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# **The Impact of Corporate Governance Mechanisms on Firm Performance: a study on Insurance Companies in Ethiopia**

A Thesis Submitted to Addis Ababa University College of Business and Economics Department of Executive Business Administration in Partial Fulfillment of the Requirements for Executive Master of Business Administration (EMBA)

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**Addis Ababa**

## Declaration

### Declaration

I, the undersigned, declare that this thesis entitled ***“The Impact of corporate governance mechanisms on firm’s performance (Insurance company in Ethiopia)”*** is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

AbebeSisay\_\_\_\_\_

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Signature

Date

### STATEMENT OF CERTIFICATION

This is to certify that AbebeSisay has carried out his research project work on the topic entitled *“The Impact of corporate governance mechanisms on firm’s performance (Insurance companies in Ethiopia)”*. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Executive Masters of Business Administration.

Advisor Name \_\_\_\_\_

Signature \_\_\_\_\_

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# Addis Ababa University

## School of Graduate Studies

This is to certify that the thesis entitled, “*The Impact of corporate governance mechanisms on firm’s performance (Insurance companies in Ethiopia)*” was carried out by AbebeSisay under the supervision of YohhanesWorkaferahu (Ph.D) submitted in partial fulfillment of the requirements for the degree of Master of Executive Business Administration complies with the regulations of the University.

### Approved by the Examiners

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<u>YohannesWorkaferahu (Ph.D)</u>	_____	_____
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## **List of Acronyms and Abbreviations**

ANOVA-Analysis of Variance

BS-Board Size

BGD-Board Gender Diversity

BMIE:Board Members Industry Specific Experience

ROA:Return on Asset

BQUAL:Board Members Educational Qualification

M:Mean

NBC-Number of Board Committee

NBM:Number of Board Meetings

R:Regression

ROE:Return on Equity

SD:Standard Deviation

SPSS: Statistical Packages for Social Science

VIF:Variance Inflation Factor

## **Abstract**

*Corporate governance is considered as the most efficient way of supervising the operations of a firm and ensuring the main goal of a firm to maximize shareholders wealth is taken care of. The study aimed to determine the impact of corporate governance mechanisms on the performance of insurance companies in Ethiopia. The study adopted an explanatory research design and a sample size of 160 respondents comprising staff was selected using purposive sampling. The study used questionnaires as a tool for data collection. The data was analyzed using Microsoft excel and SPSS version 26. The study comprised of 16 insurance companies specifically, this study examined Board size, Board diversity, Board meetings frequency, number of board committee, audit committee, Board educational qualification, Board industry specific experience and their relationship with organizational performance of insurance companies in Ethiopia. Pearson correlation and multiple linear regression analysis were employed to estimate the causal relationships between corporate governance mechanisms and firm performance. Finally, the responses of the respondents were analyzed using descriptive Statistics, correlation, and regression. The finding of the study revealed that all corporate governance mechanisms have statistically significant and positive effect on firm's performance. The overall finding of the study suggests that corporate governance mechanisms play important roles in determining organizational performance of insurance companies in Ethiopia. The study concludes that there is a strong relationship that exists between corporate governance mechanisms and firm performance. Therefore, the study recommends that shareholders should put a lot of emphasis on corporate governance mechanisms so as to enhance firm performance.*

**Keywords:** *Corporate governance mechanisms, firm performance, Insurance Companies.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Backgrounds of the Study**

Currently corporate governance has become key topics and received wide attention around the world. To define corporate governance, several scholars have conducted their study, focusing on what these practices entail and how they affect a firm's overall performance. Studies found many answers related to researchers questions via providing a clear definition of good corporate governance and their ethics and procedures used in order to perform, manage and monitor a business. The majority of these studies were to examine the relation among corporate governance mechanisms and performance measures.

Corporate governance can be defined as the relationship between shareholders, the board of directors, management, employees, regulators, all other stakeholders, and the community in determining the direction and performance of the company (Ruin, 2001).

A common view of corporate governance is the concept of a board of directors, which describes the processes, practices, policies, laws, and institutions that guide how an organization or corporation conducts, manages, and controls its business (Tricker, 2015).

The literature has anticipated a number of explanations for firm performance. A standard measurement of Firm performance has not been agreed up on due to different view on which outcomes to use to gauge the effectiveness of an organization used since performance is described according to theory and purpose of the research being conducted.

Taouab and Issor (2019) depicted firm performance as an accomplishment or the result gotten by administration, financial matters and promoting in giving competitiveness, proficiency and adequacy to the company.

Richard , Devinney, Yip, & Johnson, (2009) defined firm performance as encompassing three areas of firm outcomes : (a) financial performance-profits, return on assets, return on investment , (b) product market performance - sales, market share, (c) Shareholder return -total shareholder return, economic value added. Ismyrlis (2019) described firm performance as comprising of the actual output or results of an organization (or else the company's performance) as measured against its intended outputs (or goals and objectives). Baum and Rowley (2002) further

clarified that firm performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It is a broad construct which captures what organizations do, produce, and accomplish for the various constituencies with which they interact. From the above definitions firm performance can be termed to be the outcome obtained by a firm as a result of utilization of its resources. Firm performance can be measured using various ways and approaches.

Corporate governance provides a structure that works for the benefit of the firm and can help in increasing firm's performance by reducing agency problem (Khan et al., 2011).

There are different mechanisms adopted that safeguard the interests of the stakeholders (Sanda et al., 2005). These corporate governance mechanisms include the size of the board, the gender diversity of the board, the size of the audit committee, and the educational background and experience of the board of directors.

National Bank of Ethiopia, which is a regulatory body for all insurance companies, has set a Directive No SIB/42/2015 and dispatch to all insurance companies. In general, the company directors, appointee of shareholders, shall act as the agent & trustee of the company and shareholders to look after their interest and besides this, the interest of different stakeholder groups such as customers, employees, intermediaries, government and the public at large. And also ensure that the management and Board functions are clearly separated to enable the Board to exercise its oversight function over the management.

BODs give overall direction of the business of the company, including projections on the capital requirements, revenue streams, expenses and the profitability.

