

**EFFECT OF CORPORATE GOVERNANCE PRACTICES ON THE
MARKET VALUE OF LISTED INSURANCE FIRMS IN KENYA**

**BY
KINYAI LABAN MBELENGA**

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DECLARATION

This research project is my original work and has not been presented for any award of diploma or a degree in this or any other university.

Signature..... Date.....

Kinyai Laban Mbelenga

REG: D61/84005/2016

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

Signature..... Date.....

Dr. Onesmus Mutunga

Department of Finance and Accounting, School of Business,

University of Nairobi.

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DEDICATION

I dedicate this research to the following: First, sisters, brothers and to my parents too. The support, support, love, encouragement, patience, and understanding they were giving me enabled me with the determination and will to finish my postgraduate studies.

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LIST OF ABBREVIATIONS

AKI:	Association of Kenyan Insurers
CEOs:	Chief Executive Officers
COMESA:	Common Market for Eastern and Southern Africa
DPS:	Dividend per Share
GDP:	Gross Domestic Product
IPOs:	Initial Public Offers
IRA:	Insurance Regulatory Authority
OECD:	Organization of Economic Cooperation and Development
UK:	United Kingdom
PhD:	Doctor of Philosophy
ROA:	Return on Assets

ABSTRACT

The study's main objective was to establish the practices of corporate governance's effect on the market value of insurance firms listed in Kenya. The research study aimed to establish to what extent board diversity, size and independence of the board and the regularity of holding meetings affect insurance firms market value. Quantitative data was collected and then analyzed by descriptive statistics. Quantitative data was gathered through reviewing research Insurance firms' financial statements. There were 6 listed Insurance firms in the NSE as per data from the Bourse website; in which the collection of data took place from all and the period of the study was 2011 to 2016. Data analysis was then done using regression and descriptive statistics, presentation was done in charts and tables. The research generally found out that, practices of corporate governance did have impacts on the aforementioned insurance firms' market values, it established that the beta coefficient of board diversity is -0.567. Thus, increasing the female proportion of the directors in the board decreases Tobin's Q by 56.7%. Therefore, board diversity has a negative statistical significance in predicting and explaining the Market value. the beta coefficient of board independence is -3.822. The p-value ($P < 0.001$) for board independence (BI) at 0.05 significance level showing that, "board independence is statistically significant and can be applied in predicting and explaining Tobin's Q, the market value indicator." From the results, the beta coefficient of board size is 4.407. Hence, a one-member rise in the size of board results to 4.407 times increase in the Tobin's Q and at 5% significance, the board size is statistically positive key, predict and explains the Market value the beta coefficient of board meetings is 1.64. Thus, an increment in the board meeting numbers increases Tobin's Q by 1.64 times and therefore board meetings variable is statistically significant, predicts and explains the market value. To reduce chances of conflicts among different stakeholders the study recommends that insurance companies should implement fully the corporate governance practices, the requirements for listing should be fair to the firms and insurance regulatory authority should make it compulsory for any registered insurance company to make public the statement of corporate governance especially for those firms which are not listed, because the listed firms it is a basic requirement as per the Nairobi Securities Exchange market. The main drawbacks of the study are that insurance firms under study were registered at different times by IRA, the different timings of registration and starting operations can give different values of assets and consequently different earnings after tax and this could lead to different financial measures and thus a cross sectional analysis cannot adequately be carried out for decision making.

The study suggests that, corporate governance dimensions in the listed insurance companies be conducted on the corporate governance's effects and organizational performance on a specific insurance company.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Corporate governance is composed of board of directors, general meeting, board meeting, board composition, and independency meeting election frequency (Julia, 2008). The influence of corporate governance's on the market value of insurance firms in Kenya has been the subject of a high level attention from finance journals, publications and literature in the recent years. The financial scandals that hit America in the early and late 2000s have necessitated this enormous attention. The Asian crisis financially also had a major part in the increased attention of corporate governance issues in insurance firms in Kenya in the late 1990s. There is still a lot of argument on the way corporate governance and organization's performance relate.

Initiatives by major institutions have been seen to be predominantly occurring in developed countries like America, France, Canada, Germany and United Kingdom. Some countries in the developing nations like South Africa are also seen to play a leading role in tackling these corporate issues (Abel and Okafor, 2010). Firms are shielded from being vulnerable from being vulnerable to financial conundrums and distress in the future through the utilization of corporate governance (Tirole, 2009). An organization's ability to ably handle external factors influencing its performance is affected by the corporate governance structure of the aforementioned organization (Donaldson, 2013). A degree of confidence necessary for enabling a market economy to function properly is enhanced through inculcating an efficient corporate governance system across the economy and in an individual organization. Through the inculcation of practices of corporate governance in organizations, companies are thus encouraged to utilize organizational resources efficiently and eventually the cost of capital is low thus encouraging growth of market value (OECD, 2011).

Agency theory is one of the basis through which studies on corporate governance establishes corporate governance as a root in the aforementioned theory (Agency theory) (Filatotchev and Wright, 2011). The instance whereby a principle hires an agent to carry out an act or service in his or her behalf is the essence of the principle-agent relationship (Jensen and Meckling, 2011) shareholder's wealth maximization is the principle guiding managers in a firm who also play the role of being agents of the shareholders. Those who argued for the resource dependency theory deduced that there was an inherent need for inter-linkages between outside resources and the insurance firms (Wan and Idris, 2012). A reduction in the transaction costs levels related to environmental interdependency is a resultant feature of these environmental linkages (Williamson, 2011). The aforementioned assumptions of transaction economic theory states that; the role of determining the resources has been assumed by the presence of these firms (which have become rather large), the resultant feature of this is that these firms have become a market substitute (in determining the allocation of resources).

There has been an increase in growth of the Kenyan insurance industry, however, setbacks like placement of insurance companies under statutory management and the collapse of some insurance companies have to be constantly be dealt with by these firms (Business daily, 2012). The mis-appropriation of organizational assets and general mismanagement has been deduced as the main reason that led to collapse of those insurance firms that underwent the aforementioned phenomenon. Some of the issues the insurance firms have to contend with are the payment of huge claims and also fraud issues. These aforementioned issues may have the causal effect of instilling a loss of public confidence on the insurance firms (Tirole, 2009). The instance whereby the Agents relay the wrong message to the public is seen to encourage the issue of incompetency. This study thus seeks to divulge and

find out if corporate governance practices that are good relate to the increase in value of the market of the listed organizations (Business daily, 2012).

1.1.1 Corporate Governance Practices

Corporate governance is “the institutions’ design that force management or induce to internalize the stakeholders’ welfare (Tirole, 2009). It can also be defined as: “largely, corporate governance is a collection of devices which venture capitalists from outside use to safeguard themselves from insiders’ possible depravity (La Porta, 2011). On the same note, from the viewpoint of regulations, corporate governance can also have a definition as “the system of laws, rules, and factors that control operations at a company” (Gillan and Stark, 2010).

Knell (2009) states that the central figures in all matters corporate governance are; the community, environment, regulators, general lenders, banks, customers, suppliers and employees. Certain principles and pillars are thus seen as the main avenue through which corporate governance practices are anchored in. For corporate governance practices to be successfully inculcated into organizational processes, pillars like fairness, transparency, accountability and responsibility must be strictly adhered to. Leadership capabilities are enhanced in the organization through inculcating the pillar of responsibility.

