

**Impacts of Corporate Governance Mechanism on Financial Performance of  
Selected Insurers in Ethiopia**

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**A Thesis Submitted to  
The Department of Accounting and Finance**

**Presented in Partial Fulfillment of the Requirements for the Degree of Master  
of Science in Accounting and Finance**

**Addis Ababa University**

**Addis Ababa, Ethiopia**

**June 2015**

**Addis Ababa University**  
**College of Business and Economics**  
**Department of Accounting and Finance**

This is to certify that the thesis prepared by Bonsa Mitiku entitled: *Impacts of Corporate Governance Mechanism on Financial Performance of selected Insurers in Ethiopia* and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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## **Abstracts**

*Corporate governance has become an issue of global significance and has received new urgency due to various corporate scandals and failure. This study seeks to see impacts of corporate governance mechanism on financial performance of Insurers in Ethiopia. In order to achieve this objective, the study uses mixed research approach. Panel data covering ten year period from 2005 – 2014 are analyzed for nine insurance companies. Also in-depth interview was conducted with selected company board chairmen. The study analyses a range of internal corporate governance variables board size, chief executive compensation, educational qualification of directors ,presence of female directors, frequency of board meeting, other business management experience of directors, industry specific experience of directors and the study also controls the effect of premium growth of Insurers. The Fixed effects technique has been applied to find out the most significant variables from considered internal corporate governance variable. The regression results show that, chief executive compensation, educational qualification of directors, other business management experience of directors, and industry specific experience of directors has positive and significant effects on financial performance of Insurers' proxy by ROA. On the other hand, board size and presence female directors don't have statically significant impacts on Insurers' performance. In addition Contrary to theoretical prediction frequency of board meeting does not have significant effects on Insurers performance. So, stakeholders should give consideration to chief executive compensation, educational qualification of directors, other business management experience of directors, and industry specific experience of directors when they set governance policy for industry as general and for the company specifically.*

*Keyword: Corporate Governance mechanism agency theory Insures, financial performance and Ethiopia*

## **Acknowledgements**

I wish to first and foremost express my profound gratitude to the son of Almighty God Jesus Christ who has blessed me with opportunity, resource and will to pursue my studies I say thank you. This thesis is also as a result of help from many people: First and foremost I am grateful to my advisor, Degefe Duressa (PhD), whose encouragement, guidance, and support from the initial to the final level enabled me to develop an understanding of the subject and complete the thesis. Secondly, I would like to extend grateful acknowledgement to the officials of insurance companies for their understanding and for providing me with all the necessary information and documents required to carry out this study.

Thirdly, I would like to express my deepest gratitude to National Bank of Ethiopia, my employer, for the sponsorship and financial support. In addition, I would like to thank Addis Ababa University for the financial support provided to me during my thesis work through the Department of Accounting and Finance. And I shall not forget to register my appreciation to my colleagues and friends, as they have always been collectively, an inspiration for my success.

Last but not least, I extend my special appreciation to my Father...Baba... you are most special man for me you thought me persevere and never give up I say thank you and my Mother. Ayyoo ... who always taught me that sweet always comes from sweet; I would never be a fruitful boy without your counseling. I say thank you for the counsel thought out my life. And all our family member brother and sister, Wasihun Tamasgen ,Gemachu ,Ayantu, Game and Ashu all respected Brother and Sisters ,Friends I never forget your moral support , appreciation and for all your understanding while I was busy to my school and work to you I am heavily indebted.

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## List of Acronyms

AIC: Awash Insurance Company S.C
AIG: American Insurance Group
CLRM: classical linear regression model
DW: Durbin-Watson
EIC: Ethiopia Insurance Corporation
GDP. Growth domestic products
Global: Global insurance company s.c
IMF: International Monetary Fund
MIS: Management information system
NBE: National Bank of Ethiopian
NIB: Insurance company S.C
NICE: National Insurance Company of Ethiopia S.C
NOSFA: No-One-Size-Fits-All

NSE: Nigerian Stock Exchange

NISCO: Nyala Insurance company S.C

NILE: Nile Insurance Company s.c

OECD: The Organization for Economic Cooperation and Development

OLS: Ordinary Least Squares

ROE: Return on equity

ROCE: return on capital employed

ROA: Return on Asset

ROI: Return on Investments

UNIC: United Insurance Company S.C

## **Chapter One: Introduction**

### **1.1. Background of the study**

The intractable problem of risks and uncertainties has been the greatest challenge to humanity on this planet from time immemorial. This problem has remained unresolved despite the great advances that we have witnessed in the areas of science and technology over the years. From the social and economic viewpoint, insurance was the most ingenious creation of the human mind in response to this risk problem. Insurance plays a very significant role in economic growth. It contributes to the growth of the asset base in the economy through insurance savings which transform to investments (Swiss Re 2011). For the aforementioned benefits of insurance to be realized placing sound corporate governance in the sectors plays pivotal role. Governance is increasingly recognized by the business community, regulators and capital market authorities as a fundamental driver of corporate performance. Corporate governance is thus framed to perform a system of supervision that uses techniques like board structure, duality, reporting, and remuneration to provide shareholders with the necessary information necessary to hold management liable for their decisions Husam et'al (2012).

According to Edwards & Clough (2005) corporate governance involves an organizations dedication to adopt fair and ethical practices across its whole system and in all of its associations with an extensive group of stakeholders consisting of customers, suppliers, government, and shareholders. It is about the structures and processes in place to facilitate and monitor effective management of an organization including mechanisms to ensure legal compliance and prevent unlawful and improper behavior.

Cadbury (2003) echoed add the fact of corporate governance as it is all about maintaining a balance between social and economic goals and is concerned with holding the balance between economic and social goals and between personal and shared goals. The structure of governance is mainly present to inspire the optimum use of resources to hold accountable the stewards of those resources. The Organization for Economic Cooperation and Development's [OECD] also define *corporate governance as*

*the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance determined.*

From the global perspective, the history of corporate governance systems is now well documented. According to Gomez (2005), the past two decades have however, witnessed significant transformations in corporate governance structures, leading to increased scholarly interest in the role of board of directors in driving corporate performance. Arising from many high profile corporate failures, coupled with generally low corporate profits across the globe, the credibility of the existing corporate governance structures has been put to question. Subsequent research (Shleifer and Vishny 1997) has thus called for an intensified focus on the existing corporate governance structures, and how they ensure accountability and responsibility.

The well-publicized cases of Enron Corporation, Adelphia, Health South, Tyco, Global Crossing, Cendant and WorldCom, among others, have repeatedly been put forward as typical scandals that justify corporate governance reform and the need for new mechanisms to counter the perceived abuse of power by top management Ongore and K'Obonyo (2011).

The last decade has witnessed a marked increased in multi-disciplinary empirical research investigations on the effect of alternative corporate governance mechanisms on firm performance. In accounting and finance literature, studies of corporate governance issues have received great attention and have been used as indicators for firms' successes or failures. Further, they document that firm with robust corporate governance mechanisms seem to be more successful compared with those companies having weak corporate Governance mechanisms Khaled et'al(2007).

A number of studies have proposed that firms should operate in the interests of shareholders when markets are perfect. However, in emerging markets, which are imperfect and incomplete, this is not the case. Researchers in corporate governance (Huse, 1995, Gomez (2005) have reported that there is still lack of concurrence on the

ideal corporate governance structure that could safeguard shareholders assets while promoting wealth creation ventures.

On a positive note, there was a growing acknowledgement that improved corporate governance was crucial for the growth and development of the whole economy of a country (Clarke, 2011). Other studies established strong links between the performance of corporations and the governance practices of their boards (Tornyeva et al 2012, Nasar Najjar 2012; Almanasser et al 2012; OECD, 1998). Nevertheless, David et al (2013) did not find any significant relationship between the performance of firms and the governance practices of their boards.

Specifically in Ethiopia, though few studies have been conducted on corporate governance and financial performance, for example studies by Ferede (2012) and Srmolo (2012) are focusing banking industry but to the best of researcher's knowledge, no prior study has focused on Insurance industry in Ethiopia.

To this end, this study examines the impacts of corporate governance mechanism and financial performance of insurance companies in Ethiopia. This will not only add to existing literature but also it will serve stakeholders to handle potential multi conflicts in the sectors.

The remainder of this chapter is organized as follows. Section 1.2 presents the over views of Ethiopia insurance industry, section 1.3 presents statement of the problem. Section 1.4 presents objective, of the study. Section 1.5 presents the significance of the study and 1.6 present's scope of the studies. More additionally, Section 1.7 introduces limitation of the study. Finally, Section 1.8 presents structure of the study.

## **1.2.Overviews of Ethiopia Insurance Industry.**

Insurance industry in Ethiopia does not have a long history of development despite the countries long history of civilization. Schaefer (1992) indicated that the emergence of modern insurance in Ethiopia is traced back to the establishment of the Bank of Abyssinia in 1905. The Bank began to transact fire and marine insurance as an agent of a foreign insurance company. Imperial Insurance Company was the first domestic private insurance company that was established in 1951. In the 1960s domestic private

companies started to increase in number. In 1962, according to the survey of the Central Statistical Agency (CSA), there were 34 insurance companies in Ethiopia, of which two were domestic and the rest were foreign represented by agents. In other words, the origin of Ethiopia insurance industry is linked to expatriates and foreign insurance companies (Zelege, 2007).

Following the overthrow of the imperial regime by the Marxist Military government, private insurance companies were nationalized in 1975. A sole public insurance company was established under the name Ethiopia Insurance Corporation (EIC), which had a monopoly in the insurance industry for 19 years. Following the regime change in 1991, there was a shift to a market economy and a new insurance proclamation Licensing and Supervision of Insurance, No. 86/1994, was issued in 1994. The law allowed private sector participation in the insurance business (Mihretu, 2010). Considering the regulation and proclamation the sector have been broadly stable and growing in terms of expanding its services and increase its premium, total asset, total liabilities as well as capital in relative to previous years. However the sector still contributed less than 1% to country's GDP.

### **1.3. Statement of the Problem.**

The subject of corporate governance has assumed critical significance in the present juncture of the business world. The law and finance literature has documented that good corporate governance generally pays for firms, for markets, and for countries. It is associated with a lower cost of capital, higher returns on equity, greater efficiency, and more favorable treatment of all stakeholders; although the direction of causality is not always clear Claessens (2006). Corporate governance, a phrase that not long ago meant little to all but a handful of scholars and shareholders, has now become a mainstream concern a staple of discussion in corporate boardrooms, academic meetings, and policy circles around the globe. Claessens (2006).

Corporate sector was sapped by corporate governance scandals in the United States and Europe that triggered some of the largest insolvencies in history. In the aftermath, not only has the phrase corporate governance become nearly a household term, but

economists, the corporate world, and policymakers everywhere have begun to recognize the potential macro economic consequences of weak corporate governance systems Claessens (2006).

More specifically, corporate governance issues have been raised in the regulation of all financial institutions. The motivation for strengthening corporate governance in the financial sector is well-established. Unlike other industries, the financial sector plays an important intermediary role that relies heavily on public trust and confidence. Being highly visible entities, any lapse or failure in the governance of financial institutions, whether real or perceived, would attract adverse public reaction and could severely affect their reputation and public confidence. The failure of a systematically important financial institution may also result in serious ramifications and costs to the economy, given their roles and inter-linkages within a country's economy. For this reason, they are subjected to a higher standard of integrity and professionalism. In recognition of this, statutory responsibility is entrusted to the board and senior management to steer the institution and to safeguard its safety, integrity and reputation at all times. As public interest entities, actions by financial institutions have far reaching implications for a wide range of stakeholders (Ibrahim 2014).

When it comes to the insurance sector the industry was not immune to the most riveted crisis, and the bailout of the "giant" American Insurance Group (AIG) by the U.S. government, was equally blamed on excessive risk taking. More precisely, following the crisis, questions pertaining to executive compensation packages, board of directors duties, the importance of risk management within the firm, and the impact of regulation (among others) have surfaced, leading to a large debate on the type of effective monitoring mechanisms that could curtail managers excessive risk-taking behavior in the industry Narjess (2011).

Past empirical Studies examining the relationship between governance and firm performance produce mixed result. Some studies have shown no significant relationship between governance and firm performance (see for example Ibrahim, et al. 2010).

More additionally, there is no clear evidence to suggest that better corporate governance enhances firm performance in different market settings. Further, there is no unequivocal evidence that governance practices are endogenous (Klein et al 2005) and investors are still much skeptic about the existence of a link between good governance and performance indicators and for many practitioners and academics in the field of corporate governance, this remains their search for the Holy Grail the link between returns and governance (Bradley, 2004).

However, there were studies done which claims that good corporate governance enhances firm's performance. For instance, Klapper and Love (2002) report 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.

Coming back to the case of the Ethiopia, prior studies conducted in the area of corporate governance are very few. For instance, Minga (2008) explores the legal and other external institutional frameworks of corporate governance in Ethiopia and concluded that the overall standard of corporate governance was disappointing in the country. Fekadu (2010) also analyzed the ownership structure of corporations in the country and determined that the separation between ownership and control (or shareholders and management of the corporations) is growing in Ethiopia. However, there are weaknesses in the Commercial Code to protect minority shareholder rights. In addition, Ahemad (2012) studied on Ethiopia company law and found that the Ethiopia 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. Generally earlier studies in developed countries have made immense contribution to the corporate governance mechanism and financial performance. However, developing countries received little attention in various literatures on this issue. However, many of these studies were in banking industry. 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 (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. Specifically in Ethiopia, though few studies have been conducted on corporate governance and financial performance, no prior study has focused on insurance industry in Ethiopia. Therefore current study seeks to see impact of corporate governance mechanism on financial performance of Insurers that operate in Ethiopia to fill this left knowledge gap. Thus the next section presents objectives of the study.

#### **1.4. Objectives of the Study**

In light of the problems stated in the preceding discussion, the intent of this concurrent mixed methods study is to examine the impact of corporate governance on financial performance of Ethiopia insurance industry in controlling the influence of some selected Insurers specific variables using ten years data 2005-2014.

##### **1.4.1. Specific objectives of the study**

Given the overall objective of examining the impact of corporate governance mechanisms on firms' financial performance using some selected Insurers in Ethiopia, this study had several specific objectives. Specifically, the study sought to:

- ✓ Investigate the relationship between board size and Insurer performance
- ✓ Examine the association between board frequency of meeting and Insurer performance
- ✓ Examine the association between board gender diversity and Insurer performance
- ✓ Ascertain the influence of the directors' educational qualification on Insurer performance
- ✓ Identify whether directors business management experience affect Insurer performance
- ✓ Find out the influence of industry specific experience of directors on Insurer performance
- ✓ Ascertain influence of chief executive compensation on Insurers performance

### **1.5. Significance of the Study**

The findings of this study are expected to be of particular value to a number of players in the various sectors in Ethiopia notably.

The result of this study will contribute to Insurance industry by identifying relevant internal corporate governance mechanism and how this governance affects financial performance. The result of this study contributes to the existing literature by providing evidence on the relation between internal corporate governance mechanism and Insurer's financial performance.

The empirical results would also be the general indicators of corporate governance mechanism that are useful for National Bank of Ethiopia, and Insurers' shareholders in making policies and decisions.

More additionally, study serve as a stepping stone for future researchers and suggests areas where gap in literature exist, where further research studies are required so that scholars in the field of finance and Economics can do further studies of them.

