

Impact of Corporate Governance Practices on Financial Performance of Selected Insurance Companies in Ethiopia

**A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of
Master of Science in Accounting and Finance**

By

MULUGETA WORKU



ADVISOR:

DR. D. GURUSWAMY

**ACCOUNTING AND FINANCE DEPARTMENT
SCHOOL OF BUSINESS AND ECONOMICS
ADAMA SCIENCE AND TECHNOLOGY UNIVERSITY**

**June, 2015
Adama, Ethiopia**

Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

Declared by:

Name: **Mulugeta Worku**

Signature _____

Date _____

Confirmed by Advisor:

Name: **Dr. D. Guruswamy**

Signature _____

Date _____

June, 2015

Adama, Ethiopia

Adama science and Technology University

School of Graduate Studies

This is to certify that the thesis prepared by Mulugeta Worku, entitled: impact corporate governance practice on financial performance of selected insurance companies in Ethiopia submitted in partial fulfillment of the requirements for the Degree of Masters of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee

External Examiner _____ Signature_____ Date_____

Internal Examiner _____ Signature_____ Date_____

Advisor _____ Signature_____ Date_____

Chair of Department or Graduate Program Coordinator

ACKNOWLEDGEMENTS

My special gratitude goes to the Almighty God who made everything possible in his own time because his forgiveness is without limits. It gives me great pleasure to express my sincere and heartfelt thanks to all those who helped me during my study. First and foremost, I feel great pride and pleasure in putting on proof a deep sense of gratitude to my thesis advisor, Dr.D. Guruswamy under whose supervision, I complete this research work. He gave me the liberty to encroach in his precious time as and when I approached him for discussing the matters pertaining to this research work. During my research, I received enlightenment, inspiration and encouragement through his guidance. Second, my heartfelt gratitude goes to all officials of the Insurance Companies and NBE for providing me with necessary information and filling up the questionnaires. Third, I am thankful to all my friends and family who always kept me nudge to complete this research work successfully. I would have never been able to complete it without their kind support.

Mulugeta Worku

List of Abbreviations and Acronyms

Awash- Awash Insurance s.c

CEO – Chief Executive Officer

EIC- Ethiopian Insurance Corporation

Global- Global Insurance s.c

IAIS- International Association of Insurance Supervision

NBE- National Bank of Ethiopia

NIB- Nib Insurance s.c

NICE- National Insurance Company of Ethiopia

NII- New York Insurance Information Institute

Nile- Nile Insurance s.c

Nyala- Nyala Insurance s.c

OECD- Organization for Economic Cooperation and Development

ROA- Returns on Asset

Table of contents

Content	Page No
List of figures	ix
List of tables.....	x
Abstract	xi
Chapter-One: Introduction	1
1.1. Background of the study.....	1
1.2. Overview of insurance industry in Ethiopia.....	3
1.3. Statement of the problem.....	4
1.4. Objectives of the study	6
1.4.1. General objectives	6
1.4.2. Specific objectives	6
1.5. Literature driven hypothesis.....	6
1.6. Significance of the study	12
1.7. Scope of the study.....	12
1.8. Limitation of the study.....	13
1.9. Organization of the paper.....	13
Chapter-Two: Literature review.....	14
2.1. Theoretical literature	14
2.1.1. Definition and importance of corporate governance.....	14
2.1.2. Corporate governance and insurance industry.....	16
2.1.3. Stakeholder theory.....	17

2.1.4. Stewardship theory	18
2.1.5. Agency theory.....	19
2.1.6. Resource dependency theory.....	19
2.2. Empirical literature.....	20
2.3. Conceptual framework of the study.....	25
Chapter- Three: Methodology.....	27
3.1. Research design	27
3.2. Data type.....	27
3.3. Data source and collection instruments.....	27
3.4. Sample design.....	28
3.5. Data analysis techniques	28
Chapter- Four: Results and discussion.....	31
4.1. Descriptive statistic.....	31
4.2. Correlation analysis	34
4.3. Diagnostic test of data.....	37
4.3.1. Analysis of regression result.....	41
4.4. Testing of hypothesis	43
Chapter -Five: Conclusions and Recommendations.....	51
5.1. Conclusions.....	51
5.2. Recommendations.....	53
5.3. Suggestion for further study.....	54

Reference	55
Appendix I: List of sample insurance companies.....	62
Appendix II: Data from both primary and secondary source.....	63
Appendix III: Heteroskedasticity Test: White.....	67
Appendix IV: Correlated Random effects – Hausman test.....	68
Appendix V: Questionnaires.....	69

List of Figures

Figure 2.1: Conceptual framework.....	26
Figure 4.1: Bera –Jarque normality test.....	38
Figure 4.2: Rejection and non-rejection for Durbin-Watson test.....	39

List of Tables

Table 4.1: Descriptive statistics of regression variables.....	32
Table 4.2: Correlation matrix of independent and Dependent variables	35
Table 4.3: Heteroscedasticity test: white.....	38
Table 4.4: Correlation matrix of independent variables	40
Table 4.5: Regression result for the model.....	42
Table 4.6: Summary of the expected and Actual relationships	50

Abstract

This study investigates the impact of corporate governance practices on financial performance of selected insurance companies in Ethiopia using ten years data from the year 2005 to 2014. The study employed explanatory research design. The target population of this study was all insurance companies registered by NBE. However for the purpose of this study, the researcher purposively selected nine insurance companies based on their age criteria. ROA is used as performance indicators while independent variables considered in this study includes board size, frequency of board meeting, number of female director's in the board, board members educational qualification, board members industry specific experience and CEO payment. In line with the study objective; the study adopted a mixed data type both quantitative and qualitative through primary and secondary data source. Descriptive, correlation and multiple panel linear regression data analysis methods are employed. The study found that there are positive relationships between board size, number of female directors, chief executive payment, board member industry specific experience and board of director's qualification and company performance.

Keywords: Corporate Governance, Financial Performance and Insurance Companies

Chapter-One

Introduction

This introductory chapter presents the background for the research; it includes description of need for the study. The chapter also discusses the statement of the problem, objectives, and literature driven hypothesis, significance of the study, scope and limitation as well the organization of the study.

1.1. Background to the Study

Sifuna, Anazett Pacy (2012) defined Corporate governance as a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers. Shleifer and Vishny (1997) define corporate governance as the way in which suppliers of finance to corporation ensure themselves of getting a return on their investments.

According to OECD (2004), corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. It further defines corporate governance as 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. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. 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.

IAIS (2004) corporate governance refers to the manner in which boards of directors and senior management oversee the insurers business. It encompasses the means by which members of the

board and senior management are held accountable and responsible for their actions. Corporate governance includes corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. Timely and accurate disclosure on all material matters regarding the insurer, including the financial situation, performance, ownership and governance arrangements, is part of a corporate governance framework. Corporate governance also includes compliance with legal and regulatory requirements.

In line with the above definition Olajide (2013) state relevance of corporate governance in insurance companies, as it promotes accountability, enhances transparency of operations, improves firm's profitability, protects stakeholders' interest by aligning their interest with that of the managers, and facilitates growth of the insurance industry. His findings reveal that good corporate governance promotes safe and sound insurance practice. In other words, good corporate governance helps to build a better reputation for insurance industry, increase profitability and enhance insurance company growth.

Furthermore, Naser Najar (2012) concludes that there is no statistically significant impact of corporate governance expressed by CEO status, ownership concentration, the number of employees, industry performance, and number of shares traded on firm's performance in the insurance industry. On the other hand board size, firm size, number of block-holders found to have statistically significant impact on firm's performance in the insurance industry. This result, confirms the importance of good governance structure on the firm and the whole economy in the long run. In addition Jennifer L. Wang, Vivian Jeng and Jin Lung Peng (2014) shows that corporate governance plays an important role in influencing efficiency for property-liability insurers in Taiwan. Specifically, insider ownership, have positive impacts, whereas board size, and the presence of CEO duality have negative impacts on insurers' efficiency.

The insurance industry is an important component of the financial sector of the economy because of its financial intermediation role. They give protection to policyholders by guaranteeing the safety of their investments against accident and thereby promoting business activities in the country (Priyanka, 2014). Good corporate governance practices in insurance companies lead generate profit so that the insurance industry would be able to support the nation's economy

through their financial intermediation role by channeling resources to the critical areas of the economy (Olajide 2013).

As a result of the peculiar characteristics of the insurance industry and the significant contributions that is making to the development of the economy, therefore there is a strong ground to conduct this research. Therefore the purpose of this research is to examine the impact of corporate governance practices on financial performance of selected insurance companies in Ethiopia.

1.2. Overview of insurance business in Ethiopia

The Ethiopian insurance industry does not have a long history of development despite the country's long history of civilization. Ethiopia is one of the few countries with long history namely China, Persia, Greece and Egypt, and Roman Empire. Despite this, its level of development has been one of the lowest in the world, deprived of modernity, technology, innovations, and modern way of preserving from potential risks (Mezgebe 2010).

Hailu (2007) also indicates that the emergence of modern insurance in Ethiopia is traced back to the establishment of the bank of Abyssinia in 1905. The bank had been acting as an agent for foreign insurance companies to underwrite fire and marine policies. The first domestic private insurance company was established in 1951 with a share capital of Eth Br 1,000,000.

In the 1960s domestic private companies started to increase in number. Private insurance companies were nationalized by the socialist regime that prevailed from 1974 to 1993, and taken over by the government-owned Ethiopian insurance corporation. Today the number of insurance companies operating in Ethiopia increased to 17 and branch network reached 332 following the opening of 59 additional branches in 2013/14. About, 55 percent of insurance branches were located in Addis Ababa. The share of private insurance companies in total branches stood at 81.3 percent. On the other hand, total capital of insurance companies increased reached birr 2.0 billion. Private insurance companies accounted for 78.6 percent of the total capital of insurance sector while the share of EIC was 21.4 percent (NBE 2014).

Currently, competition is stiff in the insurance industry. Private insurance companies (or at least some of them), ambitious to increase their sales volume, have been granting unfair and

unjustifiable discounts to attract clients and attain their sales forecast. This aggressive pricing policy has led to an unhealthy spiral of premium cutting. Insurance companies' investment activities are heavily constrained by the restrictions that the National bank of Ethiopia investment directives imposed. This forces insurance companies to invest the majority of their funds in government securities and bank deposits at negative real interest rates. The lack of infrastructure, especially a stock market, further constrains insurance companies' investment activities (Mezgebe 2010). The above mentioned and other factors may hinder Ethiopian insurance sector development.

1.3. Statement of the problem

The relevance of corporate governance in today's world cannot be suppressed as it is a central and dynamic aspect of business. It enhances firms' performance as well as competitiveness and is a royal route to achieve excellence in business. Corporate governance is important for increasing investor confidence and market liquidity. According to Frost et al. (2002), improvements in corporate governance practices that contribute to better disclosures in business reporting in-turn can facilitate greater market liquidity and capital formation in emerging markets. In addition better corporate governance is likely to improve the performance of firms, through more efficient management, better asset allocation, better labor practices, or similar other efficiency improvements (Claessens, 2006).

Corporate governance is expected to lead to increased financial performance of firms than those which do not practice it or vice versa (Hafiza & Susela, 2008). Absence of corporate governance practices hinder board's ability to monitor management and thereby increase the agency cost (Fama & Jensen, 1983) and (Jensen, 1993). Moreover Stoeberl and Anthony (1986) assert that implementing corporate governance will provide clear-cut leadership strategy in leadership strategy formulation and implementation and will therefore lead to better performance. Poor implementation may create information sharing costs, conflicts between CEO and board members which lead to inefficiency (Kim K-H, et al, 2008).

The insurance industry safeguards the assets of its policyholders by transferring risk from an individual or business to an insurance company (NII 2010), while good corporate governance is

beneficial to insurance companies because it facilitates accountability, promotes transparency of operations, improves firm's profitability and enhances growth of the insurance industry.

Therefore grounded on the contribution of insurance industry to the economy and the impact of corporate governance on insurance companies' performance, IAIS was produce insurance core principle on corporate governance which outlines the standards and guidance notably related to various corporate governance aspects, to provide a comprehensive set of regulatory and supervisory best practice on it (IAIS, 2004).

In studies examining the relationship between corporate governance and firm performance, the results are mixed. Some studies have shown no significant relationship between corporate governance and firm performance (Singh and Davidson, 2003; Bauer et al. 2004). There were also studies done which claims that good corporate governance enhances firm's performance. For instance, Drobetz, Schillhofer, and Zimmermann (2003); Klapper and Love (2003); Kimosop, (2011); David, Wanyonyi and Tobias Olweny (2013), found that better corporate governance is highly correlated with better operating performance. They document that firm level corporate governance provision matter happens more in countries with weak legal environments.

Earlier studies have made immense contributions to the corporate governance practice and financial performance; they were inclined towards the developed countries. However, developing countries received little attention in various literatures on this issue, at the same time majority of these studies were in banking industry for instance; Danoshana and Ravivathani (2013), Ajala, Amuda and Arolun (2012), Filip, Vesna and Kiril (2013) etc. Consequently, a design feature that works well in one country/industry may not work in another. As Bird (2005) noted this may be referred to as the No-One-Size-Fits-All (the NOSFA) principle, i.e., the best policy and administrative design for each country/industry has to be determined carefully in light of the conditions and objectives of that country/industry. Particularly in Ethiopia, though few studies (i.e., Yenesew (2012) and Srmolo, (2012), Tura (2012), Gebremedine (2010), Fekadu (2010) and Minga (2008)) have been conducted on corporate governance. Yenesew (2012) and Smolo (2012) specifically tried to investigate the impact of corporate governance mechanism on financial performance of banking business, to the best of researcher's knowledge based on the

available literature no prior study has focused on insurance industry. Therefore, this study aimed to investigate the impact of corporate governance practices on financial performance of selected insurance companies in Ethiopia.

1.4. Objectives of Study

1.4.1. General objective

The general objective of this study is to explore the impact of corporate governance practices on financial performance of selected insurance companies in Ethiopia.

