recommended the stakeholder model for insurance firms in Nigeria. The recommendation of the stakeholder model for insurance firms in Nigeria by the study was based on a literature review conducted by the study, not on empirical evidence from the insurance industry in Nigeria. Therefore, this study fills gap in literature by providing empirical evidence to assess how satisfying the interest of key stakeholders in the insurance industry affects organisational performance. The current study does not consider conversation with all stakeholders or engaging them in the decision making process. The stakeholder theory does not imply that constituents should be equally involved in the decision-making processes of an entity [14]. What the current study examines are the claims received by key external stakeholders in financial terms, and how these relate to the financial performance of insurance firms.

The remainder of this paper proceeds as follows. The next section examines the literature on stakeholder value and presents the hypotheses for the study. This is followed by methodology, results, and discussion of findings. The final section concludes the paper.

II. Literature review

Stakeholders are individuals and entities that are vital to the success of an organisation. Stakeholder theory emphasises that a firm has stakeholders, and a firm should give attention proactively to the interests of these stakeholders to succeed in its business. The first major articulation of the concept is traced to the Edward Freeman who published a book entitled, *Strategic Management: A Stakeholder Approach*. Based on this work which was published in 1994 several books and articles have been published by a wide range of authors across different fields [14, 15]. The initial intention was to recommend a strategy that would make business entities recognise stakeholders in order to improve their performance in view of the changes in the business environment in the 80s, changes relating to internal and external stakeholders. Thus, under the stakeholder theory, the manager would have to consider the interests of other groups that are capable affecting the performance of the organisation.

Although the stakeholder view has become commonplace in the business world, the theory is not without its critics. One of the criticisms against the concept is that there is no consensus on its meaning. Miles [16] applied the principle of essentially contested concept and found that the stakeholder theory falls in the category of such concepts, implying that the problem of lack of consensus in definition will linger. Indeed, the concept of stakeholder, stakeholder theory, stakeholder management and stakeholder model are used differently by various authors, and certain aspects of the stakeholder view are not clear [14]. The concept is also criticised as misguided and incapable of improving corporate governance, firm performance and operation, because the theory is intrinsically inconsistent with substantive objectives, and with the principle of private property and accountability [17].