### **1.6. Scope of the study**

The scope of the study is restricted to examine impacts of internal corporate governance mechanism on financial performance of Insurers that are registered by the NBE and that has operated at least ten year. To this end, this study were limited to internal corporate governance mechanism variable (board size, Frequency of board meetings, Existence of female directors in the board, director's educational qualification, director's industry specific experience, directors other business management experience and Chief executive compensation) as explanatory variable and the controlling variable were delimited to premium growth rate to see their impacts on financial performance. The dependent variables were delimited to return on asset .The secondary data used were collected for the period of 2005-2014.The sample include one state owned (EIC) and eight private insurance companies NIB, NISCO, UNIC, NICE, GLOBAL, AIC AFRICA and NILE.

### **1.7. Limitation of the Study**

As with any other study, this study has its own limitations. In this study the considered sample Insurance companies were on bases of purposive sample method based on the companies' age. This may introduce bias inherent with non-probability sampling method. Another limitation of that hamper current study were unavailability of active secondary market which forced the researcher to consider dependant variable as accounting based measure performance (ROA) and at the same time thus dependant variable are measured in terms of book values rather than market values.

### **1.8. Structure of the Study**

Structure of the thesis report was divided into five chapters. Chapter one is the introduction part which contains background of the study, over views of Ethiopia insurance industry, statement of the problem, research objective, significance of the study, scope of the study , limitation of the study and structure of the research thesis. Chapter two presents a discussion on literature review. Chapter three outlined the research methodology followed in the study. Chapter four reports the results and a discussion thereon. In the final chapter, conclusions, summary recommendations and suggestions for further research and improvements were forwarded.

## **Chapter Two: Literature Review**

The term corporate governance is a relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer, at least since Berle and Means (1932) and even earlier Smith (1776) cited on (Claudiu 2007). Hence, chapter two serves as background for this study by describing concepts of corporate governance mechanism and organization performance. The remainder of the chapter builds on following sections. In Section 2.1 theories related to corporate governance is presented this is followed by section 2.2 which presents empirical review of the previous studies conducted in relation to corporate governance mechanism and organizational performance and section 2.3 introduce corporate governance and insurance sectors and finally section 2.4 presents corporate governance in Ethiopia context.

### **2.1. Corporate Governance Theories.**

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010). According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance.

There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanism on firm's financial performance. The most

important theories are the agency theory, stakeholder's theory and resource dependency theory (Maher & Andersson, 1999).

### **2.1.1. Agency Theory**

According to Habbash (2010) agency theory is the most popular and has received greater attention from academics and practitioners. The agency theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010).

The agents are appointed to manage the day to day operations of the corporation. The separation of ownership and controlling rights results conflicts of interest between agent and principal. To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers.

According to Bowrin and Navissi (n.d.) agency theory refers to a set of propositions in governing a modern corporation which is typically characterized by large number of shareholders who allow agents to control and manage their collective capital for future returns. The agent, typically, may not always own shares but may possess relevant professional skills and competence in managing the corporation. The theory offers many useful ways to examine the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved particularly when the managers do not own the corporation's resources. Agency theory identifies the role of the monitoring mechanism of corporate governance to decrease agency costs and the conflict of interest between managers and owners. It is clear that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance.

Agency theory having its roots in economic theory was expounded by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Jensen and Meckling (1976) defined agency relationship as a contract under which the principal engage another person or the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the irregular activities of the agent.

Control of agency problems in the decision process is important when the decision managers who initiate and implement important decisions are not the major residual claimants and therefore do not bear a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that deviate from the interests of residual claimants. Individual decision agents can be involved in the management of some decisions and the control of others but separation means that an individual agent does not exercise exclusive management and control rights over the same decisions (Fama & Jensen, 1983 p.304).

According to agency theory the agent strive to achieve his personal goals at the expense of the principal. Managers are mostly motivated by their own personal interests and benefits, and work to maximize their own personal benefit rather than considering shareholders interests and maximizing shareholders wealth. To reduce agency problem there must be better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests.

The agency problem can be set out in two different forms known as adverse selection and moral hazard. Adverse selection can occur if the agent misrepresents his ability to perform the functions assigned and gets chosen as an agent. Moral hazard occurs if the chosen agent shirks the responsibilities or underperforms due to lack of sufficient dedication to the assigned duties. Such underperformance by an agent, even if acting in the best interest of the principal, will lead to a residual cost to the principal. These costs

resulting from sub-optimal performance by agents are termed as agency costs (Bathula, 2008, p.62).

The concept of corporate governance presumes a fundamental tension between shareholders and corporate managers (Jensen & Meckling, 1976). While the objective of a corporation's shareholders is a return on their investment, managers are likely to have other goals, such as the power and prestige of running a large and powerful organization, or entertainment and other perquisites of their position. Managers' superior access to inside information and the relatively powerless position of the numerous and dispersed shareholders, mean that managers are likely to have the upper hand (Fama & Jensen, 1983).

Therefore, shareholders monitor and control managers through their representatives such as board of directors. Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self interest at the expense of the company's profitability. Fama and Jensen (1983) argues that in order to minimize agency problem that emanates from the separation of ownership and control the corporations need to have a mechanisms that enables to separate the authority of decision management from decision control. This would reduce agency costs and ensures maximization of shareholders wealth by effectively controlling the power and self-centered decisions of management.

From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centered behaviors of management and inspecting the financial reporting process (Habbash, 2010). Moreover, corporate governance is able to alleviate agency costs by aligning the conflicting interests of management and shareholders through monitoring management and using different corporate governance mechanisms. Therefore, corporate governance mechanism such as boards of directors and audit committees enables shareholders to closely monitor the activities of managers. Ineffective board and audit committee may give confidence for managers to pursue their own interests but

effective board and audit committee can reduce deceptive behavior of managers by detecting fraudulent financial report and actively monitoring.

According to the assumptions of agency theory corporate governance affect financial performance. As a consequence, enhancing corporate governance should result in improved financial performance. Taking agency theory into consideration, the study variables were identified with the aim of examining the impacts of corporate governance mechanism on financial performance.

Board structure has relied heavily on the concepts of agency theory, focusing on the controlling function of the board (Habbash, 2010). The corporate governance mechanism variable considered in this research include board size, board frequency of meeting, board gender diversity, educational qualification of board members, other general and industry specific experience of board members and chief executive compensation.

### **2.1.2. Stakeholders Theory**

Stakeholder theory is an extension of the agency theory, where the agency theory expects board of directors to protect only the interests of shareholders. However, stakeholder theory extends the narrow focus of agency theory on shareholders interest to stakeholders to take into account the interests of many different groups and individuals, including interest groups related to social, environmental and ethical considerations (Freeman et al.2004).

According to Freeman et al. (2004), stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. According to stakeholder theory the purpose of the firm is to serve and coordinate the interests of its various stakeholders such as shareholders, employees, creditors, customers, suppliers, government, and the community.

According to Habbash (2010), stakeholder refers to any one whose goals have direct or indirect connections with the firm and influenced by a firm or who exert influence on the firms goal achievement. These include management, employees, clients, suppliers, government, political parties and local community.

According to this theory, the stakeholders in corporate governance can create a favorable external environment which is conducive to the realization of corporate social responsibility. Moreover, the stakeholders in corporate governance will enable the company to consider more about the customers, the community and social organizations and can create a stable environment for long term development. The benefit of the stakeholder model emphasis on overcoming problems of underinvestment associated with opportunistic behavior and in encouraging active co-operation amongst stakeholders to ensure the long-term profitability of the business firm (Maher & Andersson, 1999).

According to Kyereboah-Coleman (2007) management receive capital from shareholders, they depend upon employees to accomplish the objective of the company. External stakeholders such as customers, suppliers, and the community are equally important, and also constrained by formal and informal rules that business must respect. According to stakeholders theory the best firms are ones with committed suppliers, customers, and employees and management. Recently, stakeholder theory has received attention than earlier because researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders (Kyereboah-Coleman, 2007).

Companies are no longer the instrument of shareholders alone but exist within society. It has responsibilities to the stakeholders. However, most researchers argue that it is unrealistic task for managers (Sundaram & Inkpen, 2004b, Sanda et al. 2005). The stakeholder theory has not been subjected to much empirical study. The common criticisms for stakeholder theory is that how to align the stakeholders conflicting interests since the difficulties result from how to administer different stakeholders with

various needs and demands. It is not possible to treat all stakeholders equally (Habbash, 2010).

Moreover, it is not practical for all stakeholders to be effectively represented in corporate governance recommendations as this may undermine the welfare of company (Habbash). The other critique of the stakeholder model is that managers or directors may use stakeholder reasons to justify poor company performance (Maher & Andersson, 1999).

### **2.1.3. Resource Dependency Theory**

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009).

According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007).

The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang 2009).

The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. Recently, both economists and

management scholars tend to assign to boards the dual role of monitors and advisers of management.

However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2010). Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making (Marinova et al.2010). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2010).

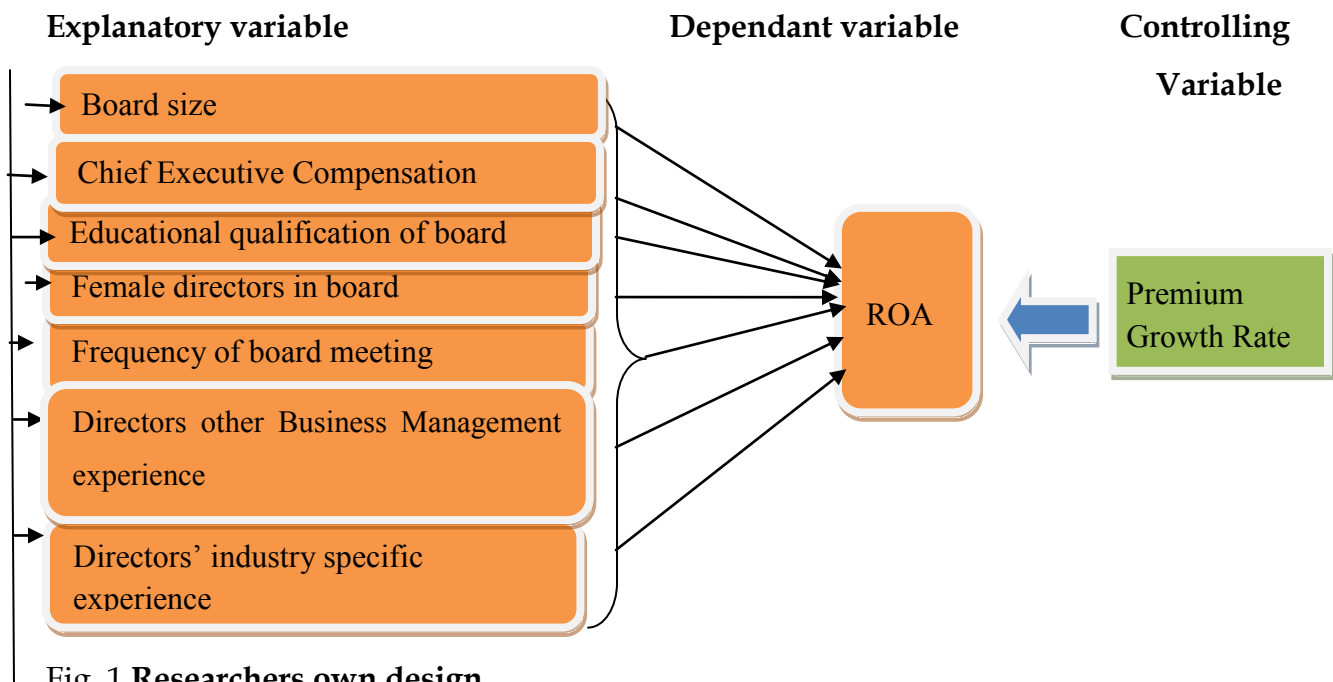
Each of the three theories is useful in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2010).

Among the various theories discussed, agency theory is the most popular and has received the most attention from academics and practitioners. According to Habbash (2010), the influence of agency theory has been instrumental in the development of corporate governance standards, principles and codes. Mallin (2007) provides a comprehensive discussion of corporate governance theories and argues that the agency approach is the most appropriate because it provides a better explanation for corporate governance roles (as cited by Habash, 2010).

Generally in relation to the research objectives, this study adopted the agency theory because, it focuses on the board of directors as a focal point which dominates the corporate governance literature. Unusual agency problems in insurance sector, the lack of Competitive pressure and the special nature of insurance sectors suggest that Insurers need stronger corporate governance practices than do the other. Taking agency theory into Consideration, the study variables were identified accordingly based on identified studies variable conceptual framework of the paper where developed since conceptual framework is the schematic diagram which shows the variables includes in the study. It is system of concepts assumption, expectation belief 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 relationship between them (Miles and Huberman 1994).

*Fig 2.1 Conceptual frame work of the paper*



**Fig .1 Researchers own design.**

**2.2. Empirical Studies on Corporate Governance and organizational Performance.**

This section of literature review concentrates on previous studies that have been conducted in relation to this study. There were mixed results concluded by previous studies pertaining to the relationship between corporate governance mechanisms and firms' financial performance. The important empirical studies are summarized below in this section.

Uadiale (2010) examines the impact of board structure on corporate financial performance in Nigeria. He found as the existence of strong positive association between board size and corporate financial performance. It investigates the composition of boards of directors in Nigerian firms and analyses whether board structure has an impact on financial performance, as measured by return on equity and return on capital employed. Based on the extensive literature, four board characteristics (board

composition, board size, board ownership and CEO duality) have been identified as possibly having an impact on corporate financial performance and these characteristics are set as the independent variables. The Ordinary Least Squares (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Further he noted as exists of positive association between outside directors sitting on the board and corporate financial performance. However, a negative association was observed between directors' stockholding and firm financial performance measures. In addition, the study reveals a negative association between return on capital employed (ROE) and CEO duality, while a strong positive association was observed between ROE and CEO duality. The study suggests that large board size should be encouraged and the composition of outside directors as members of the board should be sustained and improved upon to enhance corporate financial performance.

Ibrahim et al. (2010) examined the role of corporate governance in firm performance. Their study was a comparative analysis between chemical and pharmaceutical sectors of Pakistan using a sample of five companies from each sector from the year 2005 to 2009. Multiple linear regression models with panel data methodology were used. Return on asset and return on equity was used as a measure of performance and they used three corporate governance variables; board size, board independence and ownership concentration. They found that in both sectors, the impact of corporate governance on return on equity is significant but there is no significant impact on return on asset. In case of sector analysis, there is an insignificant impact of corporate governance on return on asset for chemical and pharmaceutical. On the other hand, there is a significant impact of corporate governance on return on equity in chemical sector, but in pharmaceutical the impact is insignificant.

Aldamen et al. (2011) conducted a study on the effect of audit committee characteristics and firm performance during the global financial crisis. The researchers used logit model analysis with a sample of 120 firms listed on the S&P300 during the period of 2008 and 2009. The study revealed that smaller audit committees with more experience

and financial expertise are more likely to be associated with positive firm performance in the market. It also found that longer serving chairs of audit committees negatively impacts accounting performance. However, accounting performance is positively impacted where audit committees include block holder representation, the chair of the board, whose members have more external directorships and whose chair has more years of managerial experience.