1.4.2. Specific objectives

Particularly this study is sought to achieve the following specific objectives:

1. To investigate the effect of board size on the financial performance of insurance companies,
2. To determine the effect of frequency of board meeting on financial performance of insurance companies;
3. To identify whether the number female director influence the financial performance of insurance companies;
4. To find out the influence of the directors educational qualification on insurance companies performance;
5. To identify whether directors' industry specific experience affect insurance companies performance;
6. To examine the effect of chief executive payment on the financial performance of insurance companies,

1.5. Literature driven hypothesis

A hypothesis is often described as an attempt by the researcher to explain the phenomenon of interest. Hypotheses can take various forms, depending on the question being asked and the type of study being conducted (Marczyk et al., 2005). Theory and existing literature should drive the formation of hypotheses so that what researcher postulate is eminently feasible based on the existing evidence. The hypotheses will normally be stated in null or alternative forms, and most reviewers prefer the null hypothesis form (Smith, 2003).

Independent variable

The independent variables of the study are board size, frequency of board meeting, board gender diversity, board members educational qualification, board members industry specific experience, and CEO payment.

Board Size

Board size plays an important role in affecting the value of a firm. The role of a board of directors is to discipline the CEO and the management of a firm so that the value of a firm can be improved. A larger board has a range of expertise to make better decisions for a firm as the CEO cannot dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO as suggested by (Pearce and Zahra, 1992). On the other hand, large boards affect the value of a firm in a negative fashion as there is an agency cost among the members of a bigger board. Boards with a large number of directors can be a disadvantage and expensive for the firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members.

Lipton and Lorsch (1992) also call for adoption of small boards, and recommend that board size be limited to seven or eight members. Overall, all the above findings are consistent with the notion that a large board is characteristic of weak corporate governance and limiting board size to a particular level is believed to improve the performance of a firm as the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. Therefore, based on the above literature, the researcher formulated the following hypothesis:

H₀: There is no significant positive relationship between board size and financial performance of insurance companies.

H₁: There is significant positive relationship between board size and financial performance of insurance companies.

Frequency of Board meeting

The analysis of the number of annual meeting needs to take into account the internal functioning of the board. In fact, one particularly important point which can affect how boards operate is the frequency of board meetings (Vafeas, 1999).

The effect of the activity of a board yield either proactive or reactive results. Some evidences indicate that the impact of frequency of meetings on performance is positive. Meetings provide board members with the chance to discuss and exchange ideas on how they wish to monitor managers and strategy. Hence, the more frequent meetings provide a more relevant advisory role, which can enhance the performance. By contrast, frequent meetings might also be a result of board reaction to poor performance.

Ntim and Kofi Osei (2011) investigated the impact of corporate board meetings on corporate performance for a sample of 169 listed corporations from 2002 to 2007 in South Africa (SA). They find that there is significant and positive association between the frequency of corporate board meetings and corporate performance, implying that SA boards that meet more frequently tend to generate higher financial performance. In contrast, El Mehdi (2007) finds that the frequency of board meetings has no association with economic performance in a small sample of 24 Tunisian listed firms from 2000 to 2005. He suggests that financial performance, which is tied most closely to the quality of the day to day management of the company, is likely to be less affected by the frequency of board meetings. In view of the foregoing discussion, the study expected that:

H₀: There is no significant positive relationship between the frequency of board meetings and corporate performance.

H₁: There is significant positive relationship between the frequency of board meetings and corporate performance.

Number of Female Director

There have been disagreements among the scholars regarding the presence of female directors in the board. Some have revealed positive relationships between financial performance and presence of female directors in the board (Bonn, 2004) and other study found that female director proportion has a negative relationship to the financial performance of the firms (Mentes, 2011). Smith et al. (2006) considered three different reasons to recognize the importance of females on aboard. First, female board members usually have a better understanding of a market in comparison with male members. As such, this understanding will enhance the decisions made by the board. Second, female board members will bring better images in the perception of the community for a firm and this will contribute positively to firm's performance. Third, other board members will have enhanced understanding of the business environment when female board members are appointed. On the other hand, studies conducted by (Kevin Campbell and Antonio Mínguez 2008) the gender composition of the board can affect the quality of this monitoring role and thus the financial performance of the firm. Therefore, this study formulated the following hypothesis to test whether gender diversity matters in Ethiopian insurance industry context.

H₀: There is no significant positive association between number of female directors and insurance company's performance

H₁: There is significant positive association between numbers of female directors in the board and insurance company's performance

Qualifications of Directors

Higher education of top management directors in organizational contexts is positively related to receptivity to innovation, creativity, and better strategic decision making (Bantel, 1993). Therefore, innovation has become a key firm strategy to gain competitive advantage and the qualifications of directors are positively related to firm performance. This relationship suggests that education level and a diverse functional background are positively related to organizational performance (Bantel, 1993; Haniffa and Cooke, 2002), especially in business-related background such as in Economics, Law, Marketing, Accounting, Management, or Finance. In addition, (Poon, Heong and Lee, 2013) find that there is positive relationship between performance and

directors qualification. Their finding supports the belief that top management teams who have qualifications in business-related disciplines such as Marketing, Management, Finance, Law or Economics, improved higher performance. These qualified directors chose to increase firm performance to promote corporate image, and demonstrate accountability and credibility within the management team. Hence, less qualified directors are possibly less effective than directors with business qualifications (Ferreira, 2009). Drawing on this string, the following assumption is stated:

H₀: There is no significant positive relationship between director's educational qualification and insurance company's performance.

H₁: There is a significant positive relationship between director's educational qualification and insurance company's performance.

Experience

Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998). Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat et al., 2011). He claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. A study made by Duc Vo. & Thuy Phan (2013) finds that experienced board members will contribute positively to firm's performance. The effectiveness of board members monitoring role depends on their expertise to fully comprehend a firm's business situation (Kroll et al. 2008). Thus, industry specific experience of board members expected to improve insurance companies' performance by helping boards effectively reducing agency problem. Therefore, the following hypothesis is formulated:

H₀: There is no significant positive relationship between degrees of experience of directors and insurance company's performance.

H₁: There is significant positive relationship between degrees of experience of directors and insurance company's performance.

CEO Compensation

CEO compensation might also prove an effective mechanism to deal with governance problems. The conflicts of interest that emerge between CEOs and the shareholders they represent are a classical example of the principal-agent problem (Crawford, Ezzell and Miles, 1995), and the primary means for shareholders to ensure that a manager takes optimal action is to tie his/her pay to the performance of the firm.

In addition, (Martina et al., 2009) found that CEOs with a greater proportion of pay tied to firm long term performance are more inclined to choose full-control entry modes over shared-control modes. Zhang and Yang (2011) pointed the fact that a significant positive relationship exists between executive compensation and firm performance. Therefore, based on the above discussion the study hypothesized that:

H₀: There is no significant positive relationship between chief executive compensation and insurance performance

H₁: There is significant positive relationship between chief executive compensation and insurance performance.

Dependent variable

Return on assets (ROA), return on equity (ROE) or cost-to-income ratio and net interest margin (NIM) being the most widely used performance measures. However, the existing literature on corporate governance practices has used accounting based performance measures, such as return on equity (ROE) and return on assets (ROA) as proxies for firm performance (Abdullah, 2004). No single metric is perfect and different metrics are appropriate depending upon the circumstances. ROE focuses only on return to the shareholders of the company. ROA may foster a better view of fundamentals of the business, including asset utilization. Return on assets shows the profitability of the company's assets in generating profits. It indicates the effectiveness of the company's assets in increasing shareholders economic interests (Haniffa and Hudaib, 2006).

It also shows the efficiency of management in using its asset to generate earnings. Susan V. et al. (2008) have used ROA, as a measure of profitability, whereas ROA is return on assets (Net income/total Assets). ROA explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales. Asset-heavy companies need a higher level of net income to support the business relative to asset light companies where even thin margins can generate a very healthy return on assets (John H, John Seely Brown (JSB), Tamara S. & Michael L, 2010). Therefore relying on the above advantage of ROA in excess of other accounting performance measure, it used as proxy of financial performance to achieve the objective of this study. The following researchers were used ROA as a proxy of financial performance in their study titled corporate governance and financial performance. Ntim and Kofi A. (2011); Srmolo (2012) and Duc, V. & Thuy Phan (2013).

1.6. Significance of the Study

The result of this study will contribute to insurance industry by identifying relevant corporate governance practice and how these governance practices affect financial performance. The result of this study will also serve as a data base for further researchers in this field of research. Further, the observed findings are relevant for policy-makers, corporate boards, executives and other stakeholders.

1.7. Scope of the study

There are many ways of defining corporate governance, ranging from narrow definitions that focus on companies and their shareholders, to broader definitions that incorporate the accountability of companies to many other groups of people or stakeholders. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders (OECD). However this study is delimited to examining the impact of internal corporate governance practice on financial performance of selected insurance companies in Ethiopia for the period of ten years, from 2005 to 2014. The explanatory variables are delimited to board size, the number of female directors in the board, directors' educational qualification, board member industry specific experience, frequency of board meeting and CEO

compensation; because other corporate governance variables such as CEO duality and board remuneration are prohibited by NBE directives and other such as independent director may not be applicable in context of Ethiopian insurance industry. The dependent variable is delimited to return on asset because of its advantage over other accounting performance measure.

1.8. Limitation of the study

This study has limitations because all statistical procedures have its own limitations. The purposive sampling procedure decreases the generalizeability of findings and this study might not be generalizable to all insurance companies as well as areas of financial institutions. In this study the sample companies were selected purposively based on the age and availability of data. This may introduce bias inherent with non-probability sampling method. However, this is because there are only nine insurance companies that have complete data for the study period and others are established recently. In addition, only the accounting measure of performance was used.

1.9. Organization of the Paper

This research report is divided into five chapters. Chapter one is the introduction part which contains background of the study, statement of problem, objective of the study, research hypothesis, scope and limitation, significance of the study, and organization of the research paper. Chapter two presents a discussion on literature review both theoretical and empirical. Chapter three outline the research methodology followed in this study. Chapter four reports the results and a discussion thereon. The final chapter presents conclusions, recommendations and suggestions for further researchers.

Chapter-Two

Literature Review

In this chapter both theoretical and empirical literature is reviewed on the impact of corporate governance practice on financial performance. Section one presents the theoretical review on the topic while section two deals with empirical studies on the impact of corporate governance on firm financial performance. Finally, section three shows conceptual framework of the study.

2.1. Theoretical literature

Under this subsection definition, importance, corporate governance and insurance business concepts, and theoretical frame work of corporate governance are presented. There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on firms' financial performance. This study looked at four main theories that have influenced corporate governance development.

2.1.1. Definition and importance of corporate governance

Financial scandals around the world and the recent collapse of major corporate institutions in the United States of America and Europe have brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders. For the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds (Central bank of Nigeria 2006). An effective corporate governance framework will impose appropriate standards to recognize and protect the rights, relationships and interests of all interested parties in the insurance firm such as the stakeholders (Momoh et al., 2013). Corporate governance is a uniquely complex and multi-faceted subject. Systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2002).

As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. According to

Shleifer and Vishny (1998), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system.

Corporate governance has been looked at and defined variedly by different scholars and practitioners. However, they all have pointed to the same end, hence giving more of a consensus in the definition. The organization for economic corporation and development (OECD, 1999) defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between the parties included (board of directors, the supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

Boards of Directors are widely recognized as an important mechanism for monitoring the performance of managers and protecting shareholders' interests and hence an important component of internal governance (Fama and Jensen, 1983). The board control is challenged when faced with lack of know how among the members leading to weak policies and weak supervision of management. Some stakeholders do not know their rights and have no adequate financial literacy (Kyazze, 2010). Shaw (2006) asserts that emergence of a better educated membership in the board is very essential since skilled directors can assist the organization to meet its financial performance objectives. John & Senbet (1998) assert that large boardrooms tend to be slow in making decisions, and hence can be an obstacle to achieving good financial performance as opposed to small board size.

2.1.2. Corporate governance and insurance industry

The concept of insurance, according to (Gollier C., 2003), involves pooling funds from many insured entities (known as exposures) in order to pay for losses which can occur to these entities. The insured entities are therefore protected from risk for a fee premium, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable, the risk insured against must meet certain characteristics. Insurance is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses. The requirement to promote good corporate governance, both within and outside the financial services sector, is receiving increased international attention. The IAIS has therefore decided to produce a compilation of the insurance core principle on corporate governance which outlines the standards and guidance notably related to various corporate governance aspects, to provide a comprehensive set of regulatory a supervisory best practice on this issue. More importantly, it is proven that countries with good and reliable corporate governance tend to have developed markets where the economic growth can be stimulated, especially with those which rely heavily on external finance and have weak legal environment. So, it is possible to conclude that corporate governance is not only important to the operating performance and firm's value, but also to the whole country at a macro level (Sapovadia, 2009).

As mentioned before, the financial indignities that hit the market in recent years, and the collapse of so many institutions such as Enron, WorldCom, Commerce Bank and XL Holidays, aligned with the recent financial crisis, 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). According to the insurance regulatory and development authority in India (IRDA, 2009), the regulatory responsibility to protect the welfare of the policyholders demands that insurance firms have in place, good governance practices for the maintenance of sound long-term investment policies, solvency and underwriting risks on a prudential basis. Any governance principles adopted by the insurance industry should be flexible enough to take into account the variety of insurers within its purview, because obviously "one size doesn't fit all" and each insurance company tailors its corporate governance procedures according to its own circumstances.

2.1.3. Stakeholder Theory

According to Freeman, Wicks and Parmar (2004), stakeholder theory basically aims at striking a balance between the interest of a corporations stakeholders and their satisfaction. They define stakeholders as any group or individual who can affect or affected by the achievement of the organization objectives, Sundaram and Inkpen (2004) also suggests that stakeholder theory attempts to address the question of which groups of stakeholder deserve and require management's attention. They explained that all person or groups with legitimate interests participating in an enterprise do so obtain and that there is no *prima facie* priority of one set of interests and benefits over another. According to Ansoff (1965), a firm objective could be achieved through balancing the conflicting interest of various stakeholders. Therefore, a fundamental aspect of stakeholder theory is to identify the stake holders in the organization is responsible for. Any stakeholder is relevant if their investment is, in some form, subject to risk from the activities of the organization (Clarkson 1995).

