

Corporate Strategy and Financial Performance: Evidence from Selected Non-Life Insurance Company in Nigeria

By

Abass, Olufemi, Adebowale (olufemi.abass@lasu.edu.ng)

Olubusade, Temidayo, Jerry (temidayo.olubusade@lasu.edu.ng)

Shomuyiwa, Abibat, Bukola (abibat.shomuyiwa@lasu.edu.ng)

Department of Insurance, Faculty of Management Sciences, Lagos State University

ABSTRACT

The study investigates the nexus between corporate strategy and financial performance of insurance companies in Nigeria. The first ten (10) largest non-life Insurance companies are selected from the population of 48 using market share as the basis for the selection. The study utilizes secondary data extracted from the financial statements and annual Nigerian Insurers Association (NIA) Digest of individual insurance companies in the sample. Simple and multiple regressions are employed to analyze the data gleaned for this purpose. The study reveals a significance influence of pricing strategy on underwriting profit and market penetration on profit after tax of the companies respectively. In the same vein, the study's findings reveal that pricing strategy and market penetration have joint significant influence on profit after tax of selected non-life insurance companies in Nigeria. It concludes that the capitalization of these firms on the combination various strategies will help improve their financial results. The paper therefore recommends that the non-life insurance companies in Nigeria should carefully consider the adoption of both pricing and market penetration strategies in order to boost their financial results.

Keywords: Corporate Strategy, Market Penetration, Pricing Strategy, Underwriting Profit.

Introduction

The increase in competition in the financial sector has brought about changes in the area of diversification of activities through corporate strategy. Ironically, insurance business is also not left out in the adoption of the corporate strategies. The importance of corporate strategies in insurance may not be unconnected to its low performance occasioned by poor claims management, poor underwriting capacity, lack of innovation, low insurance penetration among other factors (Oira, 2017). Currently,

the Nigerian Insurance industry's contribution to Gross Domestic Product is less than 1.5% (Opeyemi, Popoola & Yahaya, 2023). The implication of the industry's low penetration rate is that most insurance companies will more likely find it difficult to experience substantial rise in profits and market share (Austine, 2020). Therefore, corporate strategy might be a veritable tool to mitigate some of the challenges militating against the growth and sustainability of the Nigerian Insurance

Industry. In this regard, corporate strategy is a strategic platform, or organization capability to cope by a business in different environment with a set of strategic capabilities. It gives course and direction to organizations whose vision is to meet its strategic objectives and to achieve economic superiority (Muteshi & Karuiki, 2020).

A thorough perusal of several literatures on this subject shows that empirical investigations on the nexus between corporate strategy and the performance of insurance firms in Nigeria have not been sufficiently unraveled. For instance, Kahonga and kariuki (2020); Oira (2017); Austine (2020) investigates the influence of growth strategy on the performance of insurance companies in Kenya. In the same vein, Klumpes and Schuerman (2011) carry out a survey on corporate, product and distribution strategies in the European life insurance industry. Riveros, Pedraja-Rejas, López & Martínez, 2008; Seifzadeh & Rowe, 2016; Kurniawan, Christiananta & Ellitan, 2018; Daniel, 2020; Muteshi & Karuiki 2020, also explore the linkage between corporate strategy and business performance in other sectors. However, another study reveals that there is dearth of literature on the nexus between corporate strategy and the performance of

insurance companies in Nigeria. This study however intends to fill this empirical gap by investigating the nature and dynamics of corporate strategy implementation and its influence on the performance of insurance companies in Nigeria.

Hypothesis: There is no significant effect of variables of competitive strategy (market penetration and pricing strategy) and financial performance variables (underwriting profit and profit after tax) of selected non-life insurance companies in Nigeria.

II. Literature Review

Corporate strategy refers to an organization's general framework, structural and financial operations, resource distribution across its numerous businesses and divisions that helps to achieve maximum sustainable value over time (Okwany, 2003). It determines the firm's identity, which distinguishes it from its competitors. From insurance operations point of view, corporate strategy involves various strategies that can increase insurance penetration, repeat purchase and financial inclusion which altogether strengthen the development of the insurance industry (Kurniawan, Christiananta & Ellitan, 2016). Measures of corporate strategy according to

Chen (2015), and Peteraf and Barney (2003), include market penetration, product development and pricing which are some of the elements of corporate strategy.

