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Ownership Structure and Timeliness of Financial Reporting by Listed Insurance Firms in Nigeria

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Ownership Structure and Timeliness of Financial Reporting by Listed Insurance Firms in Nigeria

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Abstract
This study investigates the relationship between ownership structure and financial reporting timeliness among listed insurance firms in Nigeria. The financial statements of 18 listed insurance companies from 2017-2021 were examined to investigate the impact of institutional ownership, managerial ownership, and ownership concentration on the timeliness of financial reporting. Data obtained were analyzed using regression analysis to determine the associations between ownership structure variables and financial reporting timeliness, measured as the duration between the financial year-end and the date the financial statement is published to the public. Findings revealed that there was no statistically significant relationship between managerial ownership and reporting timeliness but there was a statistically significant relationship between institutional ownership, ownership concentration and reporting timeliness. It is recommended that firms adopt a more diversified ownership structure where ownership is not concentrated in few entities and there is a greater likelihood to prioritize adherence to reporting timelines.

Keywords: Managerial Ownership, Institutional Ownership, Ownership Concentration, Financial Reporting Timeliness

Introduction

A firm's ownership structure refers to the types of shareholders and the percentage of ownership each shareholder holds. The ownership structure is a crucial control instrument for effective governance, and how it is set up can significantly impact how management and shareholders can exercise authority and how power is concentrated. The importance of firms' financial statements cannot be overemphasized because it provides a clear view of their performance. When this financial information is released as at when due, it connotes timeliness. Timeliness is an essential characteristic of financial reporting because it enhances the relevance of financial information. Investors worldwide depend on management's ability to report financial information for firms to improve quick decision-making quickly. According to the International Accounting Standard Board (IASB), communication becomes less valuable over time. As a result, information in financial reports becomes less relevant for decision making as time passes (Efonbi & Okougbo, 2015).

While emphasizing timeliness, it is also important to mention that the report's accuracy should also be a priority because if it is reported on time without accuracy, then the information is useless. Therefore, financial information must be reported in a timely and accurate manner to prevent it from losing value. All

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over the world, accounting standard-setting entities have considered financial reporting timeliness as an essential quality of financial information, as a delay would cost users of financial information. Financial reporting timeliness, therefore, refers to the provision of financial information to users of financial information quickly to enhance. According to Owusu-Ansah (2000), ensuring the promptness of financial reports plays a crucial role in mitigating insider trading, leaks, and rumors within the capital market. Having financial information that is both timely and accurate is vital for attracting investors and instilling confidence in them.

One of the reasons why a firm may not timely report its financial statement is due to the kind of ownership structure it employs. Some firms have a complex ownership structure which ultimately makes it difficult to determine who is responsible for the financial reporting and decision-making of the company. Situations like this can affect the quality of financial reporting. Studies have revealed that companies with higher proportions of insider ownership, such as managerial ownership, generally experience longer delays in releasing their financial reports compared to firms with lower insider ownership ratios. This delay in financial reporting can often result in legal consequences for the companies involved. In 2018, the National Insurance Commission (NAICOM) imposed sanctions on 18 insurance companies for their failure to submit their financial statements on time. The commission took this action because the delayed submissions deprived regulators, policyholders, insurance intermediaries, analysts, and other stakeholders of crucial information about the companies' performance and financial results. Furthermore, there have been recent instances where the licenses of insurance firms were suspended due to their non-compliance with publishing financial information to the relevant authorities. Such measures highlight the importance of timely financial reporting for insurance companies to maintain transparency and accountability within the industry. The possibility of manipulation by managers and management in terms of the firm's earnings gives a false view of the firm's financial position to the public and users of the information. The insurance sector in Nigeria holds a significant stake in the economy of Nigeria, with a market capitalization of $1.4 billion which indicates a large volume of investors and shareholders. The economy of Nigeria may be negatively impacted in several ways by this absence of timely reporting. It may damage investor trust in the insurance industry and deter investment. Additionally, it may be challenging for regulators to keep an eye on and control the actions of insurance companies, which may raise the risk of fraud and other financial crimes. Recent research in Nigeria that examined the link between the timeliness of financial reporting by listed Insurance firms in Nigeria and their ownership structure only utilized two variables of ownership structure: director's shareholding and institutional ownership (Alabi, Issa & Usman, 2022).

