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Chief Executive Officer Characteristics and Firm Value of Listed Insurance Firms in Nigeria

Hassan, Ismaila[1], Hassan Alhaji, Tanko[2]

[1, 2]Department of Accounting, Faculty of Management Sciences Kaduna State University, Kaduna, Nigeria

ABSTRACT: This study examines the impact of chief executive officer characteristics on the firm value of listed insurance firms in Nigeria from 2013 to 2022 financial years. Although there are many CEO characteristics that could impact the firm value of listed insurance firms in Nigeria, the study uses only CEO tenure and CEO duality. The firm value is proxy by ROA. The sample of this study is the 23 listed insurance firms on the Nigeria Stock Exchange as at 31st December, 2022. The source of data for this study is secondary while the technique of data analysis is panel data regression. The results of the study show that CEO tenure has a positive correlation with the firm value of listed insurance firms in Nigeria and CEO duality has a negative impact on the firm value of listed insurance firms in Nigeria. Thus, the study recommends that the National Insurance Commission in Nigeria should set a reasonable number of years that CEOs will serve in listed insurance firms in Nigeria. This is because the more the times the CEOs spend on the jobs the more experiences they will have in doing their jobs which could result in better performance.

KEYWORDS: CEOs, characteristics, value, insurance, firms, Nigeria

INTRODUCTION

Firm Value is very crucial to investors. This is because the level of wealth of investors is determined by firm value (Fatima & Chouaibi, 2021). Firm value is the view of a shareholder regarding the enterprise. It is usually related to share prices in the market (Putu et al., 2014). Investors could interpret the share price as the market value of the business (Ibrahim, 2020).

Thus, the increase in the market value of a firm leads to a rise in the welfare of shareholders. The improvement in the value of the firm is vital for any business that wants to bring in a huge return for its shareholders (Riskhyana et al., 2022). Many rational investors will first consider the value of the company before they make an investment in that company. Therefore, the higher the value of the firm, the higher it will attract investors.

In the corporate organization, Chief Executive Officers are important players (Altarawneh et al., 2020).This is because they have the ability to guide businesses in pursuing opportunities (Barnard, 1938). CEOs control business activities on behalf of investors and they are considered as key agents (Chandren et al., 2021). Child (1972) asserts that CEOs can increase the profitability of firms because they pursue strategic and vital decisions.

Investors consider the attributes of Chief Executive Officers before they make decisions whether to invest or not to invest in an organization (Razali et al., 2022). Thus, CEOs maximize the shareholders' wealth and enhance the firm value. Bialowas and Sitthipongpanich (2014) argue that the success or otherwise of the business is dependent on the experiences and competencies of CEOs in running the business. Law and Ningnan (2022) believe that Chief Executive Officers have the ability to influence the firm value because they have an authority to take business management decisions.

Although several studies were conducted on the impact of CEO characteristics proxy by CEO tenure and CEO duality, their findings were not consistent. While the studies conducted by Supriyantoa and Khob (2022), Bsoul et al. (2022) revealed that CEO tenure had a positive significant impact on firm value, the studies carried out by Imasuen et al. (2021), Khan et al. (2021) showed that CEO tenure had a negative significant impact on firm value.

The period of this study is extended from 2013 to 2022 financial year because most of the studies conducted on CEO characteristics and firm value did not use data that is up to 2022 financial year. The events in the economy might have made their findings irrelevant.

Many people may tend to believe that Chief Executive Officers of firms play vital roles in enhancing firm values, but some of them were involved and indicted in financial statement fraud. Troy et al. (2011) have stated that the Chief Executive Officers of Tyco, Kozlowski, had manipulated their earnings and as a result their company lost a total sum of one hundred billion dollars in market value. Chief Executive Officers of Satyam, India were also accused of falsifying books of account of their company to make it appear attractive to investors (Bhasin, 2016).

