CORPORATE GOVERNANCE AND DIVERSIFICATION STRATEGY BY ICEA LION GROUP IN KENYA

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DECLARATION

This research project is my original work and has not been submitted for an academic award in any other university.

Signature: Date: 3rd Dec 2020

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D61/5859/2017

This project has been submitted for consideration with my approval as the University supervisor.

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DEDICATION

I want to dedicate this project to God the Almighty my strong pillar and my inspirational source. I also want to dedicate this work to my family for their unconditional moral support and understanding during this journey.

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ABBREVIATIONS AND ACRONYMS

AKI: Association of Kenya Insurers

BOD: Board of Directors

CEO: Chief Executive Officer

CMA: Capital Markets Authority

COVID-19: Corona Virus Disease 2019

GDP: Gross Domestic Products

GIC: Growth and Innovation Centre

ICEA: Insurance Company of East Africa

IRA: Insurance Regulatory Authority of Kenya

PSI: Principles of Sustainable Insurance

UNEP FI: United Nations Environment Program Finance Initiative

ABSTRACT

Strategy is one of the games that companies put in place to ensure that they are ahead of the pack. With the fierce competitions in the globe, companies are required to establish a paradigm shift to gain competitive advantage in the market. Diversification strategies ensured companies exploited fully their resources to attract new markets. Diversification strategy meant organizations make optimal use of resources for profitability. The presence of effective corporate governance principles in organizations ensures that the managements do not pursue strategies that would deviate from benefiting the shareholders. The central objective of corporate governance was the facilitation for good and diligent leadership to ensure the organization's long-term success. The study sought to establish how corporate governance influences the diversification strategy at ICEA Lion Group. This was a case study with data collected by interview guides and analyzed using content analysis. The respondents were senior managers who understand the business and the research variables. The study established that corporate governance aspects ownership structure of the company, board structure and the board size influence the diversification strategy decisions. The board as the ultimate decision making body approved all the diversifications strategies pursued by the company. The non-executive directors have upheld quality corporate governance, which ensured strategic guidance to the management. In conclusion, corporate governance continued to create a conducive environment for good business practices. Good corporate governance structure continued to attract attention due to its positive impact on the success of businesses and society. The study recommended that the board should consider gender diversity in the board and seek to have term limits for the board members. The study established that the company adopted diversification strategy as one of the strategies to add value to the shareholders wealth. However, it is recommended that proper guideline be put in place to ensure continuous review of this strategy to see how it can benefit the company more.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Wanyama and Olweny (2013) noted that corporate governance was very useful to business including the insurance sector. The 2008 global financial crisis and as well as Company scandals like Enron, WorldCom, Uchumi supermarkets, assessment and enhancement of corporate governance performance was essential since it was important for the survival of the business.

Although there were not regular major corporate scandals, anecdotal evidence suggested that they were caused mainly by the expropriation by minority shareholders who had excessive controlling powers (Mitau 2015). Corporate governance put resources into good use by the management for profit maximization (Eling & Marek, 2009).Different companies adopted different strategies to ensure business survival. The implementation of these strategies depended on the organization structure, board structure and even the shared values shaped by corporate governance. Diversification strategy widened the business scope to gain competitive advantage (Andrews, 2007 and Kadri, 2004). Effective corporate governance and diversification strategy ensured optimal use of organization's resources and less risks, which results to maximum output, (Smallman, 2010). Organizations with poor corporate governance structures were susceptible to risks and the vice versa is true.

The basis of this study was agency theory and resource dependence theory. Based on the agency theory, it was widely believed that diversification was an opportunistic promotion of self-interest control by the management at the detriment of shareholders. The theory of resource dependence suggested that firms that had diversified could use resources as synergy between various business units to give them an edge (Anderson &Reeb, 2013)

The increasing level of globalization had led to important changes at the levels of the companies and mode of operations (Passaris, 2002). Insurance industry in Kenya faced governance issues such as integrity, transparency and accountability. Diversification offered insurance companies more advantages, asset depreciation as well as cost minimization (Bergh, 1997). The strategic benefits included synergies, development and enhancement of the enduring strategic capital (Li & Greenwood, 2004).As one of the players in the financial industry, ICEA Lion Group in its pursuit to protect and create shared value to its stakeholders, made strategic diversifications in order to survive. The company is established on pillars of doing business with best practices in respect to corporate governance (ICEA Lion 2017 Integrated Report).

1.1.1. Corporate Governance

The corporate governance is a complex partnership between owners of the company, management, board (BOD) and, other stakeholders (Rafiee & Sarabdeen, 2012). The mechanisms and systems put in place to regulate and direct the organization (Capital Markets Authority, CMA Act 2002). The central object of corporate governance was the facilitation for good and diligent leadership to ensure the organization's long-term success. It was about what the board was doing, and how it set standards for the company (Foo & Mazlina, 2010). It was not only sufficient for a company to be successful, but also needed to demonstrate respectable corporate citizens hip through

ethical behavior, environmental awareness and good corporate governance. Bad governance cast doubt on the organization's reliability, transparency and integrity.

The governance structure postulated on one hand who formally held decisions rights and on the other hand, how the revenues and costs were (Hansmann, 1996). It can be distinguished by the identity of the ownership structure, board structure, board size and institutional investors. Thillainathan (2009) argued that ownership concentration contributed to corporate governance deficiencies.

Good governance structure continued to attract attention due to its positive impacted on the success of businesses and society. Companies that embraced good corporate governance positively had gained sustainable growth (Matrin & Sayrak, 2013). Lack of it led to failure and stagnation of good performing organizations such as WorldCom, Uchumi supermarket, Euro bank and CMC Motors (Wanyama & Olweny, 2013). Safdar (2012) noted that corporate governance has increasingly developed to solve Agency's challenges, meeting the needs of investors and executives.

1.1.2. Diversification Strategy

Diversification strategy is an expansion of firm's operations by introducing products, services, markets or production steps to an existing business (Hope & Thomas, 2008). This' a top management decision and managers got rewards if the firm pursued a growth strategy. It involved stepping beyond the firm's existing products, services and markets and entering a new value chain to gain competitive advantage over competitors. Diversification strategy should ensure the industry attractiveness, minimal cost and better performance (Porter, 1987).