Another responsibility of the board is ensuring proper compliance with the Insurance regulation, directives and laws framed there under, and other statutory requirements applicable to it and also sets out its responsibilities in committing to the specific corporate governance principles, policies and procedures and ensuring that they are applied in sound and prudent manner and for approving and overseeing the implementation of the company's business objectives and strategies (Directive No SIB/42/2015).

In addition, to the Audit, Risk & Compliance and Human Resource Affairs board committees, which are mandatory requirement by National Bank, the Board can establish other board committees to assist it in discharging its duties and responsibilities. However, the board remains accountable and shall retain responsibility for monitoring and oversight of its sub-committees

and external service providers. There should be a formal procedure for certain functions of the board to be delegated, describing the extent of such delegation, to enable the board to properly discharge its duties and responsibilities and to effectively execute its decision making process. Board committees should be free to take independent professional advice as and when necessary, and to invite Senior Management to provide technical advice when needed.

As a general principle there should be transparency and full disclosure from the board committee to the board, except where the committee has been mandated otherwise by the Board. (Directive No SIB/42/2015).

Even though various studies have been made in relation to corporate governance around the world, little attention has been given to the research of corporate governance mechanisms in less developed countries in general and particularly in Ethiopia.

In order to fulfill this gap the current study is initiated to find out the benefits of good corporate governance mechanisms and to examine the impact of corporate governance on the performance of Ethiopian insurance Industry.

## **1.2. Statement of the Problem**

Corporate governance mechanism is a significant method for companies agency cost and helps improve performance. Given the importance of corporate governance, several studies have been conducted in developed countries on the relationship between corporate governance mechanisms and firms' financial performance and found mixed results (See for example Bauer, et al., 2008; Ibrahim, et al., 2010; Lupu&Nichitean, 2011). The majority of earlier research, however, focused on large businesses that functioned inside well-organized corporate governance systems in developed economic systems. Various governance mechanisms operate differentially for different sizes of firms (Habbash, 2010). Therefore, it is difficult to generalize the same result from the findings of those studies for relatively small size Ethiopian Insurance industry governance mechanisms.

In Ethiopia the study of corporate governance mechanisms impacts on performance of insurance companies has not been conducted well but there are some notably done studies like HailabGetachew, (2014) who undertook a study on the firm performance of selected Ethiopian insurance firms. Data were gathered from a sample of 10 insurance firms for the financial year 2008 to 2012 in order to meet the study's goals. Leverage, firm size, board composition, board

gender diversity, and the size of the board were all taken into consideration as predictors of the company performance, which was calculated using the return on equity (ROE). In which he noted that board gender diversity, firm size and leverage positively influence the financial performance of selected insurance firms, whereas board size and board gender composition have statistically insignificant impact on financial performance, but board size influence negatively and board composition influence positively the financial performance of selected insurance firms in Ethiopia.

Fekadu, (2015), who undertook a study on the relationship between corporate governance and financial performance of 10 insurance companies that are major in Ethiopia, in which he noted that there exists a relationship that is insignificant between corporate governance mechanisms with ROA due to the closely regulated financial sector by the regulatory body which limited board's discretionary power. Almost all previous studies used five years period data, relied on secondary data, targeted on selected Insurance Companies and used accounting based performance measurement tools to review the relationships of corporate governance mechanisms and firm performance.

Whereas this study relied on primary data by administering a closed ended questionnaire, used all private insurance companies, none financial measures to measure firm performance with the core aim of examining the impact of corporate governance on firm performance of Ethiopian insurance companies. This study is a contribution to other studies conducted to examine the impact of corporate governance mechanisms on firm's performance, understand how to effectively minimize the agency costs and design the appropriate organizational structure. This research is conducted to check the impact of corporate governance which is a crucial step in building the market's confidence and attracting positive investment flows to the institution and the economy. Therefore, the study extends and contributes to the body of research using selected insurance companies data to investigate the likely impact of corporate governance on firms' organizational performance.

### **1.3. Research Questions**

The board of directors is accountable for acting in the best interests of shareholders and managers. Accordingly, an effective and independent board is more likely to monitor the top management to align the interests of the shareholders and managers. Thus, if interests are

aligned, it reduces the conflict between managers and the shareholders leading to better firm performance. To end up with assessment of the use of corporate governance theory in the case insurance, the research was opting to get adequate and reliable data that satisfy in answering the points hereunder.

- What is the impact of board size on organizational performance of insurance in Ethiopia?
- What is the effect of member of board educational qualification on organizational performance of insurance in Ethiopia?
- What is the effect of gender mix in boards on performance of insurance in Ethiopia?
- What is the effect of number of board meeting on performance of insurance in Ethiopia?
- What is the effect of board committee size on performance of insurance in Ethiopia?
- To determine the effect of size of audit committee on the performance insurance in Ethiopia
- What is the impact of board industry specific experience on the performance of insurance companies in Ethiopia?

## **1.4. Objectives of the study**

### **1.4.1 General Objective**

The general objective of this study is to examine the impact of corporate governance mechanisms on the organizational performance of insurance companies in Ethiopia.

### **1.4.2 Specific Objective**

To achieve the overall objective of the study, the following specific objectives are developed:

1. To ascertain the impact of board size on organizational performance.
2. To determine the impact of board member gender composition on organizational performance.
3. To identify the impact of number of board meeting on organizational performance.
4. To examine number of audit committee size on organizational performance.
5. To identify the influence of board members Business and industry experience on organizational performance.

6. To find out the influence of board member educational qualification on organizational performance.

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

The result of this study helps insurance industry by identifying relevant corporate governance and how these corporate governance Characteristics affect their organizational performance. This study may therefore add knowledge to the already existing current stock of knowledge regarding this area of study for future researches especially the study of variables and their relationships. The result found by this study may contribute to the existing literature by providing evidence on the relation between corporate governance characteristics and insurance performance and also to be the indicators of corporate governance characteristics useful for regulators, managers and business people in making policies and decisions. Hence this paper intends to increase the knowledge and awareness of how grave and essential corporate governance is for the success of insurance industry.

### **1.6. Hypotheses of the Study**

The study was tested based on following hypotheses.