Corporate governance systems are in a state of transition due to internationalization of capital markets, resulting in convergence of the shareholder value-based approach to corporate governance and the stakeholder concept of corporate governance towards sustainable business systems (Clarke 1998). It can be seen that stakeholder theory is an extension of the agency perspective, where responsibility of the board of directors is increased from shareholders to other stakeholders' interests (Smallman 2004). Therefore, a narrow focus on shareholders has undergone a change and is expected to take into account a broader group of stakeholders such as those interest groups linked to social, environmental and ethical considerations (Donaldson & Preston 1995; Freeman 1984; Freeman, Wicks & Parmar 2004). As a result stakeholder theory supports the implementation of CSR and endorses risk management policies to manage diverse interests.

Criticisms that focus on stakeholder theory identify the problem of who constitutes genuine stakeholders. One argument is that meeting stakeholder's interests also opens up a path for corruption, as it offers agents the opportunity to divert the wealth away from the shareholders to others (Smallman 2004). But the moral perspective of stakeholder theory is all stakeholders have a right to be treated fairly by an organization, and managers should manage the organization for

the benefit of all stakeholders, regardless of whether the stakeholder management leads to better financial performance (Deegan 2004).

2.1.4. Stewardship Theory

The stewardship theory adopts a different approach from the agency theory. It starts from the proposition that organizations serve a broader social purpose than just maximizing the wealth of shareholders. This theory holds that corporations are social entities that affect the welfare of many stakeholders where stakeholders are groups or individuals that interact with a firm and that affect or are affected by the achievement of the firm's objectives (Donaldson & Preston, 1995; Freeman, 1984). Successful organizations are judged by their ability to add value for all their stakeholders.

The stewardship theory takes its origin from psychology and sociology. Davis, Schoorman and Donaldson (1997) define it as the protection and maximization of shareholders wealth by a steward through firm performance because by so doing, the steward's utility functions are maximized. Based on their views, a steward is an executive or a manager of a company who is duly charged with the responsibility of protecting shareholders interests. Whereas agency theorists view executives and directors as self serving and opportunistic, stewardship theorists, reject agency assumptions, suggesting that directors frequently have interests that are consistent with those of shareholders.

The stewardship perspective suggests that the attainment of organizational success also satisfies the personal needs of the steward. The steward identifies greater utility accruing from satisfying organizational goals than through self serving behavior. Stewardship theory recognizes the importance of structures that empower the steward, offering maximum autonomy built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviors and as a result stewards are satisfied and motivated when the goals of an organization become attainable (Davis, Schoorman, and Donaldson, 1997). In general, the stewardship theory suggests that a firm's board of directors and its CEO, acting as stewards, is more motivated to act in the best interests of the firm rather than for their own selfish interests.

2.1.5. Agency Theory

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily and Dalton (1992), point out two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea. In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, Schoorman, and Donaldson, 1997).

Furthermore, Eisenhardt (1989) noted that the agency problem arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing. The problem is that the principal is unable to verify that the agent is behaving appropriately. The separation of ownership and control leads to an agency problem whereby management operates the firm aligning with their own interests, not those of shareholders (Jensen and Meckling, 1976). This creates opportunities for managers to spend firm resources maximizing their utilities rather than owners utilities. Agency problem not only occurs in the conflict of interests between managers and owners, but also in broader conflict areas, such as shareholders through managers versus bondholders, and major (dominant) shareholders versus minor ones.

2.1.6. Resource Dependency Theory

Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment and how well these resources are utilized for maximum output from the firm. Indeed, Johnson et al, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success.

It has been argued that the provision of resources enhances organizational functioning, firms' performance and its survival.

In addition Lawrence and Lorsch (1967) link the resource dependency theory to corporate governance. They state that successful organizations possess internal structures that match environmental demand, which links to Pfeffer's (1972) argument that board size and composition is a rational organizational response to the conditions of the external environment. Furthermore, directors may serve to connect the external resources with the firm to overcome uncertainty (Hillman, Cannella Jr. & Paetzols 2000), because coping effectively with uncertainty is essential for the survival of the company.

According to the resource dependency role, the directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Gales & Kesner 1994). Thus Hillman et al. (2000) consider the potential results of linking the firm with external environmental factors and reducing uncertainty is the reduction of transaction cost associated with external linkage. This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways.

2.2. Empirical literature review

The field of corporate governance generally is concerned with the basic issue of instilling investors with the confidence that will permit them to hand over their money to managers. Over the past two decades, corporate governance has become a leading topic of discussion for researchers of finance, management, and law. Under this subsection the researcher is going to assess the previous research on corporate governance around the world and finally in Ethiopian context to indicate the gap.

Oskar (2012) studied the relationship between corporate governance and a firm's performance and dividend payouts during the financial crisis in Poland. The findings from the study confirm that there is a positive relationship between corporate governance and performance of an organization. It was also evident that higher corporate governance leads to an increase in cash dividends. The study was also able to establish a link between corporate governance and with

return on assets during the global financial meltdown that also affected Poland. The study revealed that during the financial crisis, companies with good corporate governance still managed to pay dividends less generously than firms with lower corporate governance standards.

Danoshana and Ravivathani (2013) made a study on the impact of corporate governance on the performance of listed financial institutions in Sri Lanka as main objective and recommend a suitable corporate governance practices for improving performance of listed financial institutions. To achieve these objectives, the researcher use return on equity, return on assets, as the key variables that defined the performance of the firm. On the other hand, board size, meeting frequency and audit committee of the company are used as variables to measure the corporate governance. Twenty five listed financial institutions were selected as sample size for the sample period of 2008-2012. The data was collected by using the secondary sources. According to the analysis, variables of corporate governance significantly impact on firm's performance and board size and audit committee size have positive impact on firm's performance. However, meeting frequency has negatively impact on firm's performance.

Jennifer et al., (2007) conducted study on corporate governance system of the insurance industry in Taiwan, which holds board members fully responsible for cases of bankruptcy, offers an interesting environment in which to explore its unique regulatory impact on insurers' efficiency. Using a unique panel data from Taiwan, they investigate whether corporate governance variables - including insider ownership, voting rights, cash-flow rights, and board composition - influence the efficiency performance of insurance companies. The analysis suggests that a high concentration of voting rights and cash-flow rights in controlling shareholders' ownership has prevailed in Taiwan's insurance industry. The overall evidence shows that corporate governance plays an important role in influencing efficiency for property-liability insurers in Taiwan. Specifically, insider ownership, cash-flow rights, and the presence of outside directors have positive impacts, whereas concentrated ownership, deviation between voting rights and cash-flow rights, board size, and the presence of CEO duality have negative impacts on insurers' efficiency.

Priyanka (2014), revealed on corporate governance in insurance sector of India conclude that, the adoption of good corporate governance practices enhances transparency of company's

operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The study examined the relationship between corporate governance and its impact on the performance of insurance companies. The results show that generally corporate governance has positive impact on profitability. The factors of board size, board and management skill, CEO tenure, size and independence of audit committee, foreign and institutional ownership, dividend policy and annual general meeting, all have positive correlation with the performance of the insurance companies. The study shows that the insurance companies must have the right board size which is highly independent from the management of the company and with the appropriate skills. This would ensure that the board is well diversified and have the competence to give the strategic direction of the company.

Ajala, Amuda and Arolun (2012) carried out study on the effects of corporate governance on the performance of Nigerian banking sector. The secondary source of data was sought from published annual reports of the quoted banks. In examining the level of corporate governance disclosure of the sampled banks, a disclosure index was developed and guided by the central bank of Nigeria code of governance. The Pearson correlation and the regression analysis were used to find out whether there is a relationship between the corporate governance variables and firms performance. The study revealed that a negative but significant relationship exists between board size and the financial performance of these banks while a positive and significant relationship was also observed between directors' equity interest, level of corporate governance disclosure index and performance of the sampled banks. The study recommends that efforts to improve corporate governance should focus on the value of the stock ownership of board members and that steps should be taken for mandatory compliance with the code of corporate governance.

Prior studies conducted in the area of corporate governance in Ethiopia are very few. For instance, Minga (2008) studied the legal and other external institutional frameworks of corporate governance in Ethiopia. His paper deals with the corporate governance thematic area of the African peer review mechanism (APRM). Its contribution to the literature is twofold:-(1) It provides additional evidence that a microeconomic perspective of studying governance leads to a better understanding of key reform issues in many Sub Sahara African (SSA) economies; and (2)

With regard to Ethiopia, the paper surmises that the overall standard of corporate governance is disappointing. More specifically, the legal and constitutional instruments do not provide adequate legislative; key international conventions and standards are not ratified; political parties own substantial number of business enterprises and operate in key sectors of the economy; ownership concentration through pyramid structure introduces particular problems of agency and creates crony capitalism; investor and creditor protection laws are inadequate. Finally the absence of organized equity market is a serious void.

Fekadu (2010) analyzed ownership and control is often concurring attributes in the ordinary situation of property ownership. In the context of publicly held companies, a phenomenon occurs whereby the persons who own the company are precluded from controlling it. The reason for this is that as the number of shareholders rises, control is delegated to managers, and shareholders are limited to in effective control via shareholder general meetings. This article posits that the separation between ownership and control is growing in Ethiopia, and submits some empirical evidence in support of this claim. Relying on the data and literature on corporate governance, the article attempts to show the deficiency of the commercial code in protecting the rights of minority shareholders in the context of such publicly held companies.

Gebremedine (2010) also conducted study on the extent to which corporate governance principles are applied in the Lion International Bank. A descriptive case study was employed to achieve the goal of his research. All of the board managers (eleven in number) and the senior manager and the board secretary which is a total of 18 participants were involved in the study. In order to get relevant data from the target population questionnaire and interviews were used. The questionnaire was administered to the board managers and the interviews were conducted with the senior manager and the board secretary. The data collected through questionnaire were analyzed using frequency and percentage values and the qualitative data were analyzed using textual explanations. Furthermore, the qualitative data (data from interview) were analyzed together with the quantitative one to triangulate the results found from the questionnaire. The findings generally indicate that the extent of the application of the corporate governance principles in the Lion International Bank is encouraging even though the bank has still a problem with regard to enhancing the efficiency and effectiveness of the board and concerning with the transparency and disclosure of material information.

Tura Ahmed (2012) examined Ethiopia's company law and finds that the Ethiopian company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. Critically examines Ethiopia's company law with specific reference to the powers, composition and remuneration of board of directors in light of internationally recognized best practices and principles of corporate governance. He argues that there is a need to distinguish between corporate governance and corporate management in Ethiopian company law, and that the board should be suitably composed of non-executive and truly independent members who should be professionally competent. Furthermore, directors' remuneration should be incentive-oriented based on company and individual best performance.

Srmolo (2012) tried to investigate corporate governance mechanisms and their impact on performance of commercial banks in the absence of organized stock exchange. The study assessed the relationship between selected internal and external corporate governance mechanisms, and bank performance as measured by ROE and ROA. The study used structured review of documents, and commercial banks financial data were collected covering a period 2005 to 2011. The findings indicated that board size and existence of audit committee in the board had statistically significant negative effect on bank performance; whereas bank size had statistically significant positive effect on bank performance. Similarly, capital adequacy ratio, as a measure of external corporate governance mechanism, had statistically significant positive effect on bank performance. In addition, absence of organized stock exchange; high government intervention; lack of corporate governance awareness, absence of national standards of corporate governance, as well as accounting and auditing; and weak legal framework to protect minority shareholder rights are the major factors with adverse impact on corporate governance and bank performance in Ethiopia.

Yenesew (2012) investigated the impact of corporate governance mechanisms on firms' financial performance using five years data from the year 2007 to 2011 with a sample of eight Ethiopian commercial banks. Three financial performance indicators such as return on asset, return on equity and net interest margin were used. Corporate governance mechanisms considered in this study include board size, board gender diversity, board members educational qualification, board

members business management and industry specific experience, and audit committee size. The study controls the effect of size, leverage and growth of banks. The regression results show that large size board and audit committee negatively influences financial performance; whereas board members educational qualification positively associated with financial performance. While industry specific experience of director positively related with return on asset but it has a negative effect on net interest margin. Finally, the percentage of female directors and board members business management experience does not have a significant effect.

According to World Bank (2007) in Ethiopia, there is no particular accounting standard regarding financial reporting and disclosure in Ethiopia. Neither are any of the international standards officially adopted. Some of the laws indicate the use of generally accepted accounting principles. The absence of a particular accounting standard to be followed by all companies may be a drawback to the corporate governance practice in Ethiopia. Nonetheless, currently National Bank of Ethiopia is working to adopt the international financial reporting standards (IFRS) to be followed by financial institutions operating in the country.

There are a number of studies conducted on corporate governance in different angles and different organizations but they fail to see particularly the relationships between corporate governance and financial performance and also different studies made on profitability, growth and product development of insurance business but not on the relationships between corporate governance and financial performance. Therefore, unlike prior researches, this study aimed at examining corporate governance practices and financial performance of insurance companies in Ethiopia by using data on internal corporate governance practices of selected insurance companies which have been operating in Ethiopia before the year 2005.