A model of key external stakeholders of the insurance firm

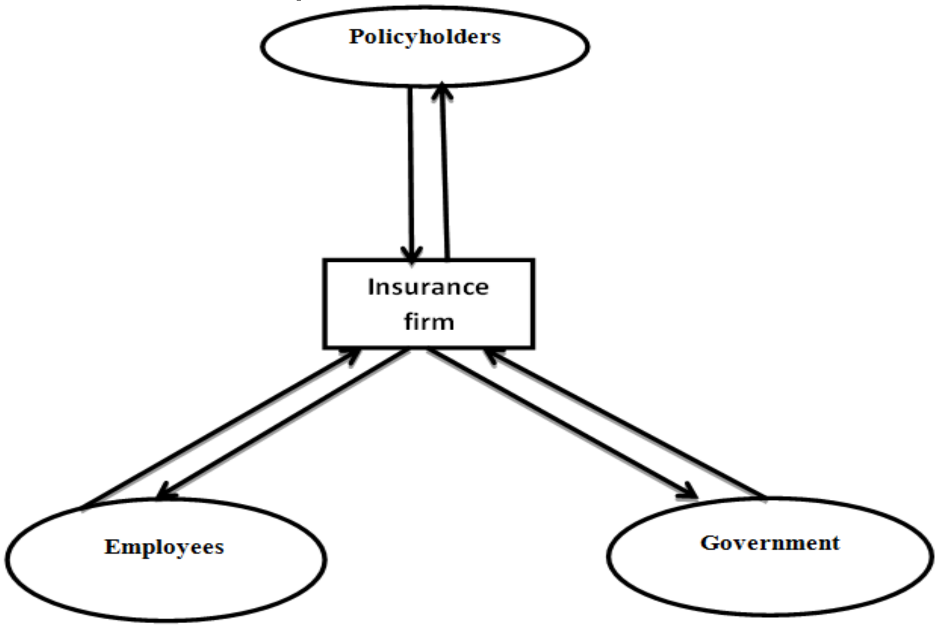

Figure 1: Model of key external stakeholders of an insurance firm

Another major area of contention against the theory is that it seeks to downgrade the shareholder view - the long held view that the main object of a business is to maximise the wealth of shareholders. The stakeholder theory recognises that shareholders are important constituents, but emphasises that there are other stakeholders that affect the fortunes of a business, and managers must strive to create relationships that will develop a community where each stakeholder gives the best towards achieving organisational objectives. Freeman, Wicks and Parmer [18] have argued that in the current business environment with its waves of scandals and business collapses, the pursuit of shareholders value to the exclusion of other interests is hardly a good philosophy. The business environment is complex and uncertain; therefore a manager should apply judgement and see the other stakeholders as equally important; this is especially necessary as some stakeholders may have solutions that shareholders do not possess. Therefore, a well guided relationship with stakeholders will assist the enterprise in enhancing its performance.

Despite the criticisms and counter arguments, the stakeholders view has gained wide acceptance and application among some major global businesses including Google, ebay and AES [18]. The theory is currently central in business management [16] and has become applicable to several disciplines such as law, health care and public policy [19].

The constituents that make up the stakeholders of a business includes investors, suppliers, customers, political groups, government and its agencies, employees, trade unions and communities [14]. The claims of most of these parties cannot be represented in financial terms; therefore, this study is based on a simple model comprising three external stakeholders of an insurance firm – the policyholders, government and employees. The study's model is therefore as shown in figure 1.

2.1 Customers and firm performance

The customers of an entity are important assets of the firm. In the illustrative examples accompanying International Accounting Standards (IAS) 38, the International Accounting Standards Board (IASB) recognised customer list acquired in a business combination as an intangible asset of the acquirer. Since customers provide the revenue needed, it is reasonable to expect that the more customers an entity has the more revenue it is likely to realise. By extension, therefore, an entity that caters for the interest of its customers will likely achieve more success than the firm that is not so attentive to its customers. Customers are therefore key stakeholders of any business.

Karel and Ales [20] examined how customer engagement affects the corporate performance in the context of the stakeholders approach. The study used data from 60 Czech companies' board, and hypothesized that the level of customer involvement in management decision-making will be positively associated with firm performance. The correlation analysis, however, showed that the score assigned to customer involvement in decision-making was negatively and insignificantly associated with firm performance. Similarly, the number of customers was negatively and insignificantly related to firm performance. The regression analysis also showed that the score for customers had a negative coefficient and an insignificant p-value. Also, the number of customers had a negative coefficient and an insignificant p-value, suggesting that the extent of customer involvement in managerial decisions did not affect profitability.

In an earlier study, Anderson, Fornell and Lehman [21] used Swedish Customer Satisfaction Barometer (to measure customer satisfaction) and returns on investment (to measure profitability). The study found a positive relationship between customer satisfaction and profitability. Similarly, Chi and Gursoy [22] found a significant, direct positive relationship between customer satisfaction and firm performance in a study involving firms in the hospitality industry. The study relied on service-profit-chain theoretical framework and used structural equation modelling to analyse the data collected from three-star hotels and four-star hotels.

In a review research on the relationship between customer engagement, employee satisfaction and firm performance, Mittal et al. [11] found a significant and positive relationship between customer satisfaction and firm performance. Almost all the studies reviewed by the authors provide evidence that support a strong, direct, positive relationship between customer satisfaction and the financial performance of firms.

One of the problems of the insurance industry in Nigeria is the inability of insurance firms to settle claims promptly [23, 24]. Given the weight of literature in favour of a positive relationship between customer satisfaction and firm performance, it is probable that the payment of claims will positively affect the performance of insurance firms. Accordingly, the following hypothesis is proposed.

H1: Customer satisfaction will be positively associated with firm performance

2.2 Employee satisfaction and firm performance

Employee interests may be addressed in different ways. One approach may be to engage them in decision making processes so that their interests as stakeholders are considered. It is also possible to address their interest in financial terms through human capital development or wages and allowances.