Ha- alternative hypothesis

Ha1: Board size has a significant positive relationship with firm organizational Performance.

Ha2: Board gender diversity has significant positive relationship with firm organizational Performance.

Ha3: There is a significant positive association between board members meeting frequency and firm organizational Performance.

Ha4: Board members educational qualifications have significant positive relationship with firm organizational performance.

Ha5: There is a significant negative relationship between sizes of audit committee and firm organizational performance.

Ha6: Number of board committees has significant positive relationship with firm organizational performance.

Ha7: Board industry specific experience has significant positive relationship with firm organizational performance.

### **1.7. Scope of the Study**

This study is delimited to examining the impact of corporate governance mechanisms on firms' performance. The dependent variables are delimited to non-financial performance measurements. The explanatory variables are delimited to board size, board gender diversity, audit committee size, number of board committee, number of board meetings held, board educational qualification, and board industry specific experience. The study area of this research is delimited to private Insurance companies in Ethiopia.

### **1.8. Limitation of the Study**

As with any other study, this study is subject to some limitations. In this study insurance companies and respondents were selected purposively based on the availability of data. The study was employed only seven corporate governance mechanisms such as board size, board gender diversity, audit committee size, number of board committee, number of board meetings held, board educational qualification, and board industry specific experience.

The other limitation of this research is the organizational performance of private insurance companies in Ethiopia is only measured by using non accounting based performance measures. Therefore, only the non-accounting measure of insurance company's performance was used. These may limit the findings of this Study.

### **1.9. Organization of the Study**

This research paper consists five chapters. The first chapter includes background of the study, statement of the problem, research questions, objective of the study, significant of the study, scope of the study, and organization of the study. The second chapter covers the review of related literatures. The third chapter is all about research design and methodology of the study. Results and discussion are discussed under chapter four. The last chapter is about summary of major findings, conclusions and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **INTRODUCTION**

In this chapter theoretical concepts of corporate governance, corporate governance structure, empirical literature on corporate governance impact on firm performance and conceptual framework are included in detail.

#### **2.1. Theoretical Concept and Definition of Corporate Governance**

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. Corporate governance includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010).

Governance is concerned with the manner in which rules and regulations are applied and followed, the relationships that these rules and regulations determine or create and the nature of those relationships (Otieku, 2010).

The term corporate governance describes the system by which companies are directed and controlled. The overall objective of good governance is to ensure sustained growth or survival of companies and the attainment of multiple goals of corporate stakeholders, that is, investors, employees, and society in general (Charkham, 1994).

There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on firms' financial performance (Rashid, 2011). The most important theories include the agency theory, stakeholder theory, stewardship theory and resource dependency theory (Sanda and Garba, 2005; David and Tobias 2013). Below, we go into more detail about these four theories, which we have identified as the primary and most important theories of corporate governance.

##### **2.1.1 Agency Theory**

Agency theory is the most popular and has drawn more attention from academics and practitioners (Habbash (2010)). The agency theory is based on the principal-agent relationships. The separation of ownership from management in Modern company provides the context for the

functioning of the agency theory. In modern business 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 supervisory rights creates a conflict of interest between the agent and the principal. In today's corporations, the shareholders (principals) are largely independent and typically not involved in the day-to-day operations and management of the company, but employ managers (agents) to run the company on their behalf. (Habbash, 2010).

The governance structures suggested by the agency theory involve size of the board, composition of the board, remuneration to CEO, directors' shareholding and shareholder rights (Luan & Tang, 2007; Rashid, 2011). Jensen and Meckling (1976) suggest that this can be achieved through incentive schemes for managers which reward them financially for maximizing shareholder interests. Such schemes sometimes involve strategies for top executives to acquire shares, possibly at a discounted price, aligning their financial interests with those of shareholders.

### **2.1.2 Stewardship theory**

A steward is defined by Davis, Schoorman & Donaldson (1997) as one who protects and maximizes shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protect and make profits for the shareholder (David and Tobias 2013). This theory is a contrast or a direct opposite to the agency theory and this theory adopts a more idealistic view of humans. According to the stewardship theory, a manager's objective is primarily to maximize the firm's performance because a manager's need of achievement and success are satisfied when the firm is performing well. One key distinguishing feature of the theory of stewardship is that it replaces the lack of trust to which agency theory refers with respect for authority and inclination to ethical behavior (Coleman, 2007).

Instead of using the firm for their own selfish interest, the stewards seem to be more in ensuring the continuous existence and long term success of the firm because they now see the firm as an extension of themselves (David and Tobias, 2013).

### **2.1.3 Stakeholder theory**

The stakeholder theory originated from the management discipline and gradually developed to include corporate accountability to a broad range of stakeholders (Abdullah and Valentine, 2009).

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 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 firm's 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)

Hence, the managers should on the one hand manage the company to benefit its stakeholders in order to ensure their rights and their participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group (Fontain et al., 2006).

### **2.1.4 Resource Dependency Theory**

Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). This viewpoint contends that the board of directors' main duty is to supply the company with resources. Directors are viewed as an important resource to the firm. Diverse aspects of director diversity, including as gender, experience, qualification, and others, obviously take on significance when directors are viewed as resource providers. According to Abdullah and Valentine, Directors contribute resources to the

company, including knowledge, abilities, business know-how, and connections to important stakeholders, including customers, sellers, public policymakers, and social organizations. They also lend the company respectability. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandoña, 2007).

The resource-

based approach allows the board to support management in areas where operational knowledge is limited or lacking. The resource dependency model suggests that management can use the board of directors as a mechanism to establish connections with the external environment to help achieve organizational goals (Wang, 2009).