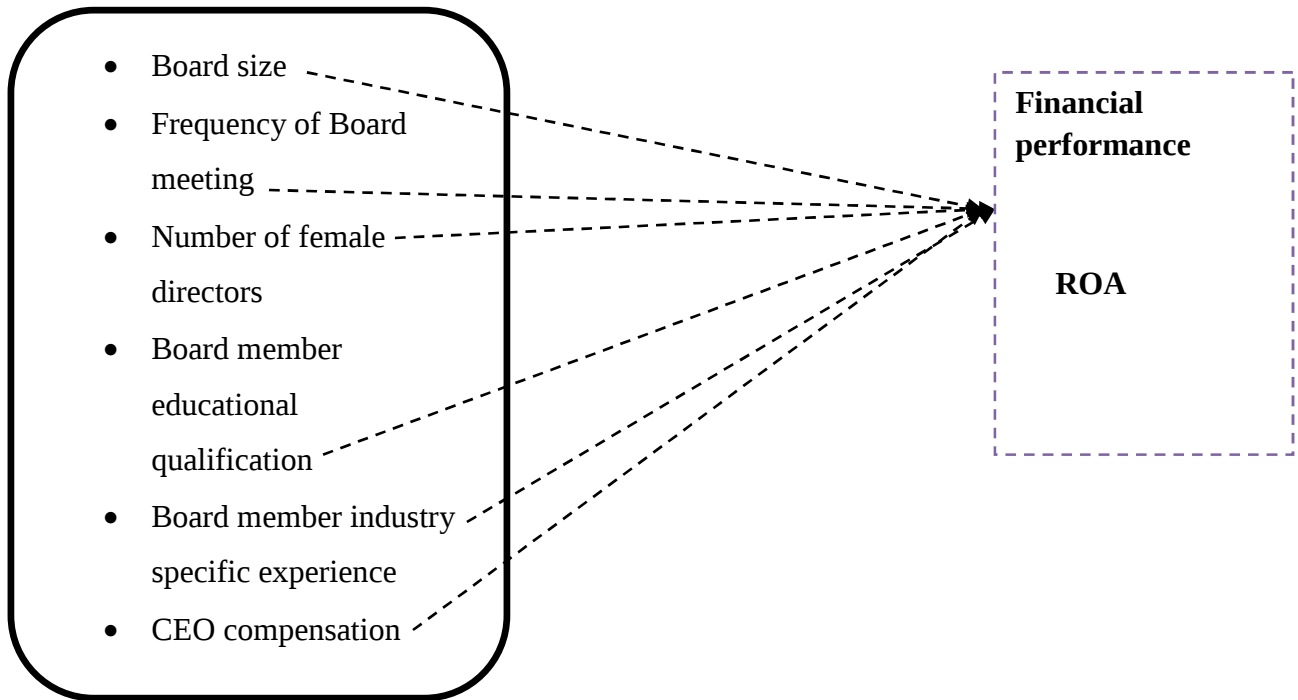
2.3. Conceptual frame work

The conceptual framework is the schematic diagram which shows the variables included in the study. It is system of concepts, assumptions, expectations, beliefs, and theories that support and inform research. It explains either graphically or in narrative form the main things to be studied— the key factors, concepts or variable and the presumed relationships between them (Miles and Huberman 1994). Therefore the researcher designs the relationship between independent and dependent variables as follows.

Figure 2.1: Conceptual Frame work of Corporate Governance and financial performance of insurance companies

Independent variables

dependent variable



Source: Researcher own design

Chapter-Three

Methodology

This chapter presents a discussion on the research methodology that was adopted. The major issues that are discussed include the research design employed by the researcher, data type, data source and collection instruments, sample design and data analysis techniques.

3.1. Research design

The primary aim of this study attempts to examine the impact of corporate governance mechanisms on insurance firm's financial performance. To achieve this objective explanatory type of research design is employed. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Marczyk et al., 2005). So that, in this study the explanatory research design is employed to examine the relationship of the stated variables.

3.2. Data type

In order to achieve the objective of this study researcher is used mixed data to examine the impact of corporate governance practice on performance of insurance companies as to converge across qualitative and quantitative methods. Mixed data type is employed to neutralize or cancel the biases of applying any of a single approach and a means to offset the weaknesses inherent in a single method with the strengths of the other method (Creswell 2003). Further, mixed research approach opens door to multiple methods of data collection and helps to generate the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003).

3.3. Data source and collection instrument

Both primary and secondary data are used in this study. Primary data was collected using questionnaire from selected Ethiopian insurance companies. The questionnaire is distributed to board chairman of selected sample companies and secondary data were obtained from the

audited financial statements of the entire sample insurance companies from NBE. The audited financial statements of selected insurance companies were used to compute ROA.

3.4. Sample Design

According to the NBE there are 16 private and 1 government owned insurance companies which had been operated in the year 2014 (NBE, 2014). The target population of this study is all insurance companies in Ethiopia registered by national bank of Ethiopia (NBE), however this study purposively select those under operation before the fiscal year 2005 G.C (Appendix II), The procedure used for drawing the sample from the available lists is the insurance company's service year profile, for the reason that the study intended to use ten year document sources. Therefore, sample size is decided based on the availability of operating data in the selected insurance companies in Ethiopia. Accordingly, the study used purposive sampling method to draw the sample from the population based on their age. Primary data was obtained through questionnaires distributed purposively to all board of directors' chairman of selected insurance companies.

3.5. Data Analysis techniques

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). Panel data methodology was adopted in analyzing the relationship between corporate governance and financial performance of insurance companies in Ethiopia. This is because the study combined time series and cross sectional data. Panel data set is one that follows a given sample of individuals over time, and thus provides multiple observations on each individual in the sample. Panel data usually give the researcher a large number of data points ($N * T$), increasing the degrees of freedom and reducing the collinearity among explanatory variables, hence improving the efficiency of econometric estimates. A panel is said to be balanced if we have the same time periods, $t = 1...T$, for each cross section observation (Hsiao, 2003).

In this study to analyze the collected data; descriptive, correlation and multiple panel linear regression data analysis method was employed. The descriptive statistics is used to quantitatively describe the important features of the variables using mean and standard deviations. The

correlation analysis is utilized to identify the relationship between the independent and dependent variables. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables (Marczyk et al., 2005). Therefore, the multiple linear regressions model was run, and thus OLS was conducted using Eviews 7 econometric software package, to test the casual relationship between the governance practice and financial performance and to examine the most significant and influential explanatory variables affecting the financial performance of Ethiopian insurance companies. The rational for choosing ordinary least square (OLS) is as noted in Petra (2007), OLS out performs the other estimators when the following holds; the cross section is small and the time dimension is short. Therefore, as far as both the above facts hold true in this study it is rational to use OLS. A concurrent procedure is in which the researcher converges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem. In this design, the investigator collects both forms of data at the same time during the study and then integrates the information in the interpretation of the overall results (Creswell, 2003). Therefore researchers follow concurrent procedure in this study. Hence the following model is developed.

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 FD_{it} + \beta_3 FM_{it} + \beta_4 ISE_{it} + \beta_5 \ln CCOP_{it} + \beta_6 EQD_{it} + \varepsilon$$

Where as

BS_{it} = board size representing the total number of directors sitting in the board; insurance company's i in time t ;

FD_{it} represents the number of female directors in the board for insurance company's i in time t ;

FM_{it} = the total number of annual board meeting in the year;

ISE_{it} represent Board members industry specific experience for insurance company i and time period t

$CCOP_{it}$ represent the natural logarithm of total amount of compensation paid to chief executive officer of insurance company i and time t .

EQD_{it} represent the number of qualified directors in the board for insurance company's i in time t ; α is the intercept of the models; and ε is the error term.

The independent variables used in this study were board size (BS), number of board meeting (FM), number of female directors in the board (FD), and percentage of qualified directors in the board (EQD), board member industry specific experience (ISE) and Chief executive officer compensation (CCOP). Return on asset (ROA) is used as independent variable to measure financial performance for insurance company i in time t . ROA is net income after tax divided by year average total asset.

As noted in Brooks (2008) there are five critical assumptions that must be met before utilizing OLS estimation in order to validly test the hypothesis and estimate the coefficient. If these Classical Linear Regression Model (CLRM) assumptions hold, then the estimators determined by OLS will have a number of desirable properties, and are known as Best Linear Unbiased Estimators. Therefore, for the purpose of this study, diagnostic tests are performed to ensure whether the assumptions of the CLRM are violated or not in the model.

Chapter- Four

Results and Discussions

The main objective of this study was to investigate the impact of corporate governance practice on financial performance of selected insurance companies in Ethiopia. This chapter presents the results and discussions and divided into four sections. Section one deals with the analysis of descriptive statistics of the dependent and independent variables under the study. The second section shows the correlation analysis which displays the degree of association between the study variables. The third section of the chapter deal with the classical linear regression model/CLRM/ assumptions test and regression result discussion. The final section concerned with analysis of the result of the model adopted and test of hypotheses.

The whole point of conducting a survey is to obtain useful, reliable, and valid data in a format that makes it possible to analyze and draw conclusions about the total target population. Although there is no agreed-upon minimum response rate (Fowler, 2002). There were nine (9) insurance companies operating history of ten (10) years in Ethiopia by the end of 2014. This results in 90 observations data. However from selected insurance companies two (2) of them were not provide full data as required by the study, since the study used balanced panel data the above mention two insurance companies are excluded. Consequently the observation was reduced to 70.

4.1. Descriptive Statistics

This part of the paper discussed the summary of descriptive statistics for each variables of the study. The descriptive statistics are based on panel data of the insurance company from the year 2005 up to 2014. Key statistics, include mean, median, standard deviation, minimum and maximum value were reported. The dependent variable used in this study in order to measure the sample insurance companies financial performance is return on asset whereas the independent variables are board size (BS), frequency of board meeting (FM), number of female directors in the board (FD), number of qualified directors in the board (EQD), board of directors industry specific experience (ISE) and chief executive payment (CCOP).

Table 4.1: Descriptive Statistics of Regression Variables

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROA	13%	10%	36%	-5%	10%	70
BS	7.21	7.00	9.00	5.00	1.73	70
FD	0.70	1.00	2.00	0.00	0.62	70
FM	19.17	16.00	66.00	2.00	16.42	70
ISE	2.87	2.00	6.00	1.00	1.62	70
CCOP	5.48	5.50	6.19	4.70	0.37	70
EQD	6.26	6.00	9.00	2.00	2.29	70

Source: E Views Output from Data of Insurance Companies, 2005 – 2014

According to table 4.1, the mean of return on asset for total sample insurance company is 13% with a minimum and maximum value of -5% and 36% respectively. This implies that a share holder in Ethiopian insurance companies earn 0.13 cents for every dollar they invest on asset. In addition the minimum and maximum output shows large difference between insurers to insurers on the basis of return on asset. Moreover the percentages indicate that there is insurance company which incurs a loss of 5%, in contrary there is also an insurance company which earns 36% for every dollar they invest on asset. On the bases of standard deviation from the mean, return on asset shows standard deviation of 10%, signifying immense difference exist between Ethiopian insurance companies return on asset.

Regarding the explanatory variables of the models there are some essential statistics that have to be mentioned. Out of the minimum of 5 and the maximum of 9, the mean of board size of selected insurance companies is 7. This implies that on the average the sampled insurance companies have board membership of about 7 directors. The minimum and maximum values of board size indicate that there is large deviation between selected insurance companies in Ethiopia. However a standard deviation of approximately 2 directors, entail that there is small deviation in the number of board from the mean values between Ethiopian insurance companies.

Table 4.1 indicates that the mean and standard deviation the number of female directors in the board of sample insurance companies are 1 and 1 respectively. From this it is possible to conclude that on average the number of female director in each selected insurance companies in Ethiopia is less than one. Similarly the standard deviation shows that there is no large deviation between Ethiopian insurance companies in participating female directors in the board. In addition the table notes that on average there is very small number of women in the board during the sample period. The minimum and maximum of female director's ranges from 0: insurance companies do not have any representation for women on their boards to 2. From this it is possible to understand that the number of female director's in selected insurance companies in Ethiopia is very few.

The results of descriptive statics of regression variables suggest that the frequency of board meeting of Ethiopian insurance companies during the sample period on average is 19. The standard deviation of 16 with minimum of 2 and the maximum of 42 indicate that there is wide dispersion in the frequency of board meeting of the selected insurance companies in Ethiopia. The abovementioned result demonstrate that some of the board of Ethiopian insurance companies meet frequently while others meet only two times in a year.

On the other hand, the mean value of directors in the boards of sample insurance companies who have prior experience in insurance industry is 3. It entails that only three directors of each insurance company have industry specific experience and it varies from the mean value by 1.62. The result also shows that, there is minimum one (1) and maximum of six (6) directors who has prior experience in board of directors governing Ethiopian insurers. Grounding the above result there is large difference between Ethiopian insurance companies in holding experienced directors.

As shown in table 4.1 the mean value of chief executive officer payment of the sample insurance company is 5.48 as measured by the natural logarithm of chief executives payment with a maximum of 6.19 and minimum of 4.7. It varies from the average value by 0.37. The result point out that there huge deviation between selected Ethiopian insurance companies in terms of the money they pay to chief executive officer. The maximum and maximum values strengthen how large the variation seen on standard deviation.

As it can be seen in the table above on average, 6 of directors in the boards of sample insurance companies is qualified directors in the field of economics, law, marketing management or finance and there is dispersion of 2 among the companies indicating that the board of the sample Ethiopian insurance companies consist of qualified directors with large dispersion. In addition the minimum and maximum values stood at 2 and 9 respectively indicating the large deviation between Ethiopian insurance companies in holding qualified directors in the field of economics, law, marketing management or finance.

4.2. Correlation Analysis

Correlation is a way to index the degree to which two or more variables are associated with or related to each other. The most widely used bi-variant correlation statistics is the Pearson product-movement coefficient, commonly called the Pearson correlation which was used in this study. Correlation coefficient between two variables ranges from +1 (i.e. perfect positive relationship) to -1 (i.e. perfect negative relationship). According to Brooks (2008), if it is stated that y and x are correlated, it means that y and x are being treated in a completely symmetrical way. Thus, it is not implied that changes in x cause changes in y , or indeed that changes in y cause changes in x rather, it is simply stated that there is evidence for a linear relationship between the two variables, and that movements in the two are on average related to an extent given by the correlation coefficient.

Table 4.2 presents correlation for all the variables in the study. It examined the association between the corporate governance and insurance companies performance variables. Correlation coefficients show the sign and strength of relationship that exists between any two regression variables.

Table 4.2: Correlation Matrix of Dependent and Independent Variables

Correlation Probability	ROA	BS	FD	FM	ISE	CCOP	EQD
ROA	1.000000 -----						
BS	-0.011493 0.9248	1.000000 -----					
FD	0.460629 *0.0001	-0.222598 ***0.0640	1.000000 -----				
FM	0.260764 **0.0292	0.612330 *0.0000	-0.129650 0.2847	1.000000 -----			
ISE	0.124830 0.3032	0.671659 *0.0000	0.033008 0.7862	0.535683 *0.0000	1.000000 -----		
CCOP	0.290336 **0.0148	0.321501 *0.0066	0.034562 0.7764	0.455156 *0.0001	0.713447 *0.0000	1.000000 -----	
EQD	-0.026919 0.8249	0.517576 *0.0000	-0.128274 0.2899	0.510462 *0.0000	0.149464 0.2169	-0.232030 ***0.0533	1.000000 -----

*, **and*** denote significance at 1%, 5% and 10% levels respectively

Source: Eviews Output from Data of Sample insurance companies.