Amran (2011) empirically studied the association between Corporate Governance Mechanisms and Company Performances. It was expected that corporate governance mechanisms affect company performance. The hypothesis was tested on 424 public listed Malaysian Companies (233 family controlled firms and 191 non-family controlled firms) and the data about corporate governance mechanisms and company's performance was collected from Sultanah Bahiyah Library database from the year 2003 to 2007. Board size, board independence director's professional qualification, leadership structure were used as a corporate governance mechanisms, debt, firm age and firm size were used as a control variable while Tobin's Q were used as a measure of company performance. Panel data methodology with generalized least square estimation method was used to test the hypothesis. The analysis has been done by classifying the sample as family controlled firm and non-family controlled firm. The researcher revealed that director's qualification measured as the percentage of directors with degree and above divided by total directors helps to enhance the performance of non-family controlled firms but insignificant for family controlled firms. Board size and leadership duality was a significant negative influence on family controlled firms performance but insignificant for non-family controlled firms. Firm age was a significant negative and positive association between the performance of family controlled and non-family controlled firms respectively. On the other hand, there was a significant negative relationship between firm size and performance of both family controlled and non-family controlled firms. The other variables such as board independence and director's professional qualification were insignificant for both classes of firms.

Al-Manaseer et al. (2012) empirically investigated the impact of corporate governance on performance using 15 Jordanian banks listed at Amman Stock Exchange from the year 2007 to 2009 with a total of 45 bank-year observation. The study employed pooled data, and OLS estimation method with panel methodology. Return on asset, return on equity, profit margin (measured as net interest income divided by total asset) and earnings per share were the dependent variables of the study and board size, board composition (independence), chief executive officer status, foreign ownership and bank size were the independent variables of the study. The study revealed a significant negative relation between board size and banks performance as measured by return on equity and earnings per share but insignificant negative association of board size with return on asset and profit margin was found. Bank size was negatively related with return on asset, return on equity and profit margin but only significant with profit margin. The study also reveals a positive association between board composition and foreign ownership and bank performance. In addition, chief executive officer status has a negative influence. Finally, the researchers suggest extending the study period.

When we see empirical evidence on insurance sectors there is rare international evidence on corporate governance mechanism impact on performance in the insurance industry compared to the literature on international corporate governance of typical public firms. One recent exception relates to the risk-taking behavior of European insurance companies from the United Kingdom and Germany. Specifically, Eling and Marek (2011) are able to provide evidence that controls for the differences between the market-based U.K. corporate governance environment and the control-based system that prevails in Germany. Using a sample of 276 firms between 1997 and 2009, they proxy risk taking by asset risk and product risk, and focus on stock insurance companies. Their corporate governance indicators include executive compensation, supervisory board compensation, and independence, as well as the number of board meetings and ownership structure. The study concludes that U.K. insurance firms engage in more risk taking than their German counterparts and that large shareholdings and concentrated ownership contribute to increase risk taking.

Lai and Lee (2011) exploit the particular organizational structure of the U.S. property and casualty insurance industry to assess the link between corporate governance and risk taking (captured by underwriting risk, leverage risk and investment risk, in addition to a measure of total risk). According to the authors stock organizational structure may provide incentives for risk taking to increase the wealth of shareholders. Indeed, shareholders who have limited liability are more likely to take risk in order to maximize firm value and hence directly benefit from increased earnings Najjar (2012) examine the impact of corporate governance mechanisms on firm's performance of the insurance industry in Bahrain, to understand how to minimize the agency costs effectively and design the appropriate organizational structure. Also, to distinguish between good and bad corporate governance which is a crucial step in building the market's confidence and attracting positive investment flows to the institution and the economy. Pooled data method was used for Five insurance companies listed in Bahrain stock exchange for the period of 2005-2010 year and he conclude 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 expressed by the dependent variable - return on equity (ROE). 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 expressed by the dependent variable return on equity (ROE). This result, confirms the importance of good governance structure on the firm and the whole economy in the long run. The researcher suggests that every insurance firm should properly define corporate governance and its mechanisms and implement them effectively in order to reach the firm's long-term goals, build stakeholders' confidence and generate positive investment flows.

Tornyeva et al (2012) undertake study is to investigate the relationship between corporate governance and the financial performance of insurance companies in Ghana. Both primary and secondary data was used and secondary data was collected from the national insurance commission and the primary data was collected through the

administration of interview questionnaires. Panel Data Methodology was used for the data analysis. The findings shows that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting are positively associated with the financial performance of insurance companies in Ghana. The authors argue as the insurance companies are encouraged to adopt good corporate governance practices to improve their financial performance and also to protect the interest of the shareholders. Most importantly the regulatory authorities must ensure compliance with good governance and apply the appropriate sanctions for non compliance to help the growth and development of the insurance industry.

Jackson (2012) did studies to examine the relationship between executive compensation, ownership structure, and firm performance for Chinese financial corporation's during 2001-2009. The results reveal that executive compensation in Chinese banks follows a relation-based rather than a market-based contract. There is little evidence in support of the pay-for-performance setting for Chinese executive compensation. Ownership concentration has significantly negative impacts while firm size has significantly positive impacts on CEO compensation. Further, the involvement of state ownership tends to limit executive compensation, while the compensation committee is friendly and enhances management compensation. The results suggest that the government or regulation may ensure efficient corporate governance in business activity as a helping hand when corporate governance is weak.

Fadun (2013) Examines challenges and opportunities associated with corporate governance and insurance company growth. It advocates the imperative of good corporate governance in the insurance industry and he examines corporate governance theoretical perspectives, highlights the challenges of corporate governance in Nigeria, and explores the relationship which exists between corporate governance and insurance company growth in Nigeria. The study is an empirical designed using the responses of survey, structured questionnaires, of 112 respondents. Pearson product coefficient of correlation( $r$ ) is employed for data analysis and hypotheses testing. The findings reveal

that good corporate governance promotes safe and sound insurance practice effective supervision promotes good corporate governance and the new code of good corporate governance for the Nigerian insurance industry enhances insurance companies' growth in Nigeria. The implication for practice suggests that effective corporate governance is necessary for proper functioning of insurance companies in order to promote growth and secure public confidence. The paper highlights the fact good corporate governance practices can enable the Nigeria insurance industry to generate more resources to create more employment opportunities and support the economy by way of prompt claims settlement.

David et' al (2013) undertakes study on effects of Corporate Governance on the financial performance of listed insurance companies in Kenya. Specifically, they examine board size, board composition, CEO duality and leverage and how they affect the financial performance of listed insurance Companies in Kenya. They use data of all those insurance Companies which were quoted on the Nairobi Securities Exchange as at December 2012 by using a descriptive research design method and they noted as a strong relationship exist between the Corporate Governance practices under study and the firm's financial performance and also they report as Board size was found to negatively affect the financial performance of insurance companies listed at the NSE more additionally they noted as a positive relationship between board composition and firm financial performance exist. However, the most critical aspect of board composition was the experience, skills and Expertise of the board members as opposed to whether they were executive or non executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the Nigerian stock exchange. On CEO duality, they found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms in Kenya.

## **2.2. Corporate Governance and In Insurance Sector**

Over the years a number of organizations have been involved in preparing various guidelines and principles of corporate governance. Due to the financial scandals and corporate collapses, there is generally the desire for transparency and accountability which will increase investors' confidence (Mallin 2004).

In the early stages of development, the insurance sector is often seen purely as a commercial enterprise. The primary insured parties are industrial firms and entrepreneurs. At this stage, relatively light regulation and oversight of the insurance companies is all that is needed. However the situation changes once compulsory classes of insurance are introduced. When motor third party liability insurance is required for all automobile drivers and major liability classes of business have been introduced, the public at large starts to rely on insurers for significant sums of money in the event of an accident or tort. At this stage high standards of governance of insurance become necessary. The stakes rise further when life insurance and pensions become common and the public invests its long-term savings, including retirement incomes funds. At this latest stage, the government has an obligation to ensure that insurers and pension providers follow high standards of corporate governance, and risk management in particular Lester & Reichart (2009).

The establishment of adequate technical provisions and reserves is a critical element of sound insurance risk management. For life insurers the calculations are based on complex assumptions involving mortality rates, allowance for future expenses, lapse and discontinuance rates and future investment yields. As a result, standard corporate accounting and financial reporting make it difficult to gain appropriate insights into the financial position of a life insurer. Insurance policyholders are thus largely dependent on the ability of management and the supervisory board to take conservative and prudent risks and have sound capital management policies. In addition policy-holders depend on the willingness and ability of shareholders to contribute additional capital when needed Lester & Reichart (2009).

Strong governance in the insurance sector requires two lines of defense. The first line of defense consists of the internal organs of the company its management, the systems of risk management, internal audit and internal controls, the company's actuary and the supervisory board that should have oversight of them all. External measures provide the second line of defense. These cover both the supervising authority that oversees the insurance companies and market mechanisms that monitor and influence the sector. Both lines of defense are needed to ensure a high level of transparency and accountability in the sector. Furthermore the burden on the supervisory authority is significantly reduced if the companies' internal governance arrangements are strong, or where the market provides an effective form of discipline through enhanced levels of transparency and signaling Lester & Reichart (2009).

### **2.3. Corporate Governance in Ethiopia**

Under this section corporate governance in the context of Ethiopia is presented. According to NBE recent intended corporate governance guideline<sup>1</sup> corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and insurance sector in particular the benefit of corporate governance gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term Shareholders value, insurance consumers' and other stakeholders interest Introduction and development of corporate governance in Ethiopia is therefore a necessary but revolutionary change in the ownership philosophies, management and operations of Ethiopiacompanies. It would help to dissolve financial and market access blockages but at the same time place far reaching requirements for revision of business practices by companies aiming at growth and prosperity for their owners and stakeholders.

Corporate governance in Ethiopia is not improving even though the Ethiopiaeconomy is at a stage of transformation. This is evidenced by study of Ahamed (2012) who critically examines Ethiopiacompany law and found that the Ethiopiacompany law does not have adequate legislative provisions on governance issues related to the

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<sup>1</sup> Available at <[www.nbe.gov.et/pdf/directives/bankingbusiness/sbb-57-2014.pdf](http://www.nbe.gov.et/pdf/directives/bankingbusiness/sbb-57-2014.pdf)> accessed on April 7,2015

separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. Furthermore, the author argues that there is a need to distinguish between corporate governance and corporate management in Ethiopia company law, and that the board should be suitably composed of non-executive and truly independent members who should be professionally competent.

In addition, Minga (2008) states that the status of corporate governance in Ethiopia is Disappointing and noted that the Commercial Code of 1960 does not provide adequate legislative response to complex governance issues of the day, the new draft corporate law has not yet been finalized; and he further states that key international conventions, codes 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; the absence of organized equity market is a serious void. Consistently, Kiyota, Peitsch, and Stern (2007) contended that the closed nature of the Ethiopia financial sector in which there are no foreign banks, a non-competitive market structure, and strong capital controls in place; and the dominant role of state-owned banks are the two major factors that may constrain Ethiopians financial development.

Similarly, Fekadu (2010) argues that the regulation of NBE is not sufficient to protect minority rights, because the main objective of NBE is financial regulation and which is just one aspect of governance. The study conducted by the Addis Ababa and Ethiopia Chambers of Commerce and Sectoral Associations (2009) on corporate governance in Ethiopia suggests that the introduction of a voluntary code of corporate governance in the country. It recommends that corporate governance law reform should consider key development policy aspects which match with the countries plans for poverty reduction and wealth creation. Good corporate reporting and disclosure are important aspects of sound corporate governance.

According to World Bank (2007) in Ethiopia, however, 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.

#### **2.4. Summary and Research Gaps**

Corporate Governance is important in all organizations regardless of their industry, size or level of growth. Good Corporate Governance has a positive economic impact on the Institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. Besides it also spurs entrepreneurial innovation enabling the organization to better seize the economic opportunities that come its way. The main Corporate Governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles ensuring that the board has an effective mix of independent and non independent directors and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board. Good Corporate aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders.

Thus, the main tasks of Corporate Governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability.

The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and Corporate Governance systems are not similar to that of

Ethiopia. In Ethiopia, study done on corporate governance themes are very few in number for instance Minga (2008) explores the legal and other external institutional frameworks of corporate governance in Ethiopia and concluded that the overall standard of corporate governance was disappointing in the country. Fekadu (2010) also analyzed the ownership structure of corporations in the country and determined that the separation between ownership and control (or shareholders and management of the corporations) is growing in Ethiopia, however, there are weaknesses in the Commercial Code to protect minority shareholder rights. In addition, Ahemad (2012) studied Ethiopia company law and found that the Ethiopia 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. More specifically research report submitted on Ethiopia banking sectors for example unpublished master thesis Ferede (2012) Studied to investigate the corporate governance mechanism and their impact on performance of commercial banks in Ethiopia.

Generally, earlier studies have made immense contributions to the corporate governance 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. 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. Specifically in Ethiopia, though few studies have been conducted on corporate governance mechanism and financial performance, to the best of researcher's knowledge, no prior study has focused on insurance industry in Ethiopia thus current study tried to fill this left research gap.

## Chapter Three: Research Methodology

The purpose of this chapter is to present the research methodology adopted in the study. The chapter is arranged as follows. Section 3.1 presents the research hypotheses. This is followed by the research approaches in section 3.2 under which quantitative, qualitative, and mixed approaches are presented with their pros and cons, and the underlying philosophies of each design. Then, section 3.3 presents the research method adopted in the study. Finally Conclusions and the relationships between research, hypotheses and the data are presented in section 3.4.

### 3.1. Hypotheses

As already shown in the first chapter, the intent of this study was to examine impacts of corporate governance mechanism on financial performance of Insurers in Ethiopia in order to achieve this objective seven hypotheses have been developed. Hypothesis are constructed to see the impacts of (board size, frequency of board meeting, board educational qualification , presence of female directors, Industry specific experience of directors, Other business managements experience of directors and chief executives compensation) that were selected from the literature and controlled by firm specific variable such as Growth premium on the dependant variable measured by ROA.

In this study the dependent variables were variables that are used to measure the financial performance of sample Insurers.

Therefore, current studies used ROA as dependant variable as one used by most previous studies see for example David et al(2013), Tornyeva et al(2012), Najjar (2012),Almanaseer et al(2012) and Ibrahim et al(2012)) to this end, dependant variable were return on asset.

**Return on Asset (ROA):** measures the overall efficiency of management. It gives an idea as to how efficient management is at using its assets to generate earnings.

$$\text{ROA} = \frac{\text{Profit after Tax}}{\text{Total Asset}}$$

Thus, some identifiable variable affecting corporate governance mechanism considered in current study with their testable hypothesis was presented as follows:

### 3.1.1. Board size

Corporate board size is considered to be one of the most important board structure variables. As a corollary the extant literature has sought to provide a theoretical and empirical nexus between corporate board size and firm financial performance with mixed results (e.g Lipton and Lorsch, 1992, Yermack, 1996).

One theoretical (agency theory) proposition is that larger boards are bad, while smaller boards are good and effective at improving financial performance (e.g., Lipton and Lorch, 1992; Sonnenfeld 2002, p.108). This is because while they plan, organize, direct and control the business of the organization, the size of the board has also got financial costs implications. That is, *ceteris paribus* larger boards consume more pecuniary and non-pecuniary company resources in the form of remuneration and perquisites than smaller boards.

A contrary theoretical view (agency and resource dependence) is that larger boards may possibly be better for corporate financial performance (e.g. John and Senbet, 1998; Yawson, 2006). Firstly, larger boards are associated with diversity in skills, business contacts, and experience that smaller boards may not have, which offers greater opportunity to secure critical resources (Haniffa and Hudaib, 2006, p.1038). Similarly, larger boards offer greater access to their firm's external environment, which reduces uncertainties and also facilitates securing critical resources, such as finance, raw materials, and contracts (e.g. Pearce and Zahra 1992, Goodstein *et al.* 1994). Secondly, larger boards enhance the knowledge base on which business advice can be sought, which increases managerial ability to make important and better business decisions (Yawson, 2006, p.76). Finally, a corporate board's monitoring capacity is demonstrated to be positively related with board size (John and Senbet, 1998, p.385).

Empirically, the evidence regarding the association between board size and firm financial performance is conflicting (e.g. Yermack, 1996 Adams and Mehran 2005, Beiner *et al.* 2006, Henry 2008, Guest, 2009). Yermack (1996) is one of the first to investigate the relationship between board size and financial performance in a sample of 452 large US industrial corporations between 1984 and 1991. Generally, he reports an

inverse relationship between corporate board size and performance (Tobin's Q). He demonstrates that his evidence is robust to firm specific characteristics like size, growth potential, board composition (% of outside directors), director ownership and industry. Specifically, Yermack's results show that investors valuation of companies' declines steadily over a range of board sizes between 4 and 10. Beyond a board size of 10, he finds no relationship between board size and market valuation. Yermack's results support prior theoretical suggestions (e.g. Lipton and Lorsch, 1992, Jensen, 1993). By contrast using a sample of 35 US listed Banking firms from 1959 to 1995, Adams and Mehran (2005) report a statistically significant and positive relationship between board size and Tobin's Q. They demonstrate that the positive relationship remain unchanged after accounting for potential endogeneities between board size and the Q-ratio.

By contrast to this Mangena and Chamisa (2008) examine the relationship between board size and the incidences of listing suspensions by the JSE Ltd. Using a sample of 81 South African listed firms from 1999 to 2005, they document no significant link between board size and incidences of listing suspension by the JSE. However, given the mixed international evidence, the study hypothesis that:

*Ho: There is no statistically significant relationship between board size and Insurers financial performance, as proxy by ROA in Ethiopian.*

### **3.1.2. Chief Executive Compensation.**

The agency-based theory generally supports that there is a positive relationship between executive compensation and firm performance (Haid and Yurtoglu, 2006; Nourayi and Mintz, 2008; and Lazarides *et al.*, 2008), although some scholars argue that a positive relation is not well-established or is only weakly supported. For instance, using data from the Portuguese Stock Exchange, Fernandes (2005) concludes that firm performance has little effect on CEO compensation and he further claims that there is no relationship between stockholders' wealth and executive remuneration. More recently, Jeppson *et al.* (2009) finds that CEO compensation is positively related to a firm's total revenue, but not related to the changes in total shareholders return or total net income. In sum, the pay-for-performance setting varies with different data,

institutions, and model specifications. Comparatively, executive compensation and CEO equity incentives have not been well studied in emerging economies (Kato and Long, 2006). Moreover, little is known about how Chinese CEOs are compensated compared to those in developed countries. Following traditional wisdom, this study hypothesizes that:

*Ho: There is no significant relationship between chief executive's compensation and Insurers' financial performance proxy by ROA in Ethiopian.*

### **3.1.3. Educational Qualifications of Directors**

It is measured by the proportion of board members who had college degree or higher to the total number of board members. Higher education of top management directors in organizational contexts is positively related to receptivity to innovation, creativity, and better strategic decision making (Bantel, 1992). 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, 1992; 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 the qualifications of directors. 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 insurer 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 strand, the study hypothesizes that:

*Ho: There is no significant relationship between educational Qualification of directors with business backgrounds and Insurers financial performance measured by ROA in Ethiopia*

### **3.1.4. Female Director Proportion**

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). On the other hand, recent studies conducted by (Farrell and Hersch, 2005) did not find significant relationship between women directors and shareholder returns. The women participation in all most all the activities around the world is increasing. As laid out in the literature, diversity within the board in terms of female director proportion has had a positive relationship to the performance. It is measured as number of female directors who serve as the board members. Therefore based on the above arguments the study hypothesizes that:

*Ho: There is no significant relationship between the proportion of female directors and Insurers financial performance proxy by ROA.*

### **3.1.5. Frequency of Board Meeting**

The association between the frequency of board meetings and firm financial performance is another internal corporate governance issue that gives rise to concern for policy-makers and researchers. There are two theoretical views on this issue: those who are in favour of higher frequency of board meetings and those who are not (e.g. Lipton and Lorsch, 1992; Jensen, 1993).

One theoretical proposition is that the frequency of board meetings measures the intensity of a board's activities, and the quality or effectiveness of its monitoring (Vafeas, 1999a, p.116, Conger *et al.* 1998, p.142). All else equal, a higher frequency of board meetings will result in a higher quality of managerial monitoring, which can impact positively on financial performance. It has been contended that regular meetings allow directors more time to confer set strategy and to appraise managerial performance (Vafeas 1999a, p.118). It can help directors to remain informed and knowledgeable about important developments within the firm. This will place the directors in a better position to timely address emerging critical problems (Mangena

and Tauringana, 2006 p.12). In fact, Sonnenfeld (2002, p.107) suggests that regular meeting attendance is considered a hallmark of the conscientious director. Also, frequent meetings intermingled with informal sideline interactions can create and strengthen cohesive bonds among directors (Lipton and Lorsch 1992, p.69).

An opposing theoretical view is that board meetings are not necessarily beneficial to shareholders. Firstly, Vafeas (1999a, p.114) argues that normally the limited time directors spend together is not 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. This reduces the amount of time that outside directors would have to effectively monitor management (Lipton and Lorsch 1992 p.64). Secondly, board meetings are costly in the form of managerial time, travel expenses, refreshments and directors' meeting fees (Vafeas 1999a, p.118).

In fact, Jensen (1993, p.866) contends that boards in well-functioning companies should be relatively inactive and exhibit little conflicts. He suggests that rather than necessarily organizing frequent board meetings, it will be more profitable for corporate boards to establish a system that is responsive to their specific challenges. For example, directors can increase the frequency of meetings during crisis or when shareholders' interests are visibly in danger, such as when replacing the CEO or fighting hostile takeovers. Consistent with Jensen's (1993) suggestions, Vafeas (1999a, p.118) argues that companies that are efficient in setting the right frequency of board meetings, depending on its operating context, will enjoy economies of scale in agency costs. However, given the conflicting international empirical evidence the following hypotheses are tested.

*Ho: There is no statistically significant relationship between the frequency of board meetings and Insures financial performance, as measured by ROA in Ethiopia.*

### **3.1.6. Other Business Management Experience of Directors**

Business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management (Saat et al.2011). Directors need to be competent and capable of understanding the business

operation. Kroll, et al (2008) found that boards rich in appropriate experience are associated with superior returns. He argues that boards comprising directors with appropriate knowledge gained through experience can be not only better monitors, but also more useful advisors to top managers. According to Castanias et al. (2001) differences between firms in the human capital of boards of directors are related to differences in strategic actions and performance. However, empirical studies examining the effect of business experience of board members on firm performance is scarce based on the above discussion the following hypothesis were tested.

*Ho: There is no significant association between board members business management experience and financial performance of Insurers proxy by ROA in Ethiopia.*

### **3.1.7. Industry Specific Experience**

It is measured as the percentage of number of directors who served in other insurers earlier in the same capacity divided by the total number of board members. It is important for insurers to have skilled and experienced directors on board particularly prior experience in the same sector and position. 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. However, empirical studies examining the effect of business management and industry specific experience of board members on firm performance is scarce in the literature. Accordingly, based on above discussion the study hypothesizes that:

*Ho: There is no significant association between board members industry specific experience and Insurers financial performance measured by ROA in Ethiopia*

### **3.2. Control variables**

In this study to reduce specification bias, the model also includes control variables growth premium as the one used by Tornyeva and Wereko(2012) premium growth (GP) is defined as change in annual premium growth production.

**Table 3.1: Description of the Variables used in the Regression Model**

Variable	Measures	Notation
<b>Dependant variable</b>		
<b>Financial performance</b>	Net Income After Tax / Total Asset	ROA
<b>Independent variable</b>		
Board size	Number of directors sitting on the board.	BS
Frequency board of meeting	Number of meeting in the year.	FM
Female Director Proportion	Number of female who serve as board member.	FD
Educational Qualifications of Directors	Number of directors who had college degree or higher.	EQD
Industry Specific Experience	Number of directors who served in other Insurers earlier in the same capacity.	ISE
Other business management experience of directors	Number of directors who have other directorial ship responsibility in other sectors divided by total number of directors	ODS
Companies' executives' compensation.	Natural log. Of chief executives composition in amount birr.	Ccop
<b>Controlling variable</b>		
Growth premium	Percentage change in growth annual premium production	GP

### **3.3. Research Approach**

As noted in Creswell (2003 p.13) in terms of investigative study there are three common approaches to business and social research namely, quantitative, qualitative and mixed methods approach. Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell 2009). On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively (Creswell 2009).

Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem (Creswell, 2003).

Generally in light of the discussions above on qualitative, quantitative and mixed research methods, in this study, the quantitative method is predominantly used. However, to have a better insight and gain a richer understanding about the research problem, the quantitative method is supplemented by the qualitative method of inquiry. That is, to get the benefits of a mixed methods approach, as presented earlier, and to alleviate the bias in adopting only either quantitative or qualitative approach, the current research combines both quantitative and qualitative research approaches. The next section focuses on the description of research method used in this study.

### **3.4. Research Method Adopted**

Decision regarding the selection of research instrument, the nature of collected data and the analysis of collection are based on the research method used in a study. Selection of appropriate research methods is very important because it decides the quality of study findings. For the purpose of the present study, mixed approach which advocates the combination of both qualitative and quantitative has proved to be ideal for the study impacts of corporate governance mechanism and financial performance of Insurers in Ethiopian. The central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either

approach alone (Creswell 2009). The following sections, thus, discuss consecutively the quantitative and qualitative aspects of the research method.

### **3.4.1 Quantitative Aspect of Research Method**

Quantitative research approach deals with numerical data and statistical analyses to answer questions about relationships among measured variables. Even if there are two strategy of inquiry under quantitative approach, this study used a survey design due to its merit of economy and enables to gather enough information. In addition the purpose of this study is to examine the impacts corporate governance on financial performance of Insurers in Ethiopian. There is a need of a quantitative or numeric description of relationship between the independent and dependent variables.

The survey, as a quantitative research strategy, can collect quantitative data by different types. Fink (2002), as quoted in Creswell (2009 p. 146), says there are four data collection types of survey, self-administered questionnaires, interviews; structured record reviews to collect financial, medical, or school information and structured observations. The survey instrument adopted in this study to collect data was a structured record review. The following section, accordingly, reviews the issues in a sample design in respect of the current study.

#### **Sampling Design**

The target populations of the study were all insurance companies registered by NBE and under operation in Ethiopia. Currently, seventeen insurance companies are working in Ethiopia (as presented in appendix 1).

However to undertake this study the researcher select nine Insurers using purposive sampling method this is because age of the company, since cut of date for the studies 2005 therefore, those Insurers which were established after 2005 and started to provide financial statement in the succeeding fiscal year were not included in this study. Therefore, this study incorporated only Nine Insurance companies that have financial statements for the year 2005 and onwards. Hence samples are chosen to represent the relevant attributes of the whole population. Thus, to make the balanced panel data

structured, i.e. every cross-section follows the same regular frequency with the same start and end dates. Besides, ten years is assumed to be relevant because five years and above is the recommended length of data to use in most finance literatures.

### **3.4.2. Qualitative Aspect of the Study**

Qualitative research approach is a means for exploring and understanding individuals or groups scribe to a social or human problem (Creswell, 2009). Qualitative research is typically used to answer questions of complex phenomena on which data can be collected using instruments like unstructured interviews, group discussions, unstructured observation and reflection field notes, various texts like reflexive Journals, pictures, and analysis of documents and literature. Thus, in the current study to gather the qualitative data needed for further addressing the objectives the study stated in the preceding section in-depth interviews were used in this study.

#### **In-depth Interviews**

In-depth interviews were held with selected board chairmen sampled Insurers. They are considered in this study because they are assumed most knowledgably part of about the issue under investigation so three boards chair man and one delegated person purposefully considered for discussion. Those considered board chairmen have high understanding and well experienced expertise in the sectors. Generally, based on the objective presented in the preceding section a number of unstructured interview questions were asked by researcher to gain additional insight.

Since the nature of this research requires in-depth understanding of the impacts of corporate governance mechanism on financial performance of insurance companies in Ethiopia, an interview was suitable to uncover such information. Easterby-Smith et al. (1991) commented that the interview method is the most fundamental of all qualitative methods and is claimed to be the best method for gathering information.

The researcher conducted an in-depth interview in unstructured face to face interview form. In respect of instrument, unstructured face to face interview was used because of its flexibility and also allowing new questions to be brought up during the interview.

Regarding the sample design, non-probability purposive sampling method was adopted. So, to explore issue of corporate governance mechanism three boards chair men and one delegated person were interviewed by using unstructured face to-face interviews at different times.

### **3.5. Data Analysis Method**

In this study to analyze the collected data descriptive, correlation and multiple panel linear regression data analysis method were employed. The descriptive statistics was used to quantitatively describe the important features of the variables using mean, maximum minimum and standard deviations. The correlation analysis was used to identify the relationship between the independent, dependent and control variables using Pearson correlation analysis. 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 (Mack et al 2005). Therefore, multiple panel linear regression analysis was also used to test the hypothesis and to explain the relationship between corporate governance mechanism variables and financial performance measures by controlling the influence of some selected variables.

Eviews 7 software was used for analysis and the results were presented through tables. Beside, the panel character of the data collected allow for the use of panel data methodology. Panel data involves the pooling of observations on a cross-section of units over several time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies (Freeman 1984). The general form of the panel data model can be specified more compactly as:

$$Y_{it} = \alpha_i + \sum \beta X_{it} + \varepsilon_{it}$$

In the equation  $Y_{it}$  represents the dependent variable in the model and  $X_{it}$  Contains the set of explanatory variable in the model. The subscripts  $i$  and  $t$  denote the cross-sectional and time-series dimension respectively. Also  $\alpha_i$  is taken to be constant over time  $t$  and specific to the individual cross-sectional unit  $i$ . If  $\alpha_i$  is taken to be the same

across units, then Ordinary Least Square (OLS) provides a consistent and efficient estimate of  $\alpha_i$  and  $\beta$ .

In the light of the above model and on the base of selected explanatory variable the current study used econometric model as shown below.

$$ROA_{it} = \alpha + \beta_1 BS + \beta_2 Ccop_{it} + \beta_3 EQD_{it} + \beta_4 FD_{it} + \beta_5 FM_{it} + \beta_6 ODS_{it} + \beta_7 ISE_{it} + \beta_8 PG_{it} + \epsilon_{it}$$

Where:

$i$  denote insurers ranging from 1 to 9 (cross-sectional dimension).

$t$  denote years ranging from 2005 to 2014 (time-series dimension).

### Dependent Variables

ROA<sub>it</sub> Return on asset for  $i^{\text{th}}$  insurer and time period  $t$

#### ▪ Independent variables

- **BS<sub>it</sub>** Board size for  $i^{\text{th}}$  insurer and time period  $t$
- **Ccop<sub>it</sub>** Chief Executives compensation  $i^{\text{th}}$  insurers and time period  $t$
- **EQD<sub>it</sub>** Board member educational qualification for  $i^{\text{th}}$  insurer and time period  $t$
- **FD<sub>it</sub>** Female directors in the board for  $i^{\text{th}}$  insurer and time period  $t$
- **FM<sub>it</sub>** Frequency of board meeting for  $i^{\text{th}}$  insurer and time period  $t$
- **ODS<sub>it</sub>** Board member other business managements experience  $i^{\text{th}}$  insurer and time period  $t$
- **ISE<sub>it</sub>** Board members industry specific experience for  $i^{\text{th}}$  insurer and time period  $t$

### Controlling variable

- **PG<sub>it</sub>** Premium Growth For  $i^{\text{th}}$  insurer and time period  $t$
- $\epsilon$  The error term

One issue that may arise from the use of panel data is whether the individual effect is considered to be fixed or random. The Hausman test was employed to select the appropriate method from the fixed effect model (FEM) and Random Effect Model (REM). Since random effects estimation addresses the endogeneity issue by in

instrument potentially endogenous variables, it also assumes that the individual firm effects are uncorrelated with the exogenous variables.

On the other hand, the fixed effect estimation deals successfully with the correlated effects problem, yet it fails to account for potential endogeneity of regressors. As it is mentioned above, for this study OLS were used. Therefore, before the regression was run tests for fulfillment of the basic Classical Linear Regression Model (CLRM) assumptions were tested. Consequently, the basic CLRM assumptions tested in this study were errors have zero mean, homoskedasticity, autocorrelation, normality and multicollinearity.

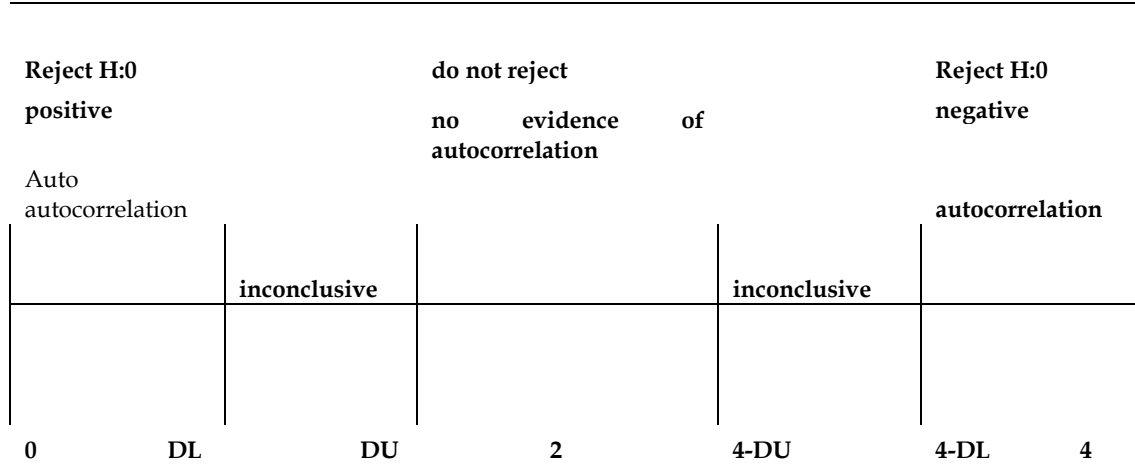
According to Brooks (2008) when the assumptions are satisfied, it means that all the information available from the patterns was used. But, if there is assumption violation of that data usually means that there is a pattern of data that have not included in the model, and could actually find a model that fits the data better.

The first assumption is the errors have zero mean. According to Brooks (2008), if a constant term is included in the regression equation, this assumption will never be violated. The second assumption is heteroskedasticity. The assumption of homoscedasticity is that the variance of the errors is constant or equal. If the variance of the errors is not constant, this would be known as heteroscedasticity (Gujarati, 2004 p.387). In order to test homoscedasticity the white test was used.

The third assumption is the autocorrelation assumption that the covariance between the error terms over time is zero; it assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are serially correlated. Usually, Durbin-Watson (DW) value in the main regression table is considered and used to test the presence of autocorrelation.

According to Brooks (2008), DW has 2 critical values: an upper critical value ( $d_U$ ) and a lower critical value ( $d_L$ ), and there is also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected.

**Figure: 3.1: Rejection and Non-Rejection Regions for DW Test**



The rejection, non-rejection, and inconclusive regions are shown on the number line in figure 3.1. So, the null hypothesis is rejected and the existence of positive autocorrelation presumed if DW is less than the lower critical value the null hypothesis is rejected and the existence of negative autocorrelation presumed if DW is greater than 4 minus the lower critical value, the null hypothesis is not rejected and no significant residual autocorrelation is presumed if DW is between the upper and 4 minus the upper limits; the null hypothesis is neither rejected nor not rejected if DW is between the lower and the upper limits, and between 4 minus the upper and 4 minus the lower limits.

The fourth assumption is Normality of the error distribution that assumed the errors of prediction (differences between the obtained and predicted dependent variable scores) are normally distributed. Violation of this assumption can be detected by constructing a histogram of residuals (Brooks 2008).

Finally the fifth assumption is multicollinearity assumption which refers to the situation in which the independent variables are highly correlated. When independent variables are multicollinear, there is overlap or sharing of predictive power. This may lead to the paradoxical effect, whereby the regression model fit the data well, but none of the explanatory variables (individually) has a significant impact in predicting the dependent variable (Gujarati 2004). A Pearson correlation is used for the purpose of

testing multicollinearity in this study. The Pearson correlation matrix is a technique of testing multicollinearity of explanatory variables by investigating the relationship of bivivariate variables (Wooldridge 2006).

Regarding data collected through in-depth interviews, Qualitative analysis was used for qualitative data collected and the results were analyzed and presented in separate section and linked whenever necessary.

### 3.6. Conclusions and the Relationships Between, Hypotheses and the Data

This chapter discussed the research hypotheses, research methods and different data sources which were used to address the study problem. In general basing the research problems and objective the study seven hypotheses were tested. Similarly, based on the underlying principles of research methods and research problem mixed method were chosen as appropriate to this research. Specifically, a structured record review was used to collect quantitative data whereas in-depths interviews were conducted to gather qualitative data. Finally the research objectives and hypotheses with their respective strategy of inquiry and data collected were summarized in table 3.2 below.

Table 3.2: Linkage between research hypotheses and data source

Research Hypothesis	Strategy of Inquiry	Data Source
<b>Ha1:</b> <i>There is no significant relationship between board size and performance of Insurers proxy by ROA in Ethiopia.</i>	Survey method Dependant Variable ROA(Return on Asset) Independent Variables	Structured documents reviews.
<b>Ha2:</b> <i>There is no significant relationship between chief executive's compensation and Insurers' performance proxy by ROA in Ethiopia</i>		
<b>Ha3:</b> <i>There is no significant relationship between educational Qualification of directors with business backgrounds and Insurers performance proxy by ROA in Ethiopia.</i>		
<b>Ha4:</b> <i>There is no significant relationship between the proportions of female directors and Insurers Performance proxy by ROA in Ethiopia.</i>	Board size Frequency of meeting Female of Director in board. Directors educational qualification	Data from insurance companies, Financial statements and Board Report of ten consecutives year (2005-
<b>Ha5:</b> <i>There is no statistically significant relationship between Frequency of board meetings and Insurers performance, as measure By ROA in Ethiopia.</i>		
<b>H6:</b> <i>There is a no significant association between board members other business management experience and financial performance of Insurers proxy by ROA in Ethiopia.</i>		

<p><b>Ha7:</b> <i>There is no significant association between board members industry specific experience and Insurers performance proxy by ROA in Ethiopia</i></p>	<p>Directors industry specific experience</p> <p>Directors other business management experience.</p> <p>Chief Executive compensation</p>	<p>2014).</p>
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## Chapter Four Results and Discussions

This chapter presents the results and analysis of the findings of the different methods used. The chapter is organized to have three sections. Section 4.1 presents test for five Classical Linear Regression Model Assumptions for classical linear regression model. Following this Section 4.2 presents the results of structured record reviews and in depth interview. Then the results obtained under these different methods are jointly analyzed in the discussion section presented in section 4.3

### 4.1. Test Results for the Classical Linear Regression Model Assumptions

This section presents the test for the assumptions of classical linear regression model (CLRM) namely the error have zero mean, hetroskedasity, autocorrelation, normality and multicollinearity.

#### 4.1.1. Assumption one: The errors have zero mean ( $E(\epsilon) = 0$ )

According to Brooks (2008), if a constant term is included in the regression equation, this assumption will never be violated. Thus, since the regression model used in this study included a constant term, this assumption was not violated.

#### 4.1.2. Assumption two: homoscedasticity (variance of the errors is constant ( $Var(ut) = \alpha^2 < \infty$ ))

**Table 4.1 Heteroskedasticity Test: White**

F-statistic	2.022109	Prob. F(44,45)	0.0103
Obs*R-squared	59.76998	Prob. Chi-Square(44)	0.0567
Scaled explained SS	31.30733	Prob. Chi-Square(44)	0.9247

*Source: Data of sampled insurance companies and own computation*

In the table 4.1 shown above the F-statistic shows as there is presence of heteroscedasticity since the p-values were less than 0.05 but Chi-Square versions of the test statistic and the third version of the test statistic, Scaled explained SS, which as the name suggests is based on a normalized version of the explained sum of squares from the auxiliary regression, gave that there is no evidence for the presence of

heteroscedasticity problem. Since both the p value was in excess of 0.05. Therefore, the conclusion of the test is somewhat ambiguous in this case. But as noted by Wooldridge (2002) existence of heteroskedasticity would not cause the parameter estimates to be biased and even in the presence of heteroscedasticity, more efficient estimation is possible provided that other assumptions are met.

**4.1.3. Assumption Three: Covariance between the error terms over time is zero (cov ( $u_i, u_j$ ) = 0)**

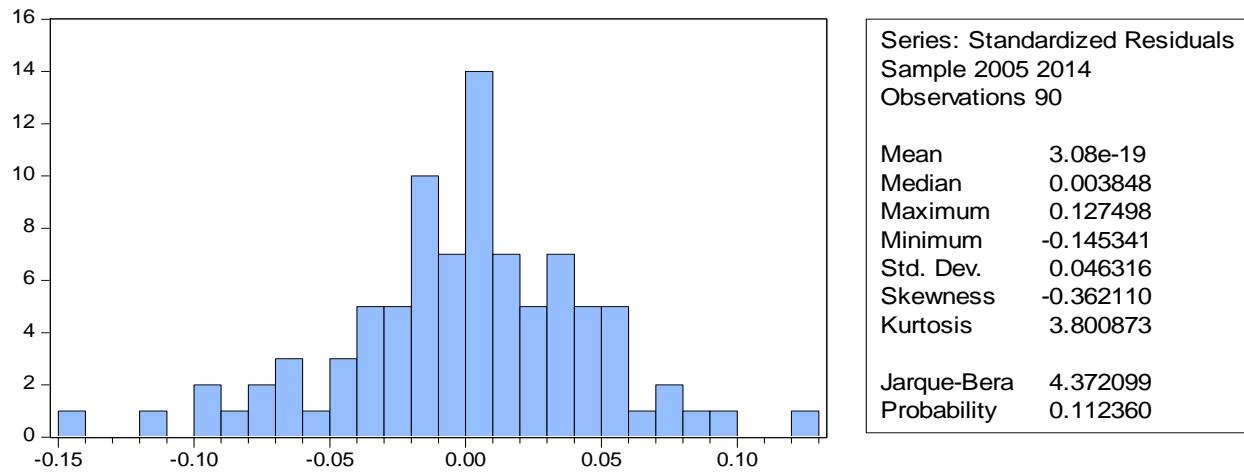
This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). If the errors are correlated with one another, it would be stated that they are autocorrelated.

The DW test statistic value in the multivariate regression result was 1.93. There are 90 yearly observations in the regression. According to DW stat table, the relevant critical values for the test were dL = 1.336, dU = 1.714, so  $4 - dU = 2.664$  and  $4 - dL = 2.286$ . The test statistic was clearly between the upper and 4 minus the upper limits (as presented in figure 3.1) and thus the null hypothesis of no evidence of autocorrelation was not rejected and no significant residual autocorrelation was presumed.

**4.1.4. Assumption four: normality (errors are normally distributed ( $u \sim N(0, \delta^2)$ ))**

According to Brooks (2008), if the residuals are normally distributed, the histogram should be bell-shaped and the Jarque Bera statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be greater than 0.05 to support the null hypothesis of presence of normal distribution at the 5 percent level.

Figure 4.1: Normality Test Result



*Source: Data of sampled insurance companies and own computation.*

The above diagram witnesses that normality assumption holds, i.e. the Bera-Jarque statistic has a P-value of 0.112 implying that the data were consistent with a normal distribution assumption. Also, it implies that the inferences made about the population parameters from the sample parameters tend to be valid.

#### 4.1.5. Assumption five: Multicollinearity Test

Multicollinearity in the regression model suggests substantial correlations among independent variables. This phenomenon introduces a problem because the estimates of the sample parameters become inefficient and entail large standard errors, which makes the coefficient values and signs unreliable. In addition, multiple independent variables with high correlation add no additional information to the model. It also conceals the real impact of each variable on the dependent variable (Anderson et al.2008).

Hair et al. (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. Also, Cooper and Schendlar (2009) suggested that a correlation above 0.8 should be corrected for. In addition, Malhotra(2007) stated that multicollinearity problems exists when the correlation coefficient among variables should be greater than 0.75.

Table 4.2: Correlation Matrix between independent variables.

	CCOP	EQD	BS	FD	ODS	GP	FM	ISE
CCOP	1.00							
EQD	-0.15	1.00						
BS	0.36	0.56	1.00					
FD	0.04	0.15	0.13	1.00				
ODS	0.35	-0.06	0.21	0.16	1.00			
GP	-0.10	0.08	0.09	-0.02	-0.03	1.00		
FM	0.42	0.52	0.58	-0.01	0.28	0.01	1.00	
ISE	0.71	0.20	0.66	0.06	0.33	0.05	0.53	1.00

*Source: Data of sampled insurance companies and own computation*

The method used in this study to test the existence of multicollinearity was by checking the Pearson correlation between the independent variables. The correlations between the independent variables are shown in table 4.2 above. All correlation results are below 0.75, which indicates that multicollinearity is not a potential problem for this study. In general, all tests illustrated above were testimonials as to the employed model was not sensitive to the problems of violation of the CLRM assumption.

#### 4.2. Results

In this paper the necessary data were collected mainly through review of documents and in depth-interview. The data is used to examine the existing relationship between the governance mechanism variable and Insurers performance. Consequently, both governance mechanism and, performance data were collected from all the Insurers that have been in operation from the year 2005 up to 2014 in Ethiopia. This data results in 90 yearly observations. The corporate governance mechanism data and performance data were accessed from NBE, and Insurers head offices of the sample companies. Finally, the data were extracted from audited annual financial statement and board of directors' reports. With regard to in-depth interviews, the study conducted interview with three board chairmen and one delegated person in favor of board chairmen, totally four peoples are contacted. The summary of the collected data for each Insurers were presented in Appendix six.

#### 4.2.1. Descriptive Statistics

Table 4.3 provides a summary of the descriptive statistics of the dependent and independent variables for nine insurance companies for a period of ten years from year 2005-2014 with a total of 90 observations. The table includes the mean, median, standard deviation, number of observations, minimum and maximum for the independent and dependent variables of the model. This was generated to give overall description about data used in the model and served as data screening tool to spot unreasonable figure.

As shown in chapter three, return on asset which gives an idea how efficient management is at using its assets to generate earnings was measured as net income after tax divided by total asset. The average value of return on asset for the sample Ethiopia Insures is 13 percent (mean=0.13) with a maximum and minimum value of 37 percents (0.37) and -5 percent (-0.05) respectively. At the same time, the standard deviation is 11 percent from the average value. This result indicates that most performing insurance among the sampled Insurers earned 37 cents of profit after tax for a single birr invested in the assets of the firm. On the other hand, less efficient Insurer's during study period from the sampled Insurers incurs loss of 0.05 cents for each birr invested in the assets of the firm.

More additional, standard deviation statistics for return on asset was 11 percents which shows that how individual values of return on asset in a data set vary from the mean of return on asset over the last ten years by 11 percents. Likewise the during study period insurance companies in Ethiopia generate 13 percents income on average from mobilizing their asset. The result implies that these Insurers need to optimize the use of their assets to increase the return on their assets.

**Table 4.3 Descriptive Statistics of Regression Variables**

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
<b>ROA</b>	0.13	0.10	0.37	-0.05	0.11	90.00
<b>CCOP</b>	5.52	5.55	6.19	4.70	0.35	90.00
<b>EQD</b>	6.31	6.00	9.00	2.00	2.14	90.00
<b>BS</b>	7.38	7.00	9.00	5.00	1.64	90.00
<b>FD</b>	0.86	1.00	4.00	0.00	1.10	90.00
<b>ODS</b>	0.77	0.80	1.00	0.29	0.23	90.00
<b>GP</b>	0.25	0.21	1.49	-0.10	0.23	90.00
<b>FM</b>	18.04	16.00	66.00	2.00	14.91	90.00
<b>ISE</b>	2.93	3.00	6.00	1.00	1.49	90.00

*Source: Eviews Output from Data of Sample Insurers, 2005– 2014*

Regarding explanatory variable there are some imperative statistics that have to be mentioned. Board size of sample Insurers which is measured as number of directors set on board. It is confirmed in the table bellow that the average board size for the sample Insurers is about 7 members (mean = 7.38) with a maximum of nine and a minimum of five directors. Lipton and Lorsch (1992) recommend average board size of (i.e. between 8 and 10) for greater board efficiency and effectiveness but this data is not within this recommendation in contrast to this Brown and Caylor (2004) suggested a board size of between 6 and 15 further in Ethiopia case National Bank of Ethiopia currently propose corporate governance guidelines for Ethiopia Insurers with postulates minimum number board size for each Insurers should be nine. The standard deviation indicates that for the sampled Insurers board size varies by 1.64 or 2 directors from the average value of 7.38 or 7 directors. This also indicates as there is low dispersion in the board size of the sample Insurers during study period.

Furthermore, another interesting observation is that there was somewhat a higher variation in frequency of board meeting during study period which is measured as Number of directors meeting in the year, on average is 18.04. The standard deviation values of 14.91 with the minimum of 2 and the maximum of 66. This result indicates that in

sample Insurers during study period there is a company which conduct highly frequent meeting in a year at the maximum of 66 times however in sample Insurers there is a company which conducts meeting only two times during a year. The result further stipulates as there is high variation in conducting a meeting among Insurers during study period by 14.91 or 15 meeting times. Generally the sample Insurers conduct meeting 18.04 or 18 times on the average which is high when we compare with currently proposed corporate governance guidelines by National Bank of Ethiopia for insurance companies which postulates as each Insurers should at least conduct meeting of 12 times in a year.

More additionally educational qualified directors measured as number of directors who had college degree or higher is a mean value of 6.31 or 6 directors which indicates on average directors who have collage degree or above was 6 people during study period sample Insurers. On the hand maximum and minimum value of statics is nine and two respectively. This indicates that from sample Insurers there is a company which have maximum of qualified of nine directors and at the minimum from the sample Insurers there is a company which have only two qualified directors during study period.

The table 4.3 also depicted directors who had prior insurance industry experience which was measured as number of directors who served in other Insurers earlier in the same capacity and the descriptive statics shows as the mean value of directors in the boards of sample Insurers who have prior experience in insurance sectors are 2.93 or 3 directors. This also suggests that only small number of directors in Ethiopia insurance industry have specifically prior Insurance related experience.

On the other hand, the standard deviation value of directors who had early insurance experience is 1.49 or one directors which indicate that there is very small variation in the industry in appointing directors who had early insurance experience. Further the test statics indicates as maximum and minimum value of industry specific experience of directors is 6 and 1 respectively. Which conform that from sample Insurer there is a campiness which have appoint 6 directors who had early insurance specific experience and at

the minimum there is a company which have only one directors who have early insurance experience during study period.

The table 4.3 also shows the mean value board of director other business management experience, is 0.77 or 77 percents. Which were measured by the number of directors who had business management experience, divided by total number board of directors A maximum of 1.00 or 100% percents and a minimum of 0.29 or 29 percents. This result depicts as 77 percents of directors who serve in sample Insurers during study periods have other business management experience.

On the other hand at maximum there is a company in sample who appoints all directs or 100 percents who have other business management experience likewise at the minimum there is a company which only appoint 29 percents those who have other business management experience. As the same time the variation in sample Insurer during the study period is 23 percents which stipulates as there is high vibration among the sample Insurers in terms of appointing directors who have other business management experience.

Further table 4.3 also indicates that the mean and standard deviation of female directors in the board of Insurers are 0.86 or one directors and 1.1 or one person respectively which is measured as number of female directors who seat in board as directors. The result suggests that there are small number and high dispersion of women in the board during the sample period. The minimum and maximum of female director's ranges from 4 and 0 respectively, 0 indicates Insurers that do not have any representation for women on their boards.

Moreover, the table 4.3 shows the mean value of chief executive officer compensation of the sample Insurers is 5.52 during a study period which was 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 0.35. Which indicates the maximum compensation of chief executives of sample insurers during study period is 6.19 where as the minimum compensation are 4.7 as the general the descriptive statics suggests that chief executives

composition structure of sample Insurers during the study period are all most similar with small variation.

Finally, the mean values of Premium growth rate of selected Insurers is 25% on average as measured by a change in annual premium production with a range of 149% to -10%. There is wide deviation, 23% percent, from the mean value of growth premium. This test statics also depicts as there is high fluctuation in and variation among Insurers during study period in production of premium.

#### **4.2.2. Correlation Analysis of the Study Variables**

This section of the study presents the results and discussions of the Pearson correlation analysis. To identify the relationship among the considered corporate governance mechanism variable and Insures financial performance, Pearson correlation coefficients were used. The correlation coefficient shows the extent and direction of the linear relationship between considered internal corporate governance variables and financial performance of Insurers proxy by ROA of the sample Insurers in Ethiopia during study period.

Accordingly in table 4.4 the correlation matrix which shows the relationship of the return on asset with board size, chief executive compensation, board members educational qualifications, female directors in board, directors frequency of meeting, directors' industry specific experience, board members other business management experience, and Insurers growth premium.

The probability is shown in parenthesis with the correlation coefficient in the correlation matrix below. The significance level also shown that is \*\*\*, \*\* and \* for 1%, 5% and 10% level respectively. The correlation coefficients are checked for the presence of high colinearity among regresses.

**Table 4.4: Correlation Matrix of Dependent and Independent Variables**

Correlation Probability	ROA	BS	CCOP	EQD	FD	FM	ISE	ODS	GP
ROA	1.000000 -----								
BS	0.120023 (0.2598)	1.000000 -----							
CCOP	0.359998 (0.0005***)	0.356704 (0.0006***)	1.000000 -----						
EQD	0.114073 (0.2844)	0.562073 (0.0000***)	-0.148463 (0.1626)	1.000000 -----					
FD	0.348172 (0.0008***)	0.130620 (0.2198)	0.042139 (0.6933)	0.153312 (0.1491)	1.000000 -----				
FM	0.295994 (0.0046***)	0.575809 (0.0000***)	0.421934 (0.0000***)	0.517772 (0.0000***)	-0.009359 (0.9302)	1.000000 -----			
ISE	0.209944 (0.0470**)	0.659040 (0.0000***)	0.711952 (0.0000***)	0.196928 (0.0628*)	0.062658 (0.5574)	0.526639 (0.0000***)	1.000000 -----		
ODS	0.608013 (0.0000***)	0.208452 (0.0487**)	0.351488 (0.0007***)	-0.061560 (0.5644)	0.159904 (0.1322)	0.276064 (0.0084***)	0.327513 (0.0016***)	1.000000 -----	
GP	0.037706 (0.7242)	0.085169 (0.4248)	-0.099940 (0.3487)	0.083320 (0.4349)	-0.019385 (0.8561)	0.009826 (0.9268)	0.054957 (0.6069)	-0.034094 (0.7497)	1.000000 -----

Source: Eviews correlation result based on the data obtained from sample Insurers  
 \*\*\*, \*\* and \* denotes significance at 1%, 5% and 10% levels respectively

Table 4.4. Point out that top executive compensation, female boards of directors, frequency of meeting and board members other business management experience are positively and significantly correlated at 1 percent significance level with return on asset. Whereas director's industry specific experience is positively significant at five percents however board size and Directors educational qualification are insignificant with return on asset. Even though they are not significant board of directors educational qualification shows a positive coefficient which is as expected but board size coefficients is not as expected in this study.

Further, the correlation result suggest in table 4.4 the Pearson correlation coefficients of board size experience, chief executives compensation, directors educational qualification, female directors, directors frequency of meeting, industry specific experience of directors and directors other business management are 12 percent , 35 percent 11 percent 34 percent 29 percent 20 percent and 60 percent respectively. From this it can be understand that board members other business management, top executives composition, female directors presence in the board and board frequency of meeting are a strong association with return on asset. In contrast board size educational qualification of directors and industry specific experience of directors does not have high association with return on asset high.

Moreover, as it is shown in the above correlation matrix control variables are not significantly correlated with return on asset. As it is observed on the coefficients values, of growth premium are weakly correlated at 3 percent level.

Generally, the correlation analysis shows that the degree and directions of association of some study variable and financial performance proxy by ROA. The correlation analysis shows only the direction and degree of association between variables and it does not permit the researcher to make causal inferences regarding the relationship between the identified variables. Therefore, it is not possible to explain the relationship between corporate governance variables and performance measures by controlling the influence of some selected variables using correlation analysis. As a result the main analysis is left for regression analysis that overcomes the shortcomings of correlation analysis.

#### 4.2.3. Results of Regression Analysis

This section covers the empirical 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 mechanism on Insures financial performance measured by return on asset. In doing this, the empirical models were developed in chapter three to guide the analyses are provided as follows:

$$ROA_{it} = \alpha + \beta_1 BS + \beta_2 Ccop_{it} + \beta_3 EQD_{it} + \beta_4 FD_{it} + \beta_5 FM_{it} + \beta_6 ODS_{it} + \beta_7 ISE_{it} + \beta_8 PG + \epsilon_{it}$$

Further they are two broad classes of panel estimator approaches that can be employed in financial research: fixed effects models (FEM) and random effects models (REM) (Brooks 2008). To check which of the two (FEM or REM) models provide consistent estimates for this study Hausman test was employed and the result is presented as follows.

Correlated Random Effects - Hausman Test  
Equation: Untitled  
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	100.488526	8	0.0000

**Table 4.5: Correlated Random Effects Hausman Test**

*Source: Data of sampled Insurance companies and own computation*

The null hypothesis of the test was that the random effect method is the preferred regression method. Tables 4.5 show the p-value for the test is significant at one percents, which indicate that the null hypothesis was rejected. Hence, the fixed effect was preferable. Accordingly, FEM was employed to estimate the relationship between the dependant variable and the independent variables.

The regression output in table 4.6 is run by taking ROA as a dependent variable, considered corporate governance mechanism and control variables as independent variable. The regression output reveals that the dependent variable is well explained by the explanatory variables in the model with R-square and adjusted R-square of 0.815 and 0.774 respectively.

The coefficient of determination R-square indicates that about 81.5% of change in return on asset is accounted for by the explanatory variables while the adjusted R-squared of 77.4% further justifies this effect. The F- statistic of 20.14 is also significant with P- value of zero indicating that the null hypothesis, that all the coefficients are jointly zero is rejected and the models do not suffer from specification bias. So, the variation in the dependent variable is well explained by the regresses in the model.

**Table 4.6 Regression Result of the Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.844422	0.189859	-4.447626	0.0000
BS	0.014359	0.013946	1.029588	0.3063
CCOP	0.107763	0.033590	3.208222	0.0020***
EQD	0.011309	0.006763	1.672191	0.0988*
FD	0.004810	0.007048	0.682438	0.4971
FM	-0.000310	0.001638	-0.188951	0.8507
ODS	0.181433	0.064118	2.829671	0.0060***
ISE	0.017609	0.008341	2.111107	0.0382**
GP	0.046762	0.026602	1.757875	0.0830*
R-squared	0.815339			
Adjusted R-squared	0.774865			
F-statistic	20.14490	Durbin-Watson stat		1.935916
Prob(F-statistic)	0.000000			

\*\*\*, \*\* and \* denotes significance at 1%, 5% and 10% levels respectively

**Source:** Eviews Output from Data of Sample Insurers, 2005 to 2014

Based on the results shown in table above independent variables like board member educational qualification (EQD) and Growth premium (GP) is statistically significant at 10%, where as industry specific experience of directors (ISE) is statistically significant at 5%. In addition, explanatory variables such as chief executive's composition (CCOP) and other business management experience of directors (ODS) are significant at 1% significance level. Since the p-value for both variables are less than 0.01. On the other hand, board sizes (BS), Existence of female directors (FD) and Board of directors' frequency of meeting (FM) are not statistically significant.

Moreover, the signs of the parameter coefficients indicate that there is positive relationship between, chief executives composition, educational qualification of directors, industry specific experience of directors, other business management experience of directors and Growth premium. This reveals that there are a direct relationship between the above five independent variables and ROA.

Among the insignificant variables, there is positive relationship between board size and presence of female directors. This indicates that increments or decrements in board size and presence or absence female directors in board do not have huge impact but low and positives influence on performance of Insures. On the hand board frequency of meeting have negative insignificant association on performance of Insurers Thus the increase of directors meeting will lead to a decrease in ROA.

#### **4.2.4. In-Depth Interview Results**

The interviews were conducted with the board chairmen of the selected three Insurers namely, AIC, NIB and NISCO and delegated person of EIC. A total of four peoples were interviewed at different times. In this study, the interview was totally unstructured. All the interviewees have got an education level of at least a first degree in a business related area and have ample working experience in insurance industry. Hence, they were believed to have a good knowledge and experience in corporate governance. The interviews were conducted independently with each director.

The interviewees rise board of director's motivation or directors desire to attend meetings, read materials, spend time on corporate activities, and to make decisions that contribute to organizational success. Motivated directors desire to information about the operations and management of the organization as well as information about the business environment, the performance and activities of competitors which is vital factors lead board of directors effectiveness that enhance performance of companies. Further they noted there is lack of motivation and commitment of directors which hamper company performance and the challenging part of working in groups.

The interviewees also pointed out as corporate transparency and disclosure is weak in case of Ethiopia. Effective legal framework that identifies the specific disclosure requirements didn't exist in the country. Furthermore, they noted that in Ethiopia issues on corporate governance disclosure such as; financial disclosures, non-financial disclosures, annual general meetings timing and means of disclosure and best practices for compliance with corporate disclosure are very low.

The interviewees also rise about board member ability to translate broad knowledge into good strategic decisions and they suggest board members' human capital in terms of background and experience certainly influences the outcomes of board decision-making. This knowledge involves technical expertise concerning areas needed to govern effectively, such as business strategy, succession, finance, law, government, technology, society and how organizations operate as general this lead qualified decision that lead financial performance. But the problem is with director's experience and qualification as there are few directors that have prior experience in insurance sector and qualified directors in the board.

Another issue mentioned by the interviewees was there is no appropriate national code of corporate governance adopted in the country except the commercial code which needs major improvements as per the interview conducted with Ethiopia Insurers board chairman. Regarding Insurers board size there is no problem with board size of the Insurer. Boards of directors are expected to proved strategic leadership to the company by include supervision of corporate governance along with the monitoring of strategic area including internal control and risk management. The board is also expected to reviews the management of corporate resources (human resource finance and information) thus effective and efficient leadership of the board can be realized through full board members and board committees that monitors thematic area such organization demand.

As per discussion the size of the board should be adequate. As the participant point out board size have no problem. This is also evidenced that the regulatory requirement under Article 347 of the Commercial Code of Ethiopia (1960), states that a share company should have a board size of between 3 and 12 members only accordingly all Insurers have a board size of five to nine (See Appendix six).

The interviewers further revealed that the closed nature of the Ethiopia financial sector in which there are no foreigner, absence of organized stock market, a noncompetitive market structure, and strong capital controls in place and the dominant role of state-owned Insurer (EIC) are the key factors that affect the corporate governance of the

country. This is also confirmed by the study of Kiyota et al. (2007). Likewise, Minga (2008) stated that the absence of organized equity market is a serious void. Since there is no organized equity market in the country when shareholders want to sale their shares, they face difficulty finding a buyer.

Besides, they mentioned that there is a high unfair competition with aggressive price cutting in the market which totally obstacle for growth of the industry the government (NBE) remain silent for situation still. As the interviewers point out placing sound corporate governance system in the industry which mitigate these and other problem in the market which lead enhanced growth and create matured industry to support the booming economic developments of the country.

The interviewees point out as professionals with requisite technical skill and experience should head and manage insurance companies. This practice promotes professionalism in the industry. The need for strong internal control system was emphasized, in order to promote good corporate governance and improve the image of the Ethiopia insurance industry.

Interviewees also agreed that effective risk management is necessary to ensure development and growth of the Ethiopia insurance industry. Furthermore, adequate capital base and compliance with NBE guidelines for insurance business practice are raised as an important role which turns redeem the image of the insurance industry in Ethiopia. They also underline as this can promote strong financial base and increase the capacity of the nation's insurance industry. However, government need to provide enabling environment, as corporate governance thrives in economical and political stable environment.

The interviewees also suggest that the proposed corporate governance guideline for the financial sectors as general and specifically for insurance industry can enhance insurance companies' growth in Ethiopia. Putting governance guidelines promotes health of the industry and keeps interest of all stakeholders in sectors and avoids sectors systemic collapse. But when we add this guideline to our list of directives (law) we should take a great care in analyze pros and con of each issue included in guideline.

They underline their arguments by indicating as nature of governance practices are not endogenous one country governance nature may not exact fit to other country governance practice. So when we adopt/develop its batter if it can be supported by in-depth research and further they note as the proposed corporate governance guideline need sort of correction.

### **4.3. Results and Discussion**

This section of the chapter discusses some of the main implications of the results. The analysis is based on the results of the regression between the dependent variable and the independent variables presented in table 4.6 and in-depth interview. The results obtained under these different methods are jointly analyzed.

#### **4.3.1. Board size**

As shown above, table 4.6 of this study indicates existence of positive association between board size (BS) and return on asset. Larger boards are associated with diversity in skills, business contacts, and experience that smaller boards may not have, which offers greater opportunity to secure critical resources (Haniffa and Hudaib, 2006, p.1038). Further, Kiel and Nicholson (2003), Beiner *et al.* (2006), and Coles *et al.* (2008) offer recent evidence for Australian, Swiss, and US listed firms, respectively, which is entirely in line with those of Haniffa and Hudaib (2006).

The positive, but a statistically insignificant nexus between the Board size and the ROA indicates that even though the board size has no valuation implications for the sampled Insurers, the market perceives it as a good corporate governance practice. This finding is also consistence with Mangena and Chamisa (2008) which record positive and insignificant relationship between board size and incidences of listing suspension by the JSE. More additionally Aggarwal *et al.* (2007) found no relationship between board size and firm performance. The result also indicates as the proposed national bank of Ethiopia corporate governance guideline for insurance sectors which say an Insurer shall have at least nine directors was not empirically supported.

The question therefore arises as to what is the optimal board size? It is difficult to provide one solution to the question that would fit all companies. This is because companies have different needs and several considerations are made before appointing directors, for instance, issues of the diversity of the company's operations, skills requirement, shareholding structure, regulatory requirements, and size of the company among others would have to be taking into account.

Studies such as Brown and Caylor (2004) suggested a board size of between 6 and 15 members whilst Jensen (1993) argues for 7 or 8 members. Lipton and Lorsch (1992) are in support of a board size of between 8 and 9. It would be ideal to have a board size of between 5 and 7 members to ensure efficiency of operations and for an improved performance. More additionally this result also consistence with interviews result as board size has no huge impacts on companies' performance. Therefore based on this premise, the null hypothesis which states there is no significant positive relationship between board size and Insurers performance in Ethiopia is supported by this data.

#### **4.3.2. Frequency of Board Meeting**

As shows in table 4.6 above this study indicates existence of negative association between board frequency of meeting and return on asset. The result is inconsistent with this study expectation. A possible theoretically explanation of the negative nexus between the frequency of board meetings and the ROA supports the idea that frequent board meetings are not necessarily beneficial. A higher frequency of board meetings, for example, can result in higher costs in the form of managerial time, travel expenses, refreshment, and directors' meetings fees.

This finding also implies that the currently proposed corporate governance guidelines for Insurers by national bank of Ethiopia which postulates frequency of meeting to at list ones in the month is not empirically supported. Empirically, this finding is consistent with the result of El Mehdi (2007) who reports a statistically insignificant association between the frequency of board meetings and the ROA for a sample of 24 Tunisian listed firms from 2000 to 2005.

By contrast, it does not support the results of Mangena and Tauringana (2006) who document a statistically significant and positive relationship between the frequency of board meetings and the ROA in sample of 157 Zimbabwean listed firms from 2001 to 2003. This finding also supported by in qualitative party of the study result which suggests high frequent meeting is boring, managerial time consuming which totally affects performance of firm. Therefore based on this premise, the null hypothesis which says there is no statistically significant positive relationship between the frequency of board meetings and Insures financial performance, as measured by ROA is supported by this data.

#### **4.3.3. Chief Executives Compensation**

The regression result provided in table 4.6 reveals a positive coefficient parameter of 0.1697 between the variables and ROA which is significant at 1% which entails that the more compensation is made for CEO, the higher the financial performance of Insurers in Ethiopia.

This also confirms that CEOs compensation does have significant and positive impact upon Insurer's performance as measured in terms of ROA. Hence, the data of this study rejects the premises of null hypothesis which says there is no significant positive relationship between chief executive's compensation and Insurers' performance in Ethiopian. Thus, the positive and significant coefficient of CEO shows that there is a point at which adding a compensation for CEO increases Insurers value. Compensation contracts are therefore seen as a remedy to the principal agent problem. Besides this, short term and long term incentive plans benefit shareholders by incentivizing managers to perform better in their own interests. Furthermore, the result suggests that at least in Ethiopia insurance industry the incentive of chief executives pay is directly linked to Insurers performance. Thus, the chief executive's compensation plays important and efficient incentive mechanisms, which inevitably enhances performance. This is in line with Zhang and Yang (2011) who argue that executive compensation incentives have a significant positive impact on firm performance.

#### **4.3.4. Proportion of Female Directors**

The relationship between female presence in board gender (FD) and financial performance measures by ROA are insignificant since the premise of null hypothesis under this study which says there is no statically positive /negative relationship between the proportions of female directors and Insurers performance were not rejected .Therefore, this study does not support the view that gender diversity leads to superior Insurers financial performance.

Some previous studies document a positive effect of the role of women on boards and find that women enhance the quality of decision making and firm performance (Bathula, 2008; Erhardt et al. 2003). However, this study does not find a significant positive/ negative association between percentage of women directors and Insurers financial performance.

The result is not surprising because other studies that examined the association between proportion of women on boards and firm performance also found insignificant result (for example see Rose, 2007; Habbash, 2010). But the result simply indicates the presence of female directors will not improve Insurers operation and performance unless they are qualified and competent. Whether gender diversity help improve insurers operation and performance it depends on factors such as experience, education and assertiveness of female directors.

#### **4.3.5. Educational Qualification of Directors.**

Board members educational qualification (EQD) has a positive effect on Insures financial performance. Board members educational qualification explains the variations of the financial performance of Insurers with a coefficient of 0.011309 and statistically significant at, 10 percent for return on asset. The result indicate that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of Insurers in Ethiopia and vice versa.

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 sample Insurers in Ethiopia

and vice versa. This suggests that the presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance.

The premises of null hypothesis under this study which says there is no significant positive relationship between educational Qualification of directors with business background and Insurers performances were rejected and the alternative hypothesis were accepted. This result supports the finding revealed by Amran (2011) and Yasser (2011). They argues that directors with higher education are better in managing the business operation and controlling agency problem than less educated counterparts this reduce agency cost.

Educational qualification affects the oversight and monitoring role of boards of directors. The result support the view that educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of Insures and the effective control or guidance of management by boards of directors. The qualification of directors as measured by the percentage of directors who had college degree or higher significantly influences Insures performance in Ethiopia.

Thus, educational qualifications of directors play a great role in board decision making. Both the regression result and the qualitative result indicate that educational qualification of directors is important factor to improve financial performance of the sampled Insurers in Ethiopia.

#### **4.3.6. Other Business Management Experience of Directors**

Other Business management experience of directors (ODS) has a positive effect on measures of Insurers financial performance. Other Business management experience of directors explains the variations of the financial performance of Insurers with a coefficient of 0.181433 and statistically significant at, one percent.

The result indicate that the increase in the number of directors who have other directorial ship have a significant positive influence on the financial performance of Insurers in Ethiopia and vice versa. In other words the higher the number of directors

who had Other Business management experience sitting on the board the higher the financial performance of sample Insurers in Ethiopia and vice versa.

The premises of null hypothesis under this study which says there is no a significant positive association between board members business management experience and financial performance of Insurers is rejected by this data. This finding is consistence with (Saat et al.2011) he argues as business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management.

The results also parallel with Kroll, et al (2008) which point outs that boards rich in appropriate experience are associated with superior returns. The results of qualitative part also support this finding which indicates that boards comprising directors with appropriate knowledge gained through experience can be not only better monitors, but also more useful advisors to top managers.

#### **4.3.7. Industry specific experience**

The regression result in table 4.6 also indicates that coefficient parameter of industry specific experience (ISE) 0.017609 is Significant at 5% significance level. Suggesting; that if one board directors with prior experience in insurance industry is added to board of directors then Insurers ROA will increase by 1.7%. Based on this result the premises of null hypothesis in this study which says there is no significant positive association board members industry specific experience and Insures performance where not accepted. This is in consistence with the study by Poon, Heong and Lee (2013) who suggest that the more senior the firms director, the greater experience, wisdom and understanding of the industry and the better the firm performance.

Senior directors are more conservative in pursuing firms' strategies and tend to focus on business activities that yield immediate profits in the short term during their service periods, ultimately improving firm performance. By this evidence, therefore, NBE directives which states that members of board of directors shall have adequate experience in business management, preferably in Insurers business, and/or should

take adequate training in insurance business management after holding a seat on the board is appropriate in order to increase the financial performance of Insurers in Ethiopia (NBE Directive No.SIB/32/2012).

#### **4.3.8. Controlling Variable Result and Discussion**

In addition to what has been discussed above, table 4.6 depicts the result of the regression analysis between the one control variables and financial performance indicators of sample Ethiopia Insurers which are interpreted below.

##### **a. Growth premium**

The above regression results reveal that Insurers (GP) has significant positive influence on insurance companies performance measured by return on asset ( with p value of 0.0830). As the result signify premium growth in the Ethiopia insurance industry vital factors that increase industry financial performance. Generally this chapter presented the results of the structured record reviews and in depth interview and then discussed the analysis of these results jointly.

Table 4.7 below summarizes the comparison of the test result for considered corporate governance variable with the hypothesized expectations. As shown in the table 4.7, the test result of the variables was consistent with the hypothesis presented in section 4.1 except for frequency of meeting and presence of female directors and board size which were found as statistically insignificant. The next chapter will discuss the conclusions and recommendations of the study.

**Table 4.7 Test Result summary**

<b>Independent Variable</b>	<b>Actual Relationship</b>	<b>Significance (10%,5% and 1%)</b>
Board size	+	Insignificant
Chief Executive Compensation.	+	Significant
Educational Qualification of Directors	+	significant
Female directors	+	Insignificant
Frequency of board Meeting	-	Insignificant
Other business Mgt experience		Significant
Industry specific experience of directors.	+	Significant

## **Chapter Five Conclusions and Recommendations**

In the previous chapter, the results of the study were presented and discussed. This chapter deals with the conclusions and recommendations of the study based on the findings. Hence, section 5.1 presents the conclusions, section 5.2 presents the recommendations and Avenues for Future Research and Improvements provided in section 5.3.

### **5.1. Conclusions**

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. Corporate governance helps to protect stakeholders' interest by aligning their interest with that of managers.

To this end, this study aimed at examining corporate governance mechanism that could influence the performance of insurance companies in Ethiopia. In order to achieve this objective, seven hypotheses have been developed. To address research hypotheses and achieve the broad research objective, the study used mixed research approach. More specifically, the analyses were performed documents reviews of insurance companies in Ethiopia during a ten year period from 2005-2014 and in-depth interview with selected Insurers board chair man.

Nine insurance companies were selected as a sample from seventeen insurance companies currently operating in Ethiopia. Fixed effect model was used to estimate the regression equation. In the study board size, chief executive composition, proportion of female directors, frequency of board meeting, educational qualification of directors , industry specific experience of directors and other business management experience directors and growth premium were considered as independent variables while return on asset was considered as dependent variables. With regard to in-depth interviews, the study conducted interview with three board chair man and one delegated person of selected Insurers.

## 5.2. Summary of Finding

The result of regression analysis showed existence of positive but insignificant association between board size (BS) and return on asset. This statically insignificant nexus between the Board size and the ROA indicates that even though the board size has no valuation implications for the sampled firms, the market perceives it as a good corporate governance practice. At the same time, the result indicates as the proposed corporate governance guideline which postulates at least nine directors for one insurance company is not empirically supported.

The results also show existence of negative association between board frequency of meeting and return on asset. A possible theoretically explanation, the negative nexus between the frequency of board meetings and the ROA supports the idea that frequent board meetings are not necessarily beneficial. A higher frequency of board meetings, for example, can result in higher costs in the form of managerial time, travel expenses, refreshment, and directors' meetings fees. This finding also implies that the currently proposed corporate governance guidelines for Insurers by National Bank of Ethiopia which postulates frequency of meeting to at list ones in the month is not empirically supported in area of determining proper number of board meeting.

Further the result also confirms that CEOs compensation does have significant and positive impact upon Insurer's performance as measured in terms of ROA. Hence, the data of this study rejects the premises of null hypothesis which says there is no significant positive relationship between chief executive's compensation and Insurers' performance in Ethiopian. Thus, the positive and significant coefficient of CEO shows that there is a point at which adding a compensation for CEO increases Insurers value. Compensation contracts are therefore seen as a remedy to the principal agent problem.

Beside this study result also shows insignificant positive association between percentage of women directors and Insurers financial performance. In addition to this the result indicates Board members' educational qualification has positive and

significant impacts on Insurers performance. This means that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of Insurers in Ethiopia and vice versa.

Also study clearly shows Other Business management experience of directors has positive significant impacts on Insurers financial performance. This means that the increase in the number of directors who have other directorial ship have a significant positive influence on the financial performance of Insurers in Ethiopia and vice versa. More additionally, study result shows significant positive association between board members industry specific experience and Insurers performance in Ethiopia.