## **2.2 Corporate Governance Practice in Ethiopian Insurance**

In case of Ethiopian Insurance Companies, Corporate governance issues are more addresses in maintaining the safety and soundness of financial system in insurance sector in particular in such a way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term shareholders' value, as well as customers' and other stakeholders interest (Insurance Corporate Governance Directives No.SIB/42/2015)

## **2.3 Corporate governance mechanisms and firms performance**

Many studies revealed the effect of corporate governance mechanisms on firms' performance (See for example Sanda et al, 2005; Aljifri & Moustafa, 2007; Sunday O, 2008; Lupu & Nichitean, 2011; Al-Hawary, 2011; Khan et al., 2011; Al Manaseer et al., 2012). Adopting better corporate governance mechanisms such as an enhanced board and audit committee improves monitoring of management and reduces information asymmetry problems (Aldamen et al., 2011). There is a significant literature that links size, gender diversity, and other characteristics of the board of directors and audit committees to improved firm performance (Klein, 1998; Aldamen et al, 2011).

Corporate governance mechanisms have been identified as an essential tools needed in managing any corporation including Insurances. There are different mechanisms that reduce agency cost whereby corporate governance can be measured in an organization. In the corporate governance

literature board characteristics (board size, board gender diversity and educational qualification and experience) and audit committee size were used as corporate governance mechanisms.

### **2.3.1. Board size**

Board size is defined as the number of directors on the board. According to Kiel and Nicholson (2003) board size is crucial to achieving the board effectiveness and improved firm performance. According to Lawal (2012), board size affects the quality of deliberation among members and ability of board to arrive at optimal corporate decisions. Determining the right board size is crucial since larger boards have the potential to impact corporate governance performance above and above what is ideal. However, choosing the optimal board size has been a contentious and ongoing discussion in corporate governance literature (Lawal, 2012).

Dallas, G (2004), states that the size of the board has positive effect and is an important governance consideration. Al-Manaseer et al. (2012) argues that boards with too many members lead to problems of coordination in decision making. Small board size was favored to promote critical, genuine and intellectual deliberation and involvement among members which presumably might lead to effective corporate decision making, monitoring and improved performance (Lawal, 2012). In contrast Klein (2002) suggested that larger boards are able to promote effective monitoring due to their ability to distribute the work load over a greater number of observers. Hence there will be a positive or negative relationship between board size and firm value. Adetunji and Olawoye (2009) argue that board size determines the number of directors in a board and the board should be of reasonable size, and the terms of its directors should be fixed and advocates for optimal size of board of directors for good corporate governance as well as performance in the firm. Of course the National bank of Ethiopia (2014) has stated the minimum number of board size of an insurer to be nine. The question “what would be the optimum board size remains arguable and inconclusive (Houssein and Ines, 2011; Ishaya, Francis and Solomon, 2013; Adeusi et al., 2013; Musa et al., 2013; Turku, 2014; Anthony, 2007). Thus board size can influence the performance of insurance company.

### **2.3.2 Board gender diversity**

The idea of board diversity as a whole includes gender diversity. Boards are concerned with having the ideal composition to offer a variety of viewpoints. Greater female representation on boards provides some additional skills and perspectives that may not be possible with all-male boards (Boyle & Jane, 2011). In recent years, there has been an increasing interest in

investigating the impact of gender diversity on the firm's performance, the issue is whether the inclusion of women on the board has an impact on performance; several research initiatives have sought to support this point. The empirical study by (Smith et al., 2005;Huse, 2007 and Mersland and Strom, 2007) have found that the presence of women in the board positions have a positive effect on the firm's performance.

### **2.3.3 Board Educational qualification**

Director's educational qualifications are central to effectively interpret and utilize the information generated by the management of particular types of business enterprise. Educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of directors. Educational qualification affects the oversight and monitoring role of boards of directors (Gantenbein&Volonte, 2011).

Board of directors is vested with the responsibility of ensuring that the shareholders' money is not wasted, shareholders have a serious interest in ensuring that the board is staffed with well-educated and experienced directors (Gantenbein&Volonte, 2011).

Director's educational qualifications are central to effectively interpret and utilize the information generated by the management of particular types of business enterprise. Members with advanced degrees and training in research and analysis will be a significant source of creative ideas for developing policy initiatives with analytical rigor and depth that will offer distinctive perspectives on key challenges (Joel, 2012).

Educational Boards of directors' role in supervision and monitoring is impacted by qualification (Gantenbein&Volonte, 2011).Moreover, Ferede (2012) discovered that having qualified directors on the board is crucial to fulfilling the board's oversight duties and enhancing financial performance. Thus, personal characteristics of directors, such as education and experience, are crucial to the effectiveness of the board and the performance of the company.

### **2.3.4 Board Industry specific experience**

The quality of data acquired, the resolution of issues, and the opinions and judgments held during the decision-making process will be improved by appointing directors with related and pertinent skills and expertise to undertake task-specific activities, such as the firm's internal control and procedures (Saat, et al, 2011). 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.

### **2.3.5. Frequency of board meetings**

The regularity of board meetings is seen as a key indicator of how much time directors devote to evaluating management performance as well as a key tool for enhancing a board's effectiveness in corporate governance (Funmi, 2014). Regular board meetings increase the likelihood that members will stay informed about the company's performance that is important to the meeting, enabling them to take, direct, or influence the right action to solve the issue. On the other hand, others emphasized that frequent meetings squander management time and raise the financial burden due to travel costs and the board member seating allowance. **They concluded by stating** that high board meeting frequency does not improve performance but the quality of such meeting does (Ntim and Osei; 2011; Taghizadeh, 2013; Oyerinde, 2014).

Financial institutions are encouraged to hold regular board meetings at least once a month, in accordance with the Ethiopian National Bank's draft corporate governance directive 2014 and (directives No. SBB/62/2015). Board meetings and attendance at them are seen as crucial ways for directors to get the information they need to perform their oversight duties.

In light of these empirical studies and legal requirements, it is clear that the frequency of board meetings has a favorable and considerable impact on the financial health of insurance companies.

### **2.3.6. Audit Committee size and independence**

Review of the literature has revealed that existence of independent and competent audit committees has positive effect on firm performance (Anthony, 2007; Cassandra et al., 2009). The audit committee contributes to the accuracy and thoroughness of the financial statements' preparation and auditing, moreover, the existence of audit committee composed of external board members in the firm will create a transparent and credible environment between management, external auditors and the board members. The evidence suggests that existence of audit committee improves governance quality and financial performance of firms (Defond, et al., (2005; Green, 2005). Accordingly, an insurance company's performance and the existence of an independent audit committee are related.