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The insurance sector is one of the important sectors in Nigeria as it plays vital roles in the Nigerian economy. It insures businesses, properties and individuals against unexpected risks that may result in permanent loss of businesses, destruction of properties either natural or man induced and loss of lives that may throw the whole family into perpetual mourning. However, the sector is yet to attract a good number of investors because it has no public trust, it lacks innovations and it does not do serious public awareness. All these factors are affecting negatively the firm value of listed insurance firms in Nigeria.

Oji (2023) in online Guardian Newspaper has reported that low confidence and poor patronage had been continuing to threaten the operations and survival of insurance firms in Nigeria which had led to the depreciation and stagnation of their share price which was below the book value on the Nigerian Exchange (NGX) Limited. Thus, the researchers are interested in conducting a study on the impact of CEO characteristics on the firm value of listed insurance firms in Nigeria.

The main objective of this study is to examine the impact of CEO characteristics on firm value of listed insurance firms in Nigeria. The specific objectives are as follows:

(i) To examine the impact of chief executive officer tenure on the firm value of listed insurance firms in Nigeria.

(ii) To investigate the impact of chief executive officer duality on the firm value of listed insurance firms in Nigeria.

Hypotheses of the Study

The hypotheses of this study are formulated in null form and they are stated as follows:

(i) $H_{O1:}$ chief executive officer tenure has no significant impact on listed insurance firms in Nigeria.

(ii) $H_{O2:}$ chief executive officer duality has no significant impact on listed insurance firms in Nigeria.

LITERATURE REVIEW

The literatures that are relevant to CEO tenure, CEO duality, and firm values have been reviewed in this section.

Chief Executive Officer Tenure and Firm Value

Imasuen et al. (2021) examined the impact of CEO attributes on the firm value of listed firms in Nigeria from 2010 to 2019. The technique of data analysis was panel data regression and the source of data was secondary. The findings revealed that CEO tenure had a negative significant impact on the firm value of listed firms in Nigeria. Although this study was conducted on the impact of CEO characteristics on the firm value of listed firms in Nigeria, its period stopped at 2019; hence the period of the current study is extended to 2022. The domain of this study is not specified; thus, the domain of the study at hand is listed insurance firms in Nigeria.

Supriyantoa and Khob (2022) evaluated the influence of CEO tenure on the firm value of listed manufacturing firms in Indonesia from 2016 -2019. The purposive sampling technique was used to analyze the data while the source of data was secondary. The results showed that chief executive tenure had a positive significant influence on firm performance of listed manufacturing firms in Indonesia. This study was carried out in Indonesia while the present study is conducted in Nigeria. The domain of this study is listed manufacturing firms in Nigeria but the domain of the present study is listed insurance firms in Nigeria. The period of the current study is extended to 2022 because the period of this study did not go beyond 2019 financial year.

Bsoul et al. (2022) assessed the impact of CEO tenure on the firm value of service and manufacturing companies in Jordan from 2015 to 2019. The study used a sample size of 82 firms whereas the technique of data analysis was multiple regression and secondary data was used in the study. The findings of the study revealed that the CEO tenure had a positive significant impact on the service and manufacturing companies in Jordan. The current study focuses on listed insurance firms in Nigeria whereas this study concentrated on service and manufacturing firms in Jordan. Furthermore, the period of this study stopped at 2019, thus the period of the current study is extended to 2022. This study was conducted in Jordan but the present study is carried out in Nigeria.

Khan et al. (2021) examined the influence of chief executive officer tenure on the corporate social and environmental performance of listed firms in India from 2009-2015. The data was analyzed by the use fixed effect panel regression. The source of the data and the sample size of the study were secondary and 547 firms respectively. The results of the study showed that CEO tenure had a negative significant influence on the firm value of listed firms in India. The weakness of this study is that it was conducted in India while the current study is conducted in Nigeria and not only that the period of this study stopped at 2015 and for this reason the current study extends its period to 2022. While the domain of the current study is listed insurance firms in Nigeria, the domain of this study is not specific

Chief Executive Officer Duality and Firm Value

Osazevbaru (2022) examined the impact of CEO duality on the firm value of listed non-financial firms in Nigeria from 2010- 2019. The study used secondary data. The sample size of the study was 76 listed non-financial firms in Nigeria and the technique of data analysis was panel data regression. The findings showed that the CEO duality had a negative insignificant impact on firm performance of listed non-financial firms in Nigeria. The setback of this study is that it concentrated on listed non- financial firms in Nigeria but the present study focuses on listed insurance firms in Nigeria. The period of this study is another weakness because it stopped at 2019; however the current study extends its period to 2022.

