Innovations

Insurance Policies and Business Sustainability of Manufacturing Firms in Nigeria

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Abstract

This study examined the relationship between insurance policies and business sustainability of manufacturing firms in Nigeria. The study employed a survey research design and data collected via the administration of a structured questionnaire to managers and employees of 30 manufacturing firms in South-East, Nigeria. Correlation analysis and multiple regression analysis were used to test the study hypotheses. Findings revealed that insurance policies have significant and positive effects on the business sustainability of manufacturing firms. This implies that manufacturing firms with a proactive approach to evaluating and handling risks through the adoption of extensive insurance coverage are in a better position to endure unforeseen occurrences and fluctuations in the market and be sustainable. Hence, the study concluded that insurance policies play a crucial role in promoting the sustainability of manufacturing firms. Therefore, it was recommended that manufacturing firms should consider insurance policies as a strategic tool for managing risk and uncertainty.

Keywords*: South-East Nigeria, Sub-Saharan Africa, economic sustainability, environmental sustainability, social sustainability.*

JEL: *G22, L6, M14.*

1. Introduction

Apart from its traditional role in risk management, insurance has become the foundation of modern financial services. The insurance market serves as both an intermediary and a provider of risk transfer and indemnification, promoting growth by efficiently managing various risks, encouraging long-term savings, and promoting the accumulation of capital Arena, 2016). It also acts as a conduit for channeling funds from policyholders to investment opportunities, thereby mobilizing domestic savings into productive investment (Todaro, 2018; İlhan &Bahadir, 2011). In both developed and developing economies, insurance plays a crucial role in mitigating business risks caused by sudden and devastating events. The sector provides risk management and adjustment services to various sectors of the economy, such as transportation, agriculture, mining, and banking, and contributes to economic growth by acting as a financial intermediary through capital formation and providing business funding for sectors with deficits (Arena, 2016; Todaro, 2018).

The importance of insurance policies in facilitating the sustainability of manufacturing industries in Nigeria cannot be overemphasized. The business sustainability of manufacturing firms in Nigeria is not likely to operate efficiently in exclusion of insurance services and policies (Ivwurie & Akpan, 2022). Manufacturing firms need insurance policies that will cover not only their assets and protect them against losses, but will also allow them to control costs (İlhan &Bahadir, 2011). The manufacturing industry has significant and expensive impacts on its stakeholders, and obtaining manufacturing business insurance can help protect the company financially from some of these consequences (Yang & Zhang, 2022). It is crucial to have insurance because a single incident could easily bankrupt the business (Ilhan & Bahadır, 2011). This type of insurance covers the company in case any harm comes to customers or bystanders, or if the business itself experiences damage, such as from a fire (Pei-Fen, et al., 2011). However not having the right insurance policy can result in associated risks and problems. The primary danger of operating without coverage is the potential loss of money, which could result from repairing or replacing damaged property, paying compensation, or being unable to operate normally (Okonkwo & Eche, 2017). Unforeseen events can lead to a business shutting down if they do not have adequate coverage to recover from the damages (Okonkwo & Eche, 2017).

In essence, manufacturing companies require business insurance to cover expenses associated with property damage and liability claims (Bulus & Nimfa, 2016). Failure to have insurance could result in business owners having to pay for damages and legal claims themselves. Being uninsured exposes manufacturing businesses to financial and legal risks daily (Soye & Momoh, 2021). Conversely, being underinsured could lead to the business only receiving partial coverage, leaving them to pay the remaining balance out of pocket. Without adequate insurance coverage, manufacturing businesses face numerous threats that could ultimately result in business failure. (Palan, 2021; Ortas, et al., 2014; Bulus & Nimfa, 2016; Soye & Momoh, 2021). It is against this background that this study aimed to examine insurance policies and business sustainability in manufacturing firms in Nigeria.

2. Literature Review

Insurance Policies

Although unexpected events can happen, there are ways to protect ourselves, families and businesses from the worst of the financial consequences by selecting the appropriate type and amount of insurance based on our specific circumstances, such as age, employment benefits, lifestyle, and whether we have children (Mcmaken, 2022; Das, Nigel & Richard, 2003). Insurance is a social contract that involves the transfer of risk between multiple parties. The development of modern insurance has had a significant impact not only on the economy but also on the well-being of individuals in society (Das, et al., 2003). Insurance is a contract, in the form of a policy that provides financial protection or compensation to an individual or entity against losses from an insurance company (Das, et al., 2003). By pooling clients' risks, insurance companies can make payments more affordable for those who are insured. Insurance policies serve as a means of protecting against the risk of financial losses, big or small, that may arise from damage to the insured or their property, or from liability for damage or injury caused to a third party (Sheifer, 2019).

Insurance policies are contracts between an insurance company and an individual or organization that provide financial protection against certain risks or losses (Igwe & Toby, 2021). There are several types of insurance policies, each designed to protect against specific risks (Das, et al., 2003). Among the popular insurance policies include life insurance, health insurance, auto insurance, homeowners insurance and business insurance (Das, et al., 2003; Igwe & Toby, 2021; Mcmaken, 2022).

Life insurance policies provide financial protection to the beneficiaries of the policy in case of the policyholder's death (Timothy, Aaron & Charles, 2021). There are several types of life insurance policies, including term life insurance, whole life insurance, and universal life insurance. Health insurance policies provide coverage for medical expenses incurred due to illnesses or injuries (Bailey & Webber, 2016). These policies may cover hospitalization, surgeries, prescription drugs, and other medical expenses. Auto insurance policies provide financial protection against damage to a vehicle, as well as liability protection for accidents involving the insured vehicle (Kofman & Nini, 2013). Homeowners insurance policies provide financial protection for homeowners against damage to their homes and personal property, as well as liability protection for accidents that occur on their property (Collier, Schwartz, Kunreuther & Michel-Kerjan, 2022).

Business insurance policies provide financial protection for businesses against various risks, such as liability claims, property damage, and business interruption (Wu, Bateman, Stevens & Thorp, 2022).

There are several important factors to consider when purchasing an insurance policy. The company should carefully review the terms and conditions of the policy to ensure that it provides the desired level of coverage. It is also important to consider factors such as the cost of the policy, deductibles, and coverage limits. Working with a knowledgeable insurance agent or broker can help individuals and organizations make informed decisions about the insurance policies that best meet their needs.

Business Sustainability

The idea of corporate sustainability emerged from the concept of sustainable development, which was initially presented by the World Commission on Environment and Development under the United Nations in 1987. The notion of sustainable development gained worldwide recognition in 1987 through the publication of "Our Common Future" by the World Commission on Environment and Development. This report defined sustainable development as the kind of development that satisfies the current generation's necessities while ensuring that future generations can satisfy their own needs without any hindrance.

John, E., the founder of the British consultancy Sustain-Ability, first introduced the term "organizational sustainability" in 1994. He argued that companies should focus on preparing three distinct bottom lines. The concept of business sustainability has become increasingly important, as it involves creating long-term shareholder value by addressing social, environmental, and economic factors and managing associated risks (Cella-De-Oliveira, 2013; Braccini & Margherita, 2019). The ultimate goal of any organization is to grow and survive over the long term. Most managers understand that their organizations are part of a larger system that can have both positive and negative impacts on their operations. Therefore, for these organizations to effectively achieve their goals, they must adapt to their environments.

Organizational sustainability has become a recurring topic in discussions within management meetings, political forums, and academic circles (Epstein & Buhovac, 2011; Ekanem, 2017). Conversations and debates regarding its definition, importance, necessary actions, and urgency are widespread (Mohrman & Worley, 2010). It is believed that organizational sustainability can improve business organizations' ability to comprehend the requirements of their surrounding communities, customers, employees, and shareholders, and to offer solutions to their unique needs, ultimately resulting in better cooperation with the organization (Epstein & Buhovac, 2011).

Organizational sustainability has three major measures which are economic, environment and social sustainability (Munck, Munck, & Souza, 2011; Bansi, 2013). According to Osborne (1998), it is crucial for businesses to prioritize economic sustainability as the cost of production continues to rise. To ensure future economic development and survival, sustainable economic practices must be adopted for the benefit of business partners, customers, employees, suppliers, and society as a whole.

Hami, Mahamad, and Ebrahim (2015) suggest that achieving social sustainability is essential for the short and long-term survival of businesses. This can be achieved by positively impacting the quality of life of stakeholders. Adah and Abok (2019) also emphasize the importance of environmental sustainability, as it helps prevent the depletion of natural resources and ensures both short and long-term environmental sustainability. Environmental sustainability also ensures that the present generation's aspirations are met without endangering the safety of the next generation, thus sustaining the viability of the natural environment. Hence, in this study organizational sustainability is viewed using economic, environmental and social dimensions.

Hypotheses Development

The connection between insurance policies and business sustainability cannot be overemphasized. Insurance reduces a company’s business risk, increases repayment of debts and stabilizes going concern, hence ensuring business sustainability (Marcel, 2016; Schanz, 2022). According to Henry (2017), companies that have lower risks can access more borrowing resources and pay lower interest expenses. Owners of these companies also benefit from a reduced likelihood of bankruptcy and a higher expected future dividend. Additionally, companies with less variation in business sustainability are more likely to attract potential investors, leading to better availability of capital at a lower required rate of return. This higher capital availability can improve business sustainability by increasing investment opportunities. Pei-Fen, Chin-Chiang, Chun-Ping, and Lee (2011) studied the impact of property insurance on business sustainability in selected countries using a two-step system GMM of dynamic models for 60 countries. The findings indicate that the development of the property insurance market has a positive impact on business sustainability. In the same vein, Yang and Zhang (2022) carried out a study on the effect of environmental pollution liability insurance on firm performance in China. The specific objective of the study was to estimate the effect of environmental pollution liability insurance on productivity. With the application of linear regression, it was discovered that environmental pollution liability insurance has significant influence on business performance of the firms. Flowing from the above, we proposed that:

- Better insurance policies lead to higher economic sustainability.
- Better insurance policies lead to higher environmental sustainability.
- Better insurance policies lead to higher social sustainability.

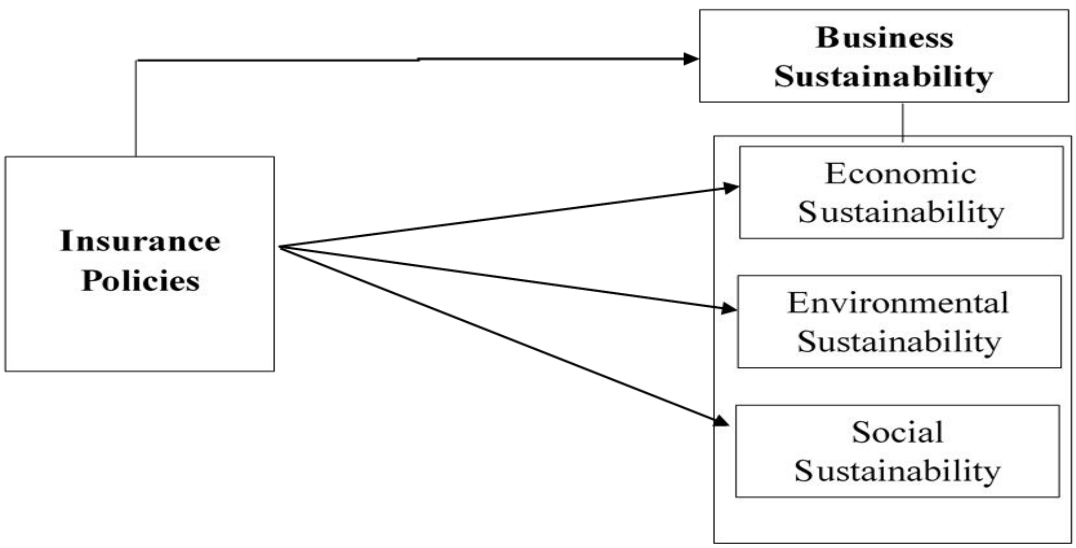

Figure 1: Research Model, 2023

3. Method

The study utilized a descriptive survey design, which involved collecting data from a selected sample at a specific point in time to describe a larger population (Sileyew, 2020). The method was employed because it enabled the researcher to use the sample drawn to represent the diverse elements of the population under study. The target population of this study consists of the junior and senior staff of thirty (30) manufacturing firms in Nigeria. Copies of the questionnaire were sent to 3,498 employees of the thirty (30) manufacturing firms. However, 1210 copies were filled and returned. This represented a returned rate of 34.59 percent which is adequate for a social science study (De Vaus, 2013; Ali, et al., 2020). The responses were used to test the study's hypotheses.

This study focused on the effect of insurance policies on business sustainability of manufacturing firms in Nigeria. Insurance policies were described using five statement items such as "the workers of this company are under the workers' compensation insurance cover; our workers receive medical treatment and compensation if injured on duty". The scale for business sustainability consists of 18 items and three subdimensions (economic, environmental and social sustainability) as adopted from Sezen-Gültekin and Argon (2020). A five point Likert type was used with the options 5 = strongly agree and1= strongly disagree.

4. Results

The Statistical Package for Social Sciences (SPSS) version 25 was used in analyzing data for the study. First, correlation analysis was conducted to determine the correlation between the variables included in the research model. Then, multiple regression analysis was used to test the validity of the hypotheses.

Table 1: Mean, standard deviation and correlation values of the variables

Variables	**1**	**2**	**3**	**4**
Insurance policies	1.00			
Economic sustainability	0.299*	1.00		
Environmental sustainability	0.579**	0.215*	1.00	
Social sustainability	0.277*	0.211*	0.101*	1.00
Average	3.110	2.890	3.099	3.212
Standard deviation	0.711	0.598	0.683	0.728
****: Correlation is significant at the 0.01 level (double tail); *: Correlation is significant at the 0.05 level (single tail).**				

Table 1 shows the correlation analysis on the presence of relationships between dependent and independent variables in the research model. The results reveal that insurance policies has significant correlation with economic sustainability (r = 0.299*), a positive, moderate relationship with environmental sustainability (r = 0.579**). A positive, moderate correlation was found between insurance policies and social sustainability (r = 0.277). Hence, it was concluded that insurance policies significantly and positively correlated with business sustainability.

Table 2: Regression analysis on insurance policies and business sustainability

Independent variable	**Dependent variables**	**β**	**t**	**P-value**
	Economic sustainability	0.552	4.325	0.000**
Insurance Policies	Environmental sustainability	0.583	3.245	0.000**
	Social sustainability	0.389	0.211	0.001*
***: Correlation is significant at the 0.05 level (single tail); **: Correlation is significant at the 0.01 level (double tail).**				

Table 2 shows the effect of insurance policies on business sustainability measures of economic, environmental and social sustainability. The analyses show that insurance policies have a positive and significant influence on economic sustainability (β = 0.552, t = 4.325 and P-value > 0.001). Thus, the hypothesis that better insurance policies lead to higher economic sustainability was supported. Also, insurance policies were found to have significant and positive effects on environmental sustainability (β = 0.583, t = 3.245 and P-value > 0.001). Therefore, the second hypothesis that better insurance policies lead to higher environmental sustainability was accepted. Lastly, it was discovered that insurance policies have a moderate and significant effect on social sustainability (β = 0.583, t = 3.245 and P-value > 0.001). Based on the result the hypothesis that better insurance policies lead to higher social sustainability was supported.

5. Discussion

In this study, we examined the effects of insurance policies on business sustainability. The findings revealed that insurance policies play a significant role in the achievement of economic, environmental and social sustainability. Therefore, it was concluded that insurance policies are a priority for manufacturing firms when talking about business sustainability. This is in consonant with the submission of Pei-Fen, et al., (2017), who investigated the effect of property insurance on business sustainability of 60 selected countries and found that a positive effect exists. Further, the findings show that insurance policies provide protection against risks that can harm the manufacturing firm's operations. This includes property damage, product liability, and worker's compensation. By mitigating these risks, insurance policies can help prevent disruptions to the firm's operations and maintain its sustainability. This supports the assertion of Gregory and Hussein (2013) that product liability insurance has a significant effect on sustainability of selected manufacturing firms in Nigeria. In addition, insurance policies can provide financial stability to manufacturing firms by protecting against financial losses from unforeseen events. For example, business interruption insurance can compensate a firm for lost revenue due to an event like a natural disaster. This can help ensure that the firm can continue to operate despite unexpected setbacks. This validated the assertion of Okonkwo and Eche (2017), Ivwurie and Akpan (2021), and Schanz (2022), who found a significant relationship between insurance policies and business sustainability.

6. Conclusion

The study showed that the importance of insurance policies in the business sustainability of manufacturing firms cannot be overemphasized. Therefore, it is concluded that insurance policies play a critical role in ensuring business sustainability. Insurance policies provide protection against a variety of risks, including natural disasters, cyber-attacks, and liability claims. By mitigating these risks, businesses can continue to operate even in the face of unforeseen events. Furthermore, insurance policies can also help businesses manage their finances by providing a predictable cost structure for risk management. This allows businesses to better plan for the future and allocate resources accordingly. However, it is important for businesses to carefully assess their insurance needs and choose policies that provide adequate coverage. Underinsured businesses may still face significant financial losses in the event of a major risk event. Summarily, insurance policies are an important tool for businesses seeking to ensure long-term sustainability. By providing protection against a range of risks and facilitating financial planning, insurance policies can help businesses weather unexpected challenges and continue to grow over time. Based on the conclusion above, here are the recommendations for manufacturing firm regarding insurance policies and business sustainability:

- The manufacturing firms should assess their potential risks and vulnerabilities to determine what types of insurance policies they need. This can include risks related to their industry, location, size, and operations.
- The manufacturing firms should choose insurance policies that provide adequate coverage for potential risks. The firm should carefully review policy terms and conditions and consider factors like deductibles, limits, and exclusions to ensure that they are fully protected.
- Management of the manufacturing firms need to frequently review insurance policies to ensure they still provide adequate coverage. This will ensure the manufacturing firms protect themselves against risks and ensure their long-term sustainability.

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