CORPORATE GOVERNANCE AND ORGANISATIONAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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DECLARATION

I declare that this Research Project is my original work and has not been presented anywhere else in any University.

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The research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

To my mother, Francisca Oola for always reminding me that with God everything is possible. My brother Michael Goobi and my Loving Husband Edwin Dede for their encouragement and support throughout my MBA.

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ACRONYMS AND ABBREVIATIONS

CEO: Chief Executive Officer

CIPE: Center for International Private Enterprise

IFC: International Finance Corporation

IRA: Insurance Regulatory Authority

OECD: Organization for economic Cooperation and Development

UK: United Kingdom

ABSTRACT

Corporate Governance provides a structure through which the objectives of the companies are set, ways of attaining those objectives and monitoring the performance are determined. This study sought to find out the effect of corporate governance on the performance of the Insurance companies in Kenya. The study intended to find out if corporate governance structures, practices, principles and pillars have an effect on the performance of the Insurance companies in Kenya. The research design for the study was cross sectional descriptive research design. Data was gathered using structured questionnaires and analyzed using descriptive and inferential statistics. The results indicate that the insurance companies in Kenya have in place corporate governance practices and structures and their activities are anchored on corporate governance pillars and principles. Independently, corporate governance structures have a positive relationship with performance of Insurance companies; it contributes greatly in the learning and growth performance and the financial performance of the Insurance companies respectively. The results further indicate that there is no relationship between financial performance and the corporate governance principles; however there is a positive relationship between the principles and customer performance, internal business performance and learning and growth performance measurements. The Pillars of corporate governance have a positive relationship with financial performance, customer performance, internal business process performance and learning and growth performance. However the relationship is statistically insignificant. Corporate governance practices have a weak but positive relationship with the organizational performance, that is, financial performance, Customer performance, internal business process performance and learning and growth performance. It however contributes highly in financial performance and customer performance. The study indicate that the combination of good corporate governance structures, principles and pillars have a positive and statistically significant relationship with the performance of insurance companies in Kenya. However if corporate governance practices are added to the three constructs, corporate governance therefore becomes irrelevant to the performance of insurance companies. The study thus concludes that corporate governance is relevant to the performance when corporate governance structures, pillars and principles in the insurance companies. The recommendation of the study is that corporate governance dimensions to be strengthened in the insurance companies so as to positively influence the performance of these studies. Further studies should be conducted on a specific insurance company to establish if corporate governance has a significant influence on the performance of the company. Future researchers also need to have ample time to ensure that they receive feedback from all the insurance companies in Kenya. The recommendations for the study is that insurance companies in Kenya need to strengthen and clearly outline their corporate governance structures, principles, pillars and practices so as to improve the performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Black, 2002). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its performance (Donaldson, 2003).The presence of an effective corporate governance system within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth (OECD, 2004). Corporate governance failures can undermine development efforts by misallocating the needed capital and resources and developmental fallbacks can reinforce weak governance in the private sector and undermine job and wealth creation (CIPE, 2009).

Corporate Governance is anchored on various theories. These theories include Agency theory (Jensen and Meckling, 1976), Stakeholder theory (Maher and Anderson, 1999), Stewardship theory (Donaldson and Davis, 1991) and Resource dependence theory (Pfeffer, 1978). The most dominant theory is the Agency theory which identifies the agency relationship where one party (the principal) delegates work to another party (the agent). Stewardship theory assumes that managers are good stewards of the organization,

trustworthy and work diligently to attain high corporate profit and shareholders' returns. It argues that managers should diligently apply resources to achieve higher profits and maximum shareholders returns. Stakeholder's theory holds that 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. Resource dependence theory concentrates on the role of board of directors in providing access to resources needed by the firm. In general, directors are resourceful to the firm in terms of providing resources such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy.

The insurance industry in Kenya is increasingly growing; however they still have to deal with various setbacks such as collapse of various insurance companies or placement under statutory management. Most of the insurance companies that collapsed may have been as a result of mismanagement and misappropriation of company assets. The Insurance companies affected were Standard Assurance, Access Insurance, Kenya National Assurance, Stallion Insurance, Lakestar Insurance, United Insurance and Blue Shield insurance. The insurance companies have to deal with issues of fraud and paying huge claims that severely weaken their financial position making customers lose their money in the process making the public lose trust in the companies. Incompetency is found where wrong message is relayed to the public by the Agents. All this issues may be attributed to poor corporate governance hence this study sought to find out if good

corporate governance is related to the overall organization performance in this companies (Business daily, 2012).

1.1.1 The Concept of Corporate Governance.

Various scholars' have conducted studies on corporate governance; however, there is no universal definition of corporate governance. It is the system by which companies are directed and controlled (Cadbury, 1992). Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance 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 (OECD, 2004). Corporate governance is a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. The principal players in corporate governance includes the shareholders, management, the board of directors and other stakeholders including the employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large (Knell, 2006).

Magdi and Nadereh (2002) stress that corporate governance is about ensuring that the business is run well and investors receive a fair return. Corporate Governance is an institutional arrangement which provide the discipline and checks over excesses of controlling managers (Mensah, 2003).Effective corporate governance reduces the control rights that shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects (Shleifer and Vishny,

1997).Corporate Governance is anchored on various principles and pillars. The pillars of corporate governance include responsibility, accountability, transparency and fairness. These pillars raises issues of their effect on the performance of the firm and the managers as well. Responsibility ensures that leadership in the organization is capable, representative and conscious of its obligations. Fairness protects shareholders rights by being equitable even to minorities, transparency ensures timely, accurate disclosure on all material matters and accountability ensures that the leadership is accountable for their actions (King Report, 2002). The principles that govern corporate governance include: The rights of shareholders, equitable treatment of shareholders, and the role of stakeholders in corporate governance, disclosure and transparency and responsibilities of the board (OECD, 2004).

Corporate governance has become an increasingly important issue for various corporations for reasons such as separation of ownership and management control. Organizations' operate within a chain of governance. This chain represents those groups that can influence an organization through their involvement in either ownership or management. Corporate scandals have increased public debate about how different parties in the governance chain should interact and influence each other. Increased accountability to wider stakeholder interests has also come to be increasingly advocated; in particular the argument that corporations need to be more visibly accountable and responsive, not only to owners and managers in the governance chain but to wider social interest(Johnson, Scholes& Whittington,2008).

1.1.2 Organizational Performance

March and Sutton (1997), observe that most studies on organizational performance define performance as a dependent variable and seek to identify variables that cause variations in performance. Becker and Huselid (2003) created a tool called the ‘HR scorecard’ designed to help organizations develop measures of performance in line with organizational objectives. At the center of the model is the strategic choice of the organization i.e. firms pursue value propositions of low cost provider (operational excellence), innovator (produce or service leadership) or customization/unique solutions (customer intimacy). Performance management has 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). Organizational performance is a complex and multi-dimensional phenomenon in strategic management (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).

The balanced score card is also a tool that has been developed to measure organizational performance. It describes and depicts the causal contributions of those issues that contribute to a successful achievement of a firm’s strategy It has four perspectives which include; financial, internal process, Customer and learning and Growth (Kaplan and Norton, 1992).Learning and Growth perspective includes employee and corporate cultural attitudes related to both individual and corporate self-improvement. Measuring

development in this area allows managers to use the balanced scorecard to identify where to focus training funds to make them most effective. The customer perspective shows increasing realization of the importance of customer focus and customer satisfaction. If they are not satisfied they will find other suppliers to meet their needs. Internal business process perspective allows the managers to understand the running of the organization and whether its day-to-day activities support the organization's key goals. The financial perspective ensures that timely and accurate data is provided. Sustainability balanced scorecards are a crucial means of optimizing productivity and improving performance across all levels. It helps managers agree and then articulate the strategic destination and road map for their organization, and monitor the activities required for their achievement.

1.1.3 Corporate Governance and Organizational Performance.

The connection between corporate governance and organizational performance lies in the multi-dimensional nature of good governance. Narrowly conceived, corporate governance involves ensuring compliance with legal obligations, and protection for shareholders against fraud or organizational failure. Without governance mechanisms in place – in particular, a board to direct and control managers who might 'run away with the profits'. Thus, good governance minimizes the possibility of poor organizational performance (Edwards &Clough, 2005).

Several studies conducted in the developed countries have confirmed that there is a positive relationship between good corporate governance and organizational performance (Jensen and Meckling, 1976, Fama and Jensen, 1983, Vishny and Shleifer, 1997, OECD, 2009). This means that good corporate governance could significantly contribute to enhancing firm performance because it produces better management and increased

allocation of the company’s resources (Keong, 2002).Other studies however have established a negative relationship (Bathala and Rao, 1995; Hutchinson, 2002), and others could not establish any relationship (Park and Shin, 2003; Singh and Davidson, 2003).

1.1.4 Insurance Companies in Kenya

Growth of the insurance industry in Kenya is tremendous in today’s dynamic environment. It is however worrying to note that some insurance companies have either collapsed or have been placed under statutory management, for example; Kenya National Assurance Company, United Insurance Company, Standard Assurance, Stallion Insurance and Blue shield Insurance Company. The Insurance Act was enacted in 1984 to stimulate and govern the sector. Insurance in Kenya operates under an umbrella body, the association of Kenya insurer (AKI) which was established in 1987. Its main objectives are to promote prudent business practices, create awareness among public and accelerate the growth of insurance business in Kenya. Intermediaries play an important role in the insurance chain such as distribution, underwriting and claims settlement. They have a position of trust between the policyholder and insurer. An insurance agent act as an intermediary, therefore a key contact point between a customer and an insurance company; they assist the client to find a policy which most suits both their needs and income(Insurance Act,2013).

The insurance companies play an important role in the financial system by indemnifying financial risk in the economy. They serve as institutional investors for both capital and money market instruments. An insurance policy is a legal document that defines

circumstances in which the claim amount must be paid to the insured given that proper care has been taken by the insured to avoid losses that have been incurred. There are more than 40 registered insurance companies in Kenya. The government of Kenya established the Insurance Regulatory Authority (IRA) which is the prudential regulator of insurance companies in Kenya. This body is expected to ensure the effective administration, supervision, regulation and control of insurance and reinsurance business in Kenya, formulate and enforce standards for the conduct of insurance and reinsurance business in Kenya; license all persons involved in or connected with insurance business; protect the interests of insurance policy holders and insurance beneficiaries in any insurance contract; Issue supervisory guidelines and prudential standards from time to time, better administration of the insurance business of persons licensed under the Insurance Act among others (IRA Report,2012).

Many Kenyan individuals do not have trust in the insurance business majorly due to the non-paid claims that lie about within the market. Many claims have not been paid due to prolonged investigations to the point that the insured discourages potential customers to join the industry. However, the insurance sector in Kenya have to deal with issues of fraud and have to pay huge as a result of dishonesty either by the intermediaries to the customers or vice versa. For an insurer to honor claims, premiums have to be paid on time. Rising claims against dwindling premium payment pushes down profit margins. Therefore, this study will establish the role of corporate governance in the performance of companies in the insurance industry in Kenya.

1.2 The Research Problem

Corporate governance is of paramount importance and if executed effectively, it can prevent corporate scandals, fraud and enhance a company's image in the public eye as a self-policing company that is responsible and worthy of shareholder and debt holder capital. The importance of responsibility, accountability, transparency and fairness are raising the issues of their effect on the performance of the firm and the managers as well. Financial scandals and the collapse of institutions such as Enron, WorldCom, Commerce Bank and XL Holidays forced the firms to concentrate more on good corporate governance and to develop and implement several effective mechanisms in order to have the investors' confidence and faith back again (Young, 2003). Good corporate governance has become essential for improving firm performance, ensuring investor rights, enhancing the investment atmosphere and encouraging economic development (Braga-Alves & Shastri, 2011)

Growth of the insurance industry in Kenya is increasing because of better awareness of the importance of insurance among the people. However, it is notable that some insurance companies have either collapsed or have been placed under statutory management. Some of these companies are; Kenya National Assurance Company, United Insurance Company, Standard Assurance, Stallion Insurance and Blue shield Insurance Company. It is therefore possible to attribute their collapse to Corporate Governance practices in the companies. They also have to deal with challenges of fraud and claims that take long to be cleared. Corporate Governance provides a framework that directs and controls the organizations which in turn affects the overall performance of the

organization. Therefore much needs to be done to sort out these issues to avoid the likelihood of more corporate failures and malfunctions.

A number of studies have been done at the global and local level on corporate governance and organizational performance. Kimosop (2011) concluded that there was a significant relationship between board size, non-executive directorships, insider shareholding and board meeting frequency with both Return on Asset and Return on Equity. Makhokha (2014) concluded that corporate governance has mixed results on its influence on the financial performance of insurance companies in Kenya. Whereas financial performance of insurance companies in Kenya is significantly influenced by board composition and leverage the performance is not significantly influenced by board size and the number of members in the risk committee. Otiti (2010) found that large board size tends to impact performance negatively; the existence of independent board of directors tends to enhance the performance of the bank. Miniga (2011) concludes that there is a strong relationship between corporate governance practices and financial performance in regulatory state corporations. Najjar (2012) concluded that there is a significant impact of corporate governance on firm's performance in the insurance industry in Bahrain.

Mwangi (2013) contends that various aspects of board size affect the financial performance of companies to a great extent. From the regression analysis, board size was found to negatively affect the financial performance of companies listed at the NSE. Zhaoyang Guo and Udaya Kumara Kgab (2012), state that board size and proportion of non- executive directors in the board shows a marginal negative relationship with firm

value and proportion of non-executive directors in a board and financial performance of firm shows negative relation. Yermack (1996) examines the relation between board size and firm performance, concluding that the smaller the board sizes the better the performance, and proposing an optimal board size of ten or fewer.Opanga(2013) concludes that there is a strong positive correlation between corporate governance and financial performance is reported, secondly the positive regression model confirm that corporate governance (independent variables) if consistently applied contribute to increase in financial performance (dependent variable).Ndung'u (2013) concludes that number of board sub-committees affects the financial performance of insurance companies to a great extent.

Good governance provides a firm basis for setting performance measures and an enabling environment to facilitate superior performance since it lowers the risk of poor performance(March and Mutton,1997).Issues of collapse, placement under statutory management and fraud in some insurance companies raise the question on whether good corporate governance practices and principles are adhered to, if the governance pillars are clearly outlined and practiced and if the roles and responsibilities of the governance facilitating structures are clear. Scholars who have conducted studies on this area mainly concentrated on the financial aspect of performance of the firms and not the overall organizational performance. They also concentrated so much on the structures of corporate governance majorly board of directors. However it is notable that these scholars do not have a universal agreement on whether there is a relationship between corporate governance and performance. Some have identified a positive relationship,

others a negative relationship and others no relationship between corporate governance and performance. What is the effect of corporate governance on organizational performance in the insurance companies in Kenya?

1.3 The Research Objectives

The objective of the study was to establish the effect of corporate governance on organizational performance in insurance companies in Kenya.

1.4 The Value of the study

The study will create critical and crucial knowledge to the stakeholders and management in the insurance sector which may help them in decision making. Most of the firms engage at activities which are aimed at improving the corporate image of the firm and the best champions are the managers and employees of the firms.

The study will benefit scholars/researchers who may wish to undertake further studies aimed at improving corporate governance structures and for theory building. This study will lay a good platform for them to carry out more research.

The study will be useful to policy makers during the development of the policies. Corporate governance is important for both the private and public sector. This study will help the regulators to enact policies that

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a discussion of the theories that help in the understanding of the concept of corporate governance, corporate governance dimensions and the empirical literature on corporate governance and organizational performance The importance of this section is to identify the potential knowledge gaps on the studies that have been conducted on corporate governance and organizational performance as the main variables.

2.2 Theoretical Underpinnings of the Study

This study will be anchored on two theories; Agency theory (Jensen and Mackling, 1976), Stakeholder theory (Maher and Anderson, 1999), Stewardship theory (Donaldson and Davis, 1991) and Resource dependence theory .This theories explain the nature of relationships in organizations and how these relationships can be managed through internally generated policies and externally imposed rules and regulations to achieve the intended performance goals and objectives.

Agency theory suggests that the management of an organization is undertaken on behalf of the owners of that organization, in other words the shareholders. Consequently the management of value created by the organization is only pertinent insofar as that value accrues to the shareholders of the firm. Implicit within this view of the management of the firm, as espoused by Rappaport (1986) and Stewart (1991), is that society at large,

and consequently all other stakeholders to the organization, will also benefit as a result of managing the performance of the organization in this manner. From this perspective therefore the concerns are focused upon how to manage performance for the shareholders and how to report upon that performance (Myners 1998).

Stewardship theory assumes that managers are stewards whose behaviors are aligned with the objectives of their principals (Donaldson and Davis, 1991). The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. This theory holds that there is no inherent general problem of executive motivation. The firm should thus have structures that facilitate the executive to formulate and implement plans that will enhance performance as variation in supportive structures might influence performance. Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations with authority and empowerment of senior management.

The resource dependency theory advances that organizations are not able to internally generate all the resources or functions required to maintain themselves and must therefore develop relationships with elements in the outside environment to obtain the required resources and services (Pfeffer, 1973). Nienhuser (2008) studied the extent to which resource dependency theory was able to explain the behavior of organizations and the results of decision making actions such as organizational structures and processes. He elaborated the influence of external and internal agents controlling critical resources and

the power that they weld which influence behavior and the emergence of different organizational structures such as mergers.

Stakeholder theory argues that there are other practices involved, including employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations and trade unions (Maher and Anderson, 1999). Competitors are sometimes counted as stakeholders- their status being derived from their capacity to affect the firm and its stakeholders. The stakeholder view of strategy integrates both resource based view and market view based view, and adding a socio political level. This view of the firm is used to define the specific stakeholders of a corporation as well as examine the conditions under which these parties should be treated as stakeholders.

Transaction cost theorists assert that the total cost incurred by a firm can be grouped largely into two components-transaction costs and production costs. Transaction costs, often known as coordination's costs, are defined as the costs of all the information processing necessary to coordinate the work of people and machines that perform the primary processes, whereas production costs include the costs incurred from the physical or other primary processes necessary to create and distribute the goods or services being produced (Ferreira and Martins, 2010).

2.3 Corporate Governance Dimensions

Corporate governance has various dimensions which include; governance structures, principles, pillars and practices.

2.3.1 Corporate Governance Structures

Corporate governance structures specify the distribution of rights and responsibilities among different participants in the corporation including the board, managers, shareholders and other stakeholders (OECD, 2004).Shareholders do not have direct power over the operation of a company. The power of shareholders primarily arises from their ability to appoint, dismiss, and influence the decision making of the board of directors. Such powers are defined both by company law and the specific contents of a company's constitutional documents, i.e. the articles of association. A proactive and constructive relationship between shareholders and the board will increase mutual understanding and commitment, both at times of crisis and during normal business conditions. (King Commission, 2002).

The governing body of an organization is typically a board of directors. The primary statutory responsibility of a board is to ensure that an organization fulfills the wishes and purposes of the primary stakeholders. However, who these stakeholders are varies. In the private sector in some parts of the world it is shareholders, but in other parts of the world it is a broader or different stakeholder base. In the public sector, the governing body is accountable to the political arm of government possibly through some intermediate agency such as a funding body. These differences lead to differences in the way firms

operate, how the purposes of an organization are shaped and how strategies are developed as well as the role and composition of boards (OECD, 2004).

Ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners. These structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage (Lauterbach and vaninsky, 1999). Jensen and Meckling (1976) classify ownership structure in terms of capital contributions, comprising inside investors who are managers and outside investors who are debt holders and equity holders. Abel and Okafor (2010) defines ownership structure as the percentage of share held by managers (managerial ownership), institutions (institutional ownership), government (state ownership), foreign investors (foreign ownership), and family (family ownership).

Bansal (2005) indicated that the comity of investors and shareholders is generally made up of individuals, groups and institutions whose interests, goals, investment horizons and capabilities vary considerably. As general shareholders, they have the right and capacity to influence company's fundamental issues including election of directors, amendments in company's organic documents, approval of extraordinary transactions, modifications in company's internal status and appointment of auditors.

Management has the greatest capacity to determine the success or failure of the enterprise. Although managers are not the firm's key decision-makers, they are responsible for running the firm on a day to day basis. In that role, they need to be granted executive power to exercise discretion over the operation of the firm. A key

aspect of the governance framework is to establish an appropriate level of executive power to delegate to management. If too little power is granted and a manager's freedom of action is excessively constrained the company is likely to become inflexible. Management may be unable to implement the board's strategy. However, with too much power, the risk exists that management will lose touch with the interests of the board and shareholders, and pursue its own agenda. (King Commission, 2002).

The role and impact of other company stakeholders such as employees, financiers, suppliers, local communities, and government varies considerably across companies, sectors and countries. Regardless of legal obligations, the governance framework should always take into account the interests of stakeholders. The risks to the firm reputational and otherwise of insufficiently incorporating the stakeholder perspective into governance arrangements could be considerable. Consequently, it is important to consider ways of establishing dialogue and constructive engagement with relevant stakeholders (Johnson, Scholes and Whittington, 2008).

2.3.2 Pillars of Corporate Governance

There are four central pillars of corporate governance namely; accountability, responsibility, fairness and transparency which are needed to ensure effective corporate governance. In accountability, Individuals or groups in a company who make decisions and take actions on specific issues need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability. These provide investors with the means to query and assess the actions of the board and its committees. Responsibility pertains to behavior that allows for corrective action and for penalizing

mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company (King Commission, 2002).

Fairness must be in practice to ensure balance in the organization. The systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority shareowner interests must receive equal consideration to those of the dominant shareowner(s). Transparency is the ease with which an outsider is able to make significant assessment of a company's actions, its economic fundamentals and the non-financial aspects relevant to that business. This is a measure of how good management is at making necessary information available in an open, precise and timely manner – not only the audit data but also general reports and press releases (King Commission, 2002).

2.3.3 Corporate Governance Principles

The principles that govern corporate governance include: The rights of shareholders, equitable treatment of shareholders, and the role of stakeholders in corporate governance, disclosure and transparency and responsibilities of the board (OECD, 2004). Basic shareholder rights should include, secure methods of ownership registration; convey or transfer shares; obtain relevant and material information on the corporation on a timely and regular basis; participate and vote in general shareholder meetings; elect and remove members of the board; and share in the profits of the corporation. Shareholders should

have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes such as amendments to the statutes or articles of incorporation, the authorization of additional shares and extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company (OECD, 2004).

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their right. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase (OECD, 2004). Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected. The rights of stakeholders that are established by law or through mutual agreements are to be respected. Performance enhancing mechanisms for employee participation should be permitted to develop. Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis. Stakeholders including individual employees and their representative bodies should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised (OECD, 2004).

Disclosure should include, but not be limited to, material information to the financial and operating results of the company, company objectives, major share ownership and voting rights, Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board Related party transactions. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly. The board should apply high ethical standards and take into account the interests of stakeholders (OECD, 2004).

2.3.4 Corporate Governance Practices

Good corporate governance practices dictate that the board of directors governs the corporation in a way that maximizes shareholders value and in the best interest of society (Cornelius, 2005).it demands a separation of roles between the management and the board to enhance oversight and supervision (Kingoro and Bujra, 2009).This separation of roles is essential to avoid conflicts and ensure clear accountability of an organizations performance. Governance practices depend on various factors such as; legal and regulatory framework, ownership structure, size of the company, motivation for improvements, stage of the company's development and prevalent corporate culture and traditions. Despite the uniqueness of individual company governance frameworks, good governance practices are based on internationally and domestically recognized principles and standards of best practices. Governance improvement actions focus on committing company leadership to good governance, strengthening the role and responsibilities of the

board of directors, improving the control environment, promoting disclosure and transparency and protecting shareholder rights (IFC, 2009).

While a company should consider a wide range of specific governance measures, there are some recognized best corporate governance practices which are recommended by leading companies, investors and regulators. These practices include; formalizing governance policies, functioning of the board of directors and relations with executive management, strengthening of shareholder rights, improving the control environment, transparency and disclosure of information and ensuring the sustainability of the business (IFC, 2009). To formalize policies, companies typically create a corporate governance code or establish guidelines. Embedded within the code is a framework that envisions the company's ultimate governance structure and processes.

The board of directors is the body that will shape and mold the governance structures and practices, evaluating results and controlling effectiveness. Shareholders commonly rely on the rights they receive in return for their investment mainly being the right to participate in the profits of the company (Shleifer & Vishny, 2000). External auditors play a fundamental role in generating confidence for other agents. The auditor ensures that the financial statements fairly represent the financial position and performance of the company. Timely and accurate disclosure is essential for shareholders, potential investors, regulatory authorities, and other stakeholders as it makes it possible to assess and oversee management as well as to keep management accountable to the company and shareholders. (OECD, 2004).

2.4 Corporate Governance and Organization Performance

It is widely acclaimed that good corporate governance enhances a firm's performance (Brickley et al, 1994; Brickley and James, 1987; Byrd and Hickman, 1992; Chung et al, 2003; Hossain et al, 2000; Lee et al, 1992; Rosenstein and Wyatt, 1990; Weisbach, 1988). In spite of the generally accepted notion that effective corporate governance enhances firm performance, other studies have reported negative relationship between corporate governance and firm performance (Bathala and Rao,1995; Hutchinson, 2002) or have not found any relationship (Prevost et al. 2002; Young, 2003). Yermack (1996) examines the relation between board size and firm performance, concluding that the smaller the board sizes the better the performance, and proposing an optimal board size of ten or fewer. John and Senbet (1998) maintain that the findings of Yermack have important implications, not least because they may call for the need to depend on forces outside the market system in order to determine the size of the board. Hence, as board size increases board activity is expected to increase to compensate for increasing process losses (Vafeas, 1999).

Empirical evidence regarding the relationship between firm performance and board composition is mixed. Baysinger and Butler (1985) found that firms with higher numbers of outside directors on the board had a greater return on equity than the board with inside directors. Ezzamel and Watson (1993) also found that outside directors were positively associated with profitability among a sample of UK firms. Hermalin and Weisbach(1996) and Bhagat and Black (2002) find no correlation between the degree of board independence and four measures of firm performance, 20 European Journal of

Economics, Finance and Administrative Sciences – Issue 14 (2008) controlling for a variety of other governance variables, including ownership characteristics, firm and board size and industry. They find that poorly performing firms were more likely to increase the independence of their board.

Kumi Heenetigala and Anona Fern Armstrong (2011), Suggest a positive relationship between governance practices (separate leadership, board composition, board committee and firm performance) based on return on equity, and board composition, board committees and performance measured by Tobin's Q. These relationships indicate that firms have implemented corporate governance strategies, which have resulted in higher profitability and share price performance. Shleifer and Vishny (1997) also indicated that better-governed firms are more likely to invest in profitable projects, resulting in more efficient operations and higher expected future cash flows.

There is a growing literature suggesting that U.S. boards of directors are ineffective. For example, Jensen (1993) argues that boards of directors are ineffective because board culture discourages conflict, the CEO determines the agenda and information given the board, there is little equity ownership by managers and non-managers on the typical board, boards are too large, and the CEO and the board chair are frequently the same person. Daily and Dalton (1992) found no relationship between CEO duality and performance in entrepreneurial firms. They argued that board leadership structure depends entirely on individual firm characteristics such as organizational complexity, availability of other controls over CEO authority and CEO reputation and power. Using a

sample of 2,166 of 58 U.S. companies, they found that companies with complex operations, alternative control mechanisms and sound CEO reputation are more likely to have CEO duality.

Kimosop (2011) did a study on the relationship between corporate governance and financial performance of insurance companies in Kenya. He concluded that there is a significant relationship between board size, non-executive directorships, insider shareholding and board meeting frequency with both Return on Asset and Return on Equity. Makhokha (2014) did a study on the effect of corporate governance on financial performance of insurance companies in Kenya. He concludes that corporate governance has mixed results on its influence on the financial performance of insurance companies in Kenya. Lishenga (2012) says that boards normally increases the frequency of their meetings following poor performance and as a consequence of such an increase, the performance of firms improves as captured by the increase in the firms' value. Frequent meetings allow for better communication between management and directors.

2.5 Summary of Knowledge Gaps

Scholars who have done research in this area do not have a universal agreement on whether there is a relationship between corporate governance and performance. Some have identified a positive relationship, others a negative relationship and others no relationship. The studies majorly focus on the financial perspective of organizational performance and the effect of one or two variables of corporate governance for example effects of the board (the effect of the board size and composition on performance of the organization), ownership structure and the effect of duality (when on individual holds the

same position as the CEO and Chairman of the organization). Little has been done on the effect of management, stakeholders and shareholders hence the studies have not been exhaustive.

Other studies have concentrated on the corporate governance practices and their effect on performance (Heenetigala & Armstrong, 2011). This study will bridge those gaps by taking into consideration all the dimensions of corporate governance i.e. the governance structures, principles, pillars and the practices and determine whether they have an implication on the financial and non-financial performance of Insurance companies. This study will assist in understanding whether corporate governance as a whole affects organizational performance in insurance companies in Kenya and not just the effect of one or two variables of good corporate governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design to be used for the study and the population for the study. It further discusses the data collection method and the ways through which the data was analyzed.

3.2 Research Design

This study adopted the cross sectional descriptive research design. Descriptive research design relies on observation as a means of collecting data. It attempts to examine situations in order to establish what is the norm, that is, what can be predicted to happen again under the same circumstances. It is concerned with finding out who, what, where, when, or how much. It is more formalized and typically structured with clearly stated hypotheses or investigative questions hence provide a detailed and highly accurate picture (Walliman, 2011).

Descriptive design allows discovery of associations among different variables in order to determine if the variables are independent (or unrelated) and if they are not, then to determine the strength or magnitude of the relationship. Cross-sectional studies are carried out once and represent a snapshot at one point in time (Cooper and Schindler, 2008).The Descriptive cross-sectional design enabled the researcher to discover any relationship between corporate governance and performance of insurance companies in

Kenya. The design was also chosen considering the type of data and the analysis that was carried out.

3.3Population of the Study

The Population constituted all the Insurance 46 Insurance Companies as at June 2015. The companies are divided into two categories; General Insurance and Life Assurance Companies. These companies offer financial protection to individuals and companies against monetary losses suffered from unforeseen circumstances. These individuals and companies transfer the risk to an insurance company by paying premiums. Premiums are the fees paid to an insurance company in exchange of an insurance cover. The insurance company gathers people who want insurance protection, collects premiums and creates a pool of funds, which it manages.

Given the small size of the population, all the companies were contacted to participate in the study. Therefore a census survey was carried out and reliable feedback was received. The feedback from these companies was therefore used in the analysis of the Corporate Governance Dimensions in these insurance companies and hence analyze the influence of these dimensions on the performance of the Insurance Companies.

3.4 Data Collection

This study made use of primary and secondary data which was qualitative and quantitave in nature. Primary data was gathered using structured questionnaires through a 5 point Likert scale. The respondents were the executive secretaries to the Chief Executive officers who attend the board meetings and the financial officers in the Finance

department. The Likert scale was to identify the extent to which the respondents were in agreement with the dimensions of Corporate Governance.

The secondary data was retrieved from the published company's reports and covered the period 2012-2014.This data assisted in establishing the relationship of the corporate governance variables and the financial performance of the Insurance companies. The Financial Performance was basically looked at in terms of Return on Assets and Increase in Premiums.

3.5 Data Analysis

Descriptive and inferential statistics was used to analyze the data gathered for the study. Descriptive statistics is concerned with the development of certain indices from the raw data, whereas inferential statistics is concerned with the process of the estimation of population parameters, and the testing of statistical hypotheses (Kothari, 2004).This analysis made use of correlation and regression analysis. The correlation analysis can be seen as the initial step in statistical modeling to determine the relationship between the dependent and independent variables.

A correlation matrix will be developed to analyze the relationships between the independent variables as this would assist in developing a prediction multiple models. Correlation value of 0 shows that there is no association between the dependent and the independent variables, correlation that is greater than 0 means there is a perfect positive association and if the correlation is less than 0, that means that there is a negative association between the variables.

Multiple regression analysis is a statistical method utilized to determine the relationship between one dependent variable and one or more independent variables (Hair et al., 2010).the model will represent with the following equation:

$$(OP) = a + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Where: OP is the Organizational performance of insurance companies in Kenya measured using four perspectives of the balanced score card (Financial perspective, Internal business process perspective, Learning and growth perspectives and customer perspective).

x1 is the corporate governance structures

x2 is the corporate governance Principles

x3 is the corporate governance Pillars

x4 the corporate governance Practices

e is the error term which considers other possible factors that could influence Op but have not been captured in the model.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the data analysis and findings of the concepts of corporate governance structures, principles, pillars, practices and performance. It is divided into the background of the study, the presentation of findings and interpretation of results. The data was analyzed using SPSS Version 20. Data has been presented by use of tables. The findings with regards to the objective of the study have been described using inferential statistics on corporate governance structures, principles of corporate governance, pillars of corporate governance and corporate governance practices on performance. The interpretation of the results focuses on the effect of corporate governance on organizational performance of Insurance Companies in Kenya.

The study targeted 46 insurance companies in Kenya. These companies represented varied insurance sectors life assurance and General Insurance. Of the 46 companies, feedback from 31 companies was submitted to the researcher. The valid respondents were 31 companies which represents 67% of the insurance companies in Kenya. This response is rate is adequate in reference to the acceptable response rate by other Scholars. Okiro (2014), targeted a population of 98 companies, however he only received response from 56 companies. This represented 57% of the target population. This chapter also looks at the respondents demographics in terms of their employment duration and the board size.

4.2 Respondents Demographics

The work experience of the respondents was determined by the number of years they worked in their current specified organization. The work experience was measured in the range of less than 5 years, 5-10 years and 10 and above years. The number of the respondents' work experience within each company was grouped according to the range of the years worked in the companies of this study as shown in table 4.1.

Table 4.1: Duration of Employment

Duration of Employment	Frequency	Percentage
0 to 5 years	24	80.0
5 to 10 years	3	10.0
Over 10 years	3	10.0
Total	**30**	**100.0**

Source: Field Data, 2015

Table 4.1 illustrates the years that the respondents had worked in their respective organizations. The years of experience determine the extent that the respondent is knowledgeable about the business and the organization and his or her flexibility to respond to issues. The range of 5 to 10 years has the highest rate of 80%, which illustrates that this study is guided by the respondents who have worked for their organizations between 5 to 10 years and were flexible to respond to issues on corporate governance and organizational performance.

The board size is determined by the number of persons sitting in the board. The number of the persons sitting in the board within each company was grouped in three ranges; less than 5, 6-10 and 11-15 as shown in Table 4.2.

Table 4.2: Board Size

Board Size	Frequency	Percentage
Under 5	2	6.5
6 to 10	24	77.4
11 to 15	5	16.1
Total	**31**	**100.0**

Source: Field Data, 2015

Table 4.2 illustrates the board size. The range of 6 to 10 persons has the highest rate of 77.4 %, which illustrates that this study is guided by insurance companies whose board comprises of 6 to 10 persons who participate in corporate governance decisions that affect organizational performance. It is notable that there has been significant increase in the premiums in the insurance companies in Kenya and this is can be attributable to the good decisions that may be made by the Board of directors. Most of the Insurance companies covered in the study have been in existence for 30 years and above in the insurance industry in Kenya. This indicates that the insurance companies have well established Corporate Governance dimensions thus providing validity of the study.

4.3 Corporate Governance in Insurance Companies

Corporate governance in Insurance Companies in Kenya was looked at in four dimensions; Corporate Governance Structures, Corporate governance Principles,

Corporate Governance Pillars and Corporate Governance Practices. Corporate Governance structures was categorized into; the Board establishment and functions, management and stakeholders and the corporate governance Principles were categorized into; rights of shareholders, equitable treatment of shareholders, the role of stakeholders in Corporate governance; Disclosure and transparency and the Responsibility of the board of directors. Descriptive statements were developed so that the respondents would indicate the extent to which they agreed or disagreed with the statements.

4.3.1 Corporate Governance Structures

The study looked at the Board establishment and functions, management and the stakeholders. The Board of Directors is the governing body of Insurance Companies. They ensure that the organization fulfills the wishes of the stakeholders. The management determines the success or failure of the companies and the stakeholders such as employees, financiers and suppliers have some influence on these companies.

Table 4.3 Corporate Governance Structures

Descriptive Statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
The board size and composition are right for the organization	31	4.00	3.69	4.31	0.86	0.15
The Board agrees, defines and propagates its functions on an annual basis	31	4.10	3.79	4.40	0.83	0.15
The Board knows and understands the company's beliefs, values, philosophy, mission and vision and reflects understanding on key issues throughout the year.	31	4.13	3.88	4.37	0.67	0.12
Board members engage in financial transactions with the company	31	3.42	2.95	3.89	1.29	0.23
The board regularly reviews company performance	31	4.26	4.03	4.49	0.63	0.11
Board committees exist to advices on specific functional areas.	31	4.35	4.05	4.66	0.84	0.15
The majority of the board time is not spent on issues of day to day management	31	3.84	3.45	4.23	1.07	0.19
Board members are facilitated and not influenced by the chairperson	31	4.10	3.74	4.46	0.98	0.18
All proceedings and resolutions of the board are recorded accurately, adequately and on a timely basis	31	4.26	3.97	4.54	0.77	0.14
Management has executive power to execute power to exercise discretion over operations of the firm	31	4.00	3.69	4.31	0.86	0.15
Management has the greatest capacity to determine the success or failure of your company	31	4.03	3.70	4.37	0.91	0.16
Recruitment for all positions are open and fairly done.	31	3.71	3.37	4.05	0.94	0.17
The CEO handles queries from stakeholders accurately and in a timely manner	31	4.03	3.70	4.37	0.91	0.16
Organization is governed by a separate chairman & Separate CEO	31	3.84	3.44	4.24	1.10	0.20
The board supports the CEO in implementation of the policies and procedures	31	4.42	4.12	4.72	0.81	0.14
Employees determine the overall organization performance of your company	31	3.94	3.64	4.23	0.81	0.15

Descriptive Statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
Risks of the company's reputation and insufficiently incorporating the stakeholders perspective could be considerable	31	3.90	3.60	4.21	0.83	0.15
Suppliers and government affect the performance of the organization	31	3.35	2.91	3.80	1.23	0.22
The regulatory bodies have an impact on the performance of your company	31	4.16	3.79	4.53	1.00	0.18
The company adheres to the legal requirements and procedures	31	4.35	4.06	4.65	0.80	0.14

Table 4.3 illustrates the functions of the Corporate Governance Structures in terms of the Board establishment and functions, Management and the Stakeholders. The study indicates that the board size and composition are right for insurance companies in Kenya to a large extent. This is indicated by a mean of 4.00 and a standard deviation of 0.85635.Further the board agrees, defines and propagates its functions on an annual basis. The board knows and understands the company's beliefs, values, philosophy mission and vision, they also reflect on the key issues throughout the year. This is reflected by an average mean of 4.12 and a standard deviation of 0.67042.To a moderate extent the board participates in the financial transactions within the companies. The study further indicates that to a large extent, the board regularly reviews company performance and the committees exist to advice on specific functional areas. The board members in the Insurance companies are facilitated and not influenced by the chairperson.

The study further indicates that all proceedings and resolutions of the board are recorded accurately, adequately and on a timely basis. This is indicated by a mean of 4.2581 and a standard deviation of 0.77321.It also indicates that management has the greatest capacity to determine the success or failure of your company. The CEO Handles queries from stakeholders accurately and in a timely manner. The insurance companies have a separate CEO and Separate CEO; this is indicated by a mean of 3.8387 and a standard deviation of 1.09839.The board supports the CEO in the implementation of policies(mean=4.4194 standard deviation=0.80723).To a moderate extent the employees of Insurance companies determine the overall organizational performance (Mean=3.9355.standard deviation=0.81386).Insurance Companies also adhere to the legal requirements and procedures to a large extent with an average mean of 4.3548 and a standard deviation of 0.79785.

4.3.2 Corporate Governance Principles

The study looked the rights of shareholders, equitable treatment of shareholders, role of stakeholders in the corporate governance, Disclosure and transparency and the responsibility of Board of directors as shown in Table 4.4.

Table 4.4: Corporate Governance Principles in Insurance Companies in Kenya

Descriptive Statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
Shareholders are provided with adequate and timely information about company meetings.	31	3.9333	3.6046	4.2621	.59362	.15327
Shareholders have the right to vote in general meetings.	31	4.1333	3.6264	4.6403	.91548	.23637
Shareholders have the right to participate in company profits.	31	4.5333	4.1217	4.9449	.74322	.19190
Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.	31	3.9333	3.4910	4.3757	.79881	.20625
Details about the capital structure of your company are disclosed to shareholders	31	4.1333	3.6716	4.5951	.83381	.21529
Shareholders who are from the same class are treated equally	31	3.9333	3.5436	4.3230	.70373	.18170
Minority shareholders are protected from insider trading	31	3.6667	2.9831	4.3503	1.23443	.31873
There are means to remove the obstacles of cross-border voting	31	3.4667	2.8796	4.0537	1.06010	.27372
Board members and key executives disclose material interests in any transaction or matter directly affecting the company	31	4.2667	3.8770	4.6564	.70373	.18170
Any changes in voting rights should be subject to approval by those classes of shares who are negatively affected.	31	3.8000	3.3227	4.2773	.86189	.22254
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the Board.	31	3.9333	3.6046	4.2621	.59362	.15327
Stakeholders have the opportunity to obtain effective redress for violation of their rights	31	4.2667	3.8770	4.6564	.70373	.18170
An effective corporate governance framework enforces creditor rights	31	4.0667	3.6770	4.4564	.70373	.18170
Performance-enhancing mechanisms for employee participation are permitted to develop	31	4.0667	3.5773	4.5561	.88372	.22817
Stakeholder rights that are established by law are respected by the company	31	4.4000	4.0498	4.7502	.63246	.16330
Foreseeable risk factors are disclosed	31	3.8000	3.0995	4.5005	1.26491	.32660

Table 4.4 Contd…

Descriptive Statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
Remuneration of board members and key executives is disclosed	31	3.4667	2.8092	4.1241	1.18723	.30654
An annual audit of the company is conducted by an independent auditor.	31	4.2000	3.6006	4.7994	1.08233	.27946
Channels for the dissemination of information on a timely basis to relevant users are provided	31	4.1333	3.7217	4.5449	.74322	.19190
The board takes stakeholders' interests into account.	31	4.0667	3.7379	4.3954	.59362	.15327
The board of directors elects, monitors and replaces executives when necessary	31	4.0000	3.3721	4.6279	1.13389	.29277
Board members are able to devote sufficient time to their responsibilities.	31	4.0667	3.6243	4.5090	.79881	.20625
The board supervises the process of disclosure and communication.	31	3.5333	2.8434	4.2233	1.24595	.32170
The board has approved a strategic plan for the company	31	4.4000	3.8959	4.9041	.91026	.23503

Table 4.4 illustrates the corporate governance principles in the Insurance Companies in Kenya. The findings indicate that to shareholders are provided with adequate and timely information about the company meetings. They have a right to vote in the general meetings, participate in the companies' profits and to discuss the external auditors report at the AGM. Shareholders from the same class are treated equally. This is indicated by the mean of 3.933 and a standard deviation of 0.70373.The study further indicates that the stakeholders have the right to freely communicate their concerns about illegal and unethical practices to the board. This is indicated by a mean of 3.933 and a standard deviation of 0.59362.The objectives and foreseeable risk factors of the company are disclosed. It is however uncertain if the Remuneration of the Board of directors and key

executives is disclosed. Changes in voting rights are subject to the approval by the classes which are negatively affected.

The results further indicate that in Insurance companies in Kenya an annual Audit is conducted by an Independent Auditor. The board members take into account the interest of stakeholders, elects, monitors and replaces executives when necessary (mean=4.0000, standard deviation=1.13389).The board members devote sufficient time to their responsibilities. They also have the approved strategic plans for the companies (mean=4.4000, standard deviation=0.91026).However it is notable that it is uncertain if the board supervises the process of disclosure and communication, indicated by a mean of 3.5333 and a standard deviation of 1.24595.

4.3.3 Corporate governance Pillars

The study focused on Fairness, accountability, transparency and disclosure as indicated in table 4.5.

Table 4.5 Corporate Governance Pillars in the Insurance Companies in Kenya

Descriptive statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
Leadership is accountable for their decisions and actions	31	4.1935	3.9187	4.4684	.74919	.13456
Leadership take the necessary corrective actions and penalize mismanagement of resources	31	4.3548	4.0330	4.6767	.87744	.15759
An outsider is able to make significant assessment of a company's actions	31	3.5161	3.1047	3.9275	1.12163	.20145
The systems in your company take into account all those that have an interest in the company and its future	31	4.0323	3.6845	4.3800	.94812	.17029

Source; Field Data (2015)

Table 4.5 illustrates the corporate governance pillars in the insurance companies in Kenya. The study indicates that to a large extent the leadership of Insurance companies in Kenya is accountable for their decisions and actions. This is indicated by a mean of 4.1935 and a standard deviation of 0.74919.It further shows that the leadership takes necessary corrective actions and penalizes mismanagement. This is indicated by an average mean of 4.3548 ad a standard deviation of 0.87744.An outsider is able to make significant assessment of the company's actions. This is indicated by an average mean of 3.5161 and a standard deviation of 1.12163.the study further indicates that the systems of the Insurance companies take into account all those that have interest in the company and its future, as indicated by the average mean of 4.0323 and a standard deviation of 0.94812.

4.3.4 Corporate Governance Practices

Table 4.6 Corporate Governance Practices in the Insurance Companies in Kenya

Descriptive Statement	N	Mean	Lower	Upper	Std. Deviation	Std. Error Mean
Corporate Governance practices dictate that the board of directors governs the corporation in a way that maximizes shareholders value and in the best interest of the society	31	4.0968	3.7776	4.4159	.87005	.15627
Separation of roles is essential to avoid conflicts and ensure clear accountability of an organization's performance hence better results	31	4.0645	3.7977	4.3313	.72735	.13064
Best governance practices includes formalizing governance policies, strengthening of shareholders rights, transparency and disclosure of information, Ensuring sustainability of the business	31	4.1935	3.9187	4.4684	.74919	.13456
Board of directors act in the interest of the shareholders	31	4.2903	3.9879	4.5927	.82436	.14806

Source; Field Data (2015)

Table 4.6 study illustrates the Corporate Governance Practices in the insurance companies. The findings indicate that the Board of Directors in the Insurance Companies in Kenya governs corporations in a way that maximizes the shareholders' value and with

the interest of the society. It is also agreeable that separation of roles is essential to avoid conflicts thus ensuring clear accountability of an organizations performance. This indicated by the mean of 4.0645 and a standard deviation of 0.72735.the study indicates that the Corporate Governance practices in the Insurance Companies Include formalizing governance policies, transparency and disclosure of information, sustainability of the business and strengthening shareholders rights.

4.4 Corporate Governance and Performance

This study looked at the financial and nonfinancial performance of the companies using four perspectives of the balanced score card. The tests of the objective focus on inferential statistics on corporate governance structures, principles of corporate governance, pillars of corporate governance and corporate governance practices on performance. The interpretation of the results focuses on the effect of corporate governance on performance

Table 4.7: Corporate Governance Structures, Principles of Corporate Governance, Pillars of Corporate Governance and Corporate Governance Practices on Performance

Model Summary

Model	R	R Square	Change Statistics		
			R Square Change	F - Ratio	P - value
1	.101[a]	.010	.010	.279	.601
2	.116[b]	.013	.003	.084	.774
3	.400[c]	.160	.147	4.365	.047
4	.437[d]	.191	.031	.929	.345

a. Predictors: (Constant), Corporate Governance Structures

b. Predictors: (Constant), Corporate Governance Structures, Principles of Corporate Governance

c. Predictors: (Constant), Corporate Governance Structures, Principles of Corporate Governance, Pillars of Corporate Governance

d. Predictors: (Constant), Corporate Governance Structures, Principles of Corporate Governance, Pillars of Corporate Governance, Corporate Governance Practices

e. Dependent Variable: Performance

Source: Field Data (2015)

Table 4.7 illustrates the effect of corporate governance structures, principles of corporate governance, pillars of corporate governance and corporate governance practices on performance. The results show that the correlation coefficient (R) of corporate governance structure is 0.101, when the parameter of principles of corporate governance

is added it increases to 0.116, with addition of the parameter of pillars of corporate governance it increases to 0.400, with addition of the parameter of corporate governance practices it increases to 0.437. This indicates that there is a positive relationship between corporate governance and organizational performance in the insurance companies in Kenya.

The results further indicate that there are different variations in performance by corporate governance structures, principles of corporate governance, pillars of corporate governance and corporate governance practices. The coefficient of determination (R^2) of corporate governance structures is 1%. When parameter of principles of corporate governance is added, the change of the coefficient of determination (ΔR^2) decreases by 0.3%, with a further addition of the parameter of pillars of corporate governance the % of variability accounted for increases by 14.7%. An additional parameter of corporate governance practices pillars of corporate governance the % of variability accounted for decreases by 3.1%.

The corresponding F-ratio for the model, corporate governance structures F-ratio is 0.279. When the parameter of principles of corporate governance is added, the change in F-ratio is 0.084. A further addition of the parameter of pillars of corporate governance the change in F- ratio is 4.365. An additional parameter of corporate governance practices pillars of corporate governance the change in F- ratio is 0.929. The corresponding p-value for the model, corporate governance structures organizational is not significant ($p > 0.05$). When the parameter of principles of corporate governance is added model 2 is not significant ($p > 0.05$), with a further addition of the pillars of corporate governance

Model 3 is significant ($p < 0.05$). An additional parameter of corporate governance practices pillars of corporate governance Model 4 is not significant ($p > 0.05$).

The result shows that the combination of corporate governance structures, principles of corporate governance, pillars of corporate governance and corporate governance practices on performance has no statistically significant effect. However, the combination of corporate governance structures, principles of corporate governance and pillars of corporate governance on performance is statistically significant. The construct of corporate governance practices is irrelevant in the insurance companies.

Table 4.8: The Effect of Corporate Governance Dimensions on Performance

Model Summary

Model	R	R Square	Change Statistics	
			F-Ratio	P-value
1	.096[a]	.009	.249	.622

a. Predictors: (Constant), Corporate Governance

b. Dependent Variable: Performance

Source: Field Data (2015)

Table 4.8 illustrates the effect of corporate governance on performance. The results show that the correlation coefficient (R) is 0.096. This explains that the correlation between corporate governance and performance is very weak.

The coefficient of determination, $R^2 = 0.009$ explains that 0.9% of the variations of performance have been explained by the variable of corporate governance. The conclusion is that the regression model for the resource integration does have a good fit. The analysis of variance, F-Ratio is 0.249. The results show that corporate governance has no significant effect on performance ($p > 0.05$).

4.4.1 Corporate Governance and Financial Performance

Financial performance look at the accuracy of the data provided and the timeliness. Financial strength of these companies reflect in the Return on Assets, Return on Equity and Return on Investment. The study therefore establishes the effect of Corporate Governance and Financial Performance as indicated in table 4.9.

Table 4.9: The Effect of Corporate Governance on Financial Performance

Model Summary

Corporate Governance Dimensions	**R**	**R Square**	**F - Ratio**	**P - value**
Corporate Governance Structures	.155[a]	.024	.668	.421
Corporate Governance Principles	.000[b]	.000	.000	.000
Corporate Governance Pillars	.136[c]	.018	.506	.483
Corporate Governance Practices	.232[d]	.054	1.530	.227

a. Predictors: (Constant), Financial Performance

b. Dependent Variable: Corporate Governance Structures, Corporate Governance Principles, Corporate Governance Pillars, Corporate Governance Practices.

Source: Field Data, 2015

Table 4.9 illustrates the effect of corporate governance on the financial performance of the insurance companies in Kenya using four dimensions of corporate governance. Corporate governance has been classified into four dimensions namely; corporate governance structures, corporate governance principles, corporate governance pillars and corporate governance practices. The correlation coefficient (R) of corporate governance structures is 0.155,corporate governance principles 0.00,corporate governance pillars 0.136 and corporate governance practices 0.232.This indicates a positive but weak relationship between governance structures, pillars, practices and financial performance, however the results indicate that there is no relationship between corporate governance

principles and the financial performance of Insurance companies in Kenya.it is notable that cooperate governance practices contribute 5.4% of the financial performance, corporate governance structures which contribute 2.4% and corporate governance pillars 1.8%.The results further indicate that the p values are >0.05 hence indicating that the relationship between corporate governance and financial performance is not statistically significant.

4.4.2 Corporate Governance and Customer Performance

The study looks at the effect of the Corporate Governance Dimensions and customer satisfaction. When customers are well satisfied they come back again and therefore improve the performance of the organization as indicated in table 4.9

Table 4.9: The Effect of Corporate Governance on Customer Performance

Model Summary

Organizational Performance	R	R Square	F - Ratio	P - value
Corporate Governance Structures	.149[a]	.022	.610	.442
Corporate Governance Principles	.135[a]	.018	.505	.484
Corporate Governance Pillars	.206[a]	.042	1.193	.284
Corporate Governance Practices	.302[a]	.091	2.712	.111

a. Predictors: (Constant), Customer Performance

b. Dependent Variable: Corporate Governance Structures, Corporate Governance Principles, Corporate Governance Pillars, Corporate Governance Practices.

Source: Field Data, 2015

Table 4.9 illustrates the effect of corporate governance on the Customer performance of insurance companies in Kenya. The correlation coefficient(R) for the corporate governance structures is 0.149, 0.135 for corporate governance principles, 0.206 for cooperate governance pillars and 0.302 for the corporate governance practices. This indicates that there is a positive relationship between corporate governance and customer performance. However this relationship is weak because the coefficients are closer to 0 than to 1. 9.1% of customer performance is contributed by corporate governance practices, whereas corporate governance structures, corporate governance principles and corporate governance pillars contribute 2.2%, 1.8% and 4.2% respectively. Hence the highest contributor of the customer performance is the corporate governance practices. The p>0.05 for all the corporate governance dimensions, thus indicating the relationship between corporate governance and customer performance is statistically insignificant.

4.4.3 Corporate Governance and Internal Business Process Performance

Internal business process allows the managers to understand the running of the organization and this study indicates the effect of Corporate Governance and the Internal Business Process Performance as shown in table 5.0.

Table 5.0: The Corporate Governance on Internal Business Process Performance

Model Summary

Organizational Performance	**R**	**R Square**	**F - Ratio**	**P - value**
Corporate Governance Structures	.155[a]	.024	.668	.421
Corporate Governance Principles	.042[a]	.002	0.049	.827
Corporate Governance Pillars	.231[a]	.053	1.517	.229
Corporate Governance Practices	.040[a]	.002	0.044	.835

a. Predictors: (Constant), Internal business Process Performance.

b. Dependent Variable: Corporate Governance Structures, Corporate Governance Principles, Corporate Governance Pillars, Corporate Governance Practices.

Source: Field Data, 2015

Table 5.0 illustrates the effect of corporate governance on internal business process performance in insurance companies in Kenya. The results indicate that there is a positive but weak relationship between corporate governance and the internal business process performance of the insurance companies in Kenya. The correlation coefficient (R) of the corporate governance structures is 0.155, corporate governance principles 0.042, corporate governance pillars 0.231 and corporate governance practices is 0.04. The relationship is weak since the correlation coefficients are closer to 0 then 1. Corporate governance structures account for 2.4% of the internal business process performance, principles 0.2%, pillars 5.3% and the corporate governance practices 0.2%.This therefore indicates that the corporate governance pillars contribute highly to the performance of the

internal business processes compared to the other constructs. The p values are >0.05 hence indicating that the relationship between corporate governance and the performance of Internal Business Process is not statistically significant.

4.4.4 Corporate Governance and Learning and growth Performance

This study looks at the effect employee and corporate cultural attitudes related to both the individual and corporate self-Improvement.

Table 5.1: The Effect of Corporate Governance on Learning and Growth Performance

Model Summary

Organizational Performance	R	R Square	F - Ratio	P - value
Corporate Governance Structures	.255[a]	.065	1.882	.181
Corporate Governance Principles	.231[a]	.053	1.524	.228
Corporate Governance Pillars	.413[a]	.171	5.552	.026
Corporate Governance Practices	.040[a]	.002	.044	.835

a. Predictors: (Constant), Learning and growth Performance

b. Dependent Variable: Corporate Governance Structures, Corporate Governance Principles, Corporate Governance Pillars, Corporate Governance Practices.

Source: Field Data, 2015

Table 5.1 illustrates the effect of corporate governance on Learning and growth Performance of the Insurance companies in Kenya. The results show that there is a positive relationship between Corporate Governance and Learning and growth performance. The correlation coefficient (R) of Corporate Governance Structure is 0.255, Corporate Governance Principles 0.231, Corporate Governance Pillars 0.416 and

Corporate Governance Practices 0.40.Corporate Governance Structures contribute 6.5% of the performance of learning and growth. Corporate governance principles contribute 5.3%, corporate governance pillars contribute 17.1% and Corporate Governance Practices contribute 0.2%.This indicates that the Corporate Governance Pillars contribute highly to Learning and growth Performance compared to the other dimensions. The p values of corporate Governance structures, Principles and practices are > 0.05 hence they are statistically insignificant to Learning and Growth Performance. Notably the p value for corporate governance pillars is 0.026 this is < 0.05 thus it is statistically significant to Learning and Growth.

4.5 Discussion

The findings of the study indicate that generally, corporate governance contributes to the performance of the insurance companies in Kenya. However, the contribution is too small hence it is statistically insignificant. A combination of the corporate governance structures, pillars and principles lead to a positive and statistically significant relationship between corporate governance and performance of Insurance Companies. However, if the corporate governance practices are added to the combination of the three constructs, then there is no relationship between corporate governance and performance in Insurance companies. This therefore indicates that the Corporate Governance construct is insignificant to the general performance of Insurance Companies in Kenya.

The study however reveals that if the corporate governance practices are looked at independently they have bigger influence on financial and customer performance compared to the other three variables. Corporate Governance has a positive but weak relationship with Financial Performance, customer performance, Internal Business

Process performance and Learning and Growth Performance. Corporate Governance practices are the highest contributors of the customer performance and Financial Performance whereas corporate governance pillars are the highest contributors of Internal Business Process performance and Learning and Growth Performance.

The agency theory suggests that management of the organization is undertaken on behalf of the owners of the organization. The findings indicate that the insurance companies have a team of management who oversee the activities of the organization and have a great capacity to determine the success or failure if the companies. The management team focus on achieving the objectives of the companies hence aligning their behavior towards the same. This is line with the stewardship theory which states that the managers are stewards whose behaviors are aligned to the objectives of their principals.to a moderate extent the study indicated that the suppliers have an influence on the performance of the Insurance companies. Suppliers provide resources to these organizations. This is in line with the resource dependency theory which recognizes that organizations are not able to internally generate all the resources or functions required to maintain themselves and must therefore develop outside relationships with outside environments to obtain the required resources and services.

Various empirical studies have been conducted on corporate governance and performance. Some of the Scholars identified a positive relationship between corporate governance and organizational performance (Jensen and Meckling, 1976, Fama and Jensen, 1983, Vishny and Shleifer, 1997, OECD, 2009). Other studies however have established a negative relationship (Bathala and Rao, 1995; Hutchinson, 2002), and others could not establish any relationship (Park and Shin, 2003; Singh and Davidson,

2003).This study contends that when a combination of Corporate Governance Structures, Principles and Pillars in the Insurance Companies lead to a positive relationship between Corporate Governance and Insurance Companies in Kenya. It is therefore in line with other studies which have identified a positive relationship.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings and conclusions. It also gives recommendations as well as the observed limitations of the study.

5.2 Summary of the findings

The objective of the study was to establish if corporate governance has an effect on organizational performance of the insurance companies in Kenya. Corporate governance was looked at in four perspectives; structures, principles, pillars and practices and organizational performance was measured using the four perspectives of the balanced scorecard; Financial Perspective, Customer Perspective, Internal Business Process Perspective and Learning and Growth perspective.

It was established that the board size for the insurance companies was mainly between 6-12.This is a sufficient number as per the requirements by the Insurance Regulatory Authority which is the regulatory body of the insurance companies in Kenya. The findings of this study show that independently corporate governance structures, pillars, practices and independence have a positive but insignificant effect on the performance of the insurance companies in Kenya. Corporate governance practices have significant effect on the customer satisfaction performance measurements and Financial Performance Measurements compared to internal business process performance measurements and learning and growth performance measurements.

The pillars of corporate governance have a bigger contribution on learning and growth performance measurements and Internal Business Process performance measurements

compared to the other measurement perspectives. Notably there is a positive but weak relationship between corporate governance and Financial Performance, Customer Performance, Internal Business Process Performance and Learning and Growth Performance. Further the study indicates that there is a statistically significant relationship between corporate governance pillars and Learning and Growth Performance measurements.

This study reveals that a combination of Corporate Governance Structures, Pillars and principles lead to a positive and statistically significant relationship with the Performance of the Insurance Companies in Kenya. However if the Corporate governance practices are added to the three constructs, the effect on the performance of the insurance companies is insignificant. This therefore indicates that the corporate governance practices are an insignificant constraint in the performance of the organization when combined with the Structures, Principles and pillars.

5.3 Conclusion

This study concludes that there is a positive and significant relationship between Corporate Governance and performance; when corporate governance structures, corporate governance pillars and corporate governance principles are well established and clearly defined in the insurance companies. It is however notable that if corporate governance practices are also combined with the structures, pillars and principles; the effect on organizational performance is insignificant. This is indicated by the p value of the corporate governance structures, corporate governance principles and corporate governance pillars which is 0.047 indicating that they are statistically significant Since $p<0.05$.

This study further concludes that corporate governance has a positive effect on the financial performance, customer performance, Internal business process performance and Learning and growth performance. However, the relationship is very weak and hence it is statistically significant. The study further reveals that corporate governance practices have a greater influence on Financial and Customer Performance and Corporate Governance Pillars have a great influence on the Internal Business Process and Learning and growth Performance.

5.4 Recommendations For Policy and Practice

The main focus of the study was to establish if corporate governance has an effect on organizational performance in insurance companies in Kenya. The corporate governance variables were: Structures, principles, practices and pillars. The study reveals a weak positive relationship between corporate governance and performance of Insurance companies in Kenya. It is therefore recommended that this insurance companies work towards strengthening their corporate governance structures, principles, pillars and practices. They should ensure that the practices are clearly outlined and defined, the employees in the organizations should own this practices and ensure that the same are clearly depicted in their day to day operations. Clear guidelines need to be provided to ensure that implementation of these practices is easy and can be practiced easily without any challenges. Corporate governance structures should be clear on their functions and they should ensure that their duties and responsibilities are efficiently and effectively executed. The pillars and the principles should be well adhered to ensure compliance to corporate governance. If all the corporate governance dimensions are strengthened and adhered to, the performance of Insurance companies in Kenya will improve.

5.5 Implications for Theory, Practice & Policy

This study focused on the effect of Corporate Governance on Insurance Companies in Kenya. The findings of this study therefore has several contributions to the existing knowledge of corporate governance. First, the study indicates that today, a combination of Corporate Governance Structures, Corporate Governance Principles and Corporate governance pillars lead to a positive effect on performance.

Corporate Governance Practices independently, have a significant on the various performance aspects especially in the financial performance perspectives and the customer performance perspectives. This study thus indicates if corporate governance is strengthened in the Insurance Companies, then performance of these companies can significantly improve.

5.6 Limitations of the study

A number of challenges were encountered during the study. The study looked at four corporate governance dimensions; structures, pillars, principles and practices. Of these dimensions only a few aspects were looked at under each dimension to identify if they have any effect on the performance of Insurance Companies. However there are other governance variables that may influence the performance but they were not captured in this study. For example in management, the age and education may influence performance but this study did not capture those perspectives.

The study required respondents from 46 companies. However due to the tight time framework required to get the respondents, feedback and busy schedules from some of the respondents, only feedback from only 31 companies were received. The study focused on the insurance companies in Kenya which have their own unique

characteristics and it would be important for a similar study to be conducted in other similar companies in order to compare the results. The study was a census survey hence it is anticipated that the results if the study concentrated on one particular company would be different.

Companies under the study are made up of private, public, listed and unlisted. These diversified forms of the insurance companies can give diversified focus of corporate governance dimensions even though they are under one umbrella body, IRA. The study was administered with questionnaires, thus did not capture the emotions and feelings of the respondents. Despite the above limitations, the quality of the study was not compromised. The study has made an immense contribution to the existing body of knowledge.

5.7 Suggestion for Further Studies

The study mainly focused on all the insurance companies in Kenya. The study suggests that there are corporate governance dimensions in the insurance companies in Kenya. It can therefore be suggested that a study on the effect of corporate governance and organizational performance on a specific insurance company in detail looking at all the departments of that insurance company. Future scholars can also concentrate on the listed or unlisted insurance companies to identify if the results will be different.

This study received feedback from only 31 companies. Future researchers should therefore ensure that they have ample time to cover all the insurance companies and see if there are any changes from the conclusions of this studies.

Future researchers should consider using an interview to gather data so that the emotions, behaviors and feelings of the respondents are identified. This will help identify if there is any bias in the responses that are provided.

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APPENDIX 1:LIST OF INSURANCE COMPANIES IN KENYA

1	AAR INSURANCE KENYA
2	AFRICA MERCHANT ASSURANCE
3	AIG INSURANCE COMPANY
4	APA INSURANCE COMPANY
5	BRITISH AMERICA INSURANCE
6	CANNON ASSURANCE COMPANY
7	CIC GENERAL INSURANCE
8	CORPORATE INSURANCE COMPANY
9	DIRECTLINE ASSURANCE COMPANY
10	FIDELITY SHIELD INSURANCE
11	FIRST ASSURANCE COMPANY
12	GA INSURANCE COMPANY
13	GATEWAY INSURANCE COMPANY
14	GEMINIA INSURANCE COMPANY
15	HERITAGE INSURANCE COMPANY
16	ICEA LION GENERAL INSURANCE
17	INTRA AFRICA ASSURANCE
18	INVESCO ASSURANCE COMPANY
19	JUBILEE INSURANCE COMPANY
20	KENINDIA ASSURANCE COMPANY
21	KENYA ORIENT INSURANCE
22	MADISON INSURANCE COMPANY
23	MAYFAIR INSUANCE COMPANY
24	OCCIDENTAL INSURANCE
25	PACIS INSURANCE COMPANY
26	PHOENIX OF EAST AFRICA
27	REAL INSURANCE COMPANY
28	TAKAFUL INSURANCE OF AFRICA
29	TAUSI ASSURANCE COMPANY
30	THE KENYA ALLIANCE ASSURANCE
31	THE MONARCH INSURANCE
32	TRIDENT INSURANCE COMPANY
33	UAP INSURANCE COMPANY
34	XPLICO INSURANCE COMPANY
35	CAPEX LIFE ASSURANCE

36	CIC LIFE ASSURANCE COMPANY
37	KENINDIA ASSURANCE COMPANY
38	METROPOLITAN INSURANCE COMPANY
39	OLD MUTUAL LIFE ASSURANCE
40	PAN AFRICA INSURANCE
41	PIONEER ASSURANCE COMPANY
42	UAP LIFE ASSURANCE COMPANY
43	PRUDENTIAL INSURANCE COMPANY
44	SAHAM INSURANCE COMPANY
45	KENINDIA INSURANCE COMPANY
46	APA LIFE ASSURANCE COMPANY

APPENDIX 2: RETURN ON ASSET AND BOARD SIZE

		ROA(2014)	ROA(2013)	ROA(2012)	BOARD SIZE
1	AAR INSURANCE KENYA	0.117197909	0.02549185	-	8
2	AFRICA MERCHANT ASSURANCE	0.072646566	0.059222408	0.029139447	6
3	AIG INSURANCE COMPANY	0.032420027	0.099689484	0.081978272	6
4	APA INSURANCE COMPANY	0.056950393	0.042157298	0.015078335	8
5	BRITISH AMERICA INSURANCE	0.081118823	0.185505352	0.131857327	11
6	CANNON ASSURANCE COMPANY	0.040421134	0.100166382	0.130880745	6
7	CIC GENERAL INSURANCE	0.056969206	0.06979666	0.162490631	7
8	CORPORATE INSURANCE COMPANY	0.15451526	0.095070564	0.150474076	8
9	DIRECTLINE ASSURANCE COMPANY	0.102774004	0.030956439	0.06794092	6
10	FIDELITY SHIELD INSURANCE	0.035577856	0.054475535	0.061917588	8
11	FIRST ASSURANCE COMPANY	0.073078983	0.079761635	0.071179785	6
12	GA INSURANCE COMPANY	0.062496758	0.077171276	0.060858858	7
13	GATEWAY INSURANCE COMPANY	0.08109347	0.076189992	0.009110743	8
14	GEMINIA INSURANCE COMPANY	0.155658737	0.08625306	0.135198266	9
15	HERITAGE INSURANCE COMPANY	0.120349082	0.141454483	0.112895832	8
16	ICEA LION GENERAL INSURANCE	0.058681134	0.082159343	0.030853028	9
17	INTRA AFRICA ASSURANCE	0.03245081	0.054015648	0.071434422	7
18	INVESCO ASSURANCE COMPANY	-0.038181935	0.124441059	0.014614404	7
19	JUBILEE INSURANCE COMPANY	0.113088424	0.032401665	0.08402815	7
20	KENINDIA ASSURANCE COMPANY	0.017050779	0.081389995	0.022019146	10
21	KENYA ORIENT INSURANCE	0.035721202	0.060300628	0.041191818	6
22	MADISON INSURANCE COMPANY	0.005122716	0.056357979	0.089942931	7

23	MAYFAIR INSUANCE COMPANY	0.700620606	0.09033089	0.013473456	7
24	OCCIDENTAL INSURANCE	0.036292457	0.096894685	0.058752007	7
25	PACIS INSURANCE COMPANY	0.530232521	0.154665489	0.044636875	11
26	PHOENIX OF EAST AFRICA	-0.000558303	0.054533088	0.037688744	7
27	REAL INSURANCE COMPANY	-0.050373216	0.039756832	0.052531005	8
28	TAKAFUL INSURANCE OF AFRICA	0.062375361	-0.0192018	-0.05145851	8
29	TAUSI ASSURANCE COMPANY	0.083572598	0.110604605	0.025920595	7
30	THE KENYA ALLIANCE ASSURANCE	0.030698026	0.318201419	0.031300371	11
31	THE MONARCH INSURANCE	0.175110615	0.02443286	0.030096118	6
32	TRIDENT INSURANCE COMPANY	0.045628622	0.03441809	0.217885998	8
33	UAP INSURANCE COMPANY	0.071694661	0.08227227	0.140998314	12
34	XPLICO INSURANCE COMPANY	0.065214146	0.02819638	0.038363264	6
35	CIC LIFE ASSURANCE COMPANY	0.044528997	0.00345135	0.071673752	7
36	KENINDIA ASSURANCE COMPANY	0.132102665	0.132829181	0.119580352	10
37	METROPOLITAN INSURANCE COMPANY	-0.638201156	-0.11305348	-0.1694699	9
38	OLD MUTUAL LIFE ASSURANCE	0.01482821	-0.01142329	-0.002162	9
39	PAN AFRICA INSURANCE	0.029835228	0.015865492	-0.00026916	9
40	PIONEER ASSURANCE COMPANY	0.063797672	0.015442679	0.031670924	8
41	UAP LIFE ASSURANCE COMPANY	-0.002298975	0.043146555	0.045350099	12

APPENDIX 3: LETTER OF INTRODUCTION

Dear Respondent,

I am a post graduate student at the University of Nairobi pursuing a master’s degree in Business Administration. As part of the partial fulfillment of the degree, I am conducting a research on **“Corporate Governance and Performance in the insurance Companies in Kenya”.**

For this reason I would appreciate if you would kindly spare a few minutes of your time to fill the questionnaire to the best of your knowledge as they apply to the business. The information in this questionnaire will be treated with confidentiality and will be used only for research purposes.

Your assistance will be highly appreciated.

Yours Sincerely,

Agnes Luyima

D61/64969/2013

APPENDIX 4: QUESTIONAIRE 1

1) **NAME OF COMPANY……………………………………………..**

2) **YOUR DESIGNATION…………………………………………….**

3) **DURATION OF EMPLOYMENT………………………………**

Corporate governance is the system through which the organization is directed and controlled. It shields a firm from vulnerability to future financial distress.

CORPORATE GOVERNANCE DIMENSIONS

1. Corporate Governance Structures.

Corporate governance structures include Board of directors, management, shareholders and stakeholders. The following are some of the functions they perform. Using the likert scale of one to five given below, please indicate the extent to which the following applies to your company**.**

1=Not at all 2=Less Extent 3= Moderate Extent 4=Large Extent 5=Very large extent

a. **Board Establishment and functions**

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
The board size and composition are right for the organization					
The Board agrees, defines and propagates its functions on an annual basis					
The Board knows and understands the company's beliefs, values, philosophy, mission and vision and reflects understanding on key issues throughout the year.					
Board members engage in financial transactions with the company					

The board regularly reviews company performance					
Board committees exist to advices on specific functional areas.					
The majority of the board time is not spent on issues of day to day management					

Management

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Management has executive power to execute power to exercise discretion over operations of the firm					
Management has the greatest capacity to determine the success or failure of your company					
Recruitment for all positions are open and fairly done.					
The CEO handles queries from stakeholders accurately and in a timely manner					
Organization is governed by a separate chairman & Separate CEO					
The board supports the CEO in implementation of the policies and procedures					

Stakeholders

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Employees determine the overall organization performance of your company					
Risks of the company's reputation and insufficiently incorporating the stakeholders perspective could be considerable					
suppliers and government affect the performance of the organization					
The regulatory bodies have an impact on the performance of your company					
The company adheres to the legal requirements and procedures					

2. The Principles of Corporate Governance

The following is a list of items relating to the principles of corporate governance. Please state the extent to which you agree/disagree with the following items as they exist in your company.

Rating Scale

1=Strongly disagree 2=Disagree 3= Uncertain 4 =Agree 5=Strongly Agree

a. The rights of shareholders

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Shareholders are provided with adequate and timely information about company meetings.					

Shareholders have the right to vote in general meetings.					
Shareholders have the right to participate in company profits.					
Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.					
Details about the capital structure of your company are disclosed to shareholders					

b. Equitable Treatment of Shareholders

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Shareholders who are from the same class are treated equally.					
Minority shareholders are protected from insider trading					
There are means to remove the obstacles of cross-border voting					
Board members and key executives disclose material interests in any transaction or matter directly affecting the company.					
Any changes in voting rights should be subject to approval by those classes of shares who are negatively affected.					

c. Role of Stakeholders in Corporate Governance

Descriptive Statement	1	2	3	4	5
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the Board.					
Stakeholders have the opportunity to obtain effective redress for violation of their rights.					
An effective corporate governance framework enforces creditor rights					
Performance-enhancing mechanisms for employee participation are permitted to develop					
Stakeholder rights that are established by law are respected by the company					

d. Disclosure and Transparency

Descriptive Statement	1	2	3	4	5
The objectives of the company are disclosed					
Foreseeable risk factors are disclosed					
Remuneration of board members and key executives is disclosed.					
An annual audit of the company is conducted by an independent auditor.					
Channels for the dissemination of information on a timely basis to relevant users are provided					

e. The Responsibility of Board Directors

Descriptive Statement	1	2	3	4	5
The board takes stakeholders' interests into account.					
The board of directors elects, monitors and replaces executives when necessary					
Board members are able to devote sufficient time to their responsibilities.					
The board supervises the process of disclosure and communication.					
The board has approved a strategic plan for the company.					

3. Pillars of Corporate Governance

There are four central pillars of corporate governance; accountability, fairness and transparency. Please state the extent to which you agree/disagree with the below statements with regards to how they are depicted in your company.

1=Strongly disagree 2=Disagree 3= Uncertain 4 =Agree 5=Strongly Agree

Descriptive Statement	1	2	3	4	5
Leadership is accountable for their decisions and actions					
Leadership take the necessary corrective actions and penalize mismanagement of resources					
An outsider is able to make significant assessment of a company's actions					

The systems in the insurance companies take into account all those that have an interest in the company and its future					

4. Corporate Governance Practices

Please indicate the extent to which you disagree/agree on the below statements with regards to Corporate Governance Practices.

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Corporate Governance practices dictate that the board of directors governs the corporation in a way that maximizes shareholders value and in the best interest of the society.					
Separation of roles is essential to avoid conflicts and ensure clear accountability of an organization's performance hence better results.					
Best governance practices includes formalizing governance policies, strengthening of shareholders rights, transparency and disclosure of information, Ensuring sustainability of the business.					
Board of directors act in the best interest of the shareholders					

APPENDIX 5: QUESTIONAIRE 2

1) **NAME OF COMPANY……………………………………………..**
2) **YOUR DESIGNATION……………………………………….**
3) **DURATION OF EMPLOYMENT………………………………**

Please indicate the applicability of the following performance measurement perspectives: Financial, Customer and People, Internal Process, Learning and Growth, Social perspectives and Environmental (BSC based) in the company.

Using the Likert Scale of one to five given below please indicate the extent to which the following applies to your company.

Rating Scale

1=Not at all 2=Less Extent 3= Moderate Extent 4=Large Extent 5=Very large extent

Customer Focus Perspective

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
All customers complaints are captured and fully documented					
The company monitors and responds to all customer complaints in a timely manner					
There is inclusion of customer requirements in subsequent product development cycle.					
The company retains and maintains ongoing relationships with the					

customers					
The staff are well skilled and competent					
Staff are trained to improve their skills					
Customers are satisfied with the services provided to them					
Customers refer potential customers to the company					

Internal Business Process perspective

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Employees are well skilled and competent					
The productivity of the employees is monitored at all times					
Documented practices to ensure that fraud does not occur					
Design of the product is in line with the market needs of the customers					
High Quality service as a result of following the right processes.					
Measures are in place to monitor the activities of the day.					
High Quality Services are provided to the customers making them delighted and Satisfied					
Standards are set for all key process measures, and those standards are based upon customer requirements					
Improved information technology system that enables the processes to be fast and efficient					
The products prices are affordable to the target market					

Innovation, Learning and growth perspectives

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
Survey on employee satisfaction carried out regularly					
Employees are trained to improve their skills					
Performance reviews are conducted annually					
Companies committed to retaining employees since they are a valuable non-financial asset					
Good incentive rewards for employees with high productivity					
Opinion of the employees is considered in decision making					
Promotion of staff is fair and process is transparent					

Financial Perspective

Descriptive Statement	**1**	**2**	**3**	**4**	**5**
The company's Return on Asset has been improving					
The company regularly measure turnover of business					
There is regular measurement and monitoring of premium growth					
The company's Return on investment has been increasing					
The operational costs are closely monitored, measured and have been improving annually					