Globalization led to changes in the business operations for firms as well as government (Passaris, 2002). Diversification strategies were the few strategies commonly used by managements to react to external environmental changes. This enabled companies in achieving economies of scale by sharing resource and disseminating power. It was majorly pursued if companies had opportunities in the market structures, technologies and opportunities for growth (Chartejee & Wernerfelt, 2011). According to Matrin and Sayrak (2013) diversification in the insurance companies resulted to insufficient resource allocation and insufficient supervision

Diversification strategy was determined by the composition of the board of directors and corporate governance practices (Nishi, 2015). The development of quality in corporate governance aligned the interests of both the executives and investors. If the priorities of investors and management were matched, the execution of the company's diversification strategies was likely to be successful.

Therefore, since the severity of the agency costs could be mitigated by various aspects of corporate governance, it also lessened the price loss due to diversification approaches (Safdar, 2012). The government and insurance sector players including professional bodies developed corporate governance codes and guidelines for the sector. These codes and guidelines specified obligations and rights for all stakeholders aimed at ensuring transparency and accountability in the business world and improved performance. Therefore, diversification strategy needed good corporate governance in the diverse banking and insurance market. (Wanyama & Olweny, 2013)

1.1.3. The Insurance Sector in Kenya

The Kenyan insurance market has existed for more than sixty years. British insurers (Njihia, 2013) owned the first insurance company. The industry players operate under AKI, Association of Kenyan Insurers established in 1987. The government regulates the industry through the Insurance Regulatory Authority of Kenya (IRA). AKI's main objectives are to create awareness in the public, promote business practices and promote growth of insurance in Kenya. IRA's main objective is regulating, supervising and developing the growth of the industry in Kenya. Regulations include compliance with sound business practices and other legal requirements. Despite the many challenges in the business environment, Kenya industry was resilient and could survive and thrive (AKI, 2012)

According to AKI report 2018, there were 54 insurance companies and 5 reinsurance companies operating in Kenya. Thirty-seven of these were non-life companies while 25 were life insurance companies. The insurance penetration rate was still as low as 2.4% compared to 2.71% in 2017 (AKI report, 2018). Gross Written Premium for the year 2018 was Kes. 216.11 billion, a slight improvement compared to Kes. 209.70 billion in the year 2017. The industry performance relative to the Kenyan GDP was about Kes 8,905 billion compared to Kes. 7,749 billion in 2017.

The insurance industry has undergone a desired overhaul since 2013. The government introduced guidelines, effective June 2013 to mainly eliminate or reduce unethical and irresponsible practices and thus protecting the industry from risks and setbacks in the Kenyan insurance industry. These guidelines faced implementation challenges due to conflicts of interests and lack of governance structures and adopted operating systems in the institutions.

1.1.4. ICEA Lion Group in Kenya

ICEA Lion Company is among the largest financial services in Kenya. It has headquarter in Nairobi with branches in major towns across Kenya. It is operating in the East African region, Kenya, Uganda and Tanzania. The company's roots could be traced to the very beginning of insurance market in Kenya, 1895. It is a one-stop shop of financial services offering innovative products and services ranging from insurance, Investments, Pension and Trusts.

To enhance its mission of protecting and creating wealth, the company championed integrity as it was committed to doing business by following best practices about corporate governance. It was the first insurance company in East Africa to sign the UNEP FI - PSI (United Nations Environment Program Financial Initiative - Principles of Sustainable Insurance). This is an international system addressing environmental, opportunities and social risks in the insurance market to strengthen its contribution as risk managers, insurers and Investors.

With the challenges the insurance industry had undergone, this research study was to determine the diversification approaches adopted by ICEA Lion Group Vis a Vis its corporate governance. The study was also to determine how the company was expanding to seek new ways of businesses and new markets because of competitions.

1.2. Research Problem

The changes to the economic climate and its implications on the achievement of organizations' objectives have forced companies to diversify as a way of managing risks. Governance structure of a company determined its orientation to the diversification strategy. It was not only sufficient for a company to be successful, but also needed to demonstrate respectable corporate citizenship through ethical behavior, environmental awareness and good corporate governance. Bad governance cast doubt on the organization's reliability, transparency and integrity.

Risks management through diversification strategies was a core business area in the insurance industry in Kenya and ICEA Lion in particular. Effective diversification strategy to manage risks had not been fully explored due to bad governance practices in the insurance industry. Proper linkage of corporate governance and diversification strategy could be more effective and efficient in creating value to the company.

Many studies on corporate governance and diversification strategy had given less focus to the insurance sector. Safdar (2012) studied how Global Financial Crisis affected the financial performance of Pakistan commercial banks. He sampled seventeen private commercial banks in Pakistan using interview guide to collect primary data over 5 years, 2006 – 2011. He used Multi Regression model to explore the various performance determinants variable. He established that corporate governance is a mechanism that involves a structure and a system, which promote the development of shareholders value.

Florentina (2012) studied on how corporate governance relates with corporate diversification strategies for financial institutions in Romani, established that agency disputes are the key cause of declining profitability of the company following diversification. He sampled fifty financial institutions and collected both primary and secondary data. Cronqvist and Nilsson (2001) studied the option between selling rights and investing in private equity around the world, established that family-controlled companies often avoided diversifications that would reduce control advantages and expose the company to extra regulations. They used data sampled from Swedish private companies over the period 1986 to 1999. Their study excluded banks and insurance companies that account for >50% of the proceeds.

Muscalu, Fraticiu and Ghitulete (2012) studied the association of corporate governance and diversification for Brazilian firms and established that essential factors that can limit unrelated diversifications and agency problems are government mechanisms. The government can control the managerial actions that do not gear towards the corporate objectives. They sampled listed commercial banks in Brazil and used both primary and secondary data.

Githira (2008) studied the influence of diversification strategy on insurance companies in Kenya and noted that high risks in business affects diversification due to challenges in new markets, government regulatory policies and corporate governance system of the organization. He surveyed all the insurance companies and used questionnaire to collect the primary data.