### **2.3.7. Board independency**

It is the ratio of independent (external) board members to the total number of board members. Many empirical evidences showing that the higher proportion of outsiders on a board can better oversee and control the opportunistic behavior of the incumbent management, thus, minimizing the agency problem and maximizing shareholders' wealth (Martin and Sebastian, 2013; Anthony, 2007; Cassandra et al., 2009; Lorne and Jun, 2012; Adeusi et al., 2013; Musa et al., 2013). Of course negative association between board composition and firm performance was presented by Agrawal and Knoeber (1996), who find that more outsiders on the board negatively affect the performance and conclude that outsiders are added on boards for political reasons. It has been assumed that the board independence has an impact on the performance of insurance companies.

### **2.4. Empirical Review**

This part of the literature review is designed to present previous different researches and empirical studies conducted in relation to this study.

There are inadequate and full of loopholes studies and findings on the impact of corporate governance mechanism on the financial performance of Insurance companies in developing countries (Joan, et al., 2010). But many researchers argued that the board of directors as the top of the internal control mechanism in an organization in which they are responsible for monitoring the activities of managers and improving the performance of firms (Jensen, 1993; Hillman et al., 2000; Joan, et al., 2010). There were mixed results concluded by previous studies pertaining to the relationship between corporate governance mechanisms and firms' financial performance. This section includes a summary of the significant empirical investigations.

Abu-Tapanjeh (2006) used a multiple regression model using a panel dataset constructed from 39 industrial companies listed on the Amman Stock Exchange in Jordan for the period 1992-2004. He analyzes the relationship between good corporate governance mechanisms and a company's operational and financial performance. The proportion of outside directors, family member on board, general manager duality, gear ratio and firm size was the independent variables of the study. Whereas the net sales to operating cost ratio and dividend payout ratio were used as a measure of firms' operating and financial performance, respectively. The results

showed that proportion of outside directors, general manager duality and firm size positively and significantly influences firms' performance both operating and financial. Moreover, gear ratio had significant positive influence on operating performance but insignificant in case of financial performance. On the other hand, family members on board have not significant effect on firms' operating as well as financial performance.

Bathula (2008) studied the relationship between board characteristics and company performance. Board characteristics which were considered in the research include boardsize, director ownership, chief executive officer duality, gender diversity, educational qualification of board members and number of board meetings. Additionally, firm age and firm size was used as control variables. Firm performance was measured by return on assets. A sample of 156 companies spanning four years from 2004 to 2007 was used to test this hypothesis. The sample includes all companies listed on the New Zealand Stock Exchange. Empirical analysis was performed using generalized least-squares analysis. The study found that board characteristics such as board size, CEO duality, and gender diversity were positively correlated with company performance, and that director ownership, board meetings, and Ph.D. was found to be more positively correlated with the number of directors with Association - Education was negatively associated. Firm age and firm size do not have much effect. 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.

The study undertaken by (Erhardt et al., 2003), provide evidence on the relationship between demographic diversity on boards of directors and firm financial performance.

The relationship was examined using two years financial performance data and percentage of women and minorities on boards of directors for 127 US companies. Correlation and regression

analyses indicate board diversity was positively associated with financial indicators of firm performance (return on asset and return on investment).

Uadiale(2010)examines the impact of board structure on corporate financial performance in Nigeria.The study found a strong positive correlation between board size and company financial performance. However, a negative association has been observed between director shareholdings and fixed financial performance measures. Furthermore, the study shows that there is a negative association between return on capital employed (ROE) and the CEO duality, whereas there is a strong positive association between the ROE and CEO duality. The study suggests that in order to improve the financial performance of companies, it is necessary to encourage larger boards and to maintain and improve the composition of outside directors as board members.

Aljifri and Moustafa (2007) Using 51 United Arab Emirates listed companies and accounting and market data from the year 2004, the study presented evidence on the effects of corporate governance measures on firms' performance. After adjusting for business size, they used cross-sectional regression analysis to determine whether or not the chosen corporate governance factors have an influence on firms' performance. The results of the study showed that the governmental ownership, the debt ratio, and the payout dividends ratio have a significant impact on the firm performance (Tobin's Q); whereas the institutional investors, the board size, the firm size, and the audit type have insignificant effect on firms' performance. The study was concluded that three of the corporate governance mechanisms; governmental ownership, debt ratio, and the payout dividends ratio were strong enough to affect the performance of United Arab Emirates listed firms.

Rose (2007) examine whether female board representation influence firm performance using all Danish firms listed on the Copenhagen Stock Exchange during 1998–2001 excluding banks and insurance companies with 443 firm-time observations. Its objective was to explore the impact of board diversity on firm performance. Cross sectional data analysis method has been used. Tobin's Q was used as a measure of performance and board gender diversity were measured as percentage of female directors and using dummy variable. In addition the proportion of foreign directors and educational background of directors based on their field of study such as lawyers, economists and engineers also included as an explanatory variables. Payment to the board, growth, ownership concentration and firm size were the control variables of the study. The

study does not find any significant link between firm performance as measured by Tobin's Q and female board representation, members' educational background as well as the proportion of foreign directors. He argued that board members with an unconventional background are socialized unconsciously adopting the ideas of the majority of conventional board members, which entails that a potential performance effect does not materialize. ).

Bathula (2008) examined the link between board characteristics and company performance. Board characteristics which were considered in the research include board size, director ownership, chief executive officer duality, gender diversity, educational qualification of board members and number of board meetings. Additionally, firm age and firm size was used as control variables. Return on assets was used to assess business performance. A sample of 156 businesses with data spanning four years, from 2004 to 2007, was utilized to test the hypothesis. The sample includes all firms listed on New Zealand stock exchange. Empirical analysis was undertaken using Generalized Least Squares analyses. The findings of the study showed that board characteristics such as board size, chief executive officer duality and gender diversity were positively related with firm performance, whereas director ownership, board meetings and the number of board members with PhD level education was found to be negatively related. Firm age and firm size does not have significant influence).