Through ensuring all aspect matters are equitable, it is observable that shareholder rights are protected through the pillar of fairness. Fairness also strives to protect minority shareholder rights, accurate disclosure on all essential matters. Transparency is ensured through enforcing timeliness. Making the organization’s leaders to be accountable for all deeds committed in the execution of their duties is the main aim of the pillar of accountability (Archibald, 2008). Corporate governance principles are governed by principles like; responsibility of shareholders, disclosure and transparency, stakeholders’

role in corporate governance, treating equitably the shareholders and the rights of shareholders (OECD, 2011).

The position a firm finds itself in is a major catalyst into assessing the importance of each of the aforementioned assessments (Archibald, 2008). A firm will ensure that corporate governance implementation is superior in instances where it experiences turbulence in resources control and allocation although the firm has enough investment opportunities. According to Archibald (2008) the crux of this issue being that no decision or financial function is superior to others. The performance and financial decisions like initial Public Offers (IPOs), are intertwined with the function ability effectiveness of governance issues put in place by the firms. Akinboade and Okeahalam, (2013) states that corporate governance has a main objective of increasing value to as many organizational stakeholders as possible, that the shareholder return is enhanced by inculcating governance standards, long term performance is thus enhanced.

1.1.2 Market Value

Market value can be termed as a firm's overall financial health's general measure in a particular time period and might possibly be used in comparison of firms similar to it across the industry itself or in comparison of sectors or industries in aggregation (Donaldson, 2013). Proxies like yield on equity, solvency, market capitalization, sales growth, profitability, and liquidity can be used to measure market value; all these factors can be taken from the financial statements ((Donaldson, 2013).

Information on market value is beneficial to help predict the enterprise' capacity thus evaluating how poorly or well the initiative is performing against its objectives set, the same observation regarding the measurement of market value is made by Akinboade and Okeahalam, (2013) when he states that generally market value of business organizations measurement can be done by combining of measuring performance, benchmarking,

financial ratios analysis against mix or budget of these procedures. All business takes market value improvement as a key target without considering their size (small medium or large), type (not listed or listed) or sector (public or private). This is the reason for companies always trying through improvement of their services or products to remain competitive hence decreasing costs of production and to invest in new technologies of manufacturing (Knell, 2009).

1.1.3 Corporate Governance and Market Value

Proper corporate governance practices can improve firm's stock returns in the long run and this can translate into a higher market value. Each element of the corporate governance statement like; board size, non-directorships, insider holding, board meeting frequency, number of resolutions passed in every meeting, presence of the chair in the meeting, rate of altering the CEO and board's composition is assumed to increase or decrease the market value of a firm (Mecklin and Jensen, 2011). Lijun, (2008) argues that in instances where the rate of CEO transitions and changes are rather high, this occurrence may relay a message indicating that the organization is unstable thus leading to a drop in investments. This drop will have the eventual causal effect of decreasing the market value of an organization.

CEOs have a sole obligation of making decisions which can affect the firm they control positively or negatively in relation to its market value. They are given all the rights to work in the shareholders' best interests who have committed their funds in the business and the main objective is to maximize shareholder's wealth. Investors always are believing that their interest is more probably going to be safe by firms of founder controlled than firms of non-founder controlled (Lijun, 2008) and this is likely to safeguard their value hence improve the market value. Corporate governance is expected to lead to augmented firms' financial performance than those which do not practice it or vice versa (Gupta, 2011). Absence of corporate governance practices may delay ability of the board in management

monitoring and as a result increase the cost of agency and this may lead to the reduction in the firm's market value (Mecklin and Jensen, 2011).

Good corporate governance practices can improve firm's stock returns in the long run and this can translate into a higher market value. Each element of the corporate governance statement like; board size, non -directorships, insider holding, board meeting frequency, number of resolutions passed in every meeting, presence of the chair in the meeting, rate of altering the CEO and board's composition is assumed to increase or decrease the market value of a firm (Mecklin and Jensen, 2011). Lijun, (2008) argues that in instances where the rate of CEO transitions and changes are rather high, this occurrence may relay a message indicating that the organization is unstable thus leading to a drop in investments. This drop will have the eventual causal effect of decreasing the market value of an organization.

1.1.4 Insurance Industry in Kenya

Insurance sector in Kenya contributes approximately 11% of the Gross Domestic Product (GDP) with insurance contributing 3% to the GDP (Business Monitor, 2012). Insurance promotes financial stability of individuals, families, and organizations by indemnifying those who suffer loss or harm. Business failure without insurance leads to reduction in shareholder's wealth and many other kinds of negative externalities. Higher unemployment, loss of business, high prices of products, less government tax revenues and rising government responsibilities are few negative externalities associated with uninsured losses. This therefore implies that insurance promote financial stability by ensuring continuity in face of adversities.

The insurance industry of Kenya has thrived in these fifty years of independence. Business Monitor, (2012) indicates that the industry has developed by 16% p.a as an average rate during the past 5 years. The industry's gross premium was Kshs 55.03 billion compared to

Kshs 44.48 billion in 2015, this represents a growth of 23.7% (IRA Report 2016). The market comprises of 47 insurance companies, transaction of short-term and long-term insurance business. Moreover, there are over 140 brokers of insurance operative in the Kenyan market of insurance. In the presence strong competition, clear positioning in the market is essential. The insurance industry of is leading within the East Africa Community (a trading block of Tanzania, Uganda and Kenya), and also a significant participant in the region of COMESA (“Common Market for Eastern and Southern Africa”).

The insurance ACT lays emphasis on the supervision of the insurers, as they are the risk carriers and, therefore the backbone of the insurance industry (Business Monitor, 2012). The industry has an association for the members called The Association of Kenya Insurers (AKI) which their key objective being promotion of adherence to prudent practices of business by the member countries and creation of awareness in the general public with a sight of hastening the insurance business growth in Kenya. The watch-dog Regulatory Authority (IRA) of the industry’s mission is to professionally and effectively supervise, develop and regulate the insurance industry. The activities of the companies of insurance in Kenya are regulated by this body.

1.2 Research Problem

The enhancement of an organization`s image in the public eye as a company which is self-policing and praiseworthy of a holder of debt capital and shareholder, prevention of fraud and corporate scandals is a fundamental function of corporate governance thus making it an essential practice if executed efficiently (Young, 2013). The essentiality of accountability, fairness, responsibility, and transparency in raising issues of their influence on the eventual market value of listed insurance companies cannot be over emphasized (Kimosop, 2011). The collapse of institutions like XL Holidays, Commerce Bank, Worldcom and Enron forced corporate governance issues to become the core focus of most other emergent firms

(Braga-Alves and Shastri, 2011). It also forced the implementation and development of several efficient mechanisms so as to gain investor's faith and confidence back again. Good corporate governances have come to be fundamentally significant for encouraging development of the economy, enhancing investment atmosphere and ensuring investor rights and eventually increasing and improving the market value of companies (Naijjar, 2012).

Decreased market values by industry players (insurance) have been identified by numerous studies as being a resultant feature of lack of adherence to effective corporate governance practices. There is increased debate whether corporate governance statement should be included in the financial statements of insurance firms. This is important because its main elements like board composition, board committees, frequency of holding meetings and resolutions discussed in the general meetings can influence the financial performance either directly or indirectly.