Mubeen et al. (2021) evaluated the impact of CEO duality on firm value of A-listed firms in China from 2012- 2017. The source of data was secondary and the sample size of the study was 417 firms. Panel data regression was used to analyze the data. The results revealed that CEO duality had a negative significant impact on firm value of A- listed firms in China. This study was conducted in China while the present study is carried out in Nigeria. The current study extends its period to 2022 because the period of this study stopped at 2017. The domain of the current study is listed insurance firms in Nigeria while the domain of this study is A- listed firms in China. The present study is carried out in Nigeria but this study was conducted in China.

Wijethilake and Ekanayake (2020) examined the effect of CEO duality on listed firms in Sri Lanka from 2007-2009. The study used secondary data and multiple regression technique for analysis. The sample size of the study was 212 listed firms on the Colombo Stock Exchange. The findings showed that CEO duality had a positive significant effect on financial performance of listed firms in Sri- Lanka. This study was conducted in Sri Lanka but the current study is carried out in Nigeria and its period has been extended to 2022 because this study stopped at 2009. The domain of this study is not specific but the domain of the current study is listed insurance firms in Nigeria

Doğan et al. (2013) studied the effect of CEO duality on firm value of listed companies from 2009-2010 in Turkey. The sample size of the study was 104 listed firms in Turkey and the method of data analysis was multiple regression. The results revealed that the CEO duality had a negative significant effect on firm performance of listed firms in Turkey. The current study is conducted on listed insurance firms in Nigeria while the domain of this study is not specific. The period of this study stopped at 2010; hence the present study extends its period to 2022.

THEORETICAL FRAMEWORK

Hambrick and Mason (1984) propounded the upper echelons theory which suggests that attributes of those people that run the affairs of the firms on behalf of the shareholders are useful in predicting the results of the company. The theory clams that the cognitive base and values of the directors can influence the basis of their personalized understanding of the strategic situations that they face. Hambrick (2007) claims that the upper echelons theory shows a manager's knowledge base, values, skills and his ability to process data that impacts the process of making decisions.

METHODOLOGY

This study examines the impact of CEO characteristics proxy by CEO tenure and CEO duality the on firm value of listed insurance firms in Nigeria. The correlational research design is used for this study. The source of data is secondary and the technique of data analysis is panel data regression. The population and sample size of the study are the 23 listed insurance firms on the Nigeria Stock Exchange as at 31st December, 2022.

Variable Measurement

Table 1

Variables	*Acronym*	*Measurements*	*Sources*
Chief Executive Officer Tenure	CEOT	1 if CEO has dual position otherwise 0	Qawasmeh & Azzam, 2020
Chief Executive Officer Duality	CEOD	Number of years being as CEO	Qawasmeh & Azzam, 2020
Return on Assets	ROA	Net income to total assets in the same year	Setiawan and Gestanti,2022

Source: Developed by researchers based on literatures

Model specification for the study is stated below:

$ROA_{it} = \alpha + \beta 1CEOT_{it} + \beta 2CEOD_{it} + \sum_{it}$

Where:

α = Intercept

β = Parameter of explanatory variable

$\sum$= Error term

i= Firms

t= Time

ROA= Return on Assets

CEOT= Chief Executive Officer Tenure

CEOD= Chief Executive Officer Duality

$\beta 1$- $\beta 2$ = Coefficient of independent variables

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

Variables	*Observations*	*Mean*	*Minimum*	*Maximum*	*Std. Dev.*
ROA	230	0.027	0.153	0.235	0.077
CEOT	230	2.482	1.000	8.000	0.059
CEOD	230	0.258	0.000	1.000	0.339

Source: Stata output, 2023

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The result in the Table 2 above shows that ROA has a mean value of 0.027. The minimum and maximum values are 0.153 and 0.235 respectively. The standard deviation is 0.077.

Chief Executive Officer tenure has a mean value of 2.482; however, the minimum and maximum values are 1.000 and 8.000 respectively. The standard deviation is 0.059.

In the case of CEO duality, the mean value is 0.258 and the standard deviation is 0.339. The minimum value is 0.000 and the maximum value is 1.000.

Table 3. Correlation Matrix

Variables	*ROA*	*CEOT*	*CEOD*
ROA	1.000		
CEOT	0.128	1.000	
CEOD	0.019	-0.064	1.000

Source: Stata output, 2023

The Table 3 shows that the ROA of listed insurance firms in Nigeria has a positive correlation of 0.128 with chief executive officer tenure and the correlation between ROA and CEO duality is positive 0.019. The CEO tenure has a negative correlation of -0.064 with CEO duality.

Table 4. Regression Results (Robust OLS)

Variables	*Coefficients*	*z- values*	*p-value*
COET	0.121	2.980	0.001
CEOD	-0.002	0.782	0.004
Constant	0.724	-2.581	0.007
R- Square	0.50		
Wald chi2/FSta	49.57		0.000

Source: Stata output, 2023

The cumulative R2 of 0.50 shows that 50 percent of total change in ROA of listed insurance firms in Nigeria is brought about by the joint effort of CEO tenure and CEO duality meaning that the model is fit and supported by the Wald chi2 statistics of 49.57 with a p- value of 0.000.

The results show that chief executive officer tenure has a positive significant impact on firm value of listed insurance firms in Nigeria. This is can be seen from a z- value of 2.980, coefficient value of 0.121 with a p-value of 0.001. This finding is in line with the previous conducted by Supriyantoa and Khob (2022), Bsoul et al. (2022) but it does not disagree with the studies carried out by Imasuen et al. (2021), Khan et al. (2021).

The results reveal that CEO duality has a negative significant impact on firm value of listed insurance firm in Nigeria. This can be seen from a z-value of 0.782, coefficient value of -0.002 with a p- value of 0.004. This result is consistent with the prior studies such Mubeen et al. (2021), Doğan et al. (2013) but it is not in line with the prior studies conducted by Osazevbaru (2022), Wijethilake and Ekanayake (2020).

CONCLUSION

This study examines the impact of CEO characteristics on firm value of listed insurance firms in Nigeria. This study analyzes the impact of CEO tenure and CEO duality on the firm value of listed insurance firms in Nigeria. The findings of this study show that chief executive officer tenure is robustly correlated with the firm value of listed insurance firms in Nigeria whereas chief executive officer duality is negatively correlated with the firm value of listed insurance firms in Nigeria. The study therefore, concludes that CEO tenure has a strong impact on the firm value of listed insurance firms in Nigeria. This could be as a result of their experiences in the business over time while CEO duality has a negative influence on the firm value of listed insurance firms in Nigeria and the reason could be that CEOs are very powerful to the extent that they do not welcome good ideas from their employees.

RECOMMENDATIONS

In line with the findings and conclusions, the study recommends that the National Insurance Commission in Nigeria should set a reasonable number of years that CEOs will serve in listed insurance firms in Nigeria. This is because the more the times CEOs spend on the jobs the more experiences they will have in doing their jobs which could result in better performance. They go for courses. They attend seminars and conferences that are related to their firms which will make them to be more experienced for their jobs. The experiences that CEOs accumulate over the years could be useful in influencing the performance of listed insurance firms in Nigeria.

The National Insurance Commission in Nigeria should discourage CEO duality in listed insurance firms in Nigeria because when the same person serves as chairman and CEO there is a tendency that he or she will become too powerful that they will not encourage and accept good initiatives from their employees thereby affecting negatively the performance of listed insurance firms in Nigeria. This is evident in the findings of this study.

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