In the study conducted by Yenesew Ferede (2012) on the impact of corporate governance mechanisms on firms' financial performance using five years data from the year 2007 to 2011 with a sample of eight Ethiopian commercial banks. In this study, corporate governance methods such as board size, board gender diversity, board member education, board member business management and industry specific expertise, and audit committee size were all taken into consideration. The regression findings indicate that a big board and audit committee have a negative impact on financial performance, although a board member's educational background has a beneficial impact. Even if the director's industry-specific experience is positively correlated with return on assets, net interest margin is negatively impacted. The proportion of female directors and board members with business management expertise has no discernible impact. According to the findings, banks with strong corporate governance procedures, on average, outperform their competitors in terms of financial performance, however not all corporate governance processes are relevant.

In the study conducted by Fekadu, G.W. (2015) on effects of Corporate Governance on Financial Performance of Insurance Companies listed as top ten which are closely regulated in Ethiopia, He pointed out that while board size, independence, and diversity have a negative and negligible impact on insurance company performance, the audit committee's size, independence, and frequency of board meetings have a positive but negligible impact. This is particularly true for insurance companies operating in Ethiopia. His study concluded that all corporate governance mechanisms have insignificant effect on the performance of insurance companies measured by return on asset. This clearly demonstrates how little and meaningless the position of the board of directors is in the highly regulated banking industry because they have so little discretionary authority.

## 2.5. Conceptual Framework

To study the relationship between corporate governance mechanisms and firm performance of insurance companies in Ethiopia a conceptual framework was used to illustrate the interaction of these variables. The recommended conceptual framework, which was adapted and modified from literature, is shown in the image below.

### Independent variables

#### Corporate Governance

- Board size
- Board gender diversity
- Board educational qualifications
- Number of board committee
- Board industry specific experience
- Audit committee size
- Board meeting frequency

### Dependent variables

#### Firm Performance

- Market share
- Customer retention
- Sales volume
- profitability



**Figure 2.1:** Source: Adopted from different literatures

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter comprehends facts about how the study was conducted, type of research design that was adopted, population and sample selected for the study. Furthermore, this chapter will discuss in detail the research approach, research design, data type and sources of data, population and sample frame, sample size, sampling technique, data collection tools, measurements of variables, data analysis techniques, validity, reliability, and ethical considerations are presented in detail.

#### **3.2. Research Design**

The research design of the study outlines the basic approach that researchers use to answer their research questions (Polite and Beck 2010). The methodology for this research was based on the objectives of the paper and availability of relevant information. Since the primary aim of this study is to examine the impact of corporate governance mechanisms on firm's performance (Insurance companies in Ethiopia), in order to achieve this objective the study was adopted an explanatory research design. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Marczyk et al., 2005).

#### **3.3. Source of Data**

Both primary and secondary sources were used to get the information required for this investigation. The primary data was collected through the use of questionnaires using 5-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree). The targeted respondents in this study were board members, executive management and middle level managers of the Insurance companies. This is because the researcher believes these are the most informed on the several affairs of corporate governance mechanisms of the organizations.

Secondary data of the study was gathered from different sources like information center of the institution, e-sources, library books, journal articles, thesis and dissertations, annual audited financial

statements and other annual published reports of the Insurance companies which were relevant to prepare literature review.

### **3.4. Sample population and sample design**

Welman and Kruger (2005) defined population as a study object and consisting of individuals, groups, organizations, human products and events or the conditions to which they are exposed. The population of the study is all private insurance companies operating in Ethiopia. According to the data gathered from the National Bank of Ethiopian website the numbers of private insurance companies operating in the market at the end of June 2021 was 16 insurance companies in numbers. Ten respondents from each insurance company were chosen. Data on corporate governance variables was collected by distributing 160 questionnaires to board members, Executive Management members, service managers and middle level managers.

Mugenda and Mugenda (2003) define sampling as a formulation of a procedure of selecting the subjects or cases to be included in the sample. This study used simple random sampling and purposive sampling methods to select the sample. According to Mugenda and Mugenda (2003), simple random sampling involves allocating equal chance to the selected elements in the population. This was used during the selection of executives, department and service Managers, and middle level managers. Purposive sampling is a sampling technique that allows a researcher to use cases that have required information with respect to the objectives of one's study. Cases of subjects are therefore handpicked because they possess the required information. The board members, executives, service managers, and middle-level managers who were well-versed in corporate governance and organizational performance were chosen through the use of purposeful sampling. The population of the study included all board members, Executive Management members and middle level managers.

### **3.5 Measurement of Variables**

Variables are selected based on alternative theories and previous empirical studies related to corporate governance and firm performance. In accordance with the theory and empirical studies, the independent and dependent variables of the study are identified in order to investigate the impact of corporate governance mechanisms of firm performance. Corporate governance mechanisms such as board size, board independence, Audit committee size, board educational qualifications, board industry specific experience, frequent of board meeting, board gender

diversity are selected as independent variables in the study. Organizational performance is generally indicated by customer retention, market share increment, sales volume improvement and profitability are considered as dependent variables.

The variables were measured by defining concepts. For instance, the questionnaire was designed to ask for responses about corporate governance and organizational performance. These were translated into observable and measurable elements so as to develop index of the concepts. The researcher categorized the data collected in an orderly form using the 5-point Likert scale used on the questionnaire as indicated below where; 5= Strongly agree, 4= Agree, 3= Undecided, 2= Disagree, and 1= Strongly Disagree. Socio-economic attributes like age, sex, employment period /duration of service, academic levels were measured at nominal and ordinal scales depending on the variables.

### **3.6. Method of Data Analysis and Presentation**

After the data was collected from all private insurance companies, it was edited, organized and analyzed using SPSS26.0. In this study to analyze the collected data descriptive, correlational and multiple 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 deviation. The correlation analysis was used to identify the relationship between the independent and dependent variables using Pearson correlation analysis. Multiple regression analysis was also used to analyze whether there is a relationship that exists between one dependent variable and one more independent variable.