Correlation analysis between ROA and each independent variable

The correlation result in table 4.2, point out that number of female directors has significant positive correlation with ROA at 1% significance level. Furthermore, frequency of meeting and chief executive payment has significant positive correlation with return on asset 5% significance level. In contrast board size and board members educational qualification has insignificant negative correlation with return on asset.

As per the correlation result reported in table 4.2 , the Pearson correlation coefficients of number of female directors in the board, chief executive compensation, frequency of meeting and board member industry specific is 46 percent, 29 percent, 26 percent and 12 percent respectively. From this it is possible to understand that there is strong positive correlation between the board gender diversity, frequency of meeting, chief executive payment and board members industry specific experience.

Board members educational qualification and board size has a negative correlation of with return on asset with a 1.1% and 2.6% respectively. This implies that even though size of a board is negatively associated with the level of performance in Ethiopian insurance companies measured by return asset but not significant. The results also suggest that board member educational qualification has negative correlation with return on asset by coefficient of 2.6% and p- value of 0.8249.

Correlation analysis between each independent variable

The above correlation table shows, board size is positively correlated to board of directors' industry specific experience, directors' educational qualification, chief executive officer payment and frequency of meeting with 67%, 51%, 32% and 26% respectively. The above mention variables have significant positive correlation with board size at 1% significance level. It indicates that there is strong positive correlation between above listed variable and board size. Contrary to the aforementioned corporate governance variables the correlation between number of female directors' and board size shows significant negative association with 22% and 10% significance level.

The number of female directors has insignificant negative correlation to frequency of meeting and directors educational qualification with 12.9% and 12.8%. Contradictory to frequency of meeting, chief executive officer payment and directors' industry specific experience are positively correlated to the number of female directors respectively with 3.4% and 3.3%. The result shows there is insignificant positive correlation between number of female directors and directors' educational qualification while other has slight correlation with this variables.

There strong positive correlation between frequency of meeting and directors' industry specific experience, directors educational qualification and chief executive officer payment respectively with 0.5356, 0.51046 and 0.45515. It indicates that there is significant positive correlation between frequency of meeting and those variables at 1% significance level. On the other hand directors' industry specific experience significantly and positively correlated with chief executive officer payment 1% significant level. Furthermore the correlation between industry specific experience and directors' educational qualification is insignificant and positive with

0.149464. Lastly the correlation between chief executive payment and directors' educational qualification is significant and negative at 10% significance level.

4.3. Diagnostic tests of the data

Brooks (2008) suggests five critical assumptions that must be met before utilizing OLS estimation in order to validly test the hypothesis and estimate the coefficient. The classical linear regression model assumptions and their diagnostic tests are discussed below.

1. Test for average value of the error term is zero: ($E(u_t) = 0$) assumption

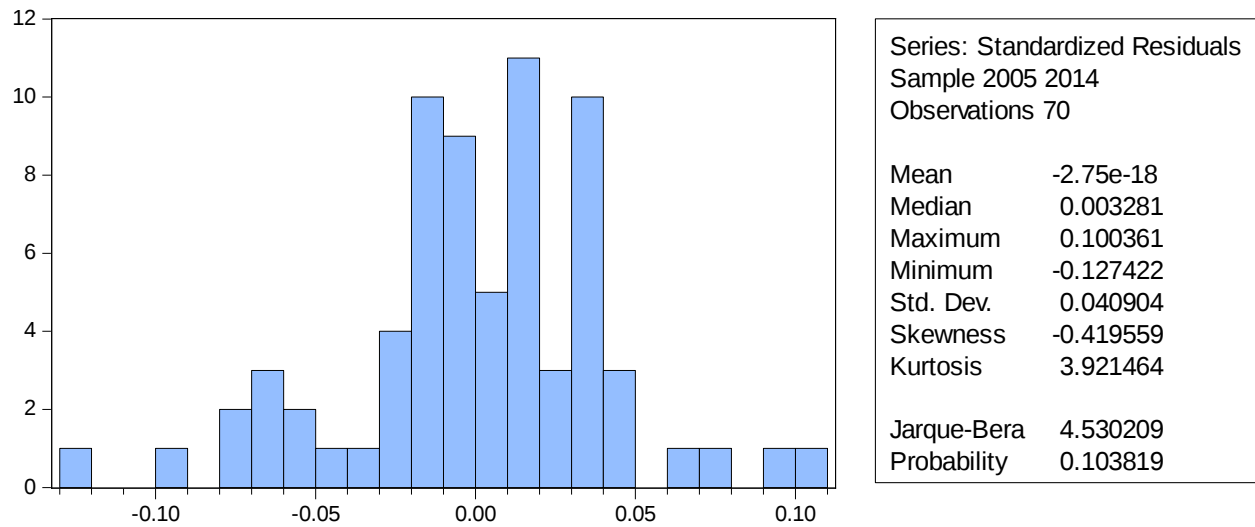
The first assumption required is that the average value of the errors is zero. If a constant term is included in the regression equation, hence this assumption will never be violated, so that in the model of this study a constant term is included. As a result this assumption was not violated

2. Test for Normality assumption: ($u_t \sim N(0, \sigma^2)$)

Brooks (2008) noted that a normal distribution is not skewed and is defined to have a coefficient of kurtosis close to 3. One of the most commonly applied tests for normality; the Bera-Jarque formalizes these ideas by testing whether the coefficient of skewness and the coefficient of excess kurtosis are zero and three respectively. Brooks (2008) also states that, if the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant at 5% significant level. The null hypothesis for the normality test was the data is not normally distributed and the alternative hypothesis says that the data is normally distributed.

The normality tests for this study as shown in figure 4.1, Bera-Jarque statistic would not be significant at 5%, so that figure 4.1 demonstrates that the residuals are normally distributed. The histogram for residuals is almost bell shaped and the Bera-Jarque statistic had a P-value of 0.103 is not significant at 5%; implying that the null of normality is rejected or the residuals are normally distributed.

Figure 4.1. Bera-Jarque normality tests



3. The assumption of homoscedasticity: $\text{var}(ut) = \sigma^2 < \infty$

To test for the presence of heteroscedasticity, the popular white test would be employed in this study. This test involves testing the null hypothesis that the variance of the errors is constant (homoscedasticity) or no heteroscedasticity versus the alternative that the errors do not have a constant variance. There was no problem of heteroskedasticity or the error variance is constant since the p-value is not significant 5%. This means the null hypothesis was not rejected which says that the error variance is constant.

Table 4.3: Heteroskedasticity Test: White

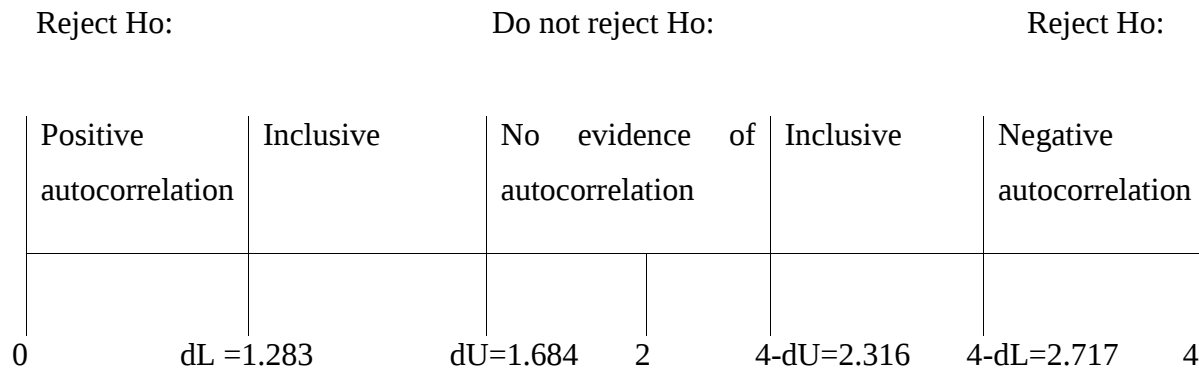
F-statistic	0.947415	Prob. F(6,63)	0.4680
Obs*R-squared	5.793363	Prob. Chi-Square(6)	0.4467
Scaled explained SS	4.456592	Prob. Chi-Square(6)	0.6151

Source: E views Output from Data of sample companies 2005-2014

4. Test for absence of autocorrelation assumption: $cov(u_i, u_j) = 0$ for $i \neq j$

This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). If the errors are correlated with one another, it would be stated that they are autocorrelated. Brooks (2008) noted that the test for the existence of autocorrelation is made using the Durbin-Watson (DW) Test. The DW test uses two critical values - the upper critical value (d_U) and the lower critical value (d_L). According to DW test, the null hypothesis of there is no autocorrelation will be rejected if the DW value from the regression is less than d_L and greater than $4 - d_L$. But the null hypothesis is not rejected if the DW value is between d_U and $4 - d_U$. And finally, the test result will be inconclusive if the DW value is between d_L and d_U , and between $4 - d_U$ and $4 - d_L$. The rejection /non-rejection rule would be given by selecting the appropriate region from the following.

Figure 4.2 Rejection and non-rejection regions for Durbin-Watson Test



The DW value for this regression is 1.811, and d_L and d_U from Durbin-Watson statistic table are 1.283, and 1.684 respectively for 6 explanatory variables and 70 observations under study. Therefore, the relevant critical values for the test are $d_L = 1.283$, $d_U = 1.684$, i.e. $4 - d_U = 2.316$; $4 - d_L = 2.717$ so that DW value of 1.811 lies between d_U (1.684) and $4 - d_U$ (2.316); lies in the non-rejection region and indicates the absence of autocorrelation.

5. Test for Multicollinearity

To test the independence of the explanatory variables or to detect any multicollinearity problem in regression model the study used a correlation matrix of independent variables. The problem of

multicollinearity usually arises when certain explanatory variables are highly correlated. This assumption is concerned with the relationship exist between explanatory variables.

If an independent variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect collinearity and it cannot be estimated by OLS (Brooks 2008). Multicollinearity condition exists where there is high, but not perfect, correlation between two or more explanatory variables. Hair et al. (2006) noted that correlation coefficient below 0.9 may not cause multicollinearity problem. On the other hand, Malhotra (2007) stated that multicollinearity problem exists when the correlation coefficient among variables is greater than 0.75.

To test the independence of the explanatory variables or to detect any multicollinearity problem in regression model the study used a correlation matrix of independent variables. As indicated in table 4.4 below, there were fairly low data correlations among the independent variables. These low correlation coefficients point out that, there is no problem of multicollinearity in this study. Accordingly, in this study there is no problem of multicollinearity which enhanced the reliability for regression analysis.

Table 4.4: Correlation Matrix of Independent Variables

	BS	FD	FM	ISE	CCOP	EQD
BS	1.000000					
FD	-0.222598	1.000000				
FM	0.612330	-0.129650	1.000000			
ISE	0.671659	0.033008	0.535683	1.000000		
CCOP	0.321501	0.034562	0.455156	0.713447	1.000000	
EQD	0.517576	-0.128274	0.510462	0.149464	-0.232030	1.000000

Source: E views Output from Data of sample companies 2005-2014

Fixed Effect versus Random Effect

It is necessary to determine whether the fixed effect or random effect approach is for this study appropriate. The choice between both approaches is done by running a Hausmann test. It is often said that the random effects model is more appropriate when the entities in the sample can be thought of as having been randomly selected from the population, but a fixed effect model is more plausible when the entities in the sample effectively constitute the entire population.

According to Brook (2008), a test for whether this assumption is valid for the random effects estimator is based on a slightly more complex version of the Hausman test and the p -value for the test is less than 1%, indicating that the random effect model is not appropriate and that the fixed effects specification is to be preferred (appendix V).

In addition according to Gujarati (2004), if T (the number of time series data) is large and N (the number of cross-sectional units) is small, there is likely to be little difference in the values of the parameters estimated by fixed effect model/FEM and random effect model/REM. Hence the choice here is based on computational convenience. On this score, since the number of time series (i.e. 10 year) is greater than the number of cross-sectional units (i.e. 7 insurance companies), FEM is preferable in this case.

4.3.1. Analysis of Regression Results

This section covers the regression model used in this study and the results of the regression analysis. The panel data is used to run the regressions to investigate the impact of corporate governance on selected insurance companies' financial performance measured by return on asset. In doing this, the model below was developed.

The model is provided as follows:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 FD_{it} + \beta_3 FM_{it} + \beta_4 ISE_{it} + \beta_5 \ln CCOP_{it} + \beta_6 EQD_{it} + \epsilon$$

The regression output in table 4.5 is run by taking ROA as a dependent variable and other corporate governance variables as independent variables. The regression output reveals that the dependent variable is well explicated by the explanatory variables in the model with R-square

and adjusted R-square of 0.841 and 0.808 respectively. The coefficient of determination R-square indicates that about 84% of return on asset is explained for by the explanatory variables while the adjusted R-squared of 80% further justifies this effect.

Overall significances of the models when measured by their respective F statistics are 25.25 with P-values of zero indicate that the models are well fitted at the 1 percent significance level. Therefore one can conclude from the results of R-squared and F-statistics that the implemented models of this research are well fitted that corporate governance practice have a significant impact on selected insurance companies financial performance.

Table 4.5: Regression Result for Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.532547	0.178264	-2.987413	0.0041
BS	0.002955	0.012782	0.231141	0.8180
FD	0.029809	0.010684	2.790086	0.0072*
FM	-0.001284	0.001456	-0.881860	0.3816
ISE	0.016267	0.008082	2.012872	0.0489**
CCOP	0.102006	0.031510	3.237302	0.0020*
EQD	0.006569	0.005828	1.127177	0.2644
R-squared	0.841704			
Adjusted R-squared	0.808378			
S.E. of regression	0.045004			
Sum squared residua	0.115444			
Log likelihood	124.9356			
F-statistic	25.25704	Durbin-Watson stat	1.811409	
Prob(F-statistic)	0.000000			

*and ** denote significance at 1%, and 5% levels respectively

Source: Eviews Output from Data of sample insurance companies, 2005 – 2014

Based on the results shown in table 4.5, independent variables like number of female director in board (FD) and chief executive officer payment (CCOP) are statistically significant at 1%, where as directors industry specific experience (ISE) is statistically significant at 5%. In addition, explanatory variables such as board size, the number of female directors in the board and frequency of meeting are not statistically significant. Moreover, the signs of the parameter coefficients indicate that there is positive relationship between board size, number of female directors in the board, board member industry specific experience, chief executive payment and board member educational qualification. This discloses that there is a direct relationship between the aforesaid five independent variables and ROA. The above table also shows that there is negative relationship between board frequency of meeting and insurance companies' performance. It indicates that there was an inverse relationship between the aforementioned variable and ROA. Thus the increase in frequency of meeting will lead to a decrease in ROA.

4.4. Testing of hypothesis

Based on the outputs presented in the preceding section, this section presents the testing of hypothesis and discussion of impact of corporate governance practices on financial performance of insurance companies in Ethiopia in light of theory, previous empirical studies and the questionnaire results.

Hypothesis-1

H₀: There is no significant positive relationship between board size and financial performance of insurance companies.

H₁: There is significant positive relationship between board size and financial performance of insurance companies.

As shown above, table 4.5, this study found a positive but statistically insignificant association between boards' size and return on asset with coefficient of 0.002955 and 0.8180 p- values. It implies if the number of board increases by one, insurance companies return on asset increase by 0.2%. This shows that the numbers of board of directors' have insignificant impact on the performance insurance companies in Ethiopia. The result indicates that small boards are more

effective in monitoring and controlling insurance companies and it help to reduce agency costs. Furthermore, Particular question was also enquired to qualitatively verify as to whether respondents believe the number of board size affects insurance companies performance (Q. No. 6, see appendix I). All respondents said “yes” and they have justified that too large or too small board is not appropriate to run the responsibility of the board. If the board sizes too small the idea decision to be done may be limited to the educational and experience of the members. The best justification given is that, if the number of board members is large, it creates conflict of interest between the board members, which rusts the prosperity of the companies. As the nature of insurance industry is different from the other financial sector, it need to have reasonable numbers of directors in order to perform the board task effectively, moreover Ethiopian insurance sector is at infant stage so that large board size lead to high agency cost. The outcome of the analysis of both quantitative and qualitative data indicates that the impact of board size on financial performance of selected insurance companies in Ethiopia is not significant. Therefore based on the above result the null hypothesis is not rejected. The regulatory requirement under Article 347 of the Commercial Code of Ethiopia (1960) set the minimum and maximum number of director to be 3 and 12 to share companies respectively. This designates that the number of board member in a single company should fall in between twelve (12) and three (3). From this it is possible to articulate that, though there is no strict rule applicable to the nomination of the board to specific number, the trend is for the number of the board to become smaller to enhance more flexibility in conducting business, making decision and professionally providing useful suggestion. The result supports the findings of Lipton and Lorsch (1992) that the adoption of small number of board is good to increase company performance and reduce agency cost. In addition the finding of this study supported by the study of Priyanka (2014) which found that board size has positive association with the performance of the insurance companies. He shows that the insurance companies must have the right board size which is highly independent from the management of the company and with the appropriate skills. This would ensure that the board is well diversified and have the competence to give the strategic direction of the company.

Hypothesis -2

H₀: There is no significant positive relationship between the frequency of board meetings and corporate performance.

H₁: There is significant positive relationship between the frequency of board meetings and corporate performance.

The regression result shows that the beta coefficient of -0.001284 and p- values of 0.3816 indicating that frequency of board meeting has negative but insignificant impact on insurance companies' performance in Ethiopia. The results disclose that board of directors should have appropriate and small meeting so as to perform better. The result of the above regression model indicates that board meetings are not necessarily beneficial to shareholders rather increase company expense. The finding in this case argues that normally the time directors spend together is not only used for the meaningful exchange of ideas among themselves. Instead, routine tasks, such as presentation of management reports and various formalities absorb much of the meetings, and this reduces the amount of time that directors would have to effectively monitor management which can affect negatively on corporate performance.

For qualitative question respondent were asked to whether they think that a frequency of board meeting has impact on company's performance (Q. No. 7 appendix I) and they respond that higher frequency of board meetings is not necessarily rather the quality of decision of the board whenever they meet and the advice they give to the management. In this case, it is the flexibility with which corporate boards are able to either decrease or increase the number of board meetings to deal with emerging issues rather than the mere frequency that can influence corporate performance. Therefore the frequency of meeting has negative insignificant impact on financial performance of selected Ethiopian insurance companies. Based on the above result, the researcher failed to reject null hypothesis. This finding is not surprising, rather it is consistent with Vafeas (1999), Danoshana and Ravivathani (2013) whose contends that board meetings are

costly in the form of managerial time, travel expenses, refreshments and directors meeting fees that can negatively influence company performance. In addition the finding of El Mehdi (2007) supports the study by suggesting that financial performance, which is tied most closely to the quality of the day to day management of the company, is likely to be less affected by the frequency of board meetings.

Hypothesis -3

H₀: There is no significant positive association between number of female directors and insurance company's performance.

H₁: There is significant positive association between numbers of female directors the insurance company's performance.

As it is shown from table 4.5, the number of female directors has 0.029809 beta coefficient, which shows that if one female director added in the board, insurance companies' performance increases by 2.9%. The relationship between board gender diversity (FD) and return on asset as financial performance measures are significant and positive at 1% significance level. In the qualitative question (Q. No. 8 see appendix I) which inquire the impact of board gender diversity on insurance company performance, most of respondents said 'yes' and board gender diversity is important since almost half of the country's population is female, furthermore now a days the role of female in investment and leadership is increasing, since they can represent this major potential customer and help the firm to have links with these potential customers. In addition female directors may look issues critically which may lead the company to best performance. The study found out that positive effect of the role of women on boards and find that women enhance the quality of decision making and firm performance. Hence based on the result the null hypothesis is rejected. This study supported by the finding of (Bonn, 2004 and Smith, 2006) which revealed that positive relationships between firm financial performance and presence of female directors in the board. Therefore, this study supports the view that gender diversity leads to superior insurance company financial performance in Ethiopia. Moreover this is sustained by resource dependency theorist Johnson et al, (1996) that the role of directors in gaining access in

resources critical to firm success. But, simply the presence of female directors will not improve companies operation and performance only if they are qualified and competent. Accommodating gender diversity help improve insurance operation and performance as long as they have the desired experience, qualification and assertiveness.

Hypothesis -4

H₀: There is no significant positive relationship between director's educational qualification and insurance company's performance.

H₁: There is a significant positive relationship between director's educational qualification and insurance company's performance.

As observed from the analysis table 4.5, director's qualification has beta coefficient of 0.006569 and p- value of 0.2644 indicating insignificant positive relation between financial performances of Ethiopian insurance industry and directors' qualification. Respondents were requested to reflect their opinion as to whether they sense that educational qualification of directors have any effect on companies' performance (Q.9, appendix I). All of the respondents said "yes". The best justification given is that directors need to have a minimum of college degree in order to understand the reports given by the management and boards of directors make decision after analyzing and carefully understanding the technical documents submitted by management as a report. Thus, educational qualifications of directors play a great role in board decision making. Efficiency demanded, competency in the management of resources and strategic leadership of the board that could help the company for corporate value creation is contingent upon the educational qualification of the directors. The regression result shows that director's educational qualification has insignificant positive relationships with insurance companies' performance and the qualitative analysis indicate that educational qualification of directors is important factor to improve financial performance of the insurance companies. Therefore researcher failed to reject the null hypothesis.

This is not unanticipated result, for this reason it is supported by the finding of (Poon, Heong , Lee, 2013 and Priyanka 2014) that reveal the existence of qualified directors increases company

performance as they promote corporate image, and demonstrate accountability and credibility within the management team. In other words the higher the number of directors who had college degree or above sitting on the board the higher the financial performance of selected insurance companies in Ethiopia.

Hypothesis-5

H₀: There is no significant positive relationship between degrees of experience of directors and insurance company's performance.

H₁: There is significant positive relationship between degrees of experience of directors and insurance company's performance.

The regression result in table 4.5, designates that coefficient parameter of (0.016) indicating positive effect and p-values of 0.048 which is significant at 5% significance level. Suggesting; that if one board directors with prior experience in insurance is added to board of directors of insurance company then the companies ROA will increase by 1.6%. Respondents were asked an individual question (Q. 10, appendix I) about directors' prior experience impact on performance of insurance companies. The respondents said "yes" and vindicated that directors who had an experience in the insurance industry is highly important, because insurance business by nature is technical and unique from other financial institution such as bank and microfinance, therefore it is better if director expertise in insurance specifically so that they understand what is undertaken in their company and play a great role in the board decision making. Furthermore experience in insurance sector enables the directors to understand and explain technical managerial issues that may rise during board deliberations. In addition it helps to be more sensitive to leadership issues and provide information that could be evaluated by other fellow directors. On the basis of qualitative and regression result null hypothesis is rejected.

This corresponds with the finding of (Poon, Heong and Lee, 2013, Duc Vo. & Thuy Phan, 2013) who suggest that the more senior the firm director, the greater experience, wisdom and understanding of the industry and the better the firm performance. Directors are more conservative in pursuing firm strategies and tend to focus on business activities that yield

immediate profits in the short term during their service periods, ultimately improving firm performance.

Hypothesis -6

H₀: There is no significant positive relationship between chief executive's officers' compensation and insurance performance

H₁: There is significant positive relationship between higher chief executive's officer compensation and insurance performance.

The regression result provided in table 4.5 reveals a positive coefficient parameter of 0.102 between the CEOs' compensation and ROA with p-value of (0.002) which is significant at 1% , demonstrating that the more compensation is made for Chief executive officer, the higher the financial performance of insurance companies in Ethiopia. This also confirms that chief executive compensation does have significant and positive impact on company performance as measured in terms of ROA. The respondent was requested their opinion whether the compensation scheme for chief executive officer have impact on company's performance (Q.11 appendix I), they react that exactly company performance related to chief executive compensation holding unique characteristics of insurance which needs great effort to generate business and risk taking nature, mostly done by commission through insurance sales agent and brokers, therefore chief executive officers are act accordingly to reduce those commission expense and risk if they are paid proportionately. Hence, based the data of this study null hypothesis is rejected. This is in line with Zhang and Yang (2011) whose argue that executive compensation incentives have a significant positive impact on firm performance. In addition, (Martina et al., 2009) found that CEOs with a greater proportion of pay tied to firm long term performance. Agency theory postulates that the design of an agent's compensation structure represents an important vehicle for reducing agency problems and associated costs. Central to such design is ensuring proper alignment of the interests of managers with those of owners. One approach to accomplishing this is making a part of the CEO's compensation contingent on the achievement of performance targets specified in the contract. The finding also in line with the

central idea of agency theory that exists between principal and agent were solved through proper monitoring and a well-planned compensation system (Davis, Schoorman, and Donaldson, 1997).

In general, this study is conducted on selected insurance companies Ethiopia taking corporate governance variables like board size, the number of female director in the board, frequency of meeting, board member industry specific experience, chief executive payment and directors qualification as independent variable and return on asset as financial performance measure. The finding of the study indicate that there is positive relationships between board size, number of female directors, chief executive payment, board member industry specific experience and board of directors qualification and insurance companies performance. Contrary to aforesaid variables there is a negative relationship between the number of meeting and company's performance but not significant. Therefore generally the expected result and actual result is seems the following.

Table 4.6: Summary of the Expected and Actual relationships

Independent Variable	Dependent Variable	Expected Relationship	Significance	Actual Relationship	Significance level at 1% and 5%.
BS	ROA	Positive	Significant	Positive	Insignificant
FD	ROA	Positive	Significant	Positive	Significant at 1%
FM	ROA	Positive	Significant	Negative	Insignificant
ISE	ROA	Positive	Significant	Positive	Significant at 5%
CCOP	ROA	Positive	Significant	Positive	Significant at 1%
EQD	ROA	Positive	Significant	Positive	Insignificant

CHAPTER- FIVE

Conclusions and Recommendations

This chapter presents conclusions, recommendations and suggested areas for further research. The chapter is divided into three sections. The first section deals with conclusions drawn from data analysis and discussion while the second section provides recommendations and third sections suggest areas for further study respectively.

5.1. Conclusions

The main objective of this study was to examine the impact of corporate governance practices on financial performance of selected insurance companies in Ethiopia. The study used purposive sampling method to draw the sample from the population. On this ground the study purposively choose insurance companies under operation before the fiscal year 2005 G.C. Mixed research approach was used to achieve the stated objective. Both primary and secondary data source were used. Primary data was collected through questionnaires while secondary data was collected from audited financial statement of selected insurance companies. Balanced panel data methodology was adopted in analyzing the impact of corporate governance practice on financial performance of insurance companies in Ethiopia. In this study to analyze the collected data; descriptive, correlation and multiple panel linear regression data analysis method were employed. The regression model used ROA as a measure of selected insurance companies' financial performance. Accordingly the study consider, board size, number of female directors in the board, frequency of meeting, director's industry specific experience, chief executive compensation and directors qualifications as independent variables.

The descriptive statistics shows frequency of meeting with high mean value of 20 and standard deviation of 16 respectively followed by ROA with mean value of 13% and 10% standard deviation. It implies large deviation between selected insurance companies in frequency of meeting and return on asset. On the other hand the number of female directors in board has least mean value and standard deviation of 1; it shows poor female involvement in board of directors of selected insurance companies in Ethiopia. The maximum values for frequency of meeting and industry specific experience stood at 66 and 6 respectively indicating the highest and least value. Furthermore the minimum values for the ROA stood at -5%, where as the minimum values for board size is 5.

The Pearson correlation coefficients of number of female directors in the board, chief executive compensation and frequency of meeting (0.460629, 0.290336 and 0.260764 respectively) aware of that there is significant positive correlation between abovementioned variables and insurance company's performance. In contrary there is insignificant negative correlation between board size, directors' educational qualification and insurance companies' financial performance with correlation coefficient of 0.011493, and 0.026919. There is significant positive correlation between board size and other independent variable except the number of female directors which has a correlation coefficient of -0.222598. The correlation between director's industry specific experience, chief executive payment, director's educational qualification and frequency of meeting is positive and significant with correlation coefficient of 0.535683, 0.455156 and 0.510462 respectively. Finally the correlation between chief executive payment and directors education is negative with coefficient of 0.232030.

The regression result found that, there are significant positive relationships between number of female director in board, chief executive officer payment, director's industry specific experience and ROA with beta coefficient of 0.02955, 0.102006 and 0.016267 respectively. On the other direction the relationships between board size, the directors' educational qualification and financial performance of insurance companies is insignificant with beta coefficient of 0.002955 and 0.006569 respectively. Furthermore there is negative association between board frequency of meeting and insurance companies' performance with coefficient of 0.006569. The study ascertains a positive but statistically insignificant association between boards' size, directors' qualification and return on asset. The result also found out that positive effect of the role of women on boards and find that women enhance the quality of decision making and firm performance. In addition the existence of experience in insurance sector enables the directors to understand and explain technical managerial issues that may rise during board discussions which result in good insurance companies' performance. Finally the study demonstrates that the more compensation is made for Chief executive officer, the higher the financial performance of insurance companies in Ethiopia.

5.2. Recommendation

Corporate governance has become a relevant issue because of its huge contribution to the economic growth and development of nations. The absence of good corporate governance is a major cause of failure of many well performing companies. Existing literature support the position that good corporate governance has a positive impact on firm financial performance; on the other hand insurance companies plays an important social and economic role in a country because they provides a means by which losses, which would otherwise fall directly on individuals and their families, are fully or partially compensated. Therefore given the role of insurance companies to support the economic growth and development of the country and the position of good corporate governance to improve companies' performance the following possible recommendation are forwarded.

- Efforts to improve corporate governance should focus on the value of the board members like having experienced.
- The study also suggests that insurance companies should build good payment scheme for chief executive officer so as to avoid self serving philosophy of management and increase insurance companies' performance.
- The study put forward that insurance companies Ethiopia should increase the number of qualified and competent female in the board of directors', because female directors enhance the quality of decision making and insurance companies financial performance.

5.3. Suggestions for Further Studies

The objective of the study was to investigate the impact of corporate governance practice on financial performance selected insurance firms in Ethiopia. There is need to explore other components of corporate governance practices effect on financial performance. In addition it is possible to incorporate all insurance companies to generalize the finding. Good corporate governance is not the result of only internal corporate governance mechanisms, but there are also external corporate governance mechanisms which are important in increasing insurance companies' performance. In the insurance sector, the government establishes higher regulation to save the interests of the policy holder as well as the general public. In countries like Ethiopia, where there is no capital market, the effect of the market for corporate control on corporate governance may be minimal. Instead the government's regulation and supervision as an external corporate governance mechanism plays major role in the governance of insurers. Therefore it is essential to conduct research on the impact of external corporate governance on insurance companies' performance.

Likewise the dependent variable for the study was financial performance and it used only ROA to measure financial performance. There is need to conduct a research using other accounting performance measures. And other performance indicators can be tested especially incorporating market based measures incase if secondary market will launched in the future.

Reference

- Abdullah, S.N. (2004). Board Composition, CEO Duality and Performance among Malaysian Listed Companies. *The international journal of business in society*, Vol. 4, no. 4, pp. 47-61.
- Ansoff, H. I. (1965). *Corporate strategy*: New York: McGraw Hill.
- Bantel, K.(1993).Top Team Environment and Performance Effects on Strategic Planning Formality. *Group and Organization Management*, Vol. 18, No. 4, pp.436-458.
- Bauer, R., Guenster, N., Otten, R. (2004). Empirical evidence on corporate governance in Europe: the effect on stocks returns, firm value and performance. *Journal of Asset Management*, Vol. 5, No.2, 91-104.
- Bird, Richard M. (2005).VAT in Developing and Transitional Economies (DTEs)'. *International Tax Dialogue VAT Conference*, 15-16, Rome.
- Black, B., H. Jang, and W. Kim.(2003). Does Corporate Governance Affect Firm Value? Working paper 327, Stanford law school;
- Bonn, I., (2004). Board Structure and Firm Performance: Evidence from Australia, *Journal of the Australian and New Zealand Academy of Management*, Vol.10, No.1, pp.14-24.
- Brooks, C. (2008). *Introductory Econometrics for Finance (2nd Ed.)*, United Kingdom: Cambridge University press
- Cadbury, A. (2002). *Overview of Corporate Governance: A Framework for Implementation*; the World Bank Group; Washington. D.C: V-VI.
- Campbell, K. and Minguez-Vera, A., (2008).Gender diversity in the boardroom and firm financial performance, *Journal of Business Ethics*, Vol. 83 No. 3, pp. 435-451.
- Central bank of Nigeria, (2006). *Code of Corporate Governance for Banks in Nigeria Post Consolidation* available at <http://www.cenbank.org/out/Publications/bsd/2006/corp.Govpost%20con.pdf>
- Cheng Hsiao 2003, *Analysis of panel data*, 2nd edn, published by the press syndicate of the University of Cambridge, UK
- Clarkson, M. B. E. (1995). A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance, *Academy of Management Review*, vol.20 (1), pp, 92-117.
- Claessens, S. (2006). *Corporate Governance and Development*. *World Bank Research Observer*, Vol. 21, No. 1

- Commercial code of the empire of Ethiopia, Proclamation no. 166 of 1960, Berhan ena Selam Printing Press No. 2071-52
- Creswell J. (2003). Research design: Qualitative, quantitative and mixed method approaches. 2nded, Sage publications, Thousand Oaks, London
- Danoshana & Ravivathani, (2013). The impact of the corporate governance on firm performance: A study on financial institutions in Sri Lanka. Merit Research Journal of Accounting, Auditing, Economics and Finance, Vol.1 (6) pp.118-121,
- Daniel Ferreira, Renee B. and Adams (2009), Women in the boardroom and their impact on governance and performance, Journal of Financial Economics, vol. 94 291–309.
- Deegan C. (2004). Financial Accounting Theory: McGraw-Hill, Australia Pty Ltd, NSW.
- DeZoort F. T.1998, An analysis of experience effects on audit committee members' oversight judgments. Accounting, Organizations and Society (January): 1–22.
- Dr. Gabor Bruszt and Zekrie Negatu, (2009). Draft project document for development of corporate governance in Ethiopia, AACCSA.
- Drobetz, W., A. Schillhofer, and H. Zimmermann, 2003, Corporate Governance and Expected Stock Returns: The Base of Germany', Working paper, University of Basel.
- Duc, V & Thuy Phan (2013), corporate governance and firm performance: empirical evidence from Vietnam, [http://www.murdoch.edu.au/School-of-Management-and-Governance/ document/Australian-Conference-of-Economists/Corporate-governance-and-firm-performance.pdf](http://www.murdoch.edu.au/School-of-Management-and-Governance/document/Australian-Conference-of-Economists/Corporate-governance-and-firm-performance.pdf)
- Eisenhardt, K.M., (1989). Agency Theory: An Assessment and Review, International, Journal of Management, Vol.5 pp 341 – 353.
- El Mehdi (2007), empirical evidence on corporate governance and corporate performance in Tunisia, an international review, vol.15 no. 6 pp 1429-1441
- Fama, E. & Jensen, M. (1983): Separation of ownership and control, Journal of Law & Economics, Vol. 26(2), pp. 301-325.
- Fekadu, G.,(2010). Emerging separation of ownership and control in Ethiopian share companies: legal and policy implications, Mizan Law Review, Vol. 4, no.1.
- Ferede, Y., (2012). The Impact of Corporate Governance Mechanisms on Firm's Financial Performance: Evidence from Commercial Banks in Ethiopia, Unpublished MBA Project Paper, Addis Ababa University.

- Filip et al..., (2013). Corporate Governance and Bank Performance: Evidence from Macedonia, Munich Personal RePEc Archive,
- Freeman et al., (2004). Stakeholder Theory and the Corporate Objective Revisited. *Organization Science*, 15(3), 364 – 369.
- Fowler F. (2002). *Survey Research Methods: (3rd ed)*, Thousand Oaks, CA: Sage Publications
- Frost, C. et al.,(2002); Stock exchange disclosure and market liquidity: An analysis of 50 international exchanges. Kuala Lumpur paper presented at the world federation of exchanges forum on managing exchanges in emerging economics, *Journal of accounting research*, vol. 44, no 3. Printed in USA
- Gebremedin A., (2010). Application of Corporate Governance Principles in Ethiopian Private Commercial Banks: The Case of Lion International Bank Share Company; unpublished MBA thesis, Addis Ababa University.
- Gollier C., March 2003. To insure or not to insure, An Insurance Puzzle, *The Geneva papers on risk and insurance theory*.
- Gales, L. & Kesner, I. (1994). An analysis of board of director size and composition in bankrupt organizations. *Journal of Business Research*, 30(3), 271-282.
- Gujarat, D. (2004). *Basic Econometric: 4th edn*, McGraw–Hill, USA;
- Hailu Z. (2007) Insurance in Ethiopia: historical development, present status and future challenges, master printing press, Addis Ababa Ethiopia.
- Hair, et al., (2006). *Multivariate Data Analysis: (6th edn)*, Pearson Education, New Jersey.
- Hillman, A. et al...(2000). The Resource Dependency Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. *Journal of Management Studies*, 37(2), 235-256
- Humera K, Maryam M, Khalid Z, Sundas, S. and Bilal S., (2011). Corporate Governance and Firm Performance: A Case study of Karachi Stock Market *International Journal of Trade, Economics and Finance*, Vol.2, No.1, pp.40
- IAIS.(2004). Insurance core principles on corporate governance, www.iaisweb.org
- IRDA.(2009).Corporate Governance Guidelines for Insurance Companies in India. <https://www.irda.gov>.

- Jennifer L, et al., (2007). The Impact of Corporate Governance Structure on the Efficiency Performance of Insurance Companies in Taiwan, The Geneva Papers on Risk and Insurance. Issues and Practice, Vol. 32, No. 2 pp. 264-282.
- Jensen, M.C. and W.H. Meckling (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Journal of Financial Economics, 3 (4), 305 -360,
- John H, John Seely Brown (JSB), Tamara S. & Michael L, (2010), the best way to measure company performance, Harvard business review: <https://hbr.org/2010/03/the-best-way-to-measure-compan.html>
- John, K. & L.W. Senbet (1998), corporate governance and board effectiveness. Journal of Banking and Finance, Vol.22, 371-403.
- Johnson, J. L., Daily, C. H., and Ellstrand, A. E. (1996), Board of directors: A review and research agenda. Journal of Management, 22, 409-438.
- Kennedy, P., (2008). Guide to Econometrics, (6th edn), Blackwell Publishing, Malden Kevin Campbell & Antonio Mínguez-Vera (2008), Gender diversity in the boardroom and firm financial performance, Journal of Business Ethics 83 (3):435 - 451
- Kim K-H, et al, (2008). CEO duality leadership and corporate diversification behavior. Journal of Business Research.
- Klapper, L.F & Love I. (2002). Corporate Governance, Investor Protection and Performance in Emerging Markets. World Bank Policy Research Paper, 2818.
- Kroll, M., Walters, B.A. & Wright, P.(2008), Board vigilance, director experience and corporate outcomes. Strategic Management Journal, vol. 29, pp.363–382.
- Kyazze, L.M. (2010). Cooperatives; the Sleeping Economic and Social Giants in Uganda, Coop Africa Working Paper No.15
- La Porta, R., Lopez-De-Silanes, F. and Shleifer, A., (1999).Corporate Ownership around the World, Journal of Finance, Vol. 54, pp.471-498.
- Lawrence, P. and Lorsch, J. (1967). Differentiation and Integration in Complex Organizations, Administrative Science Quarterly 12(1): pp.1–47.
- Lipton, M. &Lorsch, J. W. (1992). A modest proposal for improved corporate governance, Business Lawyer, 1(1), 59–77

- Lijun Xia (2008), Founder Control, Ownership Structure and Firm Value: Evidence from Entrepreneurial Listed Firms in China, China journal of accounting research, vol. 1 issue.
- Maher, M. & Andersson, T. (1999). Corporate governance: effects on firm performance and economic growth, OECD, pp 1-51 available at: <http://www.oecd.org/sti/ind/2090569.pdf>
- Malcolm Smith (2003). Research methods in accounting: sage publications London, thousand oaks', New Delhi.
- Malhotra, N. (2007). Marketing Research: An applied Orientation, (5th ed), PHI, New Delhi.
- Marczyk, D., DeMatteo D. and Festinger, D. (2005), Essentials of research design and methodology: new Jersey, John Wiley & Sons, Inc.
- Martina M. et al.,(2009). Ownership structure and CEO compensation: Implications for the choice of foreign market entry modes, Journal of International Business Studies, vol.40, 321–338;
- Mentes A., (2011). Gender Diversity at the Board and Financial Performance: Study on Istanbul Stock Exchange, Middle Eastern Finance and Economics, ISSN: 1450- 2889, Issue 14.
- Mezgebe (2010), Assessment of the reinsurance business in developing countries: case of Ethiopia, unpublished master thesis in business leadership at UNISA.
- Miles, MB. & Huberman, A. (1994). Qualitative Data Analysis: (2nd ed) Thousand Oaks, CA: Sage Publications.
- Minga, N., 2008, rethinking corporate governance in Ethiopia; African peer review mechanism, working Paper Series, Paper for a Conference on Corporate Governance in Africa.
- Naser Najjar (2012). The impact of corporate governance on the insurance firm's performance in Bahrain, International Journal of Learning & Development, ISSN 2164-4063, Vol. 2, No. 2
- Ntim, C.G. and Kofi A.,(2011).The Impact of Corporate Board Meetings on Corporate Performance in South Africa, African Review of Economics and Finance, Vol. 2, No. 2.
- Olajide S. (2013). Corporate Governance and Insurance Company Growth: Challenges and Opportunities, International Journal of Academic Research in Economics and Management Sciences, Vol. 2, No. 1 ISSN: 2226-3624.

- Oskar (2012), Does corporate governance determines corporate performance and dividends during financial crisis: evidence from Poland, Kaminski center for corporate governance, Kozminski University.
- Otieno, F. (2011). The effect of corporate governance on financial performance of Commercial Banks in Kenya; Unpublished MBA Project submitted to the University of Nairobi.
- Pearce, J.A. and Zahra, S.A., (1992). Board Composition from a Strategic Contingency Perspective, *Journal of Management Studies*, Vol.29, No.4, 414-438.
- Petra, T., 2007, Panel Data; Fixed Effects Random Effects Dynamic Panel Data Models, Cambridge University Press, New York
- Pfeffer, J. (1978). Size and Composition of Corporate Board of Directors: The Organization and its Environment. *Administrative Science Quarterly*, 17(1), pp. 29-218.
- Priyanka Ch. (2014). Corporate governance in insurance sector, *IJRESS Volume 4, Issue 1*, pp.33-39
- Poon W., Heong A., and Lee T., (2013). The outcome of Politically Connected Boards on Commercial bank performance in Malaysia, *Modern Applied Science*.
- Saat et al., (2011). Effective oversight roles of board of directors, the case of listed firms on bursa Malaysia, *World review of business research*, 1(1), (231 - 245).
- Sapovadia, V. (2009). Good Corporate Governance: An Instrument for Wealth Maximization
- Shaw L. (2006). Overview of corporate governance issues for co-operatives: discussion paper commissioned by the global corporate governance forum for the working meeting on corporate governance and co-operatives.
- Shleifer, A., Vishny R.W. (1997). A Survey of Corporate Governance. *Journal of Finance*, vol. 52: pp.737-783.
- Sifuna, Anazett, Pacy. (2012). Disclose or abstain, the prohibition of insider trading on trial. *Journal of international banking law and regulation*, 27(9).
- Singh, M., & Davidson, W. N. (2003). Agency cost, ownership structure and corporate governance mechanisms, *Journal of Banking and Finance*, 27, 793-816
- Smallman, C. (2004). Exploring theoretical paradigm in corporate governance. *International Journal of business governance and ethics*, vol. 1, pp.78-94.

- Smith, N. et al., (2006). "Do Women in Top Management Affect Firm Performance? A Panel Study of 2500 Danish Firms, *International Journal of Productivity and Performance Management*, 55(7), 569-593.
- Srmolo, K., (2012). Corporate governance mechanisms and their impact on performance of commercial banks in Ethiopia, Unpublished MBA Thesis paper, Addis Ababa University.
- Stoeberl, P. A., & Sherony, B. C. (1986), Board efficiency and effectiveness, In E. Mattar & M. Ball (Eds.), *Handbook for corporate directors*, New York: McGraw-Hill.
- Sundaram, A. K., & Inkpen, A. C. (2004b), Stakeholder theory and the Corporate Objective Revisited: A Reply. *Organization Science*, 15(3), 370–371.
- Susan V. Crosson; Belverd E., Jr Needles; Needles, Belverd E.; Powers, Marian (2008), *Principles of accounting*. Boston: Houghton Mifflin. p. 209
- Tura A.H., (2012). Overview of corporate governance in Ethiopia: the role, composition and remuneration of boards of directors in share companies, *Mizan Law Review*, and Vol.6 No.1
- Vafeas, N., (1999). Board Meeting Frequency and Firm Performance, *Journal of Financial Economics*, Vol.53, pp.113-142
- World Bank, 2007, Report on the Observance of Codes and Standards (ROSC) in Ethiopia ROSC Accounting and Auditing (A&A) Review.
- Yin, R. K. (1989). Case study research: Design and methods, *Applied Social Research Series*, Vol. 5. London: Sage publication.
- Young, B. (2003). Corporate Governance and Firm Performance: Is there a relationship? *Ivey Business Journals*;
- Zhang J. and Jiawen Yang J. (2011). Corporate governance and performance of listed commercial banks during financial crisis: evidence from China's Banking Industry, *Journal of the Washington Institute of China Studies*, Vol. 5, No. 4

Appendix I: List of sample Insurance Companies

S/N	Name of the Companies	Established Date
1	Ethiopian Insurance Corporation	1975
2	Africa Insurance Company S.C	01-12-1994
3	Awash Insurance Company S.C	01-10-1994
4	National Insurance Company of Ethiopia S.C	23-09-1994
5	Nyala Insurance Company S.C	06-01-1995
6	Nile Insurance Company S.C	11-04-1995
7	The United Insurance S.C	01-04-1997
8	Global Insurance Company S.C.	11-01-1997
9	NIB Insurance Company	01-05-2002

Source: NBE

Appendix-II: Data from both secondary and primary source.

Ethiopian Insurance Corporation

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	1	EIC	10%	7	2	1.00	7	1.00	4.70
2006	1	EIC	7%	7	2	1.00	7	1.00	4.70
2007	1	EIC	9%	7	2	1.00	7	1.00	4.81
2008	1	EIC	9%	7	2	1.00	7	2.00	4.88
2009	1	EIC	9%	7	2	1.00	7	2.00	4.90
2010	1	EIC	13%	7	2	1.00	7	2.00	5.98
2011	1	EIC	11%	7	2	1.00	7	3.00	5.00
2012	1	EIC	14%	9	2	1.00	9	3.00	5.04
2013	1	EIC	17%	9	2	1.00	9	3.00	5.04
2014	1	EIC	19%	7	2	1.00	7	2.00	5.06

Awash insurance s.co

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	2	Awash	8%	9	14	0.00	6	5.00	5.53
2006	2	Awash	6%	9	21	0.00	6	5.00	5.58
2007	2	Awash	7%	9	21	1.00	6	5.00	5.55
2008	2	Awash	7%	9	16	1.00	6	5.00	5.72
2009	2	Awash	5%	9	19	1.00	6	5.00	5.84
2010	2	Awash	11%	9	21	1.00	6	5.00	5.88
2011	2	Awash	8%	9	24	0.00	6	5.00	5.95
2012	2	Awash	8%	9	21	0.00	6	5.00	5.99
2013	2	Awash	15%	9	21	0.00	6	5.00	6.09
2014	2	Awash	10%	9	26	0.00	5	5.00	6.19

Nib insurance share company

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	3	NIB	22%	9	40	1.00	9	2.00	5.08
2006	3	NIB	12%	9	40	1.00	9	2.00	5.14
2007	3	NIB	19%	8	39	1.00	9	2.00	5.15
2008	3	NIB	36%	8	40	1.00	9	3.00	5.19
2009	3	NIB	31%	9	36	0.00	9	3.00	5.54
2010	3	NIB	31%	9	46	0.00	9	4.00	5.61
2011	3	NIB	30%	9	38	0.00	9	4.00	5.72
2012	3	NIB	34%	8	53	1.00	8	4.00	5.88
2013	3	NIB	33%	9	61	1.00	9	4.00	5.93
2014	3	NIB	32%	9	66	1.00	9	3.00	5.90

Nyala insurance share company

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	4	Nyala	9%	5	5	0.00	2	1.00	5.28
2006	4	Nyala	19%	5	3	0.00	2	1.00	5.41
2007	4	Nyala	19%	5	6	0.00	2	1.00	5.59
2008	4	Nyala	13%	5	7	0.00	2	2.00	5.66
2009	4	Nyala	27%	5	3	2.00	2	2.00	5.66
2010	4	Nyala	25%	5	4	2.00	2	2.00	5.65
2011	4	Nyala	30%	5	3	2.00	2	2.00	5.86
2012	4	Nyala	35%	5	7	2.00	2	2.00	5.93
2013	4	Nyala	35%	5	11	2.00	2	5.00	5.89
2014	4	Nyala	31%	5	10	2.00	2	5.00	6.00

Global insurance share company

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	5	Global	4%	7	6	0.00	6	1.00	5.20
2006	5	Global	4%	7	7	0.00	6	2.00	5.20
2007	5	Global	5%	7	6	0.00	6	1.00	5.26
2008	5	Global	5%	7	5	1.00	6	1.00	5.26
2009	5	Global	5%	7	7	1.00	6	1.00	5.30
2010	5	Global	8%	6	5	0.00	5	1.00	5.30
2011	5	Global	4%	5	6	0.00	4	2.00	5.40
2012	5	Global	2%	5	6	1.00	4	2.00	5.40
2013	5	Global	15%	7	6	1.00	7	2.00	5.48
2014	5	Global	16%	6	7	1.00	6	3.00	5.48

Nile insurance company s.c

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	6	Nile	4%	9	31	0.00	4	3.00	5.60
2006	6	Nile	4%	9	30	0.00	5	3.00	5.60
2007	6	Nile	2%	9	33	0.00	5	3.00	5.75
2008	6	Nile	-3%	9	38	0.00	5	5.00	5.78
2009	6	Nile	2%	9	38	0.00	5	5.00	5.78
2010	6	Nile	14%	9	39	1.00	9	5.00	5.88
2011	6	Nile	10%	9	45	1.00	9	5.00	5.88
2012	6	Nile	10%	9	45	1.00	9	6.00	5.88
2013	6	Nile	11%	9	40	1.00	9	6.00	5.90
2014	6	Nile	12%	9	40	1.00	9	6.00	5.90

National insurance company of Ethiopia

Year	ID	Company Name	ROA	BS	FM	FD	EQD	ISE	CCOP
2005	7	NICE	-5%	5	16	0.00	9	1.00	5.13
2006	7	NICE	6%	5	16	0.00	9	1.00	5.13
2007	7	NICE	8%	5	16	0.00	9	1.00	5.15
2008	7	NICE	6%	5	16	0.00	8	1.00	5.15
2009	7	NICE	5%	5	16	1.00	6	1.00	5.22
2010	7	NICE	6%	5	16	1.00	6	1.00	5.22
2011	7	NICE	0%	5	16	1.00	6	2.00	5.23
2012	7	NICE	17%	5	16	1.00	6	2.00	5.23
2013	7	NICE	12%	5	16	1.00	6	2.00	5.30
2014	7	NICE	7%	5	16	1.00	6	2.00	5.32

Source: Financial Statements of Companies, Questionnaires and Own Computation.

Appendix: III

Heteroskedasticity Test: White

F-statistic	0.947415	Prob. F(6,63)	0.4680
Obs*R-squared	5.793363	Prob. Chi-Square(6)	0.4467
Scaled explained SS	4.456592	Prob. Chi-Square(6)	0.6151

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 03/20/15 Time: 20:43

Sample: 1 70

Included observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001009	0.015374	-0.065619	0.9479
BS^2	-2.53E-05	7.62E-05	-0.332176	0.7409
FD^2	-0.000360	0.001141	-0.315439	0.7535
FM^2	1.82E-06	1.92E-06	0.951578	0.3449
ISE^2	-2.74E-05	0.000189	-0.145216	0.8850
CCOP^2	0.000194	0.000496	0.391049	0.6971
EQD^2	5.51E-05	6.36E-05	0.865296	0.3902
R-squared	0.082762	Mean dependent var		0.006443
Adjusted R-squared	-0.004594	S.D. dependent var		0.008944
S.E. of regression	0.008965	Akaike info criterion		-6.496379
Sum squared resid	0.005063	Schwarz criterion		-6.271530
Log likelihood	234.3733	Hannan-Quinn criter.		-6.407066
F-statistic	0.947415	Durbin-Watson stat		1.007282
Prob(F-statistic)	0.467995			

Appendix: IV

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq.	Chi-Sq. d.f.	Prob.
	Statistic		
Cross-section random	165.697266	6	0.0000

Appendix: V

Questionnaire

Adama Science and Technology University

School of Business and Economics

Department of Accounting and Finance

Graduate Program

Dear Sir/Madam

My name is Mulugeta Worku, M.Sc. student in department of Accounting and Finance at Adama Science and Technology University. The aim of this questionnaire is to examine corporate governance practices and financial performances of insurance companies in Ethiopia. To achieve this objective, the study intends to gather corporate governance practices and performance data from selected insurance companies. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award.

I am indebted for your passionate supports.

General information about the respondents

The following questions concern about your personal information. Completion of this information is voluntary and its confidentiality is assured. No individual data will be reported.

1. sex

Male ☐ Female ☐

2. Your marital status,

Married ☐ single ☐ other ☐

3. Your age group

Under 30 ☐ 30 to 45 ☐ 45 to 60 ☐ 60 or older ☐

4. Your highest level of education,

Diploma ☐ degree ☐ masters degree ☐ PhD ☐

5. Your work experience

Less than 5 year ☐ 5 to 10 ☐ more than 10 year ☐

6. Do you think that number of board has an impact on performance of insurance companies?

Yes ☐ No ☐

Please state your reason-----

7. Do you think that a frequency of board meeting has effect on company's performance?

Yes ☐ No ☐

Give your reasons-----

-----.

8. Does board gender diversity has linkage to insurance companies' performances?

Yes ☐ No ☐

How? -----

9. Do you believe that directors educational qualification have effect on company performance?

Yes ☐ No ☐

.....
.....
.....

10. Are there any board members who had earlier working experience on insurance business now in your company?

Yes ☐ No ☐

If your answer for Q10 is yes, in what ways do these members contribute better than other directors?

.....
.....
.....

If your answer for Q10 is No, do you feel that your company's performance affected by the absence of those experienced board members?

.....
.....
.....
.....

11. Does the compensation scheme for chief executive officer have impact on company's performance? Yes ☐ No ☐

How? Please give your

justification.....
.....
.....

12. Please state your opinion regarding corporate governance variable impact on financial performance of insurance a company out of the above questions but related to board size, female directors, frequency of meeting, directors qualification, directors industry specific experience and CEO compensation if

any,.....

Part II: Quantitative information regarding corporate governance variable

Year in G.C	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. What was the number of board of directors at the end of the years										
2. How many times the Boards meet during the year?										
3. What was the number female director in the board at the end of each the years?										
4.What was the number director in the boards who are qualified in different educational backgrounds*										
5. What was the number director in the board who has prior experience in insurance industry at the end of the years? **										
6. What is the payment of the chief executives per annual on average by your company?										

Note *= the number of director who is have degree in the field of economics, law, marketing management or finance

** Directors who have at least one (1) year prior experience in insurance industry