In a study on employee interests and firm performance, Harter, Schmidt and Hayes [24] examined how employee satisfaction and engagement are associated with business outcome. The study used 7,939 business units drawn from 36 firms in conducting a meta-analysis of the relationship, and found sufficiently generalizable relationships to conclude that employee satisfaction and engagement at the business unit level had a positive effect on the outcome of the business units in terms of profitability, productivity and customer satisfaction.

Similarly, in an exploratory research involving data from 100 firms collected for six years (1991 to 1999), Berman, Wicks, Kothaand Wicks [26] examined how managerial commitment to stakeholders' interests affect financial performance, measured by return on assets. The study found that managerial support for employee interests had a significant and positive effect on the financial performance of firms. However, Chi and Gursoy [22] found that employee satisfaction is not significantly associated with firm performance; instead the relationship between the two variables is mediated by customer satisfaction. From a literature review, Mittal et al. [11] also documented that the relationship between employee engagement and firm performance is mixed as some studies found positive relationship, some reported negative relationship, and others found no relationship whatsoever.

In a cross validation study involving data from a large sample of firms from various industries, Groening, Mittal and AntheaZhang [27] found empirical evidence to support the hypothesis that customer satisfaction will provide a signal for firm valuation if the treatment of customers is supported by how the entity addresses the interests of employee. Thus, a strategy that involves satisfaction of customers and employees will have a significant positive effect on the financial performance of the firm.

Given the evidence provided by the studies reviewed above, the following hypothesis is proposed.

H2: Employee satisfaction will be positively associated with the financial performance of insurance firms

2.3. Government

The primary interest of government in the affairs of insurance firms is to ensure that the rights of policyholders are protected. Regulators, therefore, monitor the activities of insurance firms to ensure that they are conducted in accordance with specified guidelines for the benefit of policyholders. The National Insurance Commission (NAICOM) Act 1997 requires the commission to regulate the standard of conduct of insurance business and to protect parties involved in insurance contracts with the firms.

Government also provides the environment for businesses to operate effectively and efficiently. In turn, insurance firms are expected to pay their taxes and comply with rules issued by NAICOM and other regulators of the financial sector in Nigeria [28]. A good relationship between government and firms assists in the success of businesses. On the other hand, poor corporate social responsibility may hamper organisational performance and business success. Mgbame, Chijioke-Mgbame, Yekini and Yekini [29] found that tax aggressiveness among Nigerian firms was negatively associated with firm performance.

Behery and Eldomiaty [7] examined the association between the support of interest of stakeholders and corporate performance. The study used two questionnaires administered on two categories of bank staff – finance directors and loan managers. Among other findings, results of the study showed that banks' support for regulatory agencies had a positive association with the profitability. The study therefore confirmed the relevance of stakeholder theory as a strategy that can enhance corporate performance. Accordingly, the third hypothesis is framed as follows:

H3: Support for government interests will be positively associated with firm performance.

III. Methodology

3.1 Population and sample

The FACTBOOK of the Nigerian Stock Exchange classified twenty six companies as firms in the insurance sub-sector of the economy [30]. Given the small size of the population, this study adopted a census approach to select the sample. Accordingly, the sample of the study comprises the 26 insurance firms quoted on the Nigerian Stock Exchange. The sample period is 2012 to 2016, resulting in 130 firm-year observations. Data for the study were extracted from the annual report and accounts of the insurance firms.

3.2 Design and model

The main source of revenue of insurance firms is the premium from policyholders. The value of premiums received depends on the volume and loyalty of policyholders as well as the effort of the workforce. Therefore, for insurance firms, premium from policyholders is a measure of how effective an insurance firm is. In this study, therefore, firm performance is measured by the amount of premium received by insurance firms.

As noted earlier, the low insurance penetration in Nigeria is largely attributed to lack of settlement of insurance claims due to policyholders. Therefore, this study measures customers' satisfaction by the amount of claims expenses recognised by insurers.

One way to measure employee welfare and happiness is the pay employees receive [19]. In this study, employee satisfaction is measured by the wages paid to workers. The wages paid is scaled by the average number of workers for each firm to obtain wage pay per employee. The final independent variable in our study is support for government, measured by taxes paid by insurance firms.