### **3.7. Validity and Reliability of Data**

In order to make sure that quality and relevant data is collected, the research instruments were tested for validity and reliability as follows;

#### **3.7.1 Validity test**

The validity of a study is related to the extent to which the data collection tools accurately measure what was intended. Validity is an important concept for the acceptability of the use of an instrument. Validity refers to the appropriateness of the instrument in collecting the data that is supposed to be collected, while reliability refers to its consistency in measuring whatever it is intended to measure (Amin 2005). Validity was measured by both content and

faces validity. Face validity was established where tools and questions were chosen rationally, an appropriate way to find out what is being measured, content validity focused on the extent to which the contents of an instrument corresponds to contents of the theoretical concept designed to measure according to Amin (2005).

The instruments were discussed with the advisor and later pre-tested using a sample of 20 respondents within the study population which was asked to fill them and later give comments on their accuracy and clarity, and after pre-testing ambiguous questions were reconstructed. To measure validity of variables and measures of dimensions of corporate governance and firm performance, a validity test was carried out using content validity index (CVI) formula prior to the administration of the research instruments. This was intended to find out whether the questions were capable of capturing the intended data that was stated in research objectives and questions.

### **3.7.2 Reliability test**

To check reliability of instruments the researcher administered, pre-tested for consistency and tested logical flow of questionnaires. Prior to actual data collection all data collection tools and items were subjected to a pre-test or pilot study at on a small sample of 20 respondents to check for the clarity of the questions asked and the time required for data collection. A pilot study has numerous purposes, such as developing and testing the adequacy of research instruments, assessing the feasibility of a full study, designing and testing the protocols for the larger study, establishing and testing the sampling and recruitment strategies, collecting preliminary data, obtaining effect size information, and training research assistants(Connelly, 2008). The researcher constructed research instruments and analyzed the pre-test results using computer program SPSS and Cronbach's Alpha split the questions on the instrument in a possible way and computed correlation values for all.

Alpha scores ranging from zero (no internal consistency) to one (complete internal consistency) have been furnished under the rule of thumb as furnished by Cronbach's Alpha values of 0.9 and above being 'excellent', 0.8 to be 'good', 0.7 to be 'acceptable', 0.6 to be considered as 'questionable', 0.5 to be deemed 'poor' and less than 0.5 to be 'unacceptable'. From the test conducted on the study variables, the variables had a Cronbach's alpha of greater than 0.7 which was acceptable.

**Table: Reliability Tests**

<b>Variable</b>	<b>Number of items</b>	<b>Cronbach's alpha</b>
Board Size	6	0.857
Educational qualification	5	0.874
Board gender diversity	7	0.885
Number of committees	4	0.874
Number of meetings held annually	5	0.862
Audit committee	5	0.868
Board members industry specific Experience	5	0.909
Firm performance	5	0.849

The table above displays the reliability coefficient for all concepts used in the study. All Cronbach's alpha ( $\alpha$ ) for all scales were above 0.7, ranging from 0.857 to 0.909, consequently meeting acceptance standards for research.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

#### 4.1 Introduction

This chapter provides a presentation, analysis and discussion of the empirical findings according to the purpose and objectives of the study. The chapter comprises five sections. Section one presents the introduction, section two represents the response rate, section three deals with the demographic characteristics which include gender, age group, tenure of employment, level of education and position held using frequency tabulations. Section four deals with empirical findings on the study objectives using item mean analysis and correlations. Section five deals with multiple regressions which present the results on the combined effect of the dimensions of corporate governance on organizational performance using regression analysis.

#### 4.2 Response Rate

The study targeted 160 respondents to provide the information of the study and 160 questionnaires were distributed to the respondents who composed the sample size of the study. Out of the 160 questionnaires distributed, 148 were returned and 12 were rejected because of poor data quality. This translated to 92.5% response rate which the researcher considered an adequate representative. Sekaran (2003) recommend a response rate of 80% and above is acceptable. The results obtained are presented on table 4.1.

**Table 4.1 Response rate**

Category	Questionnaires	Percentage%
Response	148	92.2
None response	12	7.5
Total	160	100

Source: primary data (2022)

#### 4.3 Demographic Information

In this section, the researcher sought to analyze the respondent's general information. The parameters discussed include gender, job position, educational qualification and work experience. The findings are outlined in the following subsections.

### 4.3.1 Gender of respondents

In order to present the respondent category and gender distribution categories of the respondents, frequency tabulation was used by the researcher.

Table 4.2: Gender of Respondents

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	123	83.1
Female	25	16.9
Total	148	100.0

Source: primary data (2022)

The results from Table 4.2 above show that 123(62.9%) of the respondents were male whereas 25(37.1%) were female. This indicated that a big percentage of top managers in the insurance companies were male.

### 4.3.2 Respondent Category by Level of Education

Table 4.3 level of education

<b>Level of education</b>	<b>Frequency</b>	<b>Percent</b>
Diploma	0	0
Degree	117	79.1
Master's degree	29	19.6
PHD	2	1.4
Others	0	0
Total	148	100

Source: primary data (2022)

According to the results in Table 43, the majority of the respondents (79%) possessed degree level of education, 19.6% were held Master's level of education and PHD accounted for 1.4%. From the findings, the majority of the responses were acquired from degree holders and postgraduate holders which was justification that the respondents possessed the required qualifications to perform their duties in an effective and efficient manner.

### 4.3.3 Distribution According to Position Held

**Table 4.4 Position held**

<b>Position</b>	<b>Frequency</b>	<b>Percent</b>
Board of directors	11	7.4
Top management	103	69.6
Middle level managers	34	23.0
Total	148	100.0

Source: primary data (2022)

The result in the above table reveals that most 103(69.6%) of the respondents were acquired from top management followed by 34(23%) who held middle level management position. Only 11(7.4%) of the respondents held board of directors position. These findings indicate that the respondents held senior position that allowed them to understand the impact corporate governance mechanisms on firm's performance

### 4.3.4 Experience of Respondents within the company

**Table 4.5 Duration of service**

<b>Experience</b>	<b>Frequency</b>	<b>Percent</b>
Less than 2 years	8	5.4
3-5 years	24	16.2
6-10 years	100	67.6
Above 10 years	16	10.8
Total	148	100.0

Source: primary data (2022)

From the above table 8 (5.4%) of the respondents have served for less than 2 years, 24(16.2%) have worked for 3-5 years, 100(67.6%) have worked for 6- 10 years, 16(10.8%) have worked for 10 years and above. This shows that majority of the respondents have worked for 5years and above which was confirmation that they possessed the required experience to provide information for the study.