The aim of this study was therefore to address the issues raised above and to achieve this the specific objectives of the study were to; examine the current status of the timeliness of financial statements among listed insurance firms in Nigeria and, to determine the effect of three ownership variables; managerial ownership structure, institutional ownership and ownership concentration on the financial reporting timeliness of listed insurance firms in Nigeria. The study developed three hypotheses to test the relationship between the variables of ownership structure and the timeliness of financial reporting by listed insurance firms listed in Nigerian.

Literature Review

The ownership structure is described by the equity distribution regarding votes, capital, and the identities of the equity owners, according to Jensen and Meckling (1976). The ownership structure is one of the essential governing techniques that could affect management's decisions, especially the timely reporting of financial statements. In recent years, there has been engagement in ownership structure in Nigeria, mainly due to the ownership tussle among firms. Due to the conflict of interest between owners and management, there have also been problems within the company between shareholders and managers. The concerns surrounding the conflict of interest between managers and shareholders are further explained by the agency theory which centers on who has authority over all decisions affecting the company.

Theoretical Framework

Several leading theories are involved with the ownership structure and financial reporting timeliness of firms. However, this study will focus on the principal agency and stakeholder theories.

Agency Theory

When Berle and Means first proposed the agency theory in 1932, they stated that a decline in ownership and control of large organizations was responsible for a rise in the gap between ownership and control. This particular situation provides a platform for mangers to pursue their own interest instead of maximizing returns of shareholders. The agency theory primarily focuses on the formal arrangement between the manager and the shareholder, under which the latter delegates to the former management of their company

(Jensen & Meckling, 1976). This is an agreement between two or more people or things to carry out particular tasks for the leader, with the agent having the power to decide. According to Fama and Jensen (1983), the agency theory also gives a general overview of how the board of directors monitors the management and majority stockholders while defending the interests of the minority shareholders. One of the central tenets of agency theory is that business directors provide financial information different from the core of the financial transactions to maximize their wealth at the expense of creditors or shareholders. Therefore, the primary concern presented by the agency theory is to ensure that business directors are held accountable for serving the company's interests rather than simply their own. The literature influenced by agency theory argues that governance mechanisms like independent organizations board members, strong ownership control, managerial ownership, and various board committees should be implemented in order to match the interests of the agents and principals and ensure that corporations are run in the best interests of the principals (Panda & Leepsa, 2017).

Stakeholders Theory

In 1984, Edward Freeman released the first edition of his stakeholder’s theory. He heightened the understanding of the connections between and effects on a company's numerous stakeholders. According to the hypothesis, CEOs typically postpone reporting negative news when there isn't a chance to do so due to the need for mandated disclosure (Watts & Zimmermam, 1990). Managers ensure that the negative impact on the stock price is postponed by postponing adverse news. Stakeholder theory is a development of the agency viewpoint, which anticipates that the board of directors will protect the interests of the stockholders. The stakeholder theory is a framework that states that companies do not only have responsibilities to their owners but also to a wide range of individuals and groups that are affected by the company's actions (L'Huillier, 2014). The stakeholder’s theory was adopted to close the gap made by the agency theory. The agency problem has been widened to include numerous principles within the framework of the stakeholder's theory (Sanda, Garba & Mikailu 2011). It also tries to answer the issue of which stakeholder group management should pay the most attention to. According to the stakeholder theory, businesses must consider the interests of all parties impacted by their decisions as part of their societal responsibility. Furthermore, Dogan, Coskun and Celik (2007) found that the stakeholder’s theory frequently provides a clear explanation for managerial conduct. Managers make sure that the negative impact on the stock price occurs later by withholding adverse news. On the other hand, delaying the announcement of good news stops other resources from undermining it. The current claim is that withholding negative news essentially amounts to keeping stakeholders in the dark. The timely distribution of corporate reports and its subsequent relevance to, or repercussions on the firm's value make this idea pertinent to the study. Hassan and Zakiah (2014) state, that in order for the users of financial information to thrive in a highly competitive environment, timeliness must be unquestionably recognized as a crucial qualitative attribute of financial information.

Empirical Review

Many researchers have over the years examined factors that could contribute to the timeliness of financial reporting by firms and one factor that has been linked to having a significant influence is corporate governance. Several corporate governance attributes have been found to have a significant effect on the timely reporting of firms though the findings have been mixed with some showing a significant positive relationship, some showed a significant negative relationship while others showed no significant relationship at all. In the study by Sakka and Jarboui (2016), corporate governance was found to play a very important role in the quality and timeliness of financial reporting by firms listed on the Tunisian Stock Exchange. Board of director's size and board diversity which is thought to help improving the provision of experience and expertise has been adjudged to foster the desire by the board to disclose more information and to meet up with timeliness in the financial reporting process (Singh, Mathur & Gleason, 2004; Azuibike & Aggreh, 2014). However, this position has been debunked by other researchers who posit that a negative relationship exists between board size and the timeliness of financial reporting (Eng & Mak, 2003: Sakka & Jarboui, 2016) or that no significant relationship exists (Haniffa & Cooke 2002). Other factors that have been found to have a significant relationship with the timeliness of financial reporting include audit committee size (Syofyan, Septiari, Dwita & Rahmi, 2021) auditor characteristics – independence, brand, fees, specialization, tenure (Abernathy, Beyer, Masli, & Stefaniak, 2014; Ika & Ganzali, 2012; Manita & Elommal, 2010: Waris & Haji Din, 2023), Firm Size (Wan-Hussin & Bamahros, 2013) and leverage (Al-ghanem & Hegazy, 2011).

Managerial Ownership

The percentage of equity that managers own in a company is referred to as managerial ownership. The purpose of management ownership is to grow the capital of the company and to motivate managers to align their interests with those of the business (Fich, Harford & Tran, 2015). This ownership structure is usually considered as a way to align the interests of managers with those of shareholders since managers who have a sizable ownership position in the firm may be more motivated to work for the long-term success of the company. Alabi, Issa and Usman (2022) who investigated the relationship between director's holding and reporting timeliness in listed insurance companies in Nigeria found that the relationship was significant but negative.

Institutional Ownership

A major share in a business that is held by powerful financial institutions like pension funds or endowments is referred to as institutional ownership. Institutions obtain enormous sway over a company's management when they buy a sizable chunk of its stock. Managers are motivated to release financial statements on schedule because of the ongoing institutional investors' scrutiny. These institutional shareholders are often businesspeople who use their knowledge to closely oversee the management of the firm to make sure that their goals correspond with that of the organization. Ishak, Sidek and Rashid (2010) posit that institutional ownership in the market, particularly in an emerging economy, has positive effects on corporate governance that encourage businesses and their auditors to increase the timeliness of financial reporting. This position of a positive and significant relationship is supported by Amari and Jarboui (2013) however Alabi, Issa and Usman (2022) found that the relationship between institutional ownership and reporting timeliness was significantly negative.

Ownership Concentration

According to Ohiana, Eniola and Lateef (2018), Ownership concentration is the percentage of a company's ownership or stake held by investors who have a controlling interest or a sizable stake. Because of their increased incentive and power to oversee and regulate management decisions, shareholders benefit from ownership concentration. As a result, concentrated shareholders use their sizable interest to reduce conflicts between management and the company by being more vigilant about watching over and safeguarding their investments through both current and future cash flows (Alkhawaldeh, 2012). Studies that have examined the relationship between ownership concentration and reporting timeliness have come up with mixed results with some reporting a significant positive relationship (Amari and Jarboui, 2013) and others reporting a significant negative relationship (Waris & Haji Din, 2023)

Financial Reporting Timeliness

Timeliness implies providing financial information to users while it remains valuable and significant. Decision-makers can access this timely financial information to make predictions and choices before its impact diminishes (Ku Ismail & Chandler, 2007). According to Abdulah (2006), the timeliness of financial reporting in emerging economies is essential. This is because there is a more significant time lag and fewer data available in these markets. Furthermore, timely financial reporting gives a chance to increase the effectiveness and timing of resource allocation to lessen the publication of heterogeneous information, i.e. financial information should be quickly accessible to all users to enable important choices regarding finances and investments (Ahmed & Kamarudin, 2003).

Methodology

The research design is the strategy used to integrate the different components of the study coherently and logically to ensure that the research problem is effectively addressed. It is the blueprint for data collection, measurement, and analysis. For this study, the research design that would be in use is ex-post facto as the study relied on past data to determine the impact of managerial, institutional ownership structure and also ownership concentration on the timely reporting of listed insurance firms. The adoption of this research design was based on the fact that the study would rely on data obtained from the annual financial statement of listed insurance firms quoted on the Nigerian Stock Exchange as of 31st December 2021.

According to the Nigerian stock exchange, there are 21 listed insurance firms in Nigeria and this serves as the population of the research. Because the study's total population size was considered as its sample, the census technique was used. Due to unavailability of corporate reports for many of the firms up to the year 2022 when data was collected only 18 Insurance companies were used for this study. Data about the managerial ownership structure, institutional ownership and ownership concentration was obtained from the audited yearly financial reports of the listed insurance firm for the years 2017 – 2021. Regression analysis was utilized to examine the relationships between several independent ownership variables and the reporting timeliness which was the single dependent variable. The model specification formulated for the study using a linear regression model is as follows:

$$FRT = \beta0 + \beta1\ MAGOW + \beta2\ INSOW + \beta3\ OWNCO + \beta4\ FS + \varepsilon$$

Where:

FRT represents financial reporting timeliness

MANOW represents Managerial Ownership

INSOW represents Institutional Ownership

OWNC represents Ownership Concentration

FS represents Firm Size

β_0 is the intercept

β_1 to β_4 are the coefficients for the independent variables ε is the error term

Measurement of Variables

The variable of Managerial ownership is measured as the percentage of shares owned by the firm's managers to the total number of shares of the firm (Ohiani, Eniola & Lateef, 2018). The variable of Institutional ownership is measured as the percentage of shares owned by institutional investors to the total number of shares of the firm (Fakhfakh, Sakka & Jarboui, 2016). Ownership concentration is measured by the ratio of the number of shares the largest shareholder holds to the total number of shares (Klai & Omri, 2011; Al Tahat, 2010; Ishak et al, 2010). Financial reporting timeliness was measured by the number of days between the accounting year's end and when the financial statement is published (Ika & Ghazali 2012; Dibia & Onwuchekwa, 2013). Firm size was introduced as a control variable and it was measured by the total asset value of the firm (Oshodin & Ikhatua 2018).

Findings and Results Discussions

Analysis of Objective One

According to the descriptive statistics presented in Table 4.1 above insurance companies in Nigeria exhibit an average financial reporting timeliness of 133 days. This signifies a delay of over four months in preparing and publishing their financial reports. The relatively high standard deviation of 64.015 indicates a significant dispersion of values around the mean, suggesting that the timeliness of financial reporting varies widely among the companies.

Among the sampled insurance companies the average institutional ownership stands at 56%. This indicates that ownership of these insurance companies is predominantly concentrated among various institutions. Institutional ownership ranges from 20% to 85%, reflecting variations in ownership patterns across the companies. The average ownership concentration score is 0.394541, indicating a relatively low concentration of ownership within the selected insurance firms. These descriptive statistics provide valuable insights into the characteristics and variations observed in the measured variables among the selected insurance companies in Nigeria. The noticeable delay in financial reporting timeliness highlights the need for improvements in the prompt publication of financial reports by insurance firms, enabling stakeholders to make well-informed decisions.

Table 4.1: Descriptive Statistics of Variables

	FRT	MANOW	INSOW	OWNCO	TOTAL ASSET
Mean	133.6333	7.775316	56.20555	0.394501	6850000
Median	103	1.385181	59.59061	0.345156	22460518
Maximum	337	64.82299	84.2662	0.809471	15700000000
Minimum	30	0	20.62	0.072624	0
Std Dev	64.015	14.93226	18.23888	0.190526	2830000000
Skewness	0.931	2.609	-0.14768	0.476816	4.236157
Kurtosis	3.596126	9.186139	2.0001619	2.294618	19.60973
Jarque Bera	14.35061	245.64980	4.06502	5.276166	1376.167
Probability	0.0000765	0	0.131006	0.071498	0
Sum	12027	699.7784	5058.5	35.50871	6.51E+ 10
Sum sq dev	364714.9	19844.56	29606.45	3.230777	7.51E+20
Observations	90	90	90	90	90

Test of Hypothesis One: The second objective of the study was to assess the influence of managerial ownership on financial reporting timeliness and the null hypothesis is stated as follows:

H_0: Managerial ownership structure has no significant influence on the financial reporting timeliness of insurance companies in Nigeria.

The findings from Table 4.2 reveal the results of the regression analysis examining the relationship between managerial ownership and financial reporting timeliness in Nigerian insurance firms. The coefficient for managerial ownership (-0.80221) suggests a negative association, indicating that as managerial ownership increases, there is a tendency for financial reporting timeliness to decrease. However, it is essential to assess

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the statistical significance of this relationship. The p-value for managerial ownership is computed as 0.0842, which is higher than the commonly used significance level of 0.05. Consequently, the null hypothesis is retained that managerial ownership structure has no significant influence on the financial reporting timeliness of insurance companies in Nigeria.

Table 4.2: Regression Analysis of the Influence of Managerial Ownership

Variable	Co efficient	Std error	T-statistic	Prob
MANOW	-0.80221	0.459103	-1.747	0.0842
TOTAL ASSET	-0.00263	0.000236	-1.11235	0.2691
C	143.2399	7.34485	19.50208	0

Test of Hypothesis Two: The third objective of the study was to assess the influence of institutional ownership on financial reporting timeliness and the null hypothesis is stated as follows:

H_0: Institutional ownership structure has no significant effect on the financial reporting timeliness of insurance companies in Nigeria.

Table 4.3: Regression Analysis of the Influence of Institutional Ownership

Variable	Coefficient	Std error	T statistic	Prob
INSOW	-0.62548	0.361537	-1.73007	0.0087
TOTAL ASSET	-0.000000439	2.263E-09	-1.94314	0.0553
C	173.6381	21.66063	8.016302	0

The findings from Table 4.3 present the results of a regression analysis examining the relationship between institutional ownership structure and financial reporting timeliness in Nigerian insurance firms. The coefficient for institutional ownership (-0.62548) indicates a negative association, implying that as institutional ownership increases, there is a tendency for financial reporting timeliness to decrease. To determine the statistical significance of this relationship, the p-value is examined. The computed p-value is 0.0087, which is lower than the significance level of 0.05. Therefore, we reject the null hypothesis, indicating a statistically significant effect of institutional ownership on the financial reporting timeliness of listed insurance firms in Nigeria. In other words, the observed negative relationship is not likely due to chance, but rather reflects a meaningful impact of institutional ownership on financial reporting timeliness.

Test of Hypothesis Three: The fourth objective of the study was to assess the influence of ownership concentration on financial reporting timeliness and the null hypothesis is stated as follows:

H_0: Ownership Concentration has no significant effect on the financial reporting timeliness of insurance companies in Nigeria.

Table 4.4: Regression Analysis of the Influence of Ownership Concentration

Variable	Coefficient	Std error	T statistic	Prob
OWNCO	-4.14042	35.80272	-1.23288	0.0221
TOTAL ASSET	-0.000462	2.33E-09	-1.98121	0.0508
C	156.0476	16.12139	9.679539	0

The findings from Table 4.4 present the results of the regression analysis that investigates the relationship between ownership concentration and financial reporting timeliness in Nigerian insurance firms. The coefficient for ownership concentration (-4.14042) suggests a negative association, indicating that as ownership concentration decreases, there is a tendency for higher financial reporting timeliness among the insurance firms. To determine the statistical significance of this relationship, the p-value is considered. The computed p-value is 0.0221, which is lower than the commonly used significance level of 0.05. This indicates a statistically significant effect of ownership concentration on financial reporting timeliness among the listed insurance firms in Nigeria. Thus, the null hypothesis is rejected, supporting the presence of a significant relationship between ownership concentration and financial reporting timeliness.

Discussions of Findings

The average financial reporting timeliness among insurance companies in Nigeria is 133 days, indicating a significant delay of over four months in preparing and publishing their financial reports. This finding highlights the need for improvements in the promptness of financial reporting among these firms. The results of the study on the timely filing of financial statements by Nigeria's listed insurance businesses have major ramifications for a number of stakeholders, including the companies themselves, regulators, investors, and the overall financial market.

The findings imply that managerial ownership has no statistically significant effect on timely financial reporting which does not tally with the findings by Alabi, Issa and Usman (2022) who found a statistically significant and negative effect. Even though the coefficient also suggests a negative relationship, the absence of significance suggests that the association may have arisen by chance rather than as a result of a real causal relationship. As a result, it is not a good idea to merely blame managerial ownership for discrepancies in financial reporting timeliness. This research suggests that other governance and operational considerations may be more important to insurance companies and their management teams than managerial ownership, even though managerial ownership may not have an enormous influence on timely financial reporting.

The ownership structure of insurance companies is significantly influenced by institutional investors, including pension funds, mutual funds, and other types of financial organizations. Higher levels of institutional ownership may make it more difficult for businesses to meet reporting deadlines, according to the negative correlation between institutional ownership and financial reporting timeliness. The findings of this study which shows a significant and negative relationship prompts questions regarding institutional oversight's efficacy and the necessity for these investors to work directly with businesses to enhance their reporting procedures. The significant and negative association is supported by the findings of Alabi, Issa & Usman (2022). When making investment decisions, institutional investors should keep an eye on and assess the promptness of financial reporting, and they should think about working with businesses to resolve any problems that might be preventing timely reporting.

The findings of this study which indicates a statistically significant but negative effect of ownership concentration on financial reporting timeliness among the listed insurance firms in Nigeria agrees with the study by Waris and Haji Din (2023) who also found a significant negative relationship although it opposes the conclusion by Amari and Jarboui (2013) that the relationship is positively significant. Nonetheless, the statistically significant results, whether positive or negative, highlights the importance of ownership structure in determining the timeliness of financial reporting for insurance firms in Nigeria. Companies with a more dispersed ownership structure, where ownership is not concentrated among a few individuals or entities, are more likely to prioritize and adhere to reporting timelines. This suggests that a diverse ownership base promotes accountability and transparency, driving timely financial reporting. Insurance companies can consider strategies to enhance ownership dispersion, such as attracting a broader range of investors or institutional shareholders, to improve their financial reporting practices.

Conclusions and Recommendations

For insurance companies, the identified average delay of over four months in financial reporting highlights the need for enhanced internal processes and systems to ensure timely preparation and publication of financial statements. Delayed financial reporting can undermine the credibility and transparency of the companies, potentially eroding stakeholders' trust. Insurance companies that consistently demonstrate timely reporting are likely to attract more investor interest and confidence, which can positively impact their access to capital and market valuation. Also, this research found out about the level of institutional oversight and the need for these investors to actively engage with companies to improve financial reporting practices.

In addition, the concentration of ownership can lead to a potential conflict of interest and hinder effective timely reporting of financial statements. Companies with a more dispersed ownership structure, where ownership is not concentrated among a few individuals or entities, are more likely to prioritize and adhere to reporting timelines. This suggests that a diverse ownership base promotes accountability and transparency, driving timely financial reporting. Insurance companies can consider strategies to enhance ownership dispersion, such as attracting a broader range of investors to improve their financial reporting practices.

From the findings of this research, the following recommendations are made:

(i) Efforts should be made to encourage a more diversified ownership structure within the Nigerian Insurance industry. This can be achieved by facilitating the participation of different types of investors so as to ensure a balanced ownership distribution. Diversification of ownership can reduce insider control, enhance transparency and improve timely reporting of financial statements.

(ii) Institutional investors should monitor and evaluate the timeliness of financial reporting and also consider engaging with companies to address any issues that may be impacting timely reporting.

(iii) To promote accountability and transparency, insurance companies should actively engage with all of its stakeholders. Regular communications may be accomplished through yearly reports, investor's forum and specialized investors relations team. Active participation can allow for stakeholders' issues to be addressed, trust to be established and the reputation of the Nigerian sector as a whole. Decisions and consider engaging with companies to address any issues that may be impacting timely reporting.

(iv) To guarantee adherence to financial reporting standards and timely reporting, regulatory authorities, particularly the National Insurance Commission (NAICOM), should strengthen their oversight procedures. This can be accomplished by carrying out routine inspections, enforcing severe sanctions for violations, and educating insurance companies about their reporting responsibilities. In order to harmonize reporting standards and improve regulatory efficiency, cooperation between regulatory agencies such as NAICOM and the Financial Reporting Council of Nigeria (FRCN) should be promoted.

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