Market penetration refers to a method for increasing firm sales while staying true to the initial product-market strategy. It is the initial growth strategy that an organization pursues when it wants to expand (Efendioglu & Karabulut, 2010). A firm uses this technique to grow into a market where its present products already exist in order to sell more to existing clients. Aims of market penetration according to Mwangi and Paul (2020), include maintaining or expanding market share, ensuring domination of new markets, reforming a mature market and boosting use of existing consumers. In a related development, Daare (2016) opines that pricing and underwriting are key ingredients of corporate strategy in the insurance industry. In order to protect themselves from future losses, Mazviona, Dube and Sakahuhwa, (2017), suggest that insurance companies may decide to take a conservative underwriting decision or be more aggressive which may lead to increase in market share.

In the same vein, cost control and operational effectiveness are essential elements of business strategy that have a

direct impact on profit after tax. Financial strength may be strengthened by increasing operational efficiency through process simplification, technology utilization, and cost containment measures (Mwangi & Murigu, 2015). Furthermore, insurance firms' tax planning and compliance procedures are influenced by their company strategy. Insurance companies can reduce their tax obligations and boost their profit after taxes by organizing their activities and transactions in a tax-efficient way (Berhe & Kaur, 2017).

This paper is however anchored on the resources-based theory. Resource Based View (RBV) analyzes and interprets resources on how organizations achieve sustainable competitive advantage (Madhan, 2010). The RBV focuses on the concept of difficult-to-imitate attributes of the firm as sources of superior performance and competitive advantage. Wernerfelt (1985) defines company's resource as both tangible and intangible assets which are tied semi-permanently to the firm. The RBV asserts that ownership and control of strategic assets determines which organizations will earn superior profits and enjoy a position of competitive advantage over others. In the insurance industry, competitive edge can be gained when an insurance company utilizes

its asset and capabilities through underwriting, pricing, innovation or knowledge (Seifzadeh & Rowe, 2019).

Several empirical literatures have investigated the influence of corporate strategy on the performance of firms. Oira (2017) investigated the influence of corporate strategies on the performance of insurance companies in Kenya. Primary and secondary data sources were used to gather information on both the dependent and independent variables. The study comprised of thirty-five insurance companies that were in operation in Kenya as at 31st December, 2016. The study concluded that corporate strategy has significant influence on the performance of insurance companies in Kenya. Relatedly, Mwangi and Paul (2020) survey the market penetration strategy and performance of agrochemical Companies in Nakuru County, Kenya. The study reveals that market penetration strategy is the most important predictor of performance of agrochemical companies. Also, Seifzadeh and Rowe (2020) investigate the role of corporate controls and business-level strategy in business unit performance among 142 Iranian corporations and 1,822 of their subsidiaries. The study discovers that the implementation of business unit strategy and corporate controls has a significant effect on

financial performance but does not have a similar effect on market performance.

Stiroh (2004), investigates the effects of diversification across US banks; the findings show that diversification reduces net interest income volatility and is linked to high risk and declining revenue, suggesting that financial institutions do not gain much from it. Based on a period of observation spanning from 1997 to 2004, Stiroh (2006), investigates the factors that influence risk in US bank holding companies and found that non-interest activities within the banks are extremely volatile, resulting in variations in risk levels among financial institutions and adding complexity to the firms' operations.

Stiroh (2004) examines the impact of diversification among US banks and the results indicate reduction in volatility of net interest income and that diversification is associated with high risk and low profit implying that financial institutions derive low benefit from diversification. Stiroh (2006) researches the determinants of risk in US bank holding companies based on the period of observation from 1997 to 2004 and reported that non-interest activities in the banks are highly volatile, creates difference in the risk level among the financial

institutions and leads to complexity in the operations of the firms.

Using a sample of 370 finance firms and 1000 mergers in the period from 1971 to 1987, Boyd, Graham and Hewitt (1993) queries the effect of merger between banking and non-banking holding firms, the result depicts that the merger of banking firms with insurance firms may reduce risk while merger of banking holding firms with securities firms and real estate firms may increase risk. In addition, Strioh and Rumble (2006) study whether diversification has led to improved performance of US financial holding companies based on the period from 1997 to 2002. They found that firms drive benefits from diversification but the benefit is removed by the extra risk to which the firms are exposed due to the volatility of the non-traditional activities which may not be more profitable than the traditional activities.

Chen and Yu (2012) study the association between business performance, management ownership, and diversity using data from 98 companies that were listed between 1996 and 2001 on the Taiwanese stock exchange. Regression analysis is employed to analyse the data gleaned for the study. The findings of the study revealed that diversity improves

short-term company performance but has little effect on mid-term performance. It also shows that businesses that pursue conglomerate diversification strategies outperform those that pursue concentric diversification methods.

A research on hotel competitive tactics in Malaysia is embarked upon by Jonsson & Devonish (2009), and they discover that, companies with appropriately deployed competitive models of strategy outperformed those without any discernible models of competition. The study verifies the correlation between enhanced competitiveness of a company's operations, consumer satisfaction, and Organisational success.

III. Methodology

The research targets non-life insurance companies in Nigeria. There are forty-three (43) non-life insurance companies in Nigeria (National Insurance Commission). Ten (10) largest non-life Insurance companies were selected based on market share using the Nigeria Insurance Association Digest (2021). Data is extracted from the financial statements and annual Nigerian Insurers Association (NIA) Digest of individual insurance companies. Appendix 1 depicts proxies of market penetration, pricing

strategy, underwriting profit and profit after tax as extracted from the annual financial reports of the selected non-life insurance companies in Nigeria.

The econometric model is therefore seen as:

$$Y_1 = a + \beta_1 X_1 + e \text{-----equ 1}$$

$$Y_2 = a + \beta_2 X_2 + e \text{-----equ 2}$$

$$Y_1 = a + \beta_1 Y_1 + \beta_2 X_2 + e \text{-----equ 3}$$

Where:

Y_1 = Underwriting profit

Y_2 = Profit after Tax

X_1 = Pricing Strategy

X_2 = Market Penetration

a = Constant term

e = Error term assumed to be constant

IV. Results and Discussions

Descriptive statistics in appendix 2 reveals a cross-sectional normal distribution among all the variables; pricing strategy; market penetration; profit after tax; and underwriting profit at 5% critical value as their JB probability is lesser than 5%. On the other hand, appendix 3 shows the correlation factor of the variables. The result shows there is a weak and positive relationship between revenue growth rate measure for pricing and underwriting profit, at the value of 0.00403, but a negative relationship between revenue growth rate measure for pricing and profit after tax and the market

penetration at the negative values showed above. Unit root test in appendix 4 shows the series pricing strategy is integrated at order 0, market penetration is integrated at order 0, profit after tax and underwriting profit is integrated at order 0, which means they are all stationary at level. Thus, the $I(0)$ in the models series justify the use of the bounds testing methodology for testing whether the significance of the model contains a level of the dependent variable and the regressors as proposes by Pesaran, Shin and Smith (2001).

Appendix 5 shows the Panel regression result coefficients, standard error, t-statistics and probability values for all the selected variables. The result coefficients show the influence of specified independent variable of the impact of competitive strategies on the performance of insurance industry, offering insights and recommendations to mitigate the negative effects and promote sustainable and inclusive growth insurance industry and it is observed that a unit change in variable such as profit after tax (-0.067142, $p < 0.05$) and pricing strategy (0.008147, $p > 0.05$) will result into an increase in the profit of the Non-life insurance companies in Lagos state in the long run. This implies that not all the indicators of pricing strategies regress on

profit after tax contributes positively towards the performance of the non-life insurance companies. Similarly, the coefficient of determination (R-square) value of 0.049 indicates that 4.90% of variations in pricing strategies are attributable to changes in variables such as performance of non-life insurance companies while standard errors of the regression value of 0.368725 supports the overall fitness. Appendix 6 tests significant effect of pricing on the underwriting profit of non-life insurance companies in Nigeria. The test reveals that pricing strategy has a negative but significant effect on underwriting profit of the selected non-life insurance companies. However, discloses that market penetration has a negative but not significant effect on PAT of the insurance companies in Nigeria. While hypothesis indicates that pricing strategy and market penetration has joint significant effect on the profit after tax of selected non-life insurance companies in Nigeria.

Evidence from the findings reveal that the coefficient of determination (R-square) value of 0.718175 indicates that 71.82% of variations in performance of insurance industry in Nigeria are attributable to changes in variables of competitive strategies such as pricing and market

penetration while standard error of the regression value of 0.118111 supports the overall fitness of the model in explaining the effects of competitive strategies on the performance of insurance industry in Nigeria. The model explains that the combination of both market penetration strategy and pricing strategy will give insurance companies better financial results compared to a situation where these firms decide to focus on either of the strategies. The findings of this result conform to the submission of Oira (2017) who concluded that corporate strategy has significant influence on the performance of Insurance companies in Kenya.

V Conclusion and Recommendations

Like every other firm, insurance companies are faced with intense competition which may affects their performance. Thus, the capitalization of these firms on the combination various strategies will help improve their financial results. The adoption of a single strategy would affect different facets of insurance operations in a distinct manner which may not yield the desired result for the companies.

Based on the findings, it is recommended that the firms in question should carefully consider the adoption of both pricing and

market penetration strategies. As a result of the intense competition in the Nigerian insurance industry, Insurance firms need to take painstaking effort to conduct market research before make decisions on prices of insurance products in different market

segment and customer groups. More importantly, Insurance firms are enjoined to dwell significantly on product development ploys, diversification schemes and service quality gambit.

REFERENCES

- Aduloju, S. A., Awoponle, A. L. & Oke, S. A. (2008). Recapitalization, Mergers and Acquisitions of Nigeria Insurance Industry: *Journal of Risk Finance*, 9(5), 449- 466.
- Austine, O. O. (2020). *Competitive Strategies and Performance of Insurance Companies in Kenya*: An Unpublished Msc Dissertation.
- Boyd, J. H., Graham, S. L. & Hewitt, R. S. (1993). Bank Holding Company Mergers with Non-Bank Financial Firms: Effects on the Risk of Failure. *Journal of Banking and Finance*, 17, 43-63
- Chen, K. (2015). Insurance Competitiveness and Sustainability. *International Journal of Management*, 3, 13-34.
- Chen, C.J. & Yu, C.M. J. (2012). Managerial Ownership, Diversification, and Firm Performance: Evidence from An Emerging Market, *International Business Review*, 21, 518-534.
- Daare, W.J. (2016). Determinants of Non-Life Insurance Companies' Profitability: An Empirical study in India. *International Journal of Innovative Research and Advanced Studies (IJIRAS)*, 3(13), 6-11.
- Efendioğlu, A. M. & Karabulut, A. T. (2010). Impact of Strategic Planning on Financial Performance of Companies in Turkey. *International Journal of Business and Management*, 5(4), 10-17.
- Hayes, R. H. & Wheelwright, S.C. (2013). *Restoring our Competitive Edge: Competing Through Manufacturing*, Wiley, New York.
- Kahonga, J. & Kariuki, P. (2020). The Growth Strategy and The Performance of Insurance Companies in Kenya. *Journal of Management*. 7(3), 133 – 150.
- Koste, L. & Malhotra, M. (2010). A Theoretical Framework for Analyzing The Dimensions of Manufacturing Flexibility. *Journal of Operations Management*, 18(1), 75-94.
- Mazviona, B.W., Dube, M., & Sakahuhwa, T. (2017). An Analysis of Factors Affecting The Performance of Insurance Companies in Zimbabwe. *Journal of Finance and Investment Analysis*, 6, 11 – 30.
- Muteshi, D. & Kariuki, A. (2020). Corporate Strategy, Networking and Firm Performance in Africa. *Expert Journal of Business and Management*. 8(2), 139-146
- Mwangi, M., & Murigu, J.W. (2015). The Determinants of Financial Performance in General Insurance Companies in Kenya. *European Scientific Journal*, 2(1), 288-297.
- Oira, R. T. (2017). *The influence of corporate strategy on the performance of insurance companies in Kenya*. A Published Masters Dissertation
- Opeyemi, A.M., Popoola, O.P. & Yahaya, O.A. (2023). Firm specific attributes and financial performance of listed insurance companies in Nigeria. *Gusau Journal of Accounting and Finance*, 1(2)
- Okwany, D. (2003). *Influence of product assortment on consumer preference in store selection: a case of supermarkets in Nairobi*: Unpublished MBA research project. University of Nairobi.
- Kurniawan, R., Christiananta, B., & Ellitan, L. (2016). Evaluation of corporate strategy and dynamic capability to business performance. *International*

- Journal of Scientific Research and Management*, 6(3), 15-23.
- Peteraf, M., & Barney, J. (2003). Unravelling the resource-based tangle. *Managerial and decision economics*, 24(4), 309–323.
- Seifzadeh, P., & Rowe, W. G. (2019). The role of corporate controls and business-level strategy in business unit performance. *Journal of Strategy and Management*, 12(3), 364–381.
- Stiroh, K. (2004). Diversification in banking: is noninterest income the answer? *Journal of Money, Credit and Banking*, Vol. 36 No. 5, pp. 853-882. 56.
- Stiroh, K. (2006). New evidence on the determinants of bank risk. *Journal of Financial Services Research*, 30, 237-263.
- Stiroh, K. & Rumble, A. (2006). The dark side of diversification: The case of US financial holding companies. *Journal of Banking and Finance*, 30, 2131-2161.
- Wernerfelt, B. (1985). Brand loyalty and user skills. *Journal of Economics Behavior and Organization*, 6.

Appendix 1

VARIABLES	METRICS	DEFINITION/MEASUREMENT	Source
Independent variable: Competitive Strategy	Market Penetration	Market share= Company's total sales divided by total market sales multiply by 100.	Kahonga & Kariuki (2020); Austine (2020)
	Pricing strategy	$\frac{\text{New growth rate} - \text{Old growth rate}}{\text{Old growth rate}} \times 100\%$	Oira (2017)
Financial Performance	Underwriting Profit	Natural log of Underwriting Profit	Daare (2016)
	Profit After tax	Total tax expense. Premium received minus Losses	Daare (2016); Opeyemi, Popoola & Yahaya (2023)

Appendix 2 Descriptive Statistics

	PS	MP	PAT	UP
Mean	0.069368	0.545285	13.53026	12.52516
Median	0.103210	0.494492	13.48603	14.26701
Maximum	1.245330	1.219794	16.36469	15.57411
Minimum	-0.982240	0.127219	8.559678	5.562142
Std. Dev.	0.388155	0.220332	1.321343	3.294670
Skewness	-0.631408	0.662917	-0.607566	-1.000696
Kurtosis	5.205900	2.882347	4.542050	2.140091
Jarque-Bera	26.65037	7.308182	15.89966	19.57318
Probability	0.000002	0.025885	0.000353	0.000056

Source: Author's Computation (2023) Using E-views 9

(PS means Pricing Strategy; MP means Market Penetration; PAT means Profit After Tax; UP means Underwriting Profit)

Appendix 3 Shows the correlation factor of the variables

	PS	MP	PAT	UP
PS	1	-0.1055	-0.19822	0.00403
MP	-0.10551	1	-0.01979	0.11721
PAT	-0.19822	-0.0197908	1	0.45501
UP	0.00403	0.117208	0.45501	1

Source: Author's Computation (2023). Using E-Views 9

(PS means Pricing Strategy; MP means Market Penetration; PAT means Profit After Tax; UP means Underwriting Profit)

Appendix 4 Unit root test table

UNIT ROOT TEST				
Variable	Test Order	Critical Value	P-value	Order of integration
PS	Level	-4.61209	0.0000	$I(0)$
MP	Level	-6.31849	0.0000	$I(0)$
PAT	Level	-4.45372	0.0000	$I(0)$
UP	Level	-52.5027	0.0000	$I(0)$

Source: Author's Computation (2024). Using E-Views 9

Appendix 5: Regression Analysis using Ordinary Least Squares Result

Dependent Variable: UP				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PS	-0.067142	0.032662	-2.055645	0.0429
MP	0.008147	0.012983	0.627563	0.5320
C	0.835002	0.393399	2.122534	0.0367
R-squared	0.049141	Mean dependent var		0.033095
Adjusted R-squared	0.015582	S.D. dependent var		0.371631
S.E. of regression	0.368725	Akaike info criterion		0.886369
F-statistic	1.464300	Durbin-Watson stat		1.568486
Prob(F-statistic)	0.230058			

Source: Author's Computation (2023) Using E-views 9

Appendix 6 Regression Analysis using Ordinary Least Squares Result

Dependent Variable: PAT				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PS	0.004076	0.010530	0.387069	0.6997
MP	-0.002268	0.004260	-0.532465	0.5958
C	0.059723	0.132230	0.451658	0.6527
R-squared	0.718175	Mean dependent var		0.549086
Adjusted R-squared	0.708344	S.D. dependent var		0.218703
S.E. of regression	0.118111	Akaike info criterion		-1.390955
F-statistic	73.05142	Durbin-Watson stat		1.842260
Prob(F-statistic)	0.000000			

Source: Author's Computation (2023) Using E-views 9