#### 4.4. Corporate governance

The study further examines how different corporate governance mechanisms impact a firm's performance. The respondents were required to show the degree to which they disagree or agree on various statements. The statements were rated on a Likert scale of 1-5. The mean scores recorded were interpreted using the following interpretation scale.

**Table 4.6: Interpretations scale**

<b>Scale</b>	<b>Interpretation</b>
1.00-1.49	Strongly disagree
1.50-2.49	Disagree
2.50-3.49	Not certain
3.5-4.49	Agree
4.50-5.00	Strongly agree

##### 4.4.1 Board size

The impact of board size on firms' performance was investigated by the researcher. The results are as indicated in Table 4.7

**Table 4.7 Board size**

Statement	N	Mean	Std. Deviation
Smaller Board improve firm performance	148	3.79	0.810
Very small boards lack the advantage of having the spread of expert advice and opinion.	148	3.86	0.756
Large board of directors are prone to more conflicts among board members which makes it to reach agreements	148	3.77	0.671
The company benefits from larger boards because they effectively oversee management and boost resource available in the business, which improves organizational performance.	148	3.89	0.743
More knowledge and experience will be brought to the boardroom by a sizable board.	148	4.1	0.697
Board of directors get bigger, they become less effective because free-riding problems erupt and decisions become harder to make in a timely manner.	148	3.76	0.893
Aggregate mean		3.86	0.805

Source: primary data (2022)

An aggregate mean of (M=3.86, SD = 0.805) was recorded implying that the respondents agreed that board size affects the performance of firms to a great extent. The respondents agreed that “smaller size board improve firm performance (M=3.79, SD = 0.810)”.The respondents were agreed that “very small board lacks the advantages of having the spread of expert advice and opinion” (M=3.86, SD=0.756),and “a larger board of directors are prone to more conflicts among board member which makes it difficult to reach agreements (M=3.77 SD = 0.671)”, The company benefits from larger boards because they effectively oversee management and boost resource available in the business, which improves organizational performance (M=3.89, SD =0.743), The respondents were strongly agreed on the statement the More knowledge and experience will be brought to the boardroom by a sizable board(M=4.1 SD =0.697 ),and the

respondent agreed on Board of directors get bigger, they become less effective because free-riding problems erupt and decisions become harder to make in a timely manner (M=3.76, SD =0.893).

#### 4.4.2 Educational qualification

The impact of Educational qualification on firms' performance was investigated by the researcher. The results are as indicated in Table 4.8

Table 4.8 Educational qualification

Statement	N	Mean	Std. Deviation
Board members of the company are characterized by open mindedness, capacity for information processing, and tolerance to changes	148	3.66	0.869
The oversight and monitoring responsibilities of boards of directors are impacted by educational background.	148	3.84	0.681
Personal profile factors of directors especially education is important for board efficiency.	148	3.82	0.735
The board takes decisions with proactive and technical innovations independently.	148	3.74	0.868
75% of board members hold a minimum of first degree or equivalent	148	3.81	0.828
Aggregate mean		<b>3.77</b>	<b>0.796</b>

Source: primary data (2022)

Board members of the company are characterized by open mindedness capacity for information processing, and tolerance to changes (M=3.66, SD =0.869., The oversight and monitoring responsibilities of boards of directors are impacted by educational background)., (M=3.84, SD =0.681) Personal profile factors of directors especially education is important for board efficiency (M=3.82, SD =0.735)., The board takes decisions with proactive and technical innovations independently. (M=3.74, SD =0.868),75% of board members hold a minimum of first degree or equivalent (M=3.81, SD =0.828),

#### 4.4.3 Board gender diversity

The study examined the effects of board diversity on firm's performance. The results are as shown in Table 4.8

Table 4.9 Gender diversity

Statement	N	Mean	Std. Deviation
The board has been composed of both genders	148	3.92	0.742
The presence of a female board member enhances the company's performance.	148	3.73	0.734
The presence of Female board members provides new insights and perspectives for the board room	148	3.89	0.912
Board diversity promotes more effective monitoring and problem-solving	148	3.82	0.603
Female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.	148	4.14	0.687
The greater the company's proportion of female directors on its board room the better its financial performance.	148	3.82	0.896
Different styles, attitudes, and perspectives may increase conflict, reduce cohesion, and hinder communication and coordination within the team.	148	3.85	0.811
Aggregate mean		<b>3.88</b>	<b>0.769</b>

Source: primary data (2022)

The aggregate mean of (M= **3.88**, SD=**0.769**) indicated that the respondents agreed that board gender diversity affects the performance of insurance companies. The respondents strongly agree that "Female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions" with a mean of (M=4.14, SD=0.687). The respondents agreed that "the board has been composed of both gender (M= 3.92, SD=0.742)" and "The presence of a female board member enhances the company's performance (M= 3.73,

SD=0.734)". The respondents further agreed that "The presence of Female board members provides new insights and perspectives for the board room" (M=3.89, SD=0.912) and that "Board diversity promotes more effective monitoring and problem-solving" (M= 3.82, SD=0.603). And the respondent agreed that "The greater the company's proportion of female directors on its board room the better its financial performance" with a mean of (M= 3.82, SD=0.896). Lastly the respondents were agreed that "Different styles, attitudes, and perspectives may increase conflict, reduce cohesion, and hinder communication and coordination within the team". (M= 3.85, SD=0.811).

#### 4.4.4 Number of meetings held annually

The study sought to determine the impact of meetings held per annum on firm's performance. The findings are indicated in table 4.11 below

Table 4.10 Number of meetings held annually

Statement	N	Mean	Std. Deviation
There is poor attendance in board meetings	148	3.69	0.961
All the board meetings have been relevant to the company mandate	148	3.83	0.777
The number of board meetings has an influence on firm performance	148	3.66	0.821
Board meetings held more frequently tend to generate higