

CORPORATE GOVERNANCE AND PERFORMANCE
IN THE HERITAGE INSURANCE COMPANY LIMITED

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DECLARATION

I do hereby declare that this project report on ‘Corporate Governance and Performance in The Heritage Insurance Company Limited’, which is being submitted in partial fulfilment of the requirements for the Masters of Business Administration of the School of Business, University of Nairobi, is my original work under supervision of Mr. Tom Mutugu.

I further submit that this work has not been submitted as an academic work for qualification in any university.

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Last but not least I wish to acknowledge the support of management board and senior management team at The Heritage Insurance Company Ltd who took their valuable time to respond to my interview.

To all I say thank you.

DEDICATION

I wish to dedicate this Research Project to my caring wife Everlyne Anyango and our sons Ken Trevor and Steve Ricky.

ABSTRACT

Apart from many research work done on governance and performance, this project examines the link between corporate governance and company performance. Corporate governance is not a new concept in the business world today. It has been generally agreeable from many studies in the recent past that companies that have corporate governance systems in place also exhibit good performance. Thus corporate governance is increasingly being recognized as an important aspect of an efficient and effective board of directors, enhancing investment performance.

This study involves an extensive literature review of corporate governance aspects including meaning of corporate governance from different perspectives such as economic view, company's perspective, public policy perspective and stakeholder view; pillars of good corporate governance; corporate governance theories; corporate governance principles, code of best practice and guidelines; role of board of directors. The literature also attempts to link the various corporate governance principles to organizational performance. Some results of previous studies that have sought to link corporate governance aspects to performance are also reviewed here.

A case study had been carried out on The Heritage Insurance Company Limited to have an indepth analysis of the underlying linkage between good governance practices and organizational performance. The research used a scorecard methodology to allow evaluation of corporate governance principles and practices. Various corporate governance variables and selected performance indicators as prescribed in performance matrix given by the Government of Kenya had been used to establish the link.

The results had shown that the Company has a strong governance system in place and a correspondingly steady growth in their performance even in hard times of premium undercutting, and economic downturn. The impact had also been seen when the Company implemented one of the accounting guidelines which is deemed unpopular during hard

times that ended in decline in profits. Thus there is a link between the corporate governance practices and organizational performance.

Apart from time constraint, only a selected set of corporate governance variables and performance indicators were used. At the time of the interview, there were also other intervening factors to the Company being studied such as the ongoing mergers and acquisitions within their business group. Therefore, a clearer picture may be established through further investigation by looking at other intervening variables that may impact on performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

1. ACCA: Association of Chartered Certified Accountants
2. AKI: Association of Kenya Insurers
3. CEO: Chief Executive Officer
4. CMA: Capital Markets Authority
5. Company: The Heritage Insurance Company Limited
6. CR: Current Ratio
7. EBIT: Earnings Before Interest and Tax
8. FiRe: Financial Reporting
9. GCR: Global Credit Rating
10. ICPAK: Institute of Certified Public Accountants
11. NSE: Nairobi Stock Exchange
12. NYSE: New York Stock Exchange
13. OECD: Organization for Economic Co-operation and Development
14. PM: Profit Margin
15. ROA: Return on Assets
16. ROE: Return on Equity
17. TCE: Transaction Cost Economics

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

All over the world businesses strive to attract funding from investors for expansion and growth. And before any investor decides to put money in a business he will want an assurance that the business is financially sound and will continue as such in the foreseeable future. Thus investors do require some level of confidence that the business is being properly managed and is profitable. However, many stakeholders are facing a lot of frustrations with performance of companies. Frustrations with performance of many companies have abounded for a long time, necessitating the focus on corporate governance and its crucial importance to world economies. Hence corporate governance mechanisms and controls that are intended to reduce inefficiencies which may arise in an organisation from moral hazard and/ or adverse selection. For example, numerous sets of recommendations on best practices regarding corporate governance issues have been published worldwide and adopted by many companies.

1.1.1 The concept of corporate governance

The concept of "governance" is as old as human civilization. It simply means the process of decision-making and the process by which decisions are implemented (or not implemented). Corporate governance is a relatively new area in public and academic work, although the issues it addresses have been around for much longer and are drawn from various disciplines including finance, economics, accounting, law, management, and organization behaviour. The last decade has seen rapid growth of corporate governance more so since the collapse of Enron in 2001 and subsequent financial problems of other companies as mentioned in the subsequent paragraphs. Similarly, there has been keen interest by governments in trying to avert such collapses because they may lead to a lack of confidence in financial markets (Mallin, 2007).

To appreciate the importance of corporate governance, it is essential to get clear understanding of what it is and how it could improve corporate accountability. Corporate governance has been defined by various authors differently, at times as narrow as dealing with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. A broader definition has been provided by the Organization for Economic Co-operation and Development OECD (1999), describing it as a set of relationships between a company's board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance, are determined. Cadbury (1999) said "Corporate governance is concerned with holding the balance between the economic and social goals between individual and communal goals - the aim is to align as nearly as possible the interests of individuals, corporations and society."

In a board culture of corporate governance, Gabrielle O'Donovan (2003) defines corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. It describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided. According to Johnson, G., Scholes, K. and Whittington, R. (2008) corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate interest in a company. This relates to how company functions and the distribution of power among different stakeholders, i.e. who should the company serve and how managers are held responsible.

According to Mallin (2007) for the past fifteen years there have been a number of high-profile corporate failures that have occurred regardless of getting clean bill of health in annual report and accounts. For example, the downfall in 1995 of Barings Bank, one of the reputable banks in England occasioned by actions of one man, Nick Leeson, whose

actions have been immortalized in the film 'Rogue Trader'. Barings Bank failure was due to lack of effective internal controls and appropriate monitoring which left Nick Leeson to cover up losses for a long time.

In 2001 USA saw the collapse of Enron, ranked in the USA's Fortune top ten companies based on its turnover in 2000. Its difficulties related to its activities in the energy market and setting up of a series of 'special purpose entities'. The case of Enron highlights the overriding need for integrity in business, that is, the directors need to act with integrity and honesty, while external audit firm should be assertive when dealing with directors without holding back in favour of business retention. The HIH, one of Australia's largest insurers collapsed with debts over \$5 billion. It went into problems in 2001 when it sold insurance too cheaply without enough reserves for the future liabilities. During 1990s HIH expanded by acquiring other insurance businesses at exorbitant prices. HIH failure highlights the complexities of the insurance business and what can happen when there is no due diligence.

Following such collapses how can investor confidence be restored? The answer lies on corporate governance whereby lack of effective corporate governance means such collapses could occur, but good governance can help prevent such corporate failures and restore investor confidence (Mallin, 2007).