Drawing from the stakeholder theory, this study uses net premium as dependent variable while claims expenses, wages, and tax expenses are the independent variables in an ex-post facto design. The regression model is therefore as follows:

$$NetPrem_t = \beta_o + \beta_1 Tax_t + \beta_2 Wages_t + \beta_3 Claims_t + e_t$$

Where $Netprem_i$ is net premium received from firm i; Tax_i is tax expenses of firm i; $Wages_i$ is wage per employee; and $Claims_i$ are the claim expenses recognised by firm i. β_1;β_2 and β_3 are coefficients while e_t is the error term and β_o is the intercept.

IV. Results and discussion

4.1 Descriptive statistics

The descriptive statistics showing the mean and standard deviation of the variables is presented in Table 1. The mean of net premiums received by insurance firms within the study period is N5 billion. This may not be substantial if insurance firms are to provide cover for firms in the oil and gas industry. The present revenue status may be the reason for the suggestion that insurance firms are not strong enough to cover Nigeria's risk [31]. The mean for *tax* is N211 million, suggesting that insurance firms contribute substantially to the tax revenue of the government. The mean for *wages* is N4.2 million. This may be considered fair given the emoluments of civil servants in Nigeria [32].

Table 1 Descriptive Statistics

	Number of observations	Mean	Std. Deviation
Netprem	130	N5,037,770,200	4,770,830,256
Tax	130	N211,451,015	287,414,096
Wages	130	N4,218,251	2,870,138
Claims	130	N2,058,299,585	2,238,737,332

The mean for *claims*is N2 billion, suggesting that insurance firms recognised average claims expenses amounting to approximately forty percent of the net premium received during the sample period. The implication of the high proportion of claims expenses relative to the net premium received is that the incidence of insured losses in Nigeria is high, justifying the need for insurance protection in the country.

4.2 Bivariate correlations

The Pearson correlations of the variables used in the study are presented in Table 2. The dependent variable, net premium, is significantly correlated with all the explanatory variables, suggesting that the firm performance is positively associated with the stakeholder variables used in the study. The highest correlation is that of net premium (firm performance) and claims expenses (customer satisfaction). The correlation between the two variables is high at 82.8 percent and significant at the 1 percent level, suggesting that the more customer satisfaction the policyholders receive, the higher the financial performance of the insurance firm. This is consistent with the literature on stakeholder theory [11]. The highest correlation among the independent variables is less than 70 percent suggesting that the results of the study may not be affected by the problem of multi-collinearity.

Table 2 Pearson Correlations

	Premium	Tax	Wages	Claims
Netprem	1	0.578***	0.570***	0.828***
Tax	0.578***	1	0.265***	0.656***
Wages	0.570***	0.265***	1	0.554***
Claims	0.828***	0.656***	0.554***	1

*** Correlation is significant at the 1 percent level

4.3 Regression analysis

Results of the multivariate analysis are presented in Table 3 and Table 4. The results in Table 3 show that tax is positively associated with net premium, but the relationship is not significant, suggesting that payment of taxes (the proxy for support for government) does not significantly affect the financial performance of insurance firms in Nigeria. With this finding, the third which hypothesis proposed that support for government interest will significantly affect firm performance is not supported. A plausible explanation for this result is that while the government provides the enabling environment and the regulatory mechanism to safeguard policyholders' money, its role may not affect the differential financial performance of insurance firms. Another possible reason for the weak relationship between payment of taxes and financial performance is the poor perception for government taxes which has led many firms to pursue tax aggressiveness in Nigeria. This approach to issues of tax payment has been found to be negatively associated with firm performance [29].

Table 3 Coefficients and model summary

						Model summary	
Netprem	Coeffs	Std. Error	t	P>|t|	VIF	R Squared	0.709
Tax	1.507592	1.071159	1.41	0.162	1.801	Adj R squd	0.702
Wages	289.0212	97.18212	2.97	0.004	1.478	F (3, 126)	102.1
Claims	1.432971	0.159226	9.00	0.000	2.414	Prob> F	0.000
(Constant)	550340.4	416679.7	1.32	0.189		Dur-Watson	1.743

Source: Output from STATA version 12

The results in Table 3 also show that the relationship between net premium and wages is significant and positive at the 1 percent level, suggesting that organisational support for employee interests has a positive effect on the outcome of businesses in areas such as customer satisfaction, productivity and profitability [25,27]. Accordingly, H2 which hypothesised that employee satisfaction will be positively associated with the financial performance of insurance firms is supported by the findings of this study. Employees constitute a major group of stakeholders for any business. Employee satisfaction will motivate the workforce to commit itself to improvement in productivity which will enhance customer satisfaction [33], and lead to positive, long term financial outcome [34].

Similarly, the relationship between claims expenses (customer satisfaction) and net premium (financial performance) is positive and significant at the 1 percent level, suggesting that customer satisfaction is a very important driver of financial performance in the insurance industry. Based on this result the hypothesis for this study is supported by the findings of the study. The result is consistent with the literature on stakeholder theory which proposes that satisfying important key stakeholders such as customers will lead to a sustained, positive financial outcome for a business entity [21, 22].

The low insurance penetration in Nigeria is largely blamed on the inability of insurers to verify and settle claims faithfully, and on a timely basis [23, 24]. Thus, satisfying customer interests by settling valid claims is a very important issue in the Nigerian insurance industry. This is the reason customer satisfaction has a significant effect on firm performance.

Table 4 Coefficients and model summary (Robust)

		Robust				Model summary	
Net premium	Coeffs	Std. Err	T	P>|t|	VIF	R Squared	0.709
Tax	1.507592	1.292457	1.17	0.246	1.801	F (3, 126)	85.84
Wages	289.0212	140.4064	2.06	0.042	1.478	Prob> F	0.000
Claims exp.	1.432971	0.320400	4.47	0.000	2.414	Root MSE	2.6e+06
(Constant)	550340.4	312815.1	1.76	0.081		Mean VIF	1.900

Source: Output from STATA version 12

4.4 Diagnostic tests

Tables 3 and 4 report the variance inflation factor (VIF) for the study. The literature on multi-collinearuty suggests that VIF of 10 and above indicates that the study is severely affected by multi-collinearity [35, 36]. Since the VIF for each variable in this study is less than 10, and the average VIF reported in Table 4 is far less than 10, the current study is not affected by problem of multi-collinearity. Table 4 also shows that the Durbin-Watson statistic for the study is 1.743. This fact is also supported by the level of correlation between the independent variables. The Durbin-Watson test is used to determine whether the residuals from the regression results are serially correlated, and results in the range of 1.5 to 2.5 indicate that the data is not auto correlated. Therefore, the Durbin-Watson statistic of 1.743 shows that the assumption of independence is not violated in the study.

To ensure that the study is not affected by heteroskedasticity, the regression analysis was re-conducted using White-Huber standard errors and the results are reported in Table 4. The results show that the coefficient on *wages* is positive and significant at the 5 percent level, suggesting that employee satisfaction is significantly and positively associated with firm performance. The results further show that the coefficient on *claims* is positive and significant at the 1 percent level, suggesting that customer satisfaction is significantly associated with firm performance and should possibly be the most important stakeholder interest that insurance firms should pursue.

IV. Conclusion

Two of the most important value creating stakeholders of businesses are customers and employees [11]. The stakeholder theory suggests that the firm should proactively support the interests of its stakeholders to survive the turbulence in the business environment. Consistent with the theory, findings of this study indicate that supporting the interest of employees through fair wages and allowances will motivate workforce commitment that leads to positive financial outcomes for insurance firms. Insurers should therefore adopt measures that lead to employee satisfaction in order to remain profitable and competitive. Findings of the study also suggest that customers are probably the most important external stakeholders of a business as their satisfaction is strongly associated with the financial performance of insurance firms. Therefore, insurance firms must devise mechanisms to promptly validate claims made by policyholders and effect settlement on a timely basis. Insurance regulators should ensure such mechanisms are effective in order to redress issues of default in claims settlement in Nigeria.

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