American Journal of Business and Management
Vol. 1, No. 3, 2012, 108-112

A Qualitative Analysis of the Impact of Capital Adequacy on Managerial Effectiveness: A Case Study of Selected Insurance Firms in Nigeria

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Financial capital is an essential tool in any sustainable business but the peculiar nature of Insurance business position capital more in the context of underwriting capacity. However, despite increase in the emergence of business opportunities and clients due to technology's improvement, availability and increasing adoption rate, there are countless challenges in the undertaking and successfully execution of feasible business due to inadequate capital required to exploit the various opportunity in the environment. Using a descriptive analysis, regression and the Pearson correlation coefficient on a primary data obtained through a structured questionnaire administered to Hundred (100) staff of selected Insurance companies in Nigeria, this study provides a qualitative analysis of the impact of capital adequacy on managerial effectiveness. It revealed that capital is an essential tool in business formation and continuity which prompts the realization of business objectives while its insufficiency can preempt organisation goal realization in the insurance industry with a correlation value of 0.584 indicating the existence of a positive relationship between capital adequacy and managerial effectiveness. Hence, it is recommended that in order to attract and enjoy the potential opportunities offered by the provision of adequate capital in the insurance industry, operators must come to terms on the overall size of capital requirement as a basis for creating a supportive and enabling business support system that fosters management culture, performance and practice.

Keywords: capital, adequacy, management, effectiveness

Introduction

Capital is the life-blood of every organisation due to its ability to play a double edge sword role regarding the attainment of organisational goal. On one side, its short can preclude the realization of set goal while its excess on the other hand is capable of reducing organisational effectiveness, efficiency and productivity. Drucker (2004) emphasized the need for business managers to have financial foresight and thereby established the fact that in any venture, growth needs more cash and more capital. The best way to finance growth is to consistently plow profit back into the business. A drawback to this method is the need for the manager to wait until the end of the year to realize the profit and the cash element to be plowed into the business. However, in the course of the year, investment decisions would have to be made to enhance the competitiveness of the business hence the manager cannot wait for the uncertain profit that should accrue at the end of the year to grow his business. This is the classical situation that often demands for continuous injection of capital into the business either by way of rights issue, fresh equity or debt. Financial capital is of essence in any viable business but the peculiar nature of insurance business situates capital more in the context of underwriting capacity. Aptly defined, underwriting capacity is the combination of the retention of an insurance company and the treaty or facultative cover that a reinsurance company provides to support the insurance company. Both the retention and the reinsurance cover are afforded from the underlying capital of the relating insurance and reinsurance companies. In order to survive and succeed, firms need to set strategic directions, establish goals, execute decisions and monitor their state and behaviour as they move towards their goal. Once a firm becomes large enough that a single manager cannot sense the firm's current state and cannot control its behaviour alone, the firm must use performance measurement and control systems to replace the eyes and ears of the besieged manager (Kellen, 2004).

In the past few decades, businesses have used information technology to provide this "sense and control" capability. Several purveyors provide business performance measurement information technology solutions. These tools have leveraged the latest advancements in data and application

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ISSN 2167-9606 Print/ ISSN 2167-9614 Online
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integration approaches, web-based charting and reporting, statistical analysis, artificial intelligence, machine learning and expert system technology. Yet despite the technology's improvement, availability and increasing adoption rate, many challenges to successful adoption and use abound due to inadequate capital required to exploit the various opportunity in the environment (Kellen, 2004).

Daft (1983) define organizational effectiveness succinctly as "the degree to which an organization realized its goals". However, Mondy et al (1990) defined it aptly as "the degree to which an organization produce the intended output" As Daft rightly argued. Organizations pursue multiple goals, and such goals must be achieved in the face of competition limited resources, and disagreement among interest groups whose interest often overtook the need to provide sufficient capital regularly to ensure the fulfillment of set goals. The capital helps to compete favourable in business, expand operation, absorbed losses as well as plan future direction of activities but its insufficient can exposed even the most effective managers. Based on the foregoing, this study seeks to examine the nature and extent of the relationship between capital adequacy and managerial effectiveness in Nigeria.

Literature Review

Capital is the total of the amounts invested in current and fixed assets of the company. While working capital is the amount of current asset of Net working capital results from the deduction of current liabilities from current assets; Capital Management consists of determining the volume and composition of sources and uses of working capital in such a way that would increase the wealth of stockholders. The maintenance of cash at a desirable level for the purpose of settling liabilities on maturity and using the investment opportunities that are indicative of the flexibility of the economic entity, moreover the availability of material needed for production in order to enable the entity to provide the needs of its customers is indicative of the importance of capital.

Adequacy capital management is the management of current assets and current liabilities such that would result in the most desirable level of working capital and maximum company profitability. Inadequate working capital leads the company to bankruptcy. On the other hand, too much capital results in wasting cash and the decrease in profitability (Chakraborty, 2008).

Any decision made by the managers of the entity in this context can significantly affect return of the entity stock which shall transform company value and ultimately increase shareholders wealth (Michalski, 2005). On the other hand investors look for investments that give the highest yields; this necessitates the compilation of a strategy that helps predict today's market. Managers need a desirable adequacy capital strategy that maximizes shareholder interests and directs them in challenges that the entity faces (Michalski, 2008).

Managers have shortened the cash cycle through shortening the period of receivables collections and inventory turnover and lengthening the period of settling liabilities, in order to increase company profitability (Nobanee & Alhajjar, 2009).

Managerial effectiveness is a leader's ability to achieve desired results. How well he applies his skills and abilities in guiding and directing others determines whether he can meet those results effectively. If he can, his achievements are poised to help the organization gain a competitive edge against rival organizations heading into the future (Juarez, 2012).

Managerial effectiveness is gauged by the results a leader achieves. Results are generally believed to be influenced by the organization's established culture. A good leader must adapt to the organization's culture and make sure her skills are aligned with organizational goals in order to achieve positive results. A manager has a combination of technical, people and conceptual skills that can make him an effective leader, according to theoretical models of leadership.

In the long run, managerial effectiveness has the potential of creating efficiencies that create a sustainable competitive advantage against rival organizations and increase opportunities for future enterprise. It also fosters individual growth in the manager and her followers and, over time, generates shareholder value for the organization (Juarez, 2012). There are no absolute measures of managerial effectiveness. Organisations have aims and objectives, and managers are effective when they help their organisation to achieve these aims and objectives. Thus, it is important that every manager knows the purpose of their organisation, the purpose of their job and the work-specific objectives they must meet (Kotter, 1999). However, the most common term is a key performance indicator (KPIs) which is often an organisation-wide process. One version of this process is Management by Objectives. Variations of this are found in all types of organisations, although the process is often no longer referred to as Management by Objectives (Kotter, 1999).

Management by Objectives aims to identify key areas in a person's work and to set targets against which his or her performance (or effectiveness) may be measured. Management by Objectives is a simple idea which often proves to be very difficult to apply.

Drucker (2004) suggests that effective managers follow the same eight practices which include: (a) Ask 'what needs to be done; (b) Ask 'what is right for the enterprise; (c) Develop action plans (d) Take responsibility for decisions (e) Take responsibility for communicating (f) Focus on opportunities (g) Run productive meetings (h) Think and say 'we' rather than 'I'.

Most scholar measure managerial effectiveness through profitability and often check adequate capital through working capital management for instance. Lazardidis and Tryfonidis (2006) examined the link between profitability and working capital management in the Stock Exchange Market of Athens throughout 2001-2004. The result shows that a substantial relationship exists between gross operational profit and the cash transformation cycle. Moreover managers can make a huge profit for the firm using the right management techniques for the cash operating cycle and its components.

Hassanpour (2007) has studied the impact of working capital strategies on stock return and the significance of working capital was stressed such that when considering the situation of the business entity the best working capital strategies are employed to maximize the interests of the entity and its investors. Nazir and Afza (2009) opined that managers using conservative strategies have been able to increase the value of their stocks. Their findings specify that in picking a portfolio, investors cherry-pick companies that apply short term credit policies and retain a low level of current liabilities.

Similarly, Zubairi (2010) examined the impact of working capital management on company profitability using current ratio as an indicator for working capital management policies and financial leverage as the indicator for capital structure. The results indicate that companies need to increase current assets and decrease current liabilities for maximizing profitability. The results show that an increase in cash flow would result in an increase in profitability and a positive relationship exists between profitability and the financial leverage.

Nobani, Abdollatif and Alhajjar (2010) examined the relationship between the cash transformation cycle and profitability and the results indicated that a negative relationship existed between profitability and the cash transformation cycle. Chatterjee (2010)**,** also, studied the impact of working capital management on profitability using the Pearson correlation coefficient the results indicated that a negative relationship exists between working capital management and profitability. This implies that an increase in cash transformation cycle would result in a reduction in profitability. Vida, Seyed and Rezvan (2011) observed a positive significant relationship between sales and profitability, and a negative significant relationship exists between Financial Debt Ratio and Profitability, while various industrial categories affect profitability.

Methodology

This study employed a descriptive survey design in collecting detailed and factual information that describes the impact of capital adequacy on managerial effectiveness. The target population of the study were staffs in all Insurance company in Lagos State, Nigeria while a sample of two companies was taken (The law, union and rock insurance plc. and Nicon insurance plc. Nigeria), a total of one hundred (100) staffs were selected through a simple random sampling technique for the questionnaires administered in February 2012. The analysis of the results obtained through the self-administered questionnaire which recorded 100% response rate is as follows:

A structured questionnaire was employed as the instrument of the study. The questionnaire was divided into two parts of background and attitude and perception of the respondents, with regards to capital adequacy and managerial effectiveness in Nigeria Insurance Industry using a 5-point Likert scale: Strongly Agree (SA), Agree (A), Undecided (U), Disagree (D), and Strongly Disagree (SD). There various responses (table 2) were quantified and analyzed using the statistical packages for management scientist to establish the nature of the relationship between capital adequacy and managerial effectiveness in Nigeria Insurance Industry.

Hypothesis: Capital Adequacy has no significant effect on managerial effectiveness in Nigeria Insurance Industry.

Results

Table 1. Background information on the working experience of the respondents.

Staff age	Frequency	Years of experience	Frequency	Qualification	Frequency
28-35years	22	5-10years	19	HND/BSc	49
36-44years	55	11-15 years	43	MSc/MBA	39
45years&above	23	11 years & above	38	Others	12
Total	100	Total	100	Total	100

From the data collected with the questionnaires as presented in Table 2, the respondents agreed that capital is an essential tool in business formation and continuity which prompts the realization of business objectives while its insufficiency can preempt organisation goal realization. Equally, respondents opined that survival and expansion of business can be hampered by inadequate capital because its availability can guarantee managerial effectiveness which is an essential aspect of business success measured through the input-output ratio and relies heavily on available organisational resources and managerial competence.

Table 2. Respondents views to statements.

Statements	SA	A	UD	D	SD
a. Capital is an essential tool in business formation and continuity.	38	48	8	7	-
b. Capital prompts the realization of business objectives.	29	43	8	15	5
c. Insufficient capital can preempt goal realization	24	62	9	2	3
d. The survival and expansion of business can be hampered by inadequate capital.	27	56	10	4	3
e. Capital availability can guarantee managerial effectiveness	27	41	10	14	8
f. There is a relationship between capital adequacy and managerial effectiveness.	21	39	18	16	6
g. Managerial effectiveness is an essential aspect of business success.	29	47	13	9	2
h. Managerial effectiveness can be measure through the input-output ratio.	38	48	10	4	
i. Managerial effectiveness relies heavily on available organisational resources.	28	38	12	12	10
j. Managerial effectiveness is a function of managerial competence.	41	28	18	8	5
k. Non measurement of managerial effectiveness can hinder organizational growth.	18	52	15	15	-
l. The insurance business in Nigeria is suffering from inadequate capital to operate effectively.	21	35	10	14	20
m. Failure of insurance companies to pay claim is attributable to inadequate capital.	29	32	12	15	12
n. Most Nigerians will patronize insurance business if operators possess sufficient operating capital and professionalism.	22	48	15	8	7
o. Productivity is guaranteed with an effective management	18	56	-	16	10
p. The level of insurance awareness is low in the country.	38	53	5	4	-
q. A purposeful drive is required to increase the frontline of Insurance business	31	39	18	12	-
r. government regulation is essential to increase the effectiveness of insurance business in Nigeria.	24	62	9	2	3
s. Insurance company capital adequacy is a qualified situation that require regular and monitoring.	38	48	5	6	-
t. Managerial effectiveness is a progressive part essential in the attainment of organisational objectives.	32	51	8	9	-

Similarly, respondents agreed that non measurement of managerial effectiveness can hinder organizational growth since it is a progressive part essential in the attainment of organisational objectives. The Insurance business in Nigeria is suffering from inadequate capital to operate effectively because the failure of insurance companies to pay claim is attributable to inadequate capital. Though, they agreed that there is a relationship between capital adequacy and managerial effectiveness, the level of insurance awareness is still low in the country while most Nigerians will patronize insurance business if operators possess sufficient operating capital and professionalism. Hence, a purposeful drive is required to increase the frontline of Insurance business with adequate capital that requires proper monitoring and reviewing.

Table 3. Hypothesis testing.

Model		Unstandardized Coefficients		Standardized Coefficients	Correlation
		B	Std. Error	Beta	Coefficient
1	(Constant)	1.310	.471		
	Capital Adequacy	2.145	.012	.869	0.584

The hypothesis test shows that at 95% confidence level there exist a positive significant relationship between capital adequacy and managerial effectiveness in the insurance industry. The result is in line with the view of Michalski (2005) who opined that any decision made by the managers of the entity in the context of discharging their responsibility will significantly affect return of the entity stock which shall transform company value and

ultimately increase shareholders wealth. Similarly, Vida, Seyed and Rezvan (2011) observed a positive significant relationship exists between sales and profitability, and a negative significant relationship exists between Financial Debt Ratio and Profitability. The implication is of all this submission is that where the organizational capital is inadequate, it will affect multitudes of event and its end point is the non-attainment of set organisational objectives which will invariably jettison business continuity.

Similarly, the display of core competence by managers in the discharge of their duties is a prima facie evidence of their capability and expertise in handle greater and complex task in the future. Hence, without adequate provision of require and sufficient capital, the attainment of managerial effectiveness, efficiency and productivity would remain a nightmare.

Conclusion

This study examines the issue of capital adequacy and the attainment of managerial efficiency in the insurance industry. Previous studies suggest that the vibrant service sector is driven by the provision of adequate capital to manager in the pursuit of productivity. We discover that the role of capital in the Insurance sector has improved over time with it adequacy having a strong indication for better performance because it is positively correlated with managerial efficiency and succession plan with its performance suggesting that firms that provide the required capital for business operation are enjoying more innovation and creativity in their operation and efficiency. Similarly, our findings suggest that for Insurance business to be successful operators must adopt the best cash management practice aimed that enhancing and reinforcing organizational changes to attain higher efficiency and productivity because it is a drive to action. Hence, practitioners must empower all managers to carry out devolved responsibilities which require a practice communications role within the organization through an established and nurtured productive relationship that will harness the proven effect of communication on satisfaction, performance and profits.

In conclusion, capital is a tool with enough potential to improve the productivity, effectiveness and efficiency of the organisation; implore communication and overall realization of objectives. It is a vehicle that transforms the way Insurance companies deliver services to their client and public at the essential proportion. In order to attract and enjoy the potential opportunities offered by the provision of adequate capital in the insurance industry, operators must come to terms on the overall size of capital requirement as a basis for creating a supportive and enabling business support system that fosters management culture, performance and practice. Also there is a need to design a performance management system which links overall organizational goal to individual work plans and which provides feedback and ensure accountability for the delivery of the overall goal.

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