Mitau, (2015) studied diversification and governance at Simba Corporation in Kenya and established that the existing resources and capabilities should be used optimally to create and exploit opportunities that would give the company competitive advantage over others in the manufacturing market. He also noted that corporate governance variables, board structure and ownership structure are likely to influence strategies that the firms implement. She collected data for case study using an interview guide, and interviewees were senior executives in the corporation.

Khamati (2014) studied how diversification policy and strategy affects Radio Africa Company's performance in Kenya. He established that diversification improved company performance but the overall revenue growth decreased. Karanja (2013) also studied how diversification strategy influences performance of Kenol-Kobil Ltd Kenya. He established that the company adopted diversification strategies, both related and unrelated. The study established that the general performance of Kenol-Kobil increased because of diversification strategy. The two studies used questionnaires to collected data and the respondents were managers of both companies. The studies was done on the relationship between diversification and financial performance with no focus on corporate governance.

These studies were done in different contexts to address different objectives and different methods were used. The insurance industry in Kenya faces many challenges such as price under-cutting, fraud, and stiff competition. The need to obtain profit and the existence of competition had never been in a logical contradiction with respect of the ethical standards. This study sought to fill the gap that exists between corporate governance and the diversifications strategy by addressing the study question, how did corporate governance influence the diversification strategies at ICEA Lion Group?

1.3. Research Objectives

The objective of the study was to investigate how corporate governance affected the diversification strategy at ICEA Lion Group in the Kenyan market.

1.4. Value of the Study

The findings is of great value to the theory as research on corporate governance and diversification strategy was limited. More evidence was required to explain the inconsistent prior findings. The study also helps the company management to evaluate their strength for diversification strategy. Under the complex business and market conditions and instability, a company could perform better by implementing this strategy. It is also assisting them in deciding whether to change their corporate governance structure.

The industry also benefits from this study, as it showed the influence corporate governance had on company's performance through diversification strategy. It was useful for the insurance industry players to adopt corporate governance principles and prescribe them in the company policy and structure.

Among academicians, the research built the current body of knowledge on strategic management and insurance. The research was the basis of further future research to the scholars. The researcher would borrow from what had been researched and build on it for the expansion of knowledge.

The study helps the government through its agency, IRA to establish policies and regulations that are important to the effective functioning of the Kenyan insurance sector and compete globally in the insurance market. By diversifications strategies through good corporate governance, firms may achieve efficiency, adaptability and responsiveness to the emerging trends.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter discussed applicable theories plus in depth analysis between corporate governance and diversification strategies. The study discussed the relationship of the two variables with a summary of the findings and the knowledge gaps. Specific theories that the chapter covered include Agency Theory as well Resource-Dependency Theory.

The chapter also summarized the findings of related studies and the objectives of the studies we tried to seek. It brought out the concept, context of this study and the methodologies used. Thereafter the study highlighted the gap(s) that the research sought to fill.

The review consisted of literature findings of both local and international researches. The study concentrated on current literature, as this was more relevant in informing the study on how the concepts were applied in the modern business environment, which the company existed in.

2.2. Theoretical Foundation

The design and reasoning of this section supported the research. This was the basis on which the investigations and applicable knowledge was founded. The research concentrated on the agency and resource dependence theory.

2.2.1. Agency Theory

The agency theory explained different relationships and areas of self-interest within an organization. It generally implied that shareholders and managers tended to have conflicting interests (Mansi & Reeb, 2012). If not well controlled, managers could follow strategies that might not align with the interest of the investors.

The incompatible desires drove a wedge between the executive and the owners, whichled to inefficiencies and financial losses. Such a situation could be minimized through solid corporate policies within the organization. Diversification encouraged the development of internal capital markets to increase debt capacity. Klapper and Love (2013) argued that managers who hadaccess to free cash flow and high debt ability undertook non-value maximizing investment projects. However, due to cross-segment cash flows, there was a high possibility for managers to take advantage of negative value ventures vis-a-vis single-segment ones.

Agency theory viewed agencies as a link between re-negotiated agreements by individuals who try to fulfil and optimize their use; there was a common mind on how the principal couldstop the agent from optimizing its use (Clarke 2007). The theory influenced the theoretical outlook on the Board and governance. It saw the Board of the company as a control mechanism to lessen agency problems that arose between managers and owners. The management and the executive members of the organization are shareholders' representatives, and should share company's corporate goals (Davis, Schoorman, & Donaldson, 1997). Unifying the CEO-Chairman roles reduced conflicts, thus increased the stewardship role in the company. It argued that the rights of the shareholders were best safeguarded. Therefore, it empirically established that earnings increased by integrating two hypothesis rather than splitting them (Donaldson & Davis, 1991).

2.2.2. Resource Dependency Theory

Directors provided a firm with relevant knowledge, link to resources and timely information. According to this theory, board of directors provided an organization with resources that were not otherwise available (Pfeffer & Salancik, 1978). Organizations management initiated and implemented strategy while the directors approved and monitored the strategic choices.

Firms that had diversified could use these resources as synergy between various business units to give them an edge (Anderson & Reeb, 2013). According to the theory, organizations that were family controlled the interactions created unique systematic family influences. The systematic interaction led to distinctive firm-level package of resources known us familiness of the organization (Claessens & Fan, 2011). With increased family directors in the board, the policy decision making became effective and efficient through strong interaction and influence.

The theory claimed that the Board performed the resource provider role to the executive management to aid in achieving the goals of the organizations (Hillman & Dalziel, 2003). It advised the presence of the Board while at the same time supporting strong tangible and intangible support for executive management. Board of directors who were experts used their experience to educate and advise managers in order to improve their organizational performance. Board members might also have an influence by tapping into their support networks to draw assets to the business. The theory therefore suggested that the Board should approve most management decisions.

2.3. Corporate Governance and Diversification Strategy

To evaluate the relation between corporate governance and diversification strategy, this study emphasized on the corporate governance variables such as the structure of the Board and ownership structure. Mitau (2015) noted that family owned businesses wanted to retain control of the business affairs; they concentrated their investments in one sector and had a significant share of the company's assets. This risk was reduced by corporate diversification. Through corporate diversification, the volatility earnings was reduced which increased the probabilities of survival of the firm (Choi, Lee & Park 2013)

Board structure and internal configuration of the corporate governance had an influence on the diversification strategy. The make-up of the BODs and executive compensation were connected to unrelated diversification levels (Elyasiani & Jia, 2010). Organizations engaged in unrelated diversification when the corporate governance was not strong unlike very strong governance where firms likely engaged in related diversification.

The emphasis of the boards' independence focusses on the agency theory (Pearce and Zahra, 1992).The boards with many independent directors are easily successful with execution of its work. Such boards are likely not to be affected much when performance declines and may replace a non-performing chief executive officer with an outsider. Florentina, (2012) noted that there was a link between diversification and corporate governance. The study also estab relationship with institutional investors as opposed to other corporate governance aspects. In their study, how corporate governance influenced capital structure choices in emerging markets such as China, Klapper and Love (2013) indicated that larger BODs were aiming for higher debt rates to boost the profitability of the company.

Corporate ownership was a very powerful method of corporate governance. It played a key part in shaping the level of conflicting interests between managers and owners (Dalton et al., 2003). If executives bought company shares, they continued to be inspired to make decisions that were compatible with the wider group of investors' interests. Firms with ownership concentration contributed to corporate governance deficiencies (Thillainathan, 2009). Agency problems reduced with the increase of corporate ownership among executives (Claessens & Fan, 2011). Anderson and Reeb (2013) observed that diversification levels negatively related to managerial ownership. Managers who owned significant company capital were likely to maintain policies that resonated with other investors because they had high level of bonding to the firm's success.

Strategic choices between diversification and focus were important issues for firms aiming to improve their performances. BODs were the eventual decision-making body of an organization (McDonald, 2005). It also played critical role in tracking the performance of management and providing valuable returns to investors. Kuppswamy and Villalonga (2010) observed that boards needs to have some degree of independence in order to exercise their authority effectively. Non-executive board members provided the board some expertise skills in relation to strategy and its implementation, which gave executives better management to some of the uncertainties they faced in the environment.

The board's capacity for execution of its authority increased as the number of board members increased. In fact, its size could be employed as an indicator for a vigilant board (Gabrielsson, 2007). The board size and diversity affected its ability for initiating strategic reorientations. The theory of resource dependency suggested that growing the size and diversity of Boards brought benefits through the development in the external environment networks to protect broader resource base (Pearce & Zahra, 2012). In order to adjust to the dynamic environment, the Boards assumed a strategic gain role through organizational turmoil. This affected the firm's performance. Byrd et al (2012) observed that boards that diversified were likely to influence the company's strategic changes due to various leadership structures and organizational positions.

2.4. Empirical Studies and Knowledge Gaps

This chapter discussed the empirical study reviews on the subject, corporate governance and diversification strategy. Though diversification strategy was not a corporate governance tool, firms in Asia used it for private gains and entrenchment (Claessen *et al.*, 2002). Muscalu, et al (2012) studied, association of corporate governance and diversification strategies of Brazilian firms and established that essential factors that could limit unrelated diversifications and agency problems were government mechanisms. It could control the managerial actions that were not geared towards the corporate objectives by ensuring companies implemented corporate governance policies to curb agency conflicts and aligned interests of all stakeholders. The research's data was collected from government companies through questionnaires. The analysis did not reveal how corporate governance and diversification strategy relate.

Nastase and Hotaran (2011) studied the effect of governance, ownership, power and diversification on the financial performance of family-owned organizations in Malaysia and established that the proportion of equity ownership directly related to the corporate performance, group affiliated companies largely out-performs the non-affiliated ones and heterogeneity of businesses resulted in differences in performance. They also noticed that the size of the board had adverse effect to the performance of diversified firms.

The study also found that profit redistribution happened to companies that were mostly family owned and related to large business organizations. The data was collected through questionnaires from private companies with various ownership structures. The objective of the study was to determine how the system of ownership, control and governance influences the performance. The independence of the board lacked effectiveness to influence the firm strategies and performance. The study was based on a developed country whose corporate governance was stronger than Kenya. This study would try to establish the results would be different or similar in Kenya.

Chu and Song (2011) studied the relation amongst capital structure, diversification strategy and the role of controlling shareholders of firms in Malaysia. They found that diversification indirectly connected to the value of the companies. They noted that high diversification levels reduced firm value while low diversification level strengthened the firm value. Their study was narrow in scope since it mainly based on the manufacturing firms with the data collected before the year 2000 when the corporate governance reforms became effective.

Dhnadirek and Tang (2003) studied problems of corporate governance for companies in Thailand. They observed that, to some extent agency costs of free cash flows were the cause of loss of value from diversification approaches. The agency challenges between managers and shareholders or minority and majority shareholders led to an exploitation of excess capital diversification by some firms.

Ohonde (2015) in her study of diversification strategy and competitive advantage of commercial banks of Kenya noted that diversification strategy encompassed many factors in consideration for an organization to achieve a stronger competitive advantage. She observed that factors such as pricing review, product review, technology inclusion and customer focus were success factors for diversification strategy. The research population entailed of all commercial banks in Kenya. She obtained data using questionnaires and analyzed using quantitative analysis. The study only focused on the variables diversification and competitive advantage. Thus the need to introduce another variable, corporate governance and compare it with diversification strategy.

In her study on effects of corporate governance to diversification policies at Simba Corporations in Kenya, Mitau (2015) observed that the Board's size had a direct bearing on the quality of corporate governance. He found that larger boards were not effective and reliable. While smaller boards involved with fewer communication and management complications. Data collected by means of interview guide and analyzed using content analysis to interpret the findings. The objective of the study was to determine whether existed a relationship between corporate governance practices and diversification at Simba Corporation in Kenya. His research was limited, as it did not look at other aspects of what large size means.

Githira (2008) looked at factors that affect insurance diversification strategies in Kenya and noted that high business risks had an impact on diversification due to uncertainty and risks in new markets, government regulatory policies and corporate governance structure. Secondary and primary data specifically questionnaire were used to collected data. The research was limited, as it did not establish how corporate governance and insurance diversification strategies relate.

The insurance industry players faced challenges and aimed to thrive on the market by making certain tactical diversification decisions. Management would go for decisions that provided good output and reduced the overall risks. However, if the management went for bad decisions, they could have destructive effect on the firm interest. This was due to inefficient and weak corporate governance system. In fact, the incorrect diversification approach unfavorably affected the financial growth of the company. Meanwhile corporate governance was not a one-organization that changed monopolistically, but entrenched in the institution in multifaceted ways through laws and regulations. This study tried to fill the gap that exists on the impact of corporate governance and diversification strategy at ICEA Lion Group.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter addressed the development of the research methodology and provided information on the data collection methods applicable for the study. It also discussed the approaches used to carry out the study. It finally explained the techniques for analysis of the data used in the study.

The effectiveness of a research study is improved when its beginning is correctly described. The measures shall consist of a well-designed and effective implementation of the plans. The development of the research is the theoretical blueprint for the study. The quality and utility of a project is based on the ability to collect and analyze both qualitative and quantitative data. This section will give an overview of the data collection means and analysis methods.

3.2. Research Design

Mugenda and Mugenda (2011), the research design is a structure under which study is done. It is a master plan and frameworks outlining processes and procedures for collecting and analysing data (Cooper & Schindler, 2011). Appropriate research design gives clear focus of the study, given that accurate data collection to ensure the results are useful.

The design of the current study was a case study. This was the appropriate and best design since it only dealt with one unit, ICEA Lion Group. Case study is described as the in-depth examination or exploration of a context, which involves collection of wide qualitative data mostly through observation, interview or document analysis (Kothari, 2007)

In this study, we mainly tried to seek the relationship of the study variables, corporate governance and diversification strategy at ICEA Lion. It entailed broad and careful reflection of a social unit or an organization. This design gathered in-depth data and information of ICEA Lion Group about corporate governance and diversification strategy.

3.3. Data Collection

The research required the compilation of primary data and secondary data from the internet and publications. The primary data was gathered by means of an interview guide (see appendix). However, the secondary data was obtained from the AKI and ICEA Lion websites and publications about the insurance industry and the company respectively.The interview guide was an open-ended interrogation to give the interviewer guidance on the interview and allow further probing of their responses.

The interview focused on five of ICEA Lion's top management, Marketing manager, Finance manager, Operations manager, Human Resource manager and Business Development manager and due to the Corona Virus Disease situation, some of the managers were not physically available and a representative from the department. The choice of the number was to allow easier analysis. The chosen interviewees held key positions in the company and made decisions for the company.

The informants were considered a source of information and understood the context of the company and specific issues of the study. Primary data gave confidence and credibility to the study since the interviewer collected data specific to the area of study. The data collected was also of high quality and the interview was able to ask for additional data or information where necessary. The secondary data was collected from the company website and publications. The two data collection methods eliminated the bias in using either of the methods.

3.4. Data Analysis

This is the preparation of the data and the information collected in the order, and the structuring of the main components so that the results can be communicated (Kothari, 2007). It included categorizing, analyzing, tabulating, evaluating and even recombining both qualitative and quantitative information to answer the initial study proposal.

The data collected was analyzed using a content analysis because it was a qualitative research. It was a method used to assess the existence of certain concepts with context collection. This was a comprehensive empirical description of the essence of material and objects.

This required observations and explanations of objects and artifacts that are part of the study. The approach is appropriate as it allowed for a detailed accounts and conditions at ICEA Lion Company. To perform this analysis, the text was coded and broken down into manageable layers. Names, word sense, sentences, phrases or themes. Content analysis is a measure of the degree to which objects or problems are evaluated (Kothari, 2007). It was used to analyze the data obtained in order to present a common perspective or pattern from the various responses collected.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents a comprehensive analysis of the findings. The objective of the study was to investigate how corporate governance affected the diversification strategy at ICEA Lion Group in Kenya. The study was focused on one company, ICEA Lion Group because of its strong corporate governance and its continued culture of business ethics and best practices.

Data was collected from senior management of the company who understand the business well based on their positions. The positions interviewed included head of or representatives from the following departments, Marketing, Finance, Operations, Human Resources and Business Development departments. The choice of these departments was informed by the fact that they are the core business areas of the company.

The study response rate was 100 percent. Content analysis was used to analyze the data collected. Corporate governance was observed as the independent variable while the diversification strategy as the dependent variable. The corporate governance variables such as ownership structure of the company, the board structure and the size of the board came out as the determining factors for the diversification strategy.

4.2. General Profiles of the Interviewees

The interviewees included middle and top management of ICEA Lion Group. The initial target was to interview the managers of the said departments but due to the Corona virus pandemic, some departmental heads were not available for the interviews since they were working from home while others were on leave. All the interviewees held key positions in the company and therefore were well versed with the company happenings and the subject matter of the research.

The interviewees' had worked in the company for at least five years. This was enough period to obtain knowledge and culture of the company. The respondents had indicated that they possess postgraduate degrees. The level of education and the duration of work of the respondents showed that they understood the study variables, corporate governance and diversification strategy.

The solid background of the interviewees gave confidence to the information they provided towards the realization of the study objective. The main objective was to investigate how corporate governance influenced the diversification strategy at ICEA Lion Group. The respondents expressed full knowledge and understanding of the variables.

4.3. Corporate Governance and Diversification Strategy

The interviewees said that corporate governance helped the company realize the best business practices for the long-term stability and profitability of the company. Globalization led to changes in the business operations for firms as well as government. Diversifications helped the company to spread its risks while maximizing wealth for the owners of the company.

The governance structure postulated who formally held decisions rights and how the revenues and costs were. It can be distinguished by the identity of the ownership structure, board structure, board size and institutional investors. Good governance structure continued to attract attention due to its positive impact on the success of businesses and society. Companies that embraced good corporate governance positively had gained sustainable growth

The insurance sector is competitive thus enabled ICEA Lion to make some diversification strategies that would make them competitive and grow its size. The sector is engaged with some unethical practices, thus companies must stay focus on the best practices of doing business. The diversification strategies have been done in alignment with the shareholders' interest of wealth maximization and resolving the agency conflicts.

4.3.1. Ownership structure

The interviewees noted that when some top management of the company own a portion of the company, it brings motivation to the managers. The managers would make strategies that align with the interest of the shareholders. They also noted that the ownership dispersion solves the agency conflicts when the top managements also own a portion of the company interests.

The interviewees similarly noted that the spread of the ownership structure affects the diversification strategies as new ideas are proposed making the business development to come up with new markets and products to achieve the company's objectives. The diversifications to insurance has enabled the do well especially well one sector is not performing at any particular time. The also noted that the company is spread in major towns in Kenya strategically in line with the company corporate goals.

They mentioned that the ownership structure had enhanced the quality of the corporate governance structure in the company. The shareholders ensured that the company engages in sound business activities. The company implemented corporate governance policies for monitoring and control frameworks through technology and risk-based. This ensures that the management work is set ethics and do not deviate from the corporate frameworks and objectives of the company. The board has also contracted the external auditors to ensure that the management does not cook the books of the company.

4.3.2. Board Structure

The company's structure of the board of directors is the integral body entitled to the successful implementation of the corporate governance. The board structure is formal and regularly reviewed to improve and strengthen the corporate governance. The interviewees noted that the board of directors has put in place the code of ethics, which encourages the management to use good business practices that give long-term and stable earnings to the shareholders.

The interviewees mentioned that the company is a signatory to the United Nations Environmental Program Finance Initiative (UNEP-FI) Principles of Sustainable Insurance (PSI). These are principles that develop innovative risk management practices and insurance solutions to promote environmental and social protection. They also noted that the ICEA Lion Group has given a great measure to one of their values, championing integrity. They added that this value guides and informs all that the company does.

The interviewees also said that the board must ratify all diversification strategies being fronted by the management. This is in line with their monitoring and control functions over the management. The board had new non-executive members with different backgrounds. They brought fresh insights, new expertise and experience to the company. The company through the board established Growth and Innovation Centre (GIC) to drive innovation strategies, be customer-centric and insight-driven organization while ensuring value creation to the shareholder and to all the stakeholders.

At the ICEA Lion, the board played an oversight role and ensured the managers adhered to ethics and best practices of the business' corporate governance. This minimized the causes of agency problems that might had arisen between the managers and the shareholders. The audit committee of the board oversaw the company operations and tracked compliance to the law. Corporate governance is a safeguard to the agency conflicts and is an important policy for value creating due to the diversification strategies. The alignment of the interests of the managers and that of the shareholders is the source of value creation to the company and other stakeholders.

The independence of the board, the interviewees said had strengthened the board's efficiency in monitoring the executive managers and ensuring strong internal control systems. The non-executive directors are less obligated to the managers thus giving a better monitoring to the top executives of the company. The board met regularly to review the strategies to confirm whether they had achieved the intended objectives or not. The external directors had given the company an outlook away from the family ownership elements. This had also given the organization an independent decision-making without biasness towards the certain ownership structure.

Non-executive directors are source of expertise, which the executives rely on for advice and counsel on matters of strategy and its implementation. The participation of the non-executive directors, the interviewees said was one of the competitive advantages that the leadership hierarchy relies on due to their specific skills and provision of different perspective on the state of affairs in the company.

The non-executive directors' inclusion to the board protects the company from the environmental threats and align its resources into greater advantages. The directors' opinions on the business diversification strategies were diverse and gave the company many options. These must be analyzed and the option that was in line with the corporate governance of the company and gave higher returns to the shareholders was chosen.

The interviewees further noted that the non-executives upheld the corporate governance as the guiding principle to the diversifications strategies decisions made. It was noted that having more outside directors to pursue the diversification strategies was important since this created value to the shareholders. Board meetings were key forums for the review of performance and sharing information. The interviewees said that the board did held quarterly meetings where performance of the management in appraised and the general health of the company is checked. This the interviewees said was healthy to the company as timely decisions are made and any corrective measures are taken if the situation needs to be corrected. The sub-committees also met regularly to review and propose certain changes for the adoption of the whole board depending on the functional areas. The diversification strategic proposals must be in line with the company's corporate governance structure and added long-term value to the shareholders.

4.3.3. Board Size

The size of the board and its complexity is important since the board was set to guide the company and make strategic decisions during turbulent environments of business. The board would set the business direction and implement the strategic decisions. The board is made of different people with diverse cultures and backgrounds thus stimulated debates and gave the company alternative perspectives on issues.

The board is made of eleven directors and two alternate directors. Only one member is a woman in the board. With the big numbers, they had a range of strategic alternatives to choose. The size of the board, the interviewees said had a great impact on the implementation of quality corporate governance. They also said that fewer board members would debate diversification strategy faster than when they are many. The fewer number would transact the business faster because of the few alternatives. However, the larger size of the board the interviewees said study and evaluate the feasibility of all the alternatives. This was considered healthy to the company's corporate governance.

The larger size of the board enabled it to start diversification strategies thus affecting its capability to initiate strategic reorientations. The board members assisted the company attract external networks which could attract more resources. The larger size of the board was a pool of expertise to the company, which could assist the company in managing the turbulent environments. This was considered important to managing the agency problem of CEO's or management dominance that is experienced in other companies with small boards. The more expertise in large board, the keen they become to the corporate governance and diversification strategy.

The board's size also influences its strategic choices and the options that are finally taken. A larger board had many resources at disposal for the strategic alternatives of the board. This might lead to poor monitoring of the executive's actions, which could eventually lead to suboptimal use of company resources. Small boards would on the other hand be conservative with their strategic decisions and restrict them to few diversification strategies. The diversification strategies enabled it to do businesses in a more varied and complex situations.

The interviewees said the non-executive directors in the board through their networks served the company through external market interests, which gave the company favorable terms in the opportunities outside. The executive directors on the other hand gave the company the necessary expertise in their areas of specialization. All the company dealings and decisions must be in accordance with the company's corporate governance guidelines. These were useful to the company as independent directors provided valuable board monitoring role together with the expanded expertise advice given by the non-independent directors.

The interviewees said the board of the company is diverse and made up of people with different backgrounds. They said the board characteristics had an important role in organizations in improving the organization's performance and corporate governance. The company valued diversity of the board as a source of competitive advantage and growth enabler. They noted that diversity was not just for compliance purposes but an impactful too for strong strategic advantage.

4.4. Discussion

Business make strategies under unclear environments and the successful outcome defines the performance of the management. Not only is it enough for an organization to be profitable, but it also needs to show good corporate citizenship through ethical behavior, environmental awareness and good corporate governance. The central object of corporate governance is the facilitation for good and diligent leadership to ensure the organization's long-term success.

The study revealed that the company held corporate governance principles highly. This guided their way of doing business throughout the processes. The study also revealed that ICEA Lion had a corporate governance structures that had attracted the attention due to its positive impact to the society and the business environment. The ownership structure really enhanced the corporate governance as a proactive management of various stakeholders' desires. This supported the findings of Claessens and Fan (2011) that increased corporate ownership of the managers reduces the agency problems between the management and the shareholders.

The shareholders had put in place ethical policies and control frameworks that assisted the managers to make sound business decisions in the course of their activities. The study also supported the agency theory that incompatible preferences drive a wedge between the executive and the owners, which could leading inefficiencies and financial losses. Such a situation can be minimized through solid corporate policies within the organization. There are various diversification strategy results to justify the inefficient use of resources (Nishi, 2015). Ineffective corporate governance structures induces the company managers to expand the business for own personal gains that has negative effects on the company's performance.

The diversification strategies made by the company must also conform to the governance structures put in place. This' a top management decision and managers get rewards if the firm pursues a growth strategy. It involves stepping beyond the firm's existing products, services and markets and entering a new value chain to gain competitive advantage over competitors. The company had steadily been making and implementing diversification strategies that are conservatively scrutinized to ensure value addition and growth prospects to the company.

The business environment is not certain and not stable, so the company had created survival strategies to enable the company meet its objectives. It was also noted that these strategies are influenced by the board structure and ownership of the company. The study further noted that the board members upheld the corporate governance principles and gave guidance and monitoring to the management. The board of the company is mainly the responsible body to monitor the management's performance and value creation to the shareholder while at the same time preventing competition of conflicting interests. The development of quality in corporate governance aligns the interests of both the executives and investors. If the priorities of investors and management are matched, the execution of the company's diversification strategies is likely to be successful.

The board of directors of the company is the highest decision making body in the organization. With the few communication problems and good coordination, the study noted that the board and the company is effectively managed. This had enabled the company to purse effective development of corporate governance and efficient diversification strategies. This supported the study of Nishi (2015) that found that diversification strategy was influenced by the board and governance structures.

The company had a well-established governance structure with board of directors that governed the company with the vested responsibility of overseeing the company's operations and ensuring that it is consistent with the insurance Act. The company saw successful diversification strategies such merger of ICEA and Lion of Kenya in 2011, product and geographical diversifications.

Risks management through diversification strategies was a core business area in ICEA Lion Group. To enhance its mission of protecting and creating wealth, the company championed integrity as it was committed to doing business by following best practices about corporate governance. It is the first insurance company in East Africa to sign the United Nations Environment Program Financial Initiative (UNEP FI) Principles of Sustainable Insurance (PSI). An international system addressing environmental, opportunities and social risks in the insurance market to strengthen its contribution as risk managers, insurers and investors.

Due to the insurance industry changes and disruptions, company responded and adapted with innovative ideas to meet the current and future customers' evolving needs. The company was also open to new ideas and this led to establishment of Growth and Innovation Centre (GIC). The study found that the diverse board was effective unlike the small board that does not have more options to consider. This supported the study of Byrd, Parrino & Pritch (2012) that found that a diverse board was likely to have more strategic options to consider for diversification. The study also supported the resource dependence theory where the board of directors provide different expertise knowledge. Firms that had diversified could use these resources as synergy between various business units to give them an edge to the company.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter discussed the summary of the findings based on the research objectives, the conclusions of the research and recommendations made. The objective of the study was to determine if corporate governance had influence on diversification strategy at ICEA Lion. The chapter also discussed the limitations of the study and suggestions for further research.

We analyzed if there existed a relationship between the variables corporate governance and diversification strategy. The summary, the recommendations and limitations are based on the study findings and analysis. Further suggestions have also been recommended.

To address the study limitations, suggestion for further studies have been recommended. This should include studies that increase sample size and have a different analysis type. The study should be done in the insurance sector more to have a representative conclusion.

5.2. Summary

This study was to seek the influence that corporate governance have on the diversification strategy at ICEA Lion. The research found out that there is an enhanced corporate governance quality due to the ownership structure of the company. The study also revealed that the managers make sound business decisions through the support of best practices of doing business.

The study also revealed that the board has contracted independent auditor to verify the books of the company to ensure that they are not manipulated. The diversification strategies are proposed by the management of the company and must be approved by the board. The study also revealed that the strong internal controls and management systems resulted from the independence of the board. The external directors through their vast different knowledge and expertise had helped the company benefit from their experience and areas of expertise. This had helped the company implement various diversification strategies.

The company had also enhanced corporate governance under the guidance of the company management through effective monitoring by the board. This is due to the accountable and responsible board. The knowledge of the corporate governance principles and integrity enabled the company to use international best practices in there reporting and monitoring of the investments performance.

The capital investments had enable the company products to be competitive in the market thus increasing wealth to the owners. The board structure, size and diversity revealed to have set the company in the growth path, formulation and implementation of strategic goals. For this reason, more diverse board and increased size would yield more networks that are external to the company and this brings more resources.

5.3. Conclusion

Corporate governance continued to create a conducive environment for good business practices. Good corporate governance structure continues to attract attention due to its positive impact on the success of businesses and society. Companies that embraced good corporate governance positively gained sustainable growth and are competitive in their respective industries. Corporate ownership is a very powerful method of corporate governance. It plays a key part in shaping the level of conflicting interests between managers and owners.

Strategic choices between diversification and focus are important issues for firms aiming to improve their performances. Diversification strategies are the few strategies commonly used by managements to react to external environmental changes. The company adopted the diversification strategy to improve their general performance and remain competitive and relevant in the uncertain external environment.

The company developed and implemented corporate governance principles to ensure that the diversification strategies being implemented adhere ethical standards set for doing business. The diversification strategies implemented by the company had been approved by the board which is the highest. The management is compete enough and they had ensured implementation of corporate governance structures, strategic awareness and offering effective leadership in the company. Effective corporate governance and good diversification strategy ensures that optimal use of organization's resources and less risks which results to maximum output levels. Diversification offers insurance companies more advantages, asset depreciation as well as cost and risk reduction.

As one of the players in the financial industry, ICEA Lion Group in its pursuit to protect and create shared value to its stakeholders makes strategic diversifications in order to survive. The company is established on pillars of doing business with best practices in respect to corporate governance. Risks management through diversification strategies is a core business area in the company and the insurance industry in Kenya.

The increasing level of globalization has led to important changes at the levels of the companies and mode of operations. Diversification offers insurance companies more advantages, asset depreciation as well as cost and risk reduction. Strategic advantages include synergies, development and enhancement of the long-term strategic capital. Corporate governance is a complex partnership between owners of the company, the management, board of Directors (BOD) and other stakeholders. The central object of corporate governance is the facilitation for good and diligent leadership to ensure the organization's long-term success.

The board of the company in made up of external and independent members who brought wealth of knowledge and expertise to the company. The independence of the board is important for effective control systems and oversight role to the management of the company. The board size and diversity have a direct impact to the effective corporate governance structures. The study therefore concluded that a more diverse board was effective to diversification strategy and quality corporate governance.

5.4. Implications and Recommendations for Policy Theory and Practice

Proper linkage of corporate governance and diversification strategy can be more effective and efficient in creating value to the organization. The study established that the company adopted diversification strategy as one of the strategies to add value to the shareholders wealth. However, it is recommended that proper guideline be put in place to ensure continuous review of this strategy to see how it can benefit the company more. It was noted that due to uncertain business environment, diversification of company products and markets should be continuously monitored for growth.

The study established that board diversity was well established in terms of the expertise of the board members. The study recommends that the company should promote gender diversity in the board. Female board participation should be improved to bridge the gap on gender parity. Diversity provides tailored remedy as it fosters decision-making that involves a careful analysis. It is argued that companies without such diversity consistently make weaker decisions than those with experiential diversity. Diverse board also effectively manage scandalous governance failures.

The study also recommends that for the board to improve its independence, the members should have a rotational plan where some members to not stay long. This will ensure that fresh ideas and talents in the board. Board members who stay for long although bring familiarity of the day-to-day activities of the organization; there is need for newness and actual independence. The board tenure is used as a key metric for corporate governance. Shorter-term limits signal good corporate governance for monitoring and evaluation.

5.5. Implication and Recommendations for Research

The study showed the importance of focusing on diversification strategy and principles of corporate governance in order to strengthen company values. ICEA Lion has a valuable insight of effective diversification strategy and sound governance practices.

The study adds to the body of knowledge on diversification strategy and corporate governance. The study established that effective corporate governance principles reduces agency conflicts. Managers would not engage in activities that do not align with those of owners. Managers would want to diversify into activities that only benefit themselves but with corporate governance structures in place, the activities would be those support best practices.

The study showed correlation between diversification strategy and corporate governance at ICEA Lion. Insurance companies should consider diversification strategy and good corporate governance practices as a way of risk management and performance improvement. The study showed that the company value added by improved corporate governance principles and effective diversification strategy.

5.6. Limitations of the Study

The study findings should be viewed with the limitations of the research in mind. The government through the ministry of Health gave Corona Virus Disease 2019 (Covid-19) guidelines for Social-Distancing and many employees were working from home. This prevented the face-to-face interviews so some interviewees. The study reverted to online meeting platforms such as Zoom meeting and Google Meet.

The sample size for the study was small to make exact results. The study should have increased or consider a larger sample size to make exact results. The study should also have considered a number of companies that have diversified in the insurance sector to make conclusions certain.

With the increased sample size, the interview guide should be expanded to cover more questions. The data should include quantitative and qualitative data to incorporate descriptive data analysis. This enables analysis to include tabulations, graphical descriptions and statistical commentary.

5.7. Suggestion for Further Research

The study suggests that similar research be carried out on other insurance companies and the financial sector. This will ensure comparison is done to determine the impact corporate governance has on the diversification strategy in the financial sector in Kenya.

The study also suggests further research on the influence of corporate governance on the competitive advantages of insurance companies. The study established a correlation between diversification strategy and corporate governance.

Further studies should also explain how diversity issue in the board of directors is determined. What kind of diversity should we prioritize? How does we determine that someone is diverse? This is ensure that a clear definition of diversity is made to avoid confusion surrounding diversity in the board.

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Appendix: Interview Guide

Section A: Demographic Data

1. What is your designation at this organization?

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2. For how long have you worked in the company?

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3. What is your highest level of education?

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Section B: Diversification Strategy and Corporate Governance

1. What are the main tasks for corporate governance in this company?

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2. What are the diversification strategies that the company employ?

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3. Does corporate governance and diversification encompass? Explain

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4. How has ownership structure of the company affected corporate governance quality and diversification strategy?

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5. How have the shareholders made sure the management does not engage in activities that are detrimental to the wealth maximization of the shareholders?

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6. How has the board ensured that it diversified the company's operations and practice corporate governance?

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7. How has independence of the board ensured that the company achieves its objectives?

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8. How has the board played a hands-on role in maintaining the overall health of the enterprise for the benefit of its owners?

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9. How can the functioning of the company's board be improved?

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