Lastly, in the corporate governance of Ethiopia insurance sectors, as per the result of interview: the major factors that have impact on the financial performance of the Insurers are identified as (a) weak corporate transparency and disclosure i.e. absence of nationally implemented standards for corporate governance, (b) closed nature of the Ethiopia financial sector and (c) lack of qualified and experienced directors in the board. (d) Unfair price cutting which challenge the growth the industry as general.

### **5.3. Recommendation**

On the basis of the findings of this study, the Researcher has drawn the following recommendations.

- ✓ As the finding of this study indicates in Ethiopia insurance industry board of directors both industry and general business experience plays pivotal role in increasing Insurers financial performance. So if shareholders give due considerations to director's experience during their nomination for approval they further allow their company to better performance.
- ✓ CEOs compensation does have significant and positive impact upon Insurer's performance in Ethiopia. This Compensation contracts are therefore seen as a remedy to the principal agent problem. Besides this, short term and long term incentive plans benefit shareholders by incentivizing managers to perform better

in their own interests. So it is good for insurers operating in Ethiopia to give further attention on their CEO compensation package.

- ✓ Good corporate governance practices in insurance sectors will be positive that maintain the level of risk they can handle and give policy holders and stakeholders as general a sufficiently safe level of their protection and investments. Moreover, the government should revisit its proposed corporate governance guidelines for Insurers especially in the area determination of proper board size and optimal level of frequency of meeting.
- ✓ National Bank of Ethiopia should focus on the industry specific experience of directors and directors other business management experience when enact corporate governance related rule or directive.
- ✓ Finally, there is the need to set up a unified corporate body saddled with the responsibility of collecting corporate governance related data and constructing the relevant indices to facilitate corporate governance research in Ethiopia.

#### **5.4. Avenues for Future Research and Improvements**

There are several potential avenues for future research and improvements. First, since there is a general dearth of corporate governance studies that make use of Ethiopia corporate organization.

Second, current study has mainly examined the association between internal corporate governance and Insurers financial performance. Future studies can investigate how external corporate governance mechanisms, such as the market for corporate control, the managerial labour market, and the law, amongst others, affect Insurers financial performance.

Also, there are some pressing corporate governance issues that may be better addressed by future researchers via a qualitative methodology. For instance, the importance of corporate governance in corporate decision-making and performance can be explored by future research by observing boardroom interactions or by conducting interviews (i.e. structured, semi structured, and un-structured) with key company stakeholders,

such as executive and nonexecutive directors, company secretaries, senior management, and institutional investors.

Further, research could explore the relationship in more in specific categories for example, in not-for-profit organizations and in other companies. Since this study were focused on the Ethiopia insurance sector it would be beneficial to have a clearer understanding of corporate governance roles in other types of organizations. Such research could address the similarities and differences of the roles in different organizations and consider also the legal requirements for different organizations. Finally, research is also required on the different aspects of corporate governance practices. Expanding this current research into a wider study of board dynamics, how boards work and decision making and other practices of governance would be a start in developing a better understanding of corporate governance.

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# Appendix

## Appendix one: List of Ethiopia Insurance companies

No	Insurer	Date of commencement
1.	Africa Insurance Company S.C	1/12/1994
2.	Awash Insurance Company S.C	1/10/1994
3.	Global Insurance Company S.C.	11/1/1997
4.	Lion Insurance Company S.c	1/7/2007
5.	NIB Insurance Company	1/5/2002
6.	Nile Insurance Company S.C	11/4/1995
7.	Nyala Insurance Company S.C	6/1/1995
8.	United Insurance S.C	1/4/1997
9.	Ethiopia Insurance Corporation	1/1/1976
10.	Abay Insurance Company	26/07/2010
11.	Berhan Insurance S.C.	24/05/2011
12.	National Insurance Company of Ethiopia S.C.	23/09/1994
13.	Oromia Insurance Company S.C.	26/01/2009
14.	Ethio-Life and General Insurance S.C	23/10/2008
15.	Tsehay Insurance S.C.	28/03/2012
16.	Lucy insurance S.C.	15/11/2012
17.	Buna insurance S.C.	23/8/2011

Source: < [www.nbe.gov.et](http://www.nbe.gov.et) > surfed at December 29 2014

## Appendix two Interviews Questionnaires

### Leading questions

1. Any issue you think about governance practice in Ethiopia insurance industry?
2. What is core issue that promotes good governance in Ethiopia insurance industry?
3. Do you believe currently existing governance practice effective in leading growth the insurance industry?
4. Do you believe board of directors provides effective leadership in Ethiopia insurance industry?

5. Does board directors are effective in monitoring strategy implementation of insurance companies in Ethiopia?
6. Does board of directors are effective in balancing interests of different stakeholders?
7. Do you believe board size, and frequency board meeting affect performance of Insurers in Ethiopian?

#### Appendix Three Heteroskedasticity Test: White

F-statistic	2.022109	Prob. F(44,45)	0.0103
Obs*R-squared	59.76998	Prob. Chi-Square(44)	0.0567
Scaled explained SS	31.30733	Prob. Chi-Square(44)	0.9247

#### Appendix Four Hausman test

Correlated Random Effects - Hausman Test  
 Equation: Untitled  
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	100.488526	8	0.0000

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BS	0.014359	-0.017115	0.000165	0.0141
CCOP	0.107763	0.141322	0.000419	0.1011
EQD	0.011309	0.016894	0.000029	0.2994
FD	0.004810	0.023704	0.000023	0.0001
FM	-0.000035	0.000399	0.000002	0.7728
ODS	0.181433	0.253787	0.003432	0.2168
ISE	0.017609	-0.017560	0.000025	0.0000
GP	0.046762	0.053861	0.000118	0.5137

Cross-section random effects test equation:  
 Dependent Variable: ROA  
 Method: Panel Least Squares

Date: 04/20/15 Time: 09:24  
 Sample: 2005 2014  
 Periods included: 10  
 Cross-sections included: 9  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.844422	0.189859	-4.447626	0.0000
BS	0.014359	0.013946	1.029588	0.3066
CCOP	0.107763	0.033590	3.208222	0.0020
EQD	0.011309	0.006763	1.672191	0.0988
FD	0.004810	0.007048	0.682438	0.4971
FM	-0.000310	0.001638	-0.188951	0.8507
ODS	0.181433	0.064118	2.829671	0.0060
ISE	0.017609	0.008341	2.111107	0.0382
GP	0.046762	0.026602	1.757875	0.0830

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.815339	Mean dependent var	0.133789
Adjusted R-squared	0.774865	S.D. dependent var	0.107782
S.E. of regression	0.051141	Akaike info criterion	-2.940038
Sum squared resid	0.190923	Schwarz criterion	-2.467852
Log likelihood	149.3017	Hannan-Quinn criter.	-2.749625
F-statistic	20.14490	Durbin-Watson stat	1.935916
Prob(F-statistic)	0.000000		

## Appendix Five Model

Dependent Variable: ROA

Method: Panel Least Squares

Date: 04/20/15 Time: 10:20

Sample: 2005 2014

Periods included: 10

Cross-sections included: 9

Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.844422	0.189859	-4.447626	0.0000
BS	0.014359	0.013946	1.029588	0.3066
CCOP	0.107763	0.033590	3.208222	0.0020
EQD	0.011309	0.006763	1.672191	0.0988
FD	0.004810	0.007048	0.682438	0.4971
FM	-0.000310	0.001638	-0.188951	0.8507
ODS	0.181433	0.064118	2.829671	0.0060
ISE	0.017609	0.008341	2.111107	0.0382
GP	0.046762	0.026602	1.757875	0.0830

### Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.815339	Mean dependent var	0.133789
Adjusted R-squared	0.774865	S.D. dependent var	0.107782
S.E. of regression	0.051141	Akaike info criterion	-2.940038
Sum squared resid	0.190923	Schwarz criterion	-2.467852
Log likelihood	149.3017	Hannan-Quinn criter.	-2.749625
F-statistic	20.14490	Durbin-Watson stat	1.935916
Prob(F-statistic)	0.000000		

## Appendix Six: Row Data

Ethiopiainsurance corporation (EIC)									
year	RO A	BS(NO. )	FM(NO. )	FD(no )	EQD(NO )	ISE(NO )	GP(% )	ODS(% )	ccop(LOG. )
2005	10%	7	2	1	7	1.00	11%	86%	10.82
2006	7%	7	2	1	7	1.00	14%	86%	10.82
2007	9%	7	2	1	7	1.00	20%	86%	11.08
2008	9%	7	2	1	7	2.00	19%	86%	11.23
2009	9%	7	2	1	7	2.00	18%	86%	11.29
2010	13%	7	2	1	7	2.00	33%	86%	13.76
2011	11%	7	2	1	7	3.00	27%	86%	11.51
2012	14%	9	2	1	9	3.00	51%	67%	11.61
2013	17%	9	2	1	9	3.00	37%	67%	11.61
2014	19%	7	2	1	7	2.00	-8%	86%	11.65

Nib insurance company									
year	ROA(% )	BS(NO.)	FM(NO. )	fd(no )	EQD(NO )	ISE(NO )	GP(% )	ods(% )	ccop(LOG. )
2005	22%	9	40	1	9	2.00	61%	100%	11.70
2006	12%	9	40	1	9	2.00	41%	100%	11.84
2007	19%	8	39	1	9	2.00	43%	100%	11.85
2008	36%	8	40	1	9	3.00	51%	100%	11.96
2009	31%	9	36	0	9	3.00	32%	100%	12.75
2010	31%	9	46	0	9	4.00	31%	100%	12.92
2011	30%	9	38	0	9	4.00	26%	100%	13.17
2012	34%	8	53	1	8	4.00	55%	100%	13.53
2013	33%	9	61	1	9	4.00	-6%	100%	13.65
2014	32%	9	66	1	9	3.00	6%	100%	13.59

Nyala insurance companies (unisco)									
year	ROA	BS(NO. )	FM(NO. )	fd(no )	EQD(NO)	ISE(NO)	GP(% )	ods(% )	ccop(LOG. )
2005	9%	5	5	0	2	1.00	8%	100%	12.16
2006	19%	5	3	0	2	1.00	27%	100%	12.46
2007	19%	5	6	0	2	1.00	15%	100%	12.88
2008	13%	5	7	0	2	2.00	17%	100%	13.04
2009	27%	5	3	1	2	2.00	-4%	100%	13.04
2010	25%	5	4	1	2	2.00	34%	100%	13.00
2011	30%	5	3	1	2	2.00	10%	100%	13.49
2012	35%	5	7	1	2	2.00	34%	100%	13.66

2013	35%	5	11	1	2	5.00	30%	100%	13.56
2014	31%	5	10	1	2	5.00	9%	100%	13.81

<b>Global Insurance Company(GLOBAL)</b>									
year	ROA	BS(NO.)	FM(NO.)	fd(no.)	EQD(NO.)	ISE(NO.)	GP(%)	ods(%)	ccop(LOG.)
2005	4%	7	6	0	6	1.00	31%	29%	11.98
2006	4%	7	7	0	6	2.00	39%	29%	11.98
2007	5%	7	6	0	6	1.00	15%	29%	12.10
2008	5%	7	5	1	6	1.00	21%	29%	12.10
2009	5%	7	7	1	6	1.00	5%	29%	12.21
2010	8%	6	5	0	5	1.00	24%	33%	12.21
2011	4%	5	6	0	4	2.00	49%	40%	12.43
2012	2%	5	6	2	4	2.00	84%	40%	12.43
2013	15%	7	6	1	7	2.00	-2%	29%	12.61
2014	16%	6	7	1	6	3.00	15%	33%	12.61

<b>Nile Insurance Company (NILE)</b>									
year	ROA	BS(NO.)	FM(NO.)	FD(no.)	EQD(NO.)	ISE(NO.)	GP(%)	ods(%)	ccop(LOG.)
2005	4%	9	31	0	4	3.00	17%	67%	12.90
2006	4%	9	30	0	5	3.00	24%	67%	12.90
2007	2%	9	33	0	5	3.00	10%	67%	13.23
2008	-3%	9	38	0	5	5.00	-1%	67%	13.30
2009	2%	9	38	0	5	5.00	11%	67%	13.30
2010	14%	9	39	1	9	5.00	16%	67%	13.53
2011	10%	9	45	1	9	5.00	34%	67%	13.53
2012	10%	9	45	1	9	6.00	45%	67%	13.53
2013	11%	9	40	1	9	6.00	-4%	67%	13.59
2014	12%	9	40	1	9	6.00	17%	67%	13.59

<b>National Insurance Company (NICE)</b>									
year	ROA	BS(NO.)	FM(NO.)	FD(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	ccop(LOG.)
2005	-5%	5	16	0	9	1.00	24%	40%	11.82
2006	6%	5	16	0	9	1.00	20%	40%	11.82
2007	8%	5	16	0	9	1.00	18%	40%	11.85
2008	6%	5	16	0	8	1.00	16%	60%	11.85
2009	5%	5	16	1	6	1.00	14%	60%	12.01
2010	6%	5	16	1	6	1.00	32%	60%	12.01
2011	0%	5	16	2	6	2.00	25%	60%	12.04
2012	17%	5	16	2	6	2.00	68%	80%	12.04
2013	12%	5	16	2	6	2.00	13%	80%	12.21
2014	7%	5	16	1	6	2.00	5%	80%	12.24

<b>Awash Insurance Company (AIC)</b>									
year	ROA	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	ccop(LOG.)
2005	8%	9	14	0	6	5.00	149%	67%	12.73
2006	6%	9	21	0	6	5.00	36%	67%	12.84
2007	7%	9	21	1	6	5.00	28%	67%	12.77
2008	7%	9	16	1	6	5.00	16%	100%	13.18
2009	5%	9	19	1	6	5.00	14%	100%	13.45
2010	11%	9	21	1	6	5.00	20%	100%	13.53
2011	8%	9	24	0	6	5.00	47%	100%	13.70
2012	8%	9	21	0	6	5.00	58%	100%	13.79
2013	15%	9	21	0	6	5.00	8%	100%	14.01
2014	10%	9	26	0	5	5.00	2%	100%	14.25

<b>United insurance company (UNIC)</b>									
year	RO A	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	ccop(LOG.)
2005	-4%	9	15	4	8	3.00	-8%	56%	12.21
2006	15%	9	18	4	8	3.00	44%	56%	12.21
2007	22%	9	14	4	8	3.00	69%	67%	12.77
2008	35%	9	19	4	8	3.00	36%	89%	12.90
2009	15%	9	20	4	8	3.00	4%	100%	13.22
2010	31%	9	25	4	8	4.00	10%	100%	13.46
2011	23%	9	21	4	8	4.00	29%	100%	13.59
2012	29%	9	24	0	8	4.00	48%	100%	13.59
2013	37%	9	20	0	8	5.00	4%	100%	14.02
2014	30%	9	20	0	8	5.00	10%	100%	14.02

<b>Africa insurance company(Africa)</b>									
year	ROA	BS(NO.)	FM(NO.)	FD(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	ccop(LOG.)
2005	0%	6	6	0	5	3.00	13%	83%	12.21
2006	7%	6	12	0	5	3.00	27%	83%	12.21
2007	2%	7	8	0	5	3.00	22%	71%	12.43
2008	4%	8	6	0	5	2.00	29%	63%	12.43
2009	5%	7	8	0	5	2.00	13%	71%	12.61
2010	6%	7	9	0	5	2.00	45%	71%	12.90
2011	5%	7	7	0	5	2.00	39%	71%	12.90
2012	5%	7	6	0	5	3.00	40%	71%	13.12
2013	6%	7	12	0	5	3.00	-10%	71%	13.24
2014	8%	7	12	0	5	3.00	2%	71%	13.30