Ongore et al (2011) and Muoria, & Miringu. (2011) made a conclusion that, positive relations are there among diverse ownership and forms, institutional, and foreign and performance of the firm but government and concentration of ownership and firm performance was negative. Koriata (2010) did a studied the corporate governance's effects practices on firm value on listed firms in Kenya and made a conclusion that there exists a positive correlation very strong among the value of the firm and overall index of corporate governance. One area recommended for further research is the corporate governance on financial performance's effect for unique firms.

Nthama (2010) concluded that board size, shares held by insiders, board composition and number of board meetings positively influence a firm's value while percentage of inside directors negatively correlates with the value of the firm. He proposed a further research on reliance of primary data and ascertainment of what the industry captains as well as the

regulators think about prioritization of stakeholders, interest thus this study will focus on insurance industry in Kenya. Most research carried out in the recent years (worldwide) on the relationships and correlation between “firm’s insurance performance and corporate governance” is contradictory and inconclusive. Nthama (2010) claims that, there exists some inconsistencies in “the relationship between the performance of insurance firms and corporate governance.” This is the research gap that this research pursues to fill by answering to the question; what is the relationship between the market value of insurance firms in Kenya and corporate governance practices?

1.3 Research Objectives

The general objective of the study was to determine the effect of corporate governance practices on the market value of insurance firms listed in Kenya.

The specific objectives were;

- i. To determine the effect of board diversity on the market value of insurance firms in Kenya.
- ii. To determine the effect of board independence on the market value of insurance firms in Kenya.
- iii. To determine the effect of board size on the market value of insurance firms in Kenya.
- iv. To determine the effect of board meetings on the market value of insurance firms in Kenya

1.4 Value of the Study

This research will have laid emphasis and focus on analyzing and understanding “how corporate governance enhances the market values of insurance firms in Kenya”. In this instance, empirical results will aid in the provision of corporate governance general indicators to be utilized by the insurance firms and Insurance Regulatory Authority. This is so that the right decisions may be made and implemented. In this instance, the decision

makers in the insurance firms will thus obtain information of high value regarding every parts of corporate governance. The study will thus show a part in enabling the growth of economic and financial focus of the individual insurance firms.

The entire financial intermediary sector (insurance sector) will also improve aspects of their market value and eventual performances. There will also be a general realization and understanding by the Kenyan Government on all political aspects regarding the insurance firms` corporate governance issues thus eventually improvements in the insurance sector subsector will be fostered through the enhancement of corporate governance practices.

Sustained productivity and improved performances are also observed to be a resultant feature of the inculcation of corporate governance practices in these insurance firms` in Kenya. The study will also enable the insurance firms to benchmark on best international practices and help them with the integration of these best practices into their organizational processes so as to enhance performance and also increase their market values. The improvement of literature regarding governance-market value linkage done through ensuring the provision of a survey of the insurance firms` in Kenya will be a key facet of the research study. This study will also have a significant role in the field of academia, academic institutions and researchers can utilize the research results or findings as a future reference source for further research in this area.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The chapter consist of reviews of literature related represented using the below headlines; “theoretical review, conceptual framework, empirical studies, research gaps and finally the summary.”

2.2 Theoretical Review

The theories covered include Agency Theory (Alchian and Demsetz, 1972), Resource Dependency Theory (Wan and Idris, 2012) and Transaction cost Economic theory (Williamson, 1984).

2.2.1 Agency theory

This model has its origins in theory of economics and continued to be expounded by Demsetz and Alchian (1972) and developed further by Meckling and Jensen (1976). This theory is the basis through which corporate governance’s empirical studies establishes corporate governance as a root in the aforementioned theory (Agency theory) (Filatotchev and Wright, 2011). The instance whereby a principle hires an agent to carry out an act or service in his or her behalf is the essence of the principle-agent relationship (Jensen and Meckling, 2009) shareholder’s wealth maximization, is the principle guiding managers in a firm who also play the role of being agents of the shareholders. This relationship, is however inhibited by three factors concerning the aforementioned relationship. There is first the inability of the principle in ensuring that there is compliance by agents with shareholder interests thus rendering it too expensive or impossible for the principle to keep a check on the agent, secondly, there is the possibility of agents enriching themselves through taking advantage of the information asymmetry between them and the principle and eventually, the principle and agent may experience a conflict of interest as agents may have the intention of making maximum gains at the expense of the principles.

The employee model depicted in the theory of agency is more of an individualistic, self-centered and is rationality confined where punishments and rewards appear to take main concern (Meckling & Jansen, 2009). This theory proposes that employees or people are held answerable in their responsibilities and tasks. Workers need to constitute a good structure of governance. And thus, the agency theory argues in favor of corporate governance's purpose which is to minimize the managers' prospective to take actions in a way different from the shareholder's interests. Agency theory advocates that corporate governance practices should be well implemented as well as monitored to facilitate more effective and control of the board as well as the CEO.

2.2.2 Resource Dependency Theory

Those who argued for the resource dependency theory deduced that there was an inherent need for inter-linkages between outside resources and the insurance firms (Wan and Idris, 2012). A reduction in the transaction costs levels related to environmental interdependency is a resultant feature of these environmental linkages (Williamson, 2011). Factors utilized in intensifying the characters of these dependencies include: the concentration levels of the resource in the environment, the significance of the resources and the general shortage of the resources (Wan and Idris, 2012). The intention of provision of more resources by the board to attain the insurance objective of the firms which is taking the organization to the next level is a fact emphasized by the resource dependency theory. Emphasis of the administrative arm as a linkage between resources needed in goal accomplishment and the organization itself is also a recognized function of the "resource dependency theory" (Williamson, 2011).

It also emphasizes on the board directors' part in providing availability of resources that the firm need. Williamson, (2011) opposed that theory of resource dependency emphasizes on the part played by directors to secure or provide an organization vital resources using their

connections to the outside environments and how fine these resources are exploited by the firm for optimum output. Indeed, Wan and Idris, (2012) coincides that resource dependency theorists help in providing attention on the representatives' appointment of independent organizations in order to gain right to utilize resources that are basic for the success of the firm. Argument has been there that the resources provision improves functioning of the organization, performance of the firm and its existence (Williamson, 2011). Generally, a director is resourceful to the firms through availing resources like buyers, skills, information, skills, in accessing basic components such as legitimacy, policy makers, suppliers, as well as social groups.

2.2.3 Transaction cost economics Theory

Under aspects of economy as explained by the works of (Williamson, 2011) is often understood as resolutely recognized with theory of agency. The way firms grow in size, whether craving creates to achieve advantages of large economies, or by advanced developments, or in an approach that distinguishing striking models of business having progressed, they have increasingly needed additional resources that ought to have been collected from the capital markets and broader shareholder base ought to have been put in place (Berle and Means, 2012).

These insurance firms are observed to be a governance structure which faces a governance conundrum with the perception of commencing from a magnitude of contractual hazards. These hazards are observed to include; the problem that includes rationality that is bounded, small number bargaining, asset specificity, information asymmetries and self-interested opportunism (Berle and Means, 2012). According to (Williamson, 2011), it is propositioned that if organizations lay emphasis on their main business instead of laying emphasis on business activities that are non-core in nature, they can eventually save costs. As per the aforementioned factors, corporate governance in these firms should strive to enhance the

organization carryout an identity of mechanisms and internal measures which will efficiently/economically utilize costs associated with transactions with the aforementioned contractual hazards. The aforementioned assumptions of transaction economic theory states that; the role of determining the resources has been assumed by the presence of these firms (which have become rather large), the resultant feature of this is that these firms have become a market substitute (in determining the allocation of resources).

2.3 Determinants of Market Value

The responsibilities placed on and executed by the several persons and entities, both answerable for and disturbed with the insurance sector wise management is seen as being closely allied with “corporate governance” (Business Monitor, 2012). In the process of responding to the growing presence and essentiality of corporate governance, the Insurance Regulatory Authority issued a Gazette notice detailing (mandatory) guidelines to insurance firms in Kenya. It was deduced by the Authority that most of the requirements were already catered to either by prudential regulations.

2.3.1 Board Diversity

The issue of board diversity has attracted various definitions. Swartz and Firer (2005) said that board diversity is much concerned with, boards of Directors having variety kinds of expertise not limited to, learning style, managerial background, political background, personality, gender, age, education and values. Ingley and Van der Walt (2013), diversity of board is simply concerned with a variety in the board of directors’ composition. The level of management of an organization plays an essential part in the determination of how well the organization performs, it is the structure, though of the organization`s leadership and the numerous mechanisms of supervision that play an even more essential role in organizational performance (Tornyeva and Wereko, 2012). It can be deduced that the most essential topics in the corporate governance literature are performance evaluation and board

of director's leadership structures. Although organizations worldwide possess differing legal and cultural backgrounds thus rendering localized researches inappropriate when conducting regional researches, American regulations were observed to be adopted by Taiwan in regards to directors that were external. This has resulted in Taiwan insurance organizations having directors that are independent so as to enable the board of director's operations or functions and also aid in the achievement of corporate governance levels that are optimal in nature (Ujunwa, 2012). Carter et al. (2003) noted it's important to have a diverse board this is because it leads into high creativity, an improved understanding of the market dynamics and market place, competition and improvement, and better skills of solving problem. In addition, a board that is gender, ethnically or culturally balanced in terms of its members encourages more operative universal relationships and escalate independence of board (Arfken et al. 2014).

2.3.2 Board Independence

This issue is seen as being among the utmost highly argued topics in "the corporate governance sphere." This is so because of its inept ability to control organizational results and top management decisions and also to have an effect on board discussions or deliberations. It has been deduced that board members who face no interference in their duties are better likely to execute the shareholder's interest as compared to inside directors. This is because they tend not to have an incentive to coordinate with the internal managers in a manner that would expropriate the wealth of the shareholder (Monks and Minnows, 2008). We deduce that a board that doesn't face both internal and external interference will eventually raise the information's quality and quantity provided by the insurance institution's insiders as a service to the public and thus lead to an adverse selection cost reduction as is espoused by the pecking order theory. Due to most research findings on this correlation between independence of board and the organization's performance the

Insurance Regulatory Authority recommends that directors who are non-executive not be less than 3/5 of the size of board so as to raise the levels of accountability in the insurance sector (IRA, 2013).

2.3.3 Board Size

A belief exists that boards with more members are more appropriate for corporate issues performance since they are having a wide-ranging expertise to enhance make improved and more informed judgments, and are very difficult for an influential CEO to dictate. In recent philosophies studies have inclined toward boards with smaller numbers. Jensen (1993) and Lipton & Lorsch (1992) in their findings reason that larger boards are not much operational and also easier for the CEO to dictate. Boards gets difficult to coordinate and process problems when they become too big nevertheless smaller boards have a tendency to ease the likelihood of easy joy riding by any individual director, thus raising their decision taking processes. Some of the concluded research supports this. Yermack (1996) on his study established that for larger industrial corporations of U.S, the firms of market values with fewer board members are more highly effective and make better decisions. Eisenberg et al. (1998) as well established that negative correlation between profitability and size of board when in case study with samples of midsize and small firms from Finland.

It was established in Ghana that small sized boards of 5 heighten the performance of MFIs, Biekpe and Kyereboah-Coleman, (2005). Yuanto and Mak (2003) repeat the above findings in firms registered in Malaysia as well as Singapore and realized that valuing of firm is uppermost in cases the board had 5 directors, a figure reflected somewhat as small in their market. Another one in Nigeria, Sanda et al (2003) in his study established that, performance of firm is certainly related with small size of board, as opposite to larger board size. In line with the section 27A requirements for the Insurance Act, the Insurers are

anticipated to take on at least five (5) Board members. The board member's third shall be independent directors whom will not occupy office for a period longer than two terms of three years each. (IRA, 2013).

2.3.4 Board Meetings

One study concluded that board meetings' frequency tends to measure the strength of activities of board, and the effectiveness or quality of its ability to monitor (Vafeas 1999a; Conger et al 1998). The meetings frequency of board, the more it is able to lead to a higher managerial monitoring quality, and hence bring positive impact of firm financial performance and growth (Ntim 2009; Vafeas 1999b). Observation has been made that meeting often will give board members more time to discuss, put in place stratagem, as well as appraising managerial performance (Vafeas 1999a). This will significantly assist directors in remaining knowledgeable and informed about vital advances in the firm, and thus put them in an improved point to address emergent basic problems in time (Tauringana and Mangena, 2008).

Sonnenfeld (2002) proposes that consistent attending of meetings is regarded as an assurance of the careful director.

Moreover, meeting frequently when mingled with casual sideline connections is able to help in creating and strengthening unified ties among directors (Lipton and Lorsch 1992), and thus impacting in a positive way the corporate performance. Applying samples of firms listed 307 of US over the periods of 1990-1994, Vafeas (1999a) settles that a statistically substantial and negative link between the board meetings frequency and corporate performance, as represented by Tobin's Q. Contrasting, he establishes that operative performance considerably advances after a year of abnormal activity of board. This advocates that even if the directors who deliberate more frequently can decide better and involve in monitoring actively, the possible advantages of such extreme monitoring are anticipated to mirror in performance of future years. In other words, decisions of board

could have period of incubation under which their complete paybacks may be seen. This can suggest also that “the indigeneity problems’ presence in the association between the board meetings number and corporate performance.”

2.3.5 Growth Premium

In this study to decrease specification bias, the model includes also control variable growth premium as the one used by Monks and Minnow (2008) premium growth (GP) is defined as change in annual premium growth production.

Ujunwa (2012) evaluate corporate governance’ progress reforms among listed companies in China through OECD Corporate Governance’s principles and their effects on growth of firm in the 100 biggest firms listed in Chinese equity markets. The findings showed positivity in relationship between market valuation and practices of corporate governance.

2.4 Empirical Review

Kitetei (2009) researched the practices of “corporate governance’s effect on the of microfinance institutions’ financial performance in Kenya taking deposit”. He established that 67% of such firms have their board chairman and CEO duties basically executed by various individuals whereas just 33% had a structure of dual CEO and settled that such firms which had non-dual CEO were better in performance compared to the ones with CEO duality. This research will assume the same that corporate governance practices can lead to higher firm value since some measures of financial performance can be used to measure firm value.

Gledson and Getulio (2009) did a study on how corporate elements affects market firm value in Brazil and established negative relations between board dependence and value of firm as well as a vital association between governance and market value. Their findings propose that characteristics of the country influence importantly the parts of governance that are linked to market value of firm, as well as what firms the links are established.

Noor and Ayoib (2011) established that a section of the mechanisms of board impacts family performance of the company. It was found that that business of the family with duality leadership, low experts number, and larger board size result in better performance of the family company businesses. They concluded that “majority of the sample (89.7%) had separated the tasks of the two positions among different individuals. Private firms may not adequately practice corporate governance due to the high degree of trust they may have on their own in relation to value creation and accountability of the value created and because of the small ownership structure characterized in most private firms.”

Majid et al (2012) study on corporate governance’s impact made a conclusion in their first hypotheses that there existed no important relations between CEO duality and size of board whereas the second showed non-negativity in relations between independency of the duality and board of the CEO. They further said this “means that the board of directors and all the decisions will be highly acceptable and all members are likely to work for a common interest of the firm they lead.”

Sajid et al (2012) did a study on corporate governance’s impact on capital structure and concluded that corporate governance is positively correlated with tangibility, risk and size except profitability which proved a negative relationship. Zhang et al (2007) undertook a research on “practices of corporate governance and Firm Performance during Institutional Transitions of China” covering 403 publicly listed firms. They concluded that “a strong support for stewardship theory and relatively little support for agency theory, but also call for a contingency perspective to specify the nature of conditions such as resource scarcity and environmental dynamism under which CEO duality may be especially valuable.”

Waseem et al (2011) studied on “the effect of corporate governance on performance of Jordian industrial companies” and established that there existed an important relations between DPS, ROA leverage and corporate performance

Ndoro (2008) study on corporate governance practices in housing finance company in Kenya and established that “there exists a clear separation of the role and responsibilities of the chairman and the managing director to ensure balance of power of authority and provide for checks and balances such that no one individual has unfitted powers of decision making.”

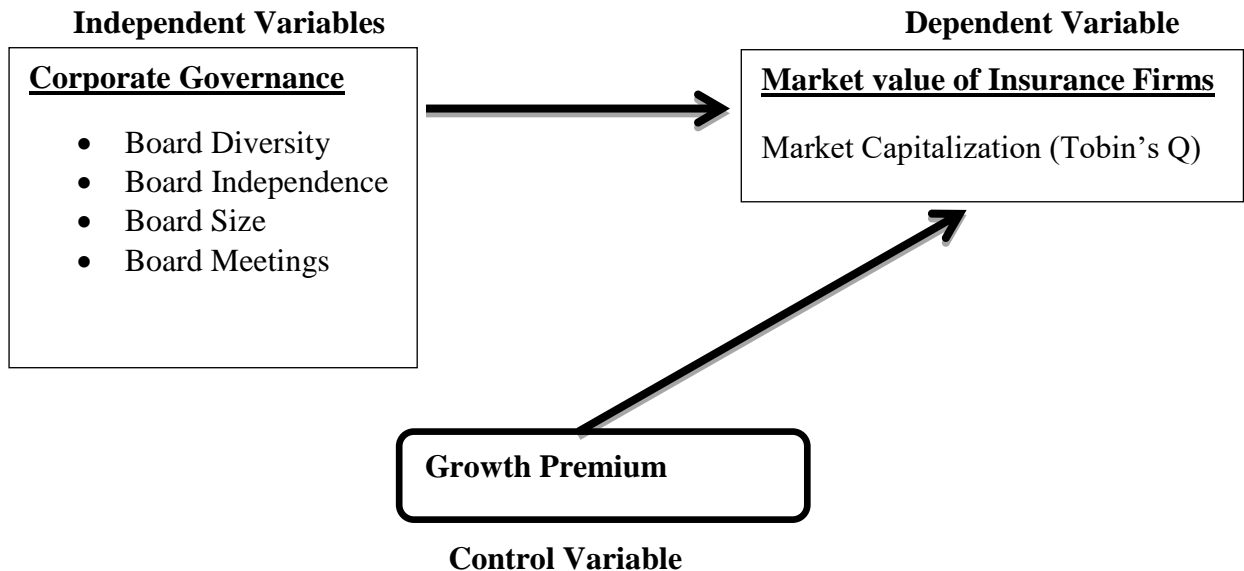
Wanga (2010) conducted a research on “the relationship between corporate governance practices and financial services of teachers” Sacco in Coast province of Kenya” and concluded that there is need to create an independent body responsible for overseeing corporate governance practices separate from management due to problems like fraud and misappropriation of funds they face.

Wanjiku et al (2011) did a survey on companies listed at NSE and found that CEO leadership positively influence corporate growth and recommended that leadership of companies listed at NSE should ensure proprietary use of shareholder’s equity. Mang’unyi (2011) studied on the corporate governance and structure of ownership and its performance effects concluded 60% of all banks practice corporate governance and good corporate governance makes banks perform better.

Gledson and Getulio (2009) did a study on how corporate elements affects market firm value in Brazil and established a negative link between board dependence and value of firm and a momentous association between governance and market value. Their findings propose that characteristics of country highly effect which governance’s aspects are related with the firm’s value of the market, and at the firms that the link is established.

2.5 Conceptual Framework

The Conceptual Framework will concentrate on Market value of insurance firms in Kenya as the dependent variable while Board diversity, Board interference and Board competence as the independent variable



Source: Author (2017)

Figure 2.1. Conceptual Framework

2.6 Summary of Literature review and Research Gaps

Although there have been many researches on “corporate governance” in the Kenyan Insurance sector, there have been little written on the relationship between the market value of insurance firms in Kenya and corporate governance. The results deduced from some of the available researches are either contradictory or inconclusive. The contradiction and inconclusiveness might be as a result the fact that most research tend to look into this relationship while utilizing two variables at a time while failing to include other interactions and factors that may be essential within the framework of corporate governance and improved market values of insurance firms (Umoren, 2009).

Numerous other researchers have tended to lay emphasis on the corporate governance their performance’s influence and practices (Darmadi, 2013). This research will strive to have those gaps bridged through ensuring there exists consideration of all corporate governance

dimensions like; pillars, practices, principles and the governance structures so as to find out whether they have a consequence on the eventual market values of insurance companies. The research study also aimed strive to help in the understanding if corporate governance wholly affect the organizational market value of insurance firms listed in Kenya and not just corporate governance variables that are good (one or two variables).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the study methodology and the research design; it highlighted a complete research design's description, the variables of the research and provided a comprehensive view of the population and description. It also pointed out the research instruments, techniques of collecting data and procedures of data analysis.

3.2 Research Design

Descriptive was the research design of this study. Therefore, the relations “between corporate governance practices and market values” of all Insurance listed firms at the NSE were to be determined. The dependent variable was market value as measured through establishing the market capitalization while the independent variable was specified corporate governance practices as deduced from the listed insurance firms.

3.3 Target Population

The population that this study was interested in comprised 6 (six) listed insurance firms in Kenya as at end of year 2016. For an individual insurance firm to qualify it was required to have operated throughout the set period of study. The eligible insurance firms qualifying for this criteria were the 6 firms. The period of study was between years 2011 and 2016 which was be considered to be adequate to obtain the necessary information considering the data analysis involved. a census study was preferred due to the fact that the population was too small.

3.4 Data Collection

The study employed collection of secondary data which were deduced out of the “audited financial statements of the Insurance firms in Kenya listed in the NSE for the financial periods 2011 to 2016.” Data were gathered from the 6 insurance firms that were in

operation in this period of study and this ensured completeness and consistency of the study elements

3.5 Data Analysis

Analysis of data involved cleaning, examining, converting and molding data with the aim of stressing information useful, proposing assumptions and supporting the making of decision and all these were done after checking if the information used had common variables regardless of the firms taken. This was done through scrutiny so as to minimize the variations due to size, time individual firm has been in operation and level of risk faced by each firm. A multiple regression model of “market value” was used as the variable dependent versus independent variables of “corporate governance practices” like composition of board, board independence and board diversity. The general equation relating the independent and dependent variables took the form;

$$\text{Tobin's } Q = \beta_0 + \beta_1 \text{BD} + \beta_2 \text{BI} + \beta_3 \text{BS} + \beta_4 \text{BM} + \epsilon$$

Tobin's Q=Market Value of insurance firms.

β_0 =Coefficient of regression.

BS=Board Diversity

BI=Board Independence.

BD=Board Size

BM=Board Meetings

ϵ =error term.

3.6 Tests of significance

F-test was tested for “joint significance of all coefficients and t-test for significance of distinct coefficients at the 5% level of importance.” Multi-collinearity occurs in the data

when at least independent variables correlate highly. Two major methods were used in helping to identify the multi-collinearity's presence: tolerance test and Variance Inflation Factor (V.I.F.).

$$\text{Tolerance} = (1 - R_i^2)$$

$$\text{V.I.F. (X}_2\text{)} = 1/(1 - R_i^2)$$

Where R_i^2 is coefficient of determination obtained when X_i ($i=1, 2, 3, \dots, p$) is regressed on all remaining independent variables in the model. Partial correlation scrutiny was used in identifying the nature of the relations "between the independent and dependent variables" taking into consideration the effect of the control variable. The correlation coefficients was used in measuring the corporate governance variables' effect on market value: values of plus or minus .1 represents a minute effect, either minus or plus .3 is a medium effect and minus or plus .5 is a large effect (Field, 2009). The correlation basically shows that there is a strong, moderate or weak relationship (either negative or positive), or no relations, between two variables (Field, 2009). While one needs to account on statistical meaning, one ought to concentrate on the relationship's strength and the shared variance amount.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

The determination of this quantitative correctional research was to “examine what relationship exists between corporate governance and value” of market of 6 listed insurance companies in Kenya from 2011 to 2016.

This study’s key target was to classify the rank of “corporate governance” on value of the market. The research’s aim was to aid leaders of the firms and law makers to get better understanding which mechanisms of corporate governance impacts economic growth of the society and also market values.

Generally, the study’s findings exposed significant statistical relationships between market value and corporate governance.

Board independence, board diversity and Growth premium all had important but negative relationships with market value, while size of the board and board meetings had positive significant relationship with market value.

4.2 Presentation of Findings

In answering the research questions, this section consists of inferential statistical analysis, descriptive statistical analysis, and comprehensive explanation of research findings of the study. I conducted data analysis using SPSS (20) in which file had both inferential and descriptive statistics concerning the value of the market of the insurance firms sampled. The descriptive data had such statistical analysis methods median, mean, mode and standard deviation

Inferential statistics comprised for instance ANOVA analysis, T-tests and multiple regression analysis. This assists in identifying if to reject or not the null hypothesis via the p-value.

4.3 Descriptive statistic

The descriptive statistical analysis' heading presented (a) Mean (b) Median (c) Mode and (d) Minimum of the study's illustrative variables of the firms sampled.

The Table 1 below gives summary of the sampled firms and market value's descriptive statistics. The value of the market was measured by Tobin's Q. Value of market in the firms tested had a Tobin's Q of a beginning value of 0.026.

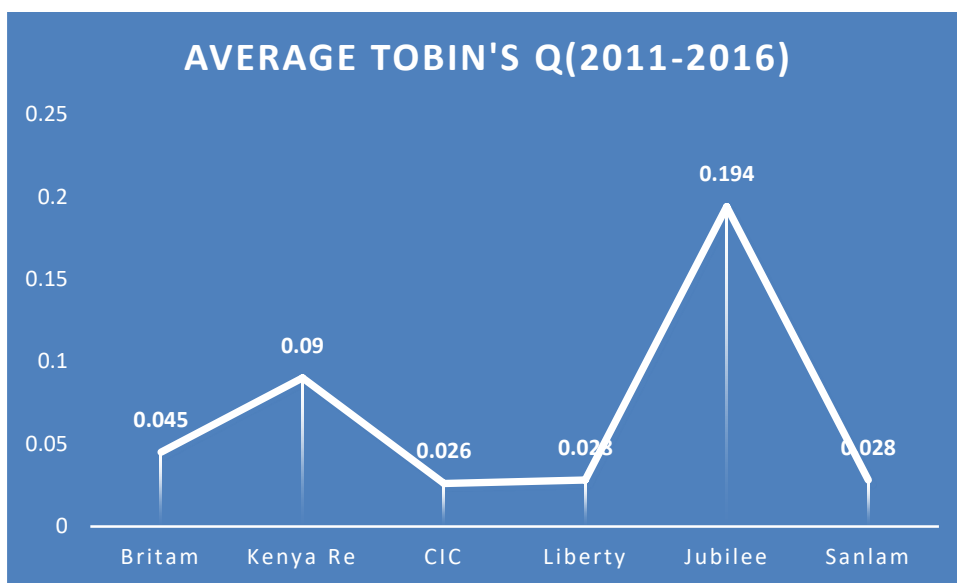


Figure 4.1 Average Tobin's Q (2011-2016)

The mean Tobin's Q for firms sampled is 0.047. The lowest Tobin's Q was 0.026 while the highest Tobin's Q was 0.194. The utmost percentage of the upper Tobin's Q is an indication of firm's growth and performance beyond average when it comes to market value. From the above line graph, it shows that Jubilee insurance has the highest market value as indicated by Tobin's Q of 0.194 followed by Kenya Re (0.045), Liberty and Sanlam at 0.028 apiece and the least being CIC insurance with Tobin's Q value of 0.026

Table 4.1 Descriptive Statistics of Corporate Governance Mechanism and Market Value

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Average Tobin's Q(2011-2016)	6	.0260	.1940	.068500	.0661082
Ln(Growth premium)	6	22.7528	24.9028	23.517511	.7864923
Board diversity	6	9.00%	27.00%	16.8333%	6.49359%
Board Meetings	6	2	19	7.67	6.593
Board Independence	6	73.00%	92.00%	83.3333%	8.26236%
Board Size	6	5	18	11.00	4.243

Diversity of the board that is the proportion of female directors was having a mean of 16.833% and a standard deviation of 6.494%. Independence of the board is a very important device for corporate governance because of the ability it has of mitigating corporate failures and financial scandals. The mean board independence was 83.3% with a standard deviation of 8.262%. The Tobin's Q as a market's measure capitalization (Market Value) had mean of 0.0685 and standard deviation of 0.066. The natural logarithm of Growth premium in contrast had a mean of 23.517 as well as standard deviation of 0.786. Board size on the other hand, had mean of 11 and a standard deviation of 4.243. The board meetings number had a mean of 8 and "standard deviation" of 6.593.

4.4 Correlation Analysis

Table 4.2 present all the study's correlations explanatory variables for the multiple regression model.

The table demonstrates that; "multi-collinearity" is not presenting a problem in the research

Table 4.2 Correlation matrix

Model Variables	Board diversity	Board Independence	Board Size	Board Meetings	Ln(Growth premium)
Board diversity	1.000				
Board Independence	-.446	1.000			
Board Size	.336	-.963	1.000		
Board Meetings	.553	-.947	.889	1.000	
Ln(Growth premium)	-.399	.977	-.989	-.905	1.000

Based on the matrix of correlation, the uppermost correlation between 2 descriptive variables becomes a negative 0.989 (-0.989) between board independence and Ln (Growth premium). The second highest pairwise correlation is between board independence and Ln (growth premium) at 0.977. In the same way, the correlation between board independence and board meetings is -0.947, that of size of board and board meetings was at 0.889 while that of board independence and board diversity is -0.446. The correlation between board diversity and size is 0.336 while that of board meetings and Ln (Growth premium) is -0.905. Lastly, the correlation between board diversity and board meetings is 0.553 while that of board diversity and in (Growth premium) is -0.399.

Table 4.3 Collinearity statistics

Model Variables	Ln(Growth Premium)	Board Independence	Board Size	Board diversity	Board Meetings
VIF	86.418	42.483	59.712	2.003	13.358

The multi-collinearity problem among the explanatory variables was also checked using values of VIF. In case the values of VIF become roughly 1, the multi-collinearity or correlation amongst forecasters may not be a grave problematic and the model of multiple regression is able to help in predicting the dependent and independent variables (Bonna, 2011). The VIF that range from 5 to 10 indicate higher correlation from the variables that seriously could be problematic. Table 4.3 contains VIF values for multiple regression models.

The explanatory variables for VIF are 59.712 for board size, 42.483 for board independence, 13.358 for board meetings, 2.003 for board diversity and 86.418 for the Ln(Growth premium). Based on the above values, the researcher didn't find multi-collinearity problem in the multiple regression model.

The statistical hypothesis test for linear relationship existence between dependent variables and independent variables is shown below;

$$H_0: B_1=B_2=B_3=B_4=B_5=0$$

H_a : Not all the B_i are zeros

The researcher used analysis of multiple regressions examining the way the market value determined by measurements of Tobin's Q and mechanisms of corporate governance in Kenya insurance companies listed in the NSE relate.

Analysis of multiple regressions was done to decide if mechanism of corporate governance clarified and anticipated the Tobin's Q.

Table 4.4 General Regression Results for Corporate Governance (n = 6), y = Tobin's Q

Model Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	11.670	0.000			
Ln(Growth premium)	-.418	0.000	-4.976		
Board Independence	-.031	0.000	-3.822		
Board Size	.069	0.000	4.407		
Board Meetings	.016	0.000	1.640		
Board diversity	-.006	0.000	-.567		

The researcher conducted the multiple regression outcomes. ANOVA tables and Model multiple regression summary analysis are shown in Table 4.4 above.

The regression equation is;

$$\text{Tobin's Q} = -0.418 \ln(\text{GP}) - 0.006 \text{BD} - 0.031 \text{BI} + 0.069 \text{BS} + 0.016 \text{BM} + 11.670 + \epsilon$$

This regression equation indicates that; a unit change in growth premium decreases Tobin's Q by 41.8% while a unit change in Board size increases Tobin's Q by 6.9%. Board independence change decreases Tobin's Q 3.1% while unit change in Board meetings increases Tobin's Q by 1.6%. Board diversity decreases Tobin's Q the least by only 0.6%

The table 4.5 demonstrates the unstandardized betas and p-values.

Table 4.5 Regression Results for Corporate Governance (n = 6), y = Tobin's Q

	(Constant)	Ln(Growth premium)	Board diversity	Board Independence	Board Size	Board Meetings
S(b)		-4.976	-.567	-3.822	4.407	1.640
p-Value	. < 0.001	. < 0.001	. < 0.001	. < 0.001	. < 0.001	. < 0.001

The Table 4.5 illustrates the $p < 0.001$ level of alpha. The multiple coefficient of determination R^2 is 1 and no adjusted R^2 since there is a perfect correlation and 100% of the inconsistency in Tobin's Q is clarified by corporate governance mechanism as the independent variables, this is because of the small size of the target population. Nevertheless, the decision of rejecting the null hypothesis then accepting the alternative that all the slope coefficients is not zeros. Evidence is there to back a linear relation between value of market and at least a single of the mechanisms corporate governance like size of the board and its meetings.

A hypothetical individual variables' test of corporate governance of the regression formulae would be identifying the slope coefficients which are not zero. The betas clarify the independent variables that have power of explanatory. The connection between Tobin's Q and Board size is hypothesized as;

$$H_0: B_1 = 0$$

$$H_1: B_1 \neq 0$$

Table 4.5 above illustrates that the regression was significant ($p < 0.001$). The beta coefficient of board size is 4.407. Hence, a one-member rise in the size of board results to 4.407 times increase in the Tobin's Q. Thus, the null hypothesis is rejected in favor of the alternate hypothesis that B_1 is not zero. And thus, the board size is statistically key, predicts and explains the Tobin's Q.

The table also illustrates that; the regression was significant for the board independence to predict value of the market. Independence of the board is hypothetically expressed as;

$$H_0: B_2 = 0$$

$$H_1: B_2 \neq 0$$

The beta coefficient of board independence is -3.822. The p-value ($P < 0.001$) for board independence (BI) at 0.05 significance level. Thus, we reject the null hypothesis that $H_0 = 0$. As a result, board independence is statistically significant and can be applied in predicting and explaining Tobin's Q. The impact of the $\ln(\text{Growth premium})$ on the Tobin's Q is hypothesized as;

$$H_0: B_3 = 0$$

$$H_1: B_3 \neq 0$$

The beta coefficient of $\ln(\text{Growth premium})$ is -4.976 at $p < 0.001$. Thus, the null hypothesis is rejected in favor of the alternative that $B_3 \neq 0$.

Therefore, $\ln(\text{Growth premium})$ variable is statistically significant, predicts and explains Tobin's Q. The impact of the board meetings on the Tobin's Q is hypothesized as;

$$H_0: B_4 = 0$$

$$H_1: B_4 \neq 0$$

The beta coefficient of board meetings is 1.64. Thus, an increment in the board meeting numbers increases Tobin's Q by 1.64 times. Thus, the null hypothesis is rejected in favor of the alternative, that $B_4 \neq 0$.

Therefore, board meetings variable is statistically significant, predicts and explains Tobin's Q. The impact of the board diversity (proportion of female directors in the board) on the Tobin's Q is hypothesized as;

$$H_0: B_5 = 0$$

$$H_1: B_5 \neq 0$$

The beta coefficient of board diversity is -0.567. Thus, an increase in the proportion of female board director's decreases Tobin's Q by 56.7%. Thus, the null hypothesis is overruled in favor of the alternative, that $B_5 \neq 0$. Therefore, board diversity is statistically significant, predicts and explains Tobin's Q.

This indicates that, board independence, size of the board, board diversity and ln(Growth premium) are useful in corporate governance studies since they all have significant relationship with Tobin's Q in the regression model of the study.

4.5 Interpretation of the Results

This research used both inferential and descriptive method in the analysis of the effect of the variables in corporate governance referred herein as predictor variables on the market value represented here by a dependent variable, Tobin's Q, of Insurance companies in Kenya listed at the Nairobi Securities Exchange. The mean Tobin's Q, ln(Growth Premium), Board Diversity, Board Meetings, Board Independence, and Board size were analyzed.

The Table 4.5 illustrates the $p < 0.001$ level of alpha. The multiple coefficient of determination R^2 is 1 and no adjusted R^2 since there is a perfect correlation and 100% of the inconsistency in Tobin's Q is clarified by corporate governance mechanism as the independent variables, this is because of the small size of the target population

The multiple regression findings showed that, there existed statistically substantial relations in the middle of corporate governance and Tobin's q. The values of p at 5% level of

significance and R^2 in Table 4.4 and Table 4.5 reinforced the existence of a relations between corporate governance and value of market. These outcomes held statistical proof of a substantial relationship between predictors and Tobin's Q. It was established that, board meetings and its size, both had a significant positive relation while board independence, board diversity and Growth premium all had a significant negative relation with Tobin's Q. The implication would be that, Board independence, board diversity and Growth premium lower a market value of the firm while board size and board meetings raise the firms' market value

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The chapter shows the summaries of the research findings, conclusions, recommendations, limitations and suggestions for further study. The conclusions were drawn from the study findings consistent with the study objectives.

5.2. Summary of Findings

The question of whether practices associated with corporate governance has an influence on the market value of listed insurance firms in Kenya is of fundamental importance to both stakeholders and academicians. According to the conducted study, growth premiums, board independence, board competence and board composition were independent variables while the market values of the listed insurance firms was the dependent variable. The study was conducted so as to find out the impact of each independent variable on the market values of listed insurance firms in Kenya. Secondary data was gathered for a period of 6 years.

This study's main purpose was to "examine the relationship between corporate governance" mechanism and value of the market. For the sake of examining these relationships and answering the questions of this research, the theoretical framework on listed insurance companies in Kenya was developed to create a connection "between corporate governance and value of the market and Tobin's Q used to measure it."

5.2.1 Effect of Board Diversity on the market value

The beta coefficient of board diversity is -0.567. Thus, an escalation in the proportion of female board director's decreases Tobin's Q by 56.7%. Therefore, board diversity has a negative statistical significance in predicting and explaining the Market value

5.2.2 Effect of Board Independence on the market value

The beta coefficient of board independence is -3.822. The p-value ($P < 0.001$) for board independence (BI) at 0.05 significance level showing that, board independence is statistically significant and can be applied in predicting and explaining Tobin's Q, the market value indicator.

5.2.3 Effect of Board Size on the market value

From the results, the beta coefficient of board size is 4.407. Hence, a one-member rise in the size of board results to 4.407 times increase in the Tobin's Q and at 5% significance, the board size is statistically positive key, predict and explains the Market value

5.2.4 Effect of Board meetings on the market value

The beta coefficient of board meetings is 1.64. Thus, an increment in the board meeting numbers increases Tobin's Q by 1.64 times and therefore board meetings variable is statistically significant, predicts and explains the market value

5.2.5 Effect of ln (Growth premium) on the market value

The beta coefficient of ln (Growth premium) is -4.976 at $p < 0.001$ ln (Growth premium) variable has a negative statistically significant role in predicting and explaining the market value.

5.3 Conclusion

Concluding, the findings of the study unearthed major relations between corporate governance mechanisms and market value. Independence of board, board diversity and Growth premium all had "significant but negative relationship with market value, while board size and board meetings had positive significant relationship with market value."

Good practices of corporate governance practices can improve a firm's stock returns in the long run and this can translate into a higher market value for insurance companies. Each element of the corporate governance studied e.g. Board size, board meetings, and board

independence lead to an increment in the market value of the listed insurance firms. Hsu (2010) looked into the “relationship between the financial performances” thus market values of American companies and board characteristics. These were firms that undertook the initial public offering between 2000 to 2002. Through the utilization of Tobin’s Q, the measurements and findings of the financial performances of these companies revealed that, board quality positively impacted the company’s performance thus its eventual market value.

We also deduce that, a board that doesn’t face both internal and external interference will eventually upsurge the quality and quantity of info provided by the insurance institution’s insiders as a service to the public and thus lead to an adverse selection cost reduction as is espoused by the pecking order theory. This finding indicates that, board independence is correlated to market value as through this reduction of adverse selection costs, the market values of the insurance firms can grow.

The research deduced that, the board must be diverse in nature so as to have a multiplicity of ideologies geared upon the eventual profitability of the listed insurance firms. This is so because these directors do indeed have an agency relationship with the major stakeholders of the aforementioned firms. Firms should also strive to strike a balance between directors that are executive and those that are not executive so as to assist in the achievement of corporate governance levels that are optimal in nature.

The responsibilities placed on and executed by the various persons and entities, both concerned with and responsible for the insurance sector prudent management is seen as being closely related with “corporate governance.” In the process of responding to the growing presence and importance of corporate governance, the Insurance Regulatory Authority issued a Gazette notice detailing (mandatory) guidelines to insurance firms in

Kenya. It was deduced by the Authority that, most of the requirements were already catered for by prudential regulations.

5.4. Recommendations

Given that there is growing business complexity today, there exists a necessity for financial reports to comprise a more inclusive corporate governance statement as stakeholders depend on information they get from corporations to make their investment decisions. Failure of corporate governance practices have intensified incidences where management manipulates financial reports for different purposes and thus making it difficult for shareholders to build confidence in them.

Insurance companies act as important trustees to diversified stakeholders who are not involved in running the core activities of these firms. To reduce chances of conflicts among different stakeholders, insurance companies should implement fully the corporate governance practices. The insurance regulatory authority should make it compulsory for any registered insurance company to make public the statement of corporate governance especially for those firms which are not listed. The listed firms have the statement of corporate governance incorporated with the yearly financial statements but this lacked in most of the unlisted firms. There are 44 insurance firms duly registered by IRA as at December 31, 2016 but at the same time only 6 are listed and this represents approximately 14% which is a small percentage.

The insurance regulatory authority need to encourage more insurance companies to be listed by giving them some incentives. The listing requirements should be fair to the firms and this can be achieved through IRA working closely with the NSE to facilitate listing. Increasing the number of insurance firms at the NSE will increase transparency of their services and easy to monitor them and even enhance competition among them and other

firms from different sectors e.g. banking sector and at the same time their services will be widely known.

5.5. Limitations to the study

The insurance firms under study were registered at different times by IRA. The different timings of registration and starting operations can give different values of assets and consequently different earnings after tax and this could lead to different financial measures and thus a cross sectional analysis cannot adequately be carried out for decision making. Thus the study takes averages for both dependent and independent variables for a period of 6 years to suit the main objective of the research.

Insurance companies are assumed to engage solely in providing insurance services. Contrary to these, most of them have investments which are different from selling of policies. The dependent variable (market values) is measured as the ratio of earnings after tax to total average fixed assets. The total average fixed assets are not differentiated from those originating from insurance services and non-insurance services and this applies to the total earnings after tax shown in the income statements. But for the purpose of achieving the objective of the study, these two variables are both assumed to originate from insurance services as the main business of all insurance companies in Kenya.

5.6. Suggestions for further studies

The study mainly concentrated on all insurance companies listed in Kenya. The study suggests that, there are corporate governance dimensions in the listed insurance companies in Kenya. Suggestions can therefore be made that; a study ought to be conducted on the corporate governance's effects and organizational performance on a specific insurance company. This can be used to help clarify if the results will be different. Also, there is necessity to do a study on some factors which may impact market values with the exception

of practices of corporate governance. Again, there is necessity to undertake a research to determine other facts' effects manipulating financial performance exempting practices corporate governance.

Again there is necessity to do a study on the effect of practices corporate governance on market value in other economy sectors to determine in case there exists constancies with findings of this study.

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