1.1.2 Introduction of corporate governance in Kenya

In November 1998, a workshop on the Role of Non-Executive Directors was held at the Kenya College of Communication Technology, Mbagathi, Nairobi. The seminar was sponsored and supported by leading organizations with specific interest in corporate governance such as the Nairobi Stock Exchange (NSE), Capital Markets Authority (CMA), Institute of Certified Public Accountants (ICPAK) and the Kenya Chapter of the Association of Chartered Certified Accountants (ACCA). A second seminar was organized in March, 1999 at the Whitesands Hotel, Mombasa, by then it was clear that the seminar would discuss major topics and principles of good corporate governance.

The Mombasa seminar made important decisions one of which was to create an interim committee with the mandate of doing all that was necessary to formulate a Code of Best Practice for Corporate Governance in Kenya and to co-ordinate, where applicable, with other efforts in the region and beyond for the purpose of improving Corporate Governance. The committee was also mandated to seek the establishment of a permanent organ to oversee the implementation of the Code if the effort was to be sustained.

The following factors led to the development of corporate governance in Kenya, the quality of governance at all levels was increasingly being seen as the most important factor for the success of both the politico-economy and its institutions; corporate governance was increasingly taking centre stage, with the privatization and corporatization of the economies globally; there was greater expectation from society that corporate organizations, especially private ones, should take a more leading role in the debate and implementation of economic revival strategies; major scandals leading to the collapse of big corporations, with disastrous social and economic consequences, it was inevitable that the wider society, led by mass media, would start questioning how these organizations were run; shareholders, especially in publicly listed companies were becoming increasingly vocal demanding better transparency and disclosure of information from their directors; regulatory bodies, notably the CMA and the NSE, were already hinting that they would require good corporate governance practices amongst the publicly listed companies; change in legislature; and corruption and Financial crisis.

1.1.3 Organizational performance

The idea of performance management is not new, however, there are a number of perspectives such as a system for managing employee performance, a system of managing organizational performance or a system for integrating the management of employee and organizational performance (Williams, 2002). Performance management as a system for organizational performance had been well illustrated by Rogers (1990) as corporate systems which include the following processes as part of an annual integrated cycle of management: setting corporate policy and resource guidelines; specifying a detailed set of plans, budgets, objectives, targets and standards of performance; regularly

and systematically reviewing the performance of all services. Performance can simply be defined to be what an organization achieves (Armstrong and Murlis, 2004).

Company performance is a complex and multi-dimensional phenomenon in strategic management literature (Venkatraman and Ramanujan, 1986). Organizational performance has also been perceived as the integration of three broad dimensions, that is, efficiency, effectiveness and adaptability (Moseng and Bredrup, 1993). Many studies attempt to identify what characteristics of the Board of Directors lead to improved corporate governance, increased shareholder value, and responsible corporate performance. According to Williams (2002) excellent companies should exhibit the following characteristics:

Table 1 Characteristics of 'Excellent' Companies
<ul style="list-style-type: none">• A bias for action• Close to the customer• Autonomy and entrepreneurship• Productivity through people• Hands-on, value-driven• Stick to knitting• Simple form, lean staff• Simultaneous loose-tight properties

Source: Peters and Waterman 1982

There are many indicators by which company performance may be judged. Performance of corporate organization is usually measured by economic indicators and non-economic indicators. Economic or quantitative indicators consist of return on investment (ROI), productivity of assets, sales margin and net operating margin. While qualitative indicators of performance consist of employee turnover, company reputation, ability to retain management talents and competitiveness of compensation schemes. These quantitative performance measures are closely linked to both strategy and leadership. They indicate whether the organization is successful or not. Some scholars have attempted to combine both quantitative and qualitative approaches in measuring performance.

Kaplan and Norton (1997) developed a four- perspective model of assessing organizational performance, that is, internal business processes, learning and growth and financial perspectives. High performing companies do well in all the four perspective. Studies have examined the role of a broad set of leaders including the CEO, Boards of

Directors and top management teams of formulating and implementing strategy and found that particular styles of leadership impact more profoundly on performance compared with others. According to Armstrong and Murlis (2004) the principal financial performance measures are profit before tax, profit after tax, earnings per share, cash flow, return on investment, sales volume and market share. However, Williams (2002) presented a different view that although accounting based measures are commonly used as indicators of performance, they are collection of historical results. Thus William expected to see measures of outcome, output, throughput, internal functioning. A more acceptable approach which has become popular and attempts to capture these thoughts is balanced scorecard. For this study the measurement of performance would be based on return on assets (ROA), total asset turnover, liquidity and profit margin over five years from 2005 to 2009.

1.1.4 The Heritage Insurance Company Limited

The Heritage Insurance Company Limited is an insurance company registered in Kenya to carry out both life and non-life insurance business. According to Association of Kenya Insurers (AKI) insurance annual report 2009, there were 44 licensed insurance companies, 20 companies wrote non-life insurance business only, 9 wrote life insurance business only while 15 were composite (both life and non-life). In regard to premium income, the industry has consistently recorded growth over the last seven years as illustrated in table 2 below:

Table 2: Growth in Gross Premium for the period 2004 - 2009

Year	2003	2004	2005	2006	2007	2008	2009
Non- Life	19.40	22.78	25.39	29.20	32.95	36.89	43.11
Life insurance	8.50	9.97	11.03	12.48	15.14	18.30	21.36*
Total	27.90	32.75	36.42	41.68	48.09	55.19	64.47

Figures in billions Kenya shillings.

Source: AKI Insurance Industry Annual Report 2009

However, the industry faces rampant price wars, product commodization, and about twenty companies have in the past been known to have earned uneconomical returns to shareholders (KPMG 2004) as cited by Wandera (2008). The industry has also seen the collapse of several companies including Kenya National Assurance, Stallion, United, Lakestar, Standard, and Invesco among others.

There were notable legislative changes affecting the insurance sector in the year 2009. Life companies are required to have paid up share capital of Kshs. 150 million, non-life Kshs. 300 million and composite Kshs. 450 million. Further no person can be appointed an executive director, managing director, principal officer or senior manager if such person controls or is beneficiary entitled to directly or indirectly to more than 20% of the paid up share capital.

Heritage is a composite insurance company offering both life and non-life insurance business. It has branches in Naivasha, Nanyuki, Eldoret and Mombasa with its registered head office in Kenya and a subsidiary in Tanzania. The Company has a long history dating back to 1976 when Norwich Union (opened in 1908) and Legal & General (opened in 1924) merged to form The Heritage Insurance Company Ltd. In 1980 it became fully locally owned. In 1996 The Heritage Insurance Company merged with Africa International Insurance Company to form The Heritage A.I.I Insurance Company. It launched its operations in Tanzania in 1998 and four years later created the first private health insurance provider in Tanzania with Strategis Group. The Company was re-launched in 2007 as The Heritage Insurance Company Ltd. In 2008 it became part of CFC Stanbic Holdings following the merger of CFC Group and Stanbic Bank Kenya.

The Company has shown a healthy balance sheet over the years. It has a strong financial strength with asset base of over Kshs. 8.56 billion, retained earnings reserve of 1.53 billion (life fund), and issued share capital of Kshs. 500 million which is above the statutory requirement of Kshs. 450 million. The Heritage Insurance Company boasts of being a reputable organization in its financial reporting and claims settlement processes. In 2007 the Company emerged the overall winner of the annual FiRe (Financial

Reporting) awards presented by the Institute of Certified Public Accountants of Kenya (ICPAK). The FiRe awards have the primary objective of promoting excellence in financial reporting, corporate governance and corporate social responsibility among Kenyan corporate organizations. The Company has also maintained the highest AA⁻ rating by Global Credit Rating (GCR). At the beginning of 2010 the Company won best award in claims settlement during the Association of Insurance Brokers of Kenya BIMA Awards.

1.2 Statement of the problem

A good working relationship between the board of directors, management and other stakeholders in a given firm would result in increased efficiency, throughput and profits (Thomson and Jain, 2006). Analysts and markets would view these results favourably with resultant higher stock prices. Conversely, in times of corporate governance crises, this relationship would be affected and would be reflected in falling stock prices and other measures of corporate performance. Corporate governance principles and guidelines have been set by various governing bodies and regulating authorities, including Capital Markets Authority (CMA), ICPAK, Nairobi Stock Exchange (NSE). This has caused an excitement by companies rallying activities on corporate governance with understanding that it will improve their performance.

The Heritage Insurance Company Limited's board of directors have put into practice corporate governance principles for over five years. To help the board ensure full and effective control over the Company, the Board has set a number of committees including remuneration committee, audit and risk committee, management board, investment committee, credit control committee and human resources committee. This has seemingly led to improved governance in the Company. The Company has also initiated a corporate strategy as well as a customer service strategy. And is applying a continuous performance management programme, and balanced scorecard across its business as a management tool in implementing its strategies.

A number of studies have been done on corporate governance and company performance (Lang'at, 2006; Manyuru, 2005; Gitari, 2008; Nambiro, 2008). However, these studies have mainly focused on relationship between governance structures and performance. While, some (Wang'ombe, 2003; Ademba, 2006; Mwangi, 2002) have merely surveyed the corporate governance practices and systems adopted by various companies. The studies have not been clear on the impact of implementation of corporate governance on company performance. These studies tend to have concentrated on compliance issues regarding corporate governance with little on the risk side. Hence this study seeks to investigate the impact of implementation of corporate governance principles by The Heritage Insurance Company's on its performance.

1.3 Research objective

The objective is to establish the link between corporate governance and performance in The Heritage Insurance Company Limited.

1.4 Value of study

The study will be of significance to insurance industry so that they will be able to design and implement policies that will further improve on the implementation of the corporate governance best practices and to appreciate the important role of corporate governance both in overall corporate performance and in enhancing societal gains. It will be beneficial to academicians wishing to enrich their knowledge in the concept of corporate governance and its impact on performance, and also to researchers who may wish to develop the study further through subsequent researches.

CHAPTER TWO: LITERATURE REVIEW

2.1 Meaning of corporate governance

Governance is the act or manner of governing or function of governing, and it concerns exercising overall control, to ensure that the company objectives are achieved. There are differing views regarding the objectives of corporate governance, for instance, from economic point of view, the aim of a company is to maximize shareholders wealth subject to conforming to the rules of the society as embedded in law and customs. The Organization for Economic Co-operation and Development (OECD) holds the view that from a company's perspective, corporate governance is about maximizing value subject to meeting the corporation's financial and other legal and contractual obligations. OECD further recognizes that from a public policy perspective, corporate governance is about nurturing enterprise while ensuring accountability in the exercise of power and patronage by firms. From stakeholder view, it is concerned with having a balance between economic and social goals and between individual and communal goals. Within this framework the aim should be to align as closely as possible the interests of individuals, companies and society at large (Coyle, 2002). Therefore, corporate governance seeks to find the appropriate mechanism for governing the relationship of the varying groups within the organization in order to generate long term value. It also reduces potential conflicts of interest among the stakeholders while ensures that the right people make decisions (Wang'ombe, 2003).

2.2 Pillars of good corporate governance

Good governance has 8 major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society (UNESCAP, 2009). Therefore, a model of governance for a successful organisation should have an effective board of directors who exhibit integrity and competence in

carrying out their duties and responsibilities. Such a board should ensure that they have appropriate knowledge of the organisation's business; there is in place a system that makes sure obligations to shareholders are met with integrity and in compliance with applicable laws and regulations as amended; full and timely disclosure of information; societal reassurance/commitment; existence of self-regulation practices; mechanisms to strengthen the relationship between the organisation and its stakeholders; effective board of directors that carries out its responsibilities with integrity and competence; a competent chief executive officer (CEO) hired by the board with authority to run the business; a valid business concept created by the CEO and his management team, and again, with the board's advice and consent (Colley, Doyle, Logan and Stettinius, 2005).

According to Wang'ombe (2003), for corporations to have efficient productivity, they require good corporate governance practices that are framed on four pillars. First there should be effective body responsible for governance that is separate and independent of the management to promote accountability, efficiency and effectiveness, probity and integrity, responsibility, transparency and open leadership. Secondly, there must be a holistic approach to governance that recognizes and protects the rights of all members including other stakeholders. Thirdly, the organization must be governed and managed in accordance with the mandate granted by the founders and the society, taking a wider responsibility in order to enhance sustainable prosperity. And finally, corporate governance framework in the organization should provide an enabling environment within which their human resources can contribute and bear the full creative powers towards finding innovative solutions to shared problems (PSCGT, 2002).

2.3 Corporate governance theories

2.3.1 Agency theory

Adam Smith in 1838 made a caustic remark about the agency problem, that directors of companies are the managers of other people's money than their own. Thus it cannot well be expected, that they should watch over it with the same zeal with which the partners in a private co-partner frequently watch over them. Almost a century later, the work of

Berle and Means (1932) provided one of the fundamental explanations of investor and corporate relationships. Their work highlighted that, as countries industrialized and developed their markets, the ownership and control became separated.

Jensen and Meckling (1976) further define agency relationship as a contract under which one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent. Conflict of interests between managers or board of directors, and outside or minority shareholders refer to the tendency that the former may extract perks out of a firm's resources and less interested to pursue new profitable ventures. They also identified agency costs which include monitoring expenditures by the board such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the board of directors and the management.

2.3.2 Stewardship theory

Although agency theory is the dominant perspective in corporate governance studies, it has been criticized in recent years because of its limited ability to explain sociological and psychological mechanisms inherent of the principal-agent interactions. For example, outside directors as emphasized by agency theory, with only legal power, may not possess sufficient expertise and close social ties with top managers. The work of Donaldson and Davis (1991) cautioned against accepting agency theory as a given and introduced stewardship theory as an alternative perspective to agency theory. Stewardship theorists assume that managers are good stewards of the firms. They are trustworthy and work diligently to attain high corporate profit and shareholders' returns. These stewards can cooperate and work closely with the principal to achieve a goal alignment.

In contrasting agency and stewardship theories, companies find that the stewardship hypothesis received stronger support. But the literature examining the relationship between the board of directors and company performance is generally grounded on

agency theory, which sees managers as self-interested. The view here is that the pursuit of personal interests by management does not necessarily result in the maximization of shareholders' wealth (Chen, 2007). Corporate governance as an integrated set of internal and external controls seeks to harmonize the disparate interests of managers and owners (Chen, 2007).

2.3.3 Transaction cost economics (TCE) theory

TCE views the firm as a governance structure whereas agency theory views the firm as a nexus of contracts (Mallin, 2007). The proponents of this theory hold that a choice of appropriate governance structure can help align the interests of directors and shareholders. The agency theory emphasizes importance of the separation of ownership and control of a firm, whose problems culminate to corporate governance issues. By looking at the internal efficiencies, Coase (1937) stated that the operation of market costs something and by forming an organization and allowing some authority (an entrepreneur) to direct the resources, certain marketing costs are saved. Thus there are certain economic benefits to the firm itself to undertake transactions internally rather than externally.

2.3.4 Stakeholder theory

Stakeholder theory takes account of a wider group of constituents such as employees, creditors, customers, suppliers, government and the local community rather than focusing on shareholders. This means where there is an emphasis on stakeholders, then the governance structure of the company may provide for some direct representation of the stakeholder groups (Mallin, 2007). According to Maher and Anderson (1999) this theory holds corporations should be "socially responsible" institutions, managed in the public interest. Therefore, performance is judged by a wider constituency interested in employment, market share, and growth in trading relations with suppliers and purchasers, as well as financial performance. However, main theory that has affected development of corporate governance is the agency theory, although stakeholder theory is becoming more into play as companies realize they cannot operate in isolation.

2.4 Principles of corporate governance, code of best practice and guidelines

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, committees appointed by government, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. OECD published its principles of corporate governance in 1999 which were later reviewed in 2004 as follows: ensuring the basis for an effective corporate governance framework, to promote transparent and efficient markets, be consistent with the rule of law and articulate the division of responsibilities among different supervisory, regulatory and enforcement authority; the rights of shareholders and key ownership functions should be protected; the equitable treatment of shareholders including minority and foreign shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board.

Particularly the development of corporate governance in UK in relation to Cadbury Report (1992) has influenced the development of many corporate governance codes globally. UK is known to have a well-developed market with a diverse shareholder base including institutional investors, financial institutions, and individuals. In May 1991 a committee on the Financial Aspects of Corporate Governance was set up, chaired by Sir Adrian Cadbury. The committee reported in December 1992, and recommended a Code of Best Practice to be complied by boards of all listed companies registered in UK. The recommendations covered the operation of the main board, the establishment, composition, and operation of key board committees, the importance of, and contribution that can be made by non- executive directors, and the reporting and control mechanisms of a business (Mallin, 2007). Another UK notable contribution include Greenbury Report (1995) by Greenbury Committee which was set in response to concern at both the size of directors' remuneration and their inconsistent and incomplete disclosure in company annual reports.

The development of corporate governance in US has been more through legal framework. For instance the Delaware General Corporation Law, which essentially gives companies incorporated in Delaware certain advantages, with emphasis on giving boards of directors authority to pursue corporate strategy and objectives whilst at the same time observing the fiduciary duty. In the recent past following the financial scandals of Enron, Worldcom and Global Crossing, the US Congress agreed reforms together with changes to the New York Stock Exchange (NYSE) Listing Rules (Mallin, 2007). The changes were entrenched in the Accounting Industry Reform Act 2002, commonly referred to as the Sarbanes-Oxley Act, which seeks to strengthen external auditor independence as well as strengthening the company's audit committee.

2.5 Role of a board of directors in corporate governance

A model of governance for a successful organisation should have an effective board of directors who exhibit integrity and competence in carrying out their duties and responsibilities. Other concerns to the board will be societal reassurance or commitment, existence of self-regulation practices, and mechanisms to strengthen the relationship between the organisation and its stakeholders. Another prerequisite is a valid business concept created by the CEO and his management team, and again, with the board's advice and consent (Colley et al. 2005).

While senior management team have the lead responsibility for crafting and executing a company's strategy, it is the duty of the board of directors to exercise strong oversight and see that strategic management tasks are done in a manner that benefits the shareholders and/ or stakeholders. In so doing the board of directors have the following crucial obligations to fulfil (Thomson *et al*, 2007). First, critically appraise and ultimately approve strategic action plans. Second, evaluate the strategic leadership skills of the CEO and others in line to succeed the incumbent CEO. Failure in this can lead to a typical case like that of the AIG downturn.

..... AIG global losses of \$62 billion in 2008/9 makes AIG face problems with the public who are getting increasingly sceptical and the last thing they want to do is to have to defend bonus

payments to AIG. Americans have already grown weary of government bailouts to companies that they believed squandered their investments on questionable loans, shredded their retirement accounts and helped toss US economy into recession – president Obama expressed outrage over hefty bonus payments awarded to employees of the firm. He asked US treasury to pursue “every legal avenue to block these bonuses and make the American taxpayers afloat”. The treasury secretary Timothy Geithner had complained to AIG chairman Edward Liddy about the bonus structure (Steve Holland, 2009). Boards must also exercise due diligence in evaluating the strategic leadership skills of other senior executives in line to succeed the CEO. When the incumbent CEO steps down or leaves for a position elsewhere, the board must elect a successor, either going with an insider or deciding that a better-qualified outsider is needed to perhaps radically change the company’s strategic course.

Third, institute a compensation plan for top executives that reward them for actions and results that serve stakeholders interests, and most especially those of shareholders. Fourth, ensure that the company issues accurate financial reports and has adequate financial controls.

2.6 Link between corporate governance and performance

Corporate governance can influence a company’s performance whenever a conflict of interest arises between management and shareholders and/or between controlling and minority shareholders. In the management-shareholder conflict, the agency problem manifests itself in management’s low effort and unproductive investments.

A lot of questions are being asked on how corporate governance activities affect the level of corporate performance. McKinsey (2002) conducted a global investor opinion survey and found out that 80% of the respondents would pay a premium for a well governed company, that is, one that had most outsider directors without management ties, undertook formal evaluation of its directors and was responsive to investors’ requests for information on governance. Mwangi (2002) carried out a survey of corporate governance practices among insurance companies in Kenya and found out that there is a positive relationship between levels of governance, ownership and performance.

Although Fosberg (1989) found no relation between the proportion of outsider directors and various performance measures, Lang'at (2006) in his research project on corporate governance structures and performance in firms quoted in the NSE established that there are positive relationships between listed firms' performance and frequency of board meetings, the ratio of outside directors to total directors, percentage of insider share ownership, and executive compensation. Similar sentiments were shared by Nambiro (2008) in her work on the relationship between level of implementation of CMA guidelines on corporate governance and profitability of companies listed at the NSE. She found out that all companies listed in NSE have implemented CMA guidelines and their performance has been on the increase.

According to Mallin (2007) the evidence as to whether good corporate governance impacts on corporate performance is rather mixed, but looking at it another way, good corporate governance can help to ensure that companies do not fail. Therefore, a company with good corporate governance is more likely to attract external capital flows than one without.

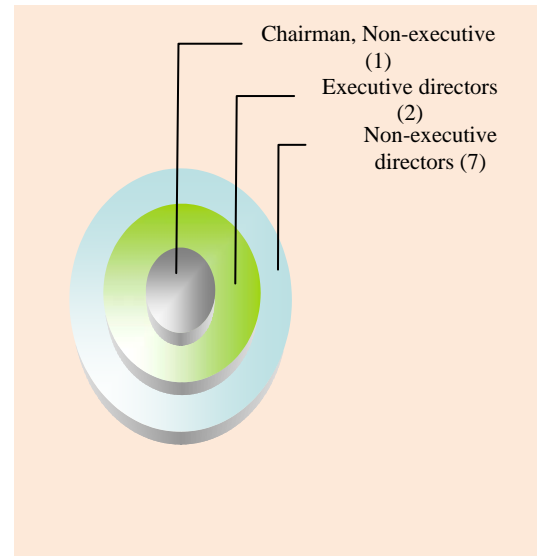
2.7 Corporate governance at The Heritage Insurance Company Ltd

The Board of Directors of The Heritage Insurance Company view corporate governance as a system by which corporations are directed, controlled and held to account. This encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, sustainable and relevant.

The Board follows principles of openness, integrity and accountability in its stewardship of the Company affairs. The key features of the existing corporate governance practices within the Company include recognition of the developing nature of corporate governance and assessment of the Company's compliance with generally accepted corporate practices on a regular basis, directly and through its board committees and management. Others are the composition of the board and establishment of committees.

The board meets formally at least four times a year. And the non-executive directors are actively involved in and bringing strong independent judgment on board deliberations and discussions. To assist the Board in the discharge of its responsibilities, a number of Board committees have been established including the Remuneration Committee which consists of three non-executive directors whose primary objective is to ensure the right calibre of management is recruited, retained and appropriately rewarded for their contributions.

Figure 1: Balance of the board of directors



The Audit & Risk Committee consists of 3 non-executive independent directors responsible for the oversight of effective internal controls, risk management and compliance. A Management Board comprising the CEO and functional directors whose main mandate is to deal with strategic and operational issues, review Company performance and progress of implementation of the strategic plan. An Investment Committee made up of two non-executive directors, managing director and appropriate personnel from Finance department responsible for determining and monitoring the Company's overall investment strategy. Credit Control Committee, which is a committee of the management chaired by Finance & Administration Director to ensure compliance with the Company's credit policy. Another committee of management is the Human Resources Committee which deals with staff related matters.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

This chapter represents the research design and methodology used in the study. The study was conducted by way of a case study of a selected study unit. This involved selecting a unit that met certain criteria and allowing for in depth exploration of issues in a phenomenon.

The research used a scorecard methodology to allow evaluation of corporate governance principles and practices in a quick but systematic manner with a concise structure of the major criteria being assigned individual points. Each governance principle variable was assessed and awarded a score on a scale of 1 to 5 by the respondents.

The case study in this research was The Heritage Insurance Company Ltd which is one of the composite insurance companies that has shown steady growth and profitability over the years. The respondents in this case study were Senior Management at The Heritage Insurance Company including management board, senior managers and departmental heads. Information from management reports was also used for the study.

3.2 Data collection

The study used both primary and secondary data. The sources included The Heritage's financial statements, Insurance Regulatory Authority, AKI, and senior management of the Company.

The primary data collection was conducted through semi-structured interviews. A scorecard method was used where scores were assigned to various governance variables. The scorecard method has been used in several studies to analyze the governance systems variables in place and their influence to the financial performance of firms (Gitari, 2008). While quantitative variables of financial performance were obtained from financial

results from annual reports and accounts and AKI statistics. The financial data used was for a period of five years from 2005 to 2009 to provide a good period for analysis of the financial performance variables. The data for these periods of study was readily available.

The interview instrument entailed performance report by selected performance matrix given by the Prime Minister's office to parastatal. A semi-structured interview was used to allow rearrangement of questions dependently on the way the interviewee was connected to the corporate governance subject. More importantly it allowed observation of non-verbal information and clarification, which provided an important correction on the answer of the interviewee. The other forms used were telephone mode to make appointments with various target respondents for the interviews. And letter of introduction from the University of Nairobi to avoid any suspicion and to reassure the respondents that the study is genuine, important and strictly confidential for academic purposes.

3.3 Data analysis

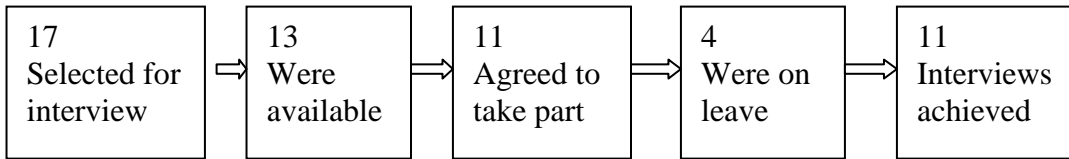
This explored enquiry and tested the linkage between corporate governance and performance. The data was checked and verified for completeness, consistency and accuracy. The data was then coded, edited and weighted accordingly, and then provided in tabulations. The results were analyzed and presented using descriptive statistics such as frequencies, proportions and percentages. Descriptive statistics method allowed the data and measures to be summarized in a simple and logical manner. In addition, trend analysis and simple graphics analysis was used to present quantitative descriptions.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

This chapter covers data analysis and interpretation of the results. The final data set was weighted to an agreed profile and then presented in full data tabulations.

The senior management staff selected to take part in the interview were 18. They were contacted on phone to inform them as well as book an appointment for the interview. Out of the 18 contacted 2 kept on postponing the appointment and was not interviewed after all. 4 were not available during the two weeks' interview period.

Figure 2: Interview process



The response was rated as high at 65%. A breakdown by stratum of the management levels of the 11 interviewed staff is presented in table 3.

Table 3: Senior management at The Heritage Insurance Company Ltd

Management Level	Staff interviewed	Out of	Response percentage
Management Board	3	5	60.0%
Senior Managers	3	4	75.0%
Heads of Departments	5	8	62.5%
Total	11	17	64.7%

The respondents assessed the degree of fulfillment of each of the selected corporate governance principle variables as well as the selected non-financial performance indicators and their answers were rated on scale of 1 to 5 with 1=20%, 2=40%, 3=60%, 4=80% and 5=100%. Thus each score earned 20%, for instance, a mean score of 4.6 would approximately result into 92%.

4.1 Description of governance systems in place

It emerged that the Company has a procedure for tracking and analyzing the effectiveness of the set corporate governance practices. The management is aware of this. The board is constituted of two executive directors and seven non-executive directors, and this ensures there is independence in decision making process. A minimum of four board meetings had been held in every year for the last five years. To ensure effectiveness the board has an audit committee in charge of internal audit functions.

4.1.1 Overview and measurement of governance standards

There is strong agreement that the level of board of directors' experience, holding regular meetings and a mix of executive and non-executive directors are aspects that have contributed to raising standards as 92.73%, 90.91% and 87.27% have strongly agreed, respectively. On the other hand, training, seminars or workshops aspects remain questionable as only 56.36% with a mean score of 2.8 rating tend to agree, see table 4.

Table 4: Perceived impact of key aspects on raising standards of governance		
From your own experience, to what extent do you agree that the following aspects contribute to raising standards of governance in your company?		
	Mean Score	Agree %
<i>Level of experience of the Board of Directors</i>	4.6	92.73
<i>Board of Directors (BOD) training/workshops/seminars</i>	2.8	56.36
<i>BOD holding regular meetings</i>	4.5	90.91
<i>Risk management procedures</i>	3.9	78.18
<i>A mix of executive and non-executive directors</i>	4.4	87.27
<i>Regular, independent assessment of the company performance</i>	4.3	85.45
<i>Having a professional director on the Board</i>	4.3	85.45

Similarly, as shown in table 5 below, when asked to consider the overall governance activities across a wider range of key aspects, the ratings tend to be consistently aligned

to the aspects that raised standards of corporate governance. For instance, 92.7% strongly agree that the board of directors understands its role and responsibilities in relation to the Company. A high majority 87.3% also strongly agree that the board works together as an effective unit and that the board manages the Company’s strategic issues to ensure acceptable service (83.6%). It is evident that there is little disagreement that the board is performing well across the seven rated aspects as the mean score remained fairly above 3.5 out of 5. Although there is high level of agreement that the board understands its roles and responsibilities, there tend to be some gaps on the board ensuring a high standard of communication at all levels, which had mean score less than 3.5

Table 5: Rating of overall governance across a range of aspects		
And now to sum up your views, thinking about the overall governance activities of the Board of the Company, please tell me the extent to which you agree with the following statements?		
	Mean Score	Agree %
<i>Understands its roles and responsibilities in relation to the Company</i>	4.6	92.7
<i>Manages the Company’s strategic issues to ensure acceptable service</i>	4.2	83.6
<i>Works together as effective unit</i>	4.4	87.3
<i>Regularly reviews its investment strategy</i>	3.9	78.2
<i>Have effective internal controls</i>	4.0	80.0
<i>Ensures a high standard of communication at all levels</i>	3.4	67.3
<i>Has documented internal controls</i>	3.5	70.9

4.1.2 Guidance on regulations

The respondents were asked to say whether a range of aspects were an issue or not at all an issue to the board’s effectiveness while conducting its role. Insufficient knowledge among directors and conflict of interest were seen as the most predominant issues with rating of 56.4% and 52.7% respectively as reflected in the table 6 below. The turnover of directors was seen as a concern with a potential proportion of 50.9%. Meanwhile, a third (30.9%) said risk and additional responsibilities carried by the directors do not appear to

be a hurdle to the board in conducting its role effectively. The other issues that hanged on the balance but if not checked might impact negatively on the board’s performance include poor attendance at board meetings, insufficient budget for directors activities and lack of time available for directors to devote to the Company.

Table 6: Potential issues impacting on the Board conducting its role effectively		
Can you tell me if any of these issues is very major issue, major issue, moderate issue, minor issue, or not an issue at all to your Board conducting its role effectively?		
	Mean Score	An Issue %
<i>Risk and additional responsibilities carried by the directors</i>	1.5	30.9
<i>Conflict of interest</i>	2.6	52.7
<i>Insufficient knowledge among directors</i>	2.8	56.4
<i>Lack of time available for directors to devote to the Company</i>	2.5	49.1
<i>Turnover of directors</i>	2.5	50.9
<i>Poor attendance at board meetings</i>	2.5	49.1
<i>Insufficient budget for directors activities</i>	2.5	49.1

4.1.3 Risk management and internal controls

From the table below, majority (78.2%) were very confident that the board had put in place appropriate processes to monitor and mitigate risks that might arise from non-compliance with Company policies as well as non-compliance with statutory requirements. The implication is that with high confidence level the Company would be able to recruit and retain high key staff able to spur high growth. An area that somehow appeared susceptible was data management systems as only 58.2 % were confident.

Table 7: Confidence in internal controls to mitigate risks		
How confident are you that the directors have put in place appropriate internal controls to monitor and mitigate risks arising from the following?		
	Mean Score	Very Confident %
<i>Non-compliance with Company policies</i>	3.9	78.2
<i>Fraudulent activities</i>	3.5	69.1
<i>Current investment strategies</i>	3.5	69.1
<i>Non-compliance with statutory requirements</i>	3.9	78.2
<i>Data management systems (ICT)</i>	2.9	58.2

4.2 Non- financial analysis findings

The table below reflects the extent to which certain performance matrix had contributed to increase in The Heritage Insurance Company's performance. For example, an overwhelming 87.3% believed that their compliance to the strategic plan had contributed to the increase in performance. Similarly, 81.8% believed that competency development had contributed to the increase in performance. Other notable positive contributors were meeting statutory obligations and increased customer accounts (sales volume) which were rated at 78.2% each. It should be observed that automation of operation systems was somewhat lukewarm at 67.3% and that could cause a challenge.

Table 8: Non-financial performance indicators		
In your view, to what extent have the following performance matrix contributed to the increase in the Company's overall performance?		
	Mean Score	Very Much %
<i>Compliance to strategic plan</i>	4.4	87.3
<i>Service delivery innovations</i>	3.8	76.4
<i>Statutory obligations</i>	3.9	78.2
<i>Automation of operation systems</i>	3.4	67.3
<i>Competency development (including training)</i>	4.1	81.8
<i>Increased customer accounts</i>	3.9	78.2

4.3 Financial analysis findings

Trend analysis was used to determine the financial performance of The Heritage Insurance Company Ltd over the five years. Trend analysis was necessary to establish whether there was growth or decline in financial performance over the period being studied.

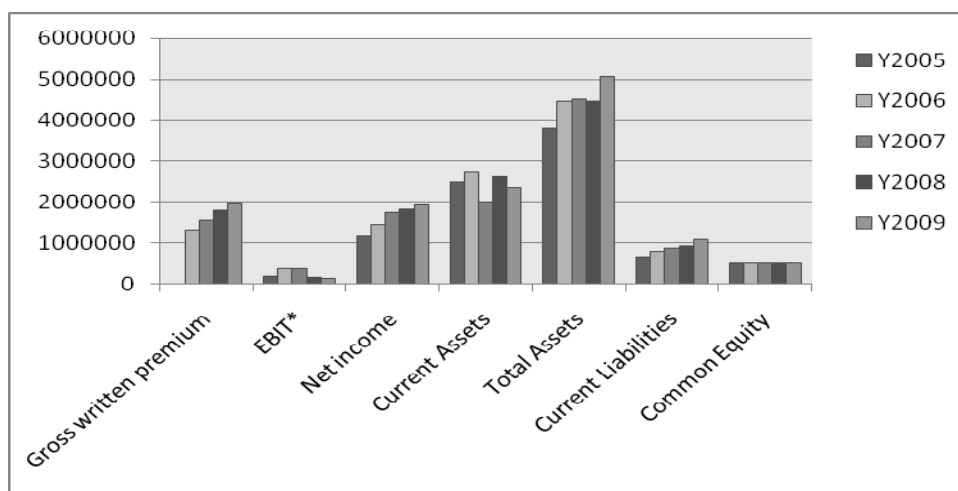
Table 9: The Heritage Insurance Company financial performance (Kshs.'000)

Data Description	Y2005	Y2006	Y2007	Y2008	Y2009
Gross written premium	1, 184,755	1,331,542	1,565,008	1,808,355	1,963,733
EBIT*	197,068	357,175	364,281	158,563	129,111
Net income	1,168,255	1,463,848	1,731,538	1,825,886	1,928,228
Current Assets	2,481,228	2,737,946	2,010,006	2,620,929	2,341,557
Total Assets	3,797,129	4,477,801	4,522,166	4,467,271	5,063,099
Current Liabilities	658,571	800,288	869,382	923,030	1,094,157
Common Equity	500,000	500,000	500,000	500,000	500,000

* EBIT = earnings before interest and tax

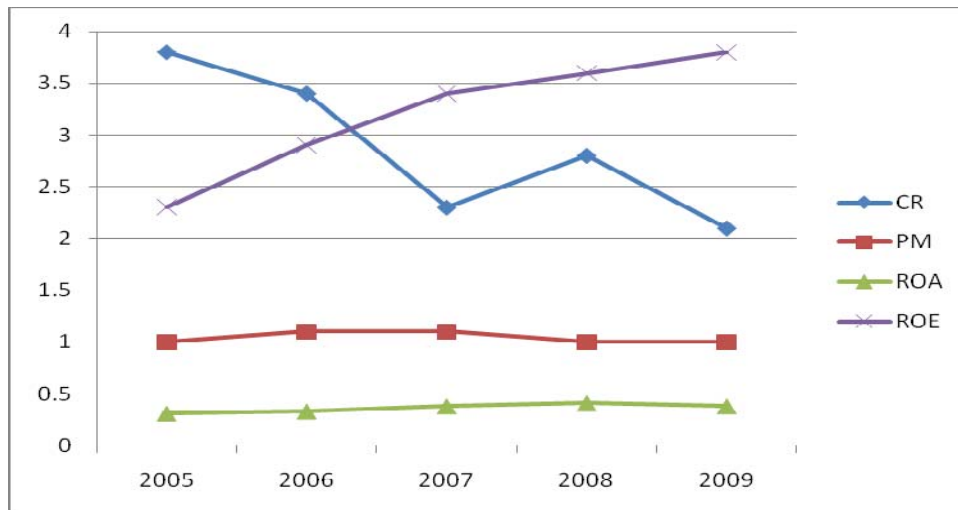
Source: Annual report and financial statements 2005-2009

There had been steady growth in gross premium as well as net income over the years as shown in the chart below. For year 2009 the Company provided an impairment charge of Kshs. 183 million against the investment income. The shareholders (common) equity had remained the same over the years but this is within the statutory minimum paid up capital of Kshs 450 million as required under the Insurance Act.



Some measures for financial performance used were current ratio to establish the Company's ability to meet its claim settlement obligations as and when they fall due, total assets turnover to measure the Company's efficiency and effectiveness in managing assets to generate sales, and selected profitability ratios to determine the Company's ability to translate sales into profits and measure earnings in comparison to total shareholder's equity. The most important thing is to consider the trend of these measures.

Graph 1: Comparison of the various ratios



The above graph shows clearly that the performance had been steady over the five years, save for the slight down turn in year 2009 which is attributed to the impairment of investment income.

4.4 Discussion of results

The role of corporate governance has been gaining momentum over in the recent past. Since the Cadbury Report's recommendations (that covered the operation of the main board; the establishment, composition, and operation of key board committees; the importance of, and contribution that can be made by non- executive directors; and the reporting and control mechanisms of a business), corporate governance has become a critical link between firms and those who have vested interests in the firm (Mallin, 2007).

Corporate governance is needed not only to protect the interests of the owners but also other stakeholders. Corporate governance is mandated to ensure the interests of public-sector and private-sector organizations are represented. In addition, corporate governance aids in securing confidence not only for shareholders but also for other stakeholders such as customers, suppliers, employees and the government in ensuring that firms are accountable for their actions. The dominant form of corporate governance for these firms including The Heritage Insurance Company Ltd is the board of directors. The Company has seven non-executive directors in the board and only two executive directors. This conforms with the established empirical evidence that a board with more independent directors is more effective, given the growth shown by the Company.

All corporations are structured so that the board of directors is ultimately responsible for the conduct and performance of the company. In the context of our discussion, this means that the board is responsible for the governance and integrity of the company. The results showed that the board had put in place appropriate processes to monitor and mitigate risks that might arise due to non-compliance. Thus the board is capable of creating value by operating within a clearly articulated governance framework; understands its role and responsibilities, manages the company's strategic issues to ensure acceptable service levels, works together as an effective unit, have effective internal controls, holds board meetings regularly and have necessary experience in the business line.

The Heritage Insurance Company Ltd has shown some characteristics of an excellent company; that is, according to Williams (2002) should exhibit a bias for action, be close to the customer, stick to knitting, ensures productivity through people. It has high value in compliance to its strategic plan, service delivery innovations and competence development of its staff. The financial performance of the Company has been steady over the years studied. Although the study only considered certain corporate governance variables and performance indicators, contribution by other underlying factors may not be ruled out.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter gives a summary of the findings and conclusion of the study. In addition, it makes recommendations derived from the research findings covered in the previous chapters.

5.1 Summary of findings

Corporate governance has become an integral part of board of directors' duties in ensuring sustainable long term profitability. The board plays a pivotal role in setting up and monitoring corporate governance systems. The study was carried out to establish the link between corporate governance and performance at The Heritage Insurance Company Limited. In doing so, descriptive analysis plus trend analysis were applied to examine the impact of corporate governance on overall Company performance.

Corporate governance was the independent variable measured based on the senior management perspective and recorded by scorecard method. The corporate governance variables measured included level of boards experience, meetings, mix of executive and non-executive directors, teamwork, conflict of interest, fraudulent activities among others. While the dependent variable was corporate performance (comprising both financial and non-financial performance). Financial performance was measured using current ratio, profit margin, return on assets and return on equity ratios. Corporate performance variables considered were gross premium, EBIT, net income, current liabilities, common equity, current assets and total assets. Non-financial performance variables included compliance to strategic plan, service delivery innovations, statutory obligations and competency development. They were measured using senior management perspective and recorded using scorecard method.

5.2 Conclusion

The study revealed that The Heritage Insurance Company Ltd has a governance system put in place by the board of directors to enforce achievement of its various strategies to drive growth in Company performance. From the analysis of the findings it is evident that when the Company complied with the International Financial Reporting Standards and/or International Accounting Standards and carried out impairment of its assets in year 2009, the overall performance was affected. It was for the first time there was a decline in growth over the five year period. Therefore, corporate governance aspects or variables such as compliance to regulations guidance, risk management and internal controls are linked to overall Company performance.

Various corporate governance variables and selected performance indicators as prescribed in performance matrix given by the Government of Kenya had been used to establish the link. The results had shown that the Company has a strong governance system in place and a correspondingly steady growth in their performance even in hard times of premium undercutting, and economic downturn. The impact had also been seen when the Company implemented one of the accounting guidelines which is deemed unpopular during hard times that ended in decline in profits. Thus there is a link between the corporate governance practices and organizational performance.

5.2 Limitations of the study

The project was carried within a very tight timeframe running through concept paper, proposal submission, field work to project finalization. Thus time became a major constrained in at each stage of the study. Another constrained during the study was the scope as being a case study an in-depth analysis of the underlying variables was necessary, however, only a selected set of corporate governance variables and performance indicators matrix were considered. There were also other intervening factors such as ongoing mergers and acquisitions within the business group and anticipated

synergies within the group. In addition, interviewing senior management was a challenge due to their tight schedules and company priorities.

5.3 Recommendations for further research

There is need for further research to establish the impact of implementation of corporate governance principles on the organizational performance by looking at other intervening variables including non-financial performance indicators.

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Appendix 1: Preliminary permission to conduct Research

Managing Director,
The Heritage Insurance Company Ltd
P. O Box 30390 – 00100
Nairobi.

Dear Sir,

RE: REQUEST TO USE THE HERITAGE INSURANCE COMPANY LTD AS A
CASE STUDY FOR MY MBA PROJECT

Currently, I'm taking an MBA degree course at the University of Nairobi. Having completed my course work, I need to start on a research project in an area of Corporate Governance and Performance with a bias towards insurance. The Heritage Insurance Company being a reputable and leading insurer in claims settlement, rated AA- by Global Rating Company, would offer me an excellent case study on establishing the link between corporate governance and performance.

I therefore kindly request you to allow me use your Company for this research. All information obtained in the study would be treated with confidence and would be used only for academic purposes.

Yours faithfully,

Gerardus O. Oti
Student of the University of Nairobi, School of Business.

Appendix 2: Interview Guide

Section 1: Please tick as appropriate

1. Does the Company have a procedure for tracking and analyzing the effectiveness of your corporate governance practices? Yes No

2. How many members constitute your board of directors?
Executive directors Non-executive directors

3. How often are board meetings held in a year?

4. Is there internal audit function? Yes No

5. Does the Board have an audit committee? Yes No

Section 2: please circle the appropriate score

6. Perceived impact of key aspects on raising standards of governance

From your own experience, to what extent do you agree that the following aspects contribute to raising standards of governance in your company? (1 – strongly disagree, 2 – tend to disagree, 3 – tend to agree, 4 – agree, 5 – strongly agree)

No	Aspects of governance	Rating Scale (circle one)					Score
		1	2	3	4	5	
1	<i>Level of experience of the Board of Directors</i>	1	2	3	4	5	
2	<i>Board of Directors (BOD) training/workshops/seminars</i>	1	2	3	4	5	
3	<i>BOD holding regular meetings</i>	1	2	3	4	5	
4	<i>Risk management procedures</i>	1	2	3	4	5	
5	<i>A mix of executive and non-executive directors</i>	1	2	3	4	5	

6	<i>Regular, independent assessment of the company performance</i>	1	2	3	4	5	
7	<i>Having a professional director on the Board</i>	1	2	3	4	5	
Total Score							

7. Rating of overall governance across a range of aspects

And now to sum up your views, thinking about the overall governance activities of the Board of the Company, please tell me the extent to which you agree with the following statements? (1– strongly disagree, 2 – tend to disagree, 3 – tend to agree, 4 – agree, 5 – strongly agree)

No	Governance activities	Rating Scale (circle one)					Score
		1	2	3	4	5	
1	<i>Understands its roles and responsibilities in relation to the Company</i>	1	2	3	4	5	
2	<i>Manages the Company's strategic issues to ensure acceptable service</i>	1	2	3	4	5	
3	<i>Works together as effective unit</i>	1	2	3	4	5	
4	<i>Regularly reviews its investment strategy</i>	1	2	3	4	5	
5	<i>Have effective internal controls</i>	1	2	3	4	5	
6	<i>Ensures a high standard of communication at all levels</i>	1	2	3	4	5	
7	<i>Has documented internal controls</i>	1	2	3	4	5	
Total Score							

8. Potential issues impacting on the Board conducting its role effectively

Can you tell me if any of these issues is (1- very major issue, 2 – major issue, 3 – moderate issue, 4 - minor issue, 5 - not an issue at all) to your Board conducting its role effectively?

No	Governance issues	Rating Scale (circle one)					Score
1	<i>Risk and additional responsibilities carried by the directors</i>	1	2	3	4	5	
2	<i>Conflict of interest</i>	1	2	3	4	5	
3	<i>Insufficient knowledge among directors</i>	1	2	3	4	5	
4	<i>Lack of time available for directors to devote to the Company</i>	1	2	3	4	5	
5	<i>Turnover of directors</i>	1	2	3	4	5	
6	<i>Poor attendance at board meetings</i>	1	2	3	4	5	
7	<i>Insufficient budget for directors activities</i>	1	2	3	4	5	
Total Score							

9. Confidence in internal controls to mitigate risks

How confident are you that the directors have put in place appropriate internal controls to monitor and mitigate risks arising from the following? (1 – not at all confident, 2 –not very confident, 3 – quite confident, 4 – confident, 5 – very confident)

No	Internal controls	Rating Scale (circle one)					Score
1	<i>Non-compliance with Company policies</i>	1	2	3	4	5	
2	<i>Fraudulent activities</i>	1	2	3	4	5	
3	<i>Current investment strategies</i>	1	2	3	4	5	
4	<i>Non-compliance with statutory requirements</i>	1	2	3	4	5	
5	<i>Data management systems (ICT)</i>	1	2	3	4	5	
Total Score							

9. Non-financial performance indicators

In your view, to what extent have the following performance matrix contributed to the increase in the Company’s overall performance? (1- not at all, 2 - very little, 3 – little, 4 – much, 5 – very much)

N o	Performance indicators	Rating Scale					Score
		(circle one)					
1	<i>Compliance to strategic plan</i>	1	2	3	4	5	
2	<i>Service deliver innovations</i>	1	2	3	4	5	
3	<i>Statutory obligations</i>	1	2	3	4	5	
4	<i>Automation of operation systems</i>	1	2	3	4	5	
5	<i>Competency development (including training)</i>	1	2	3	4	5	
6	<i>Increased customer accounts</i>						
Total Score							

Please state any other issue relating to corporate governance and or performance that you feel has impact on the Company’s overall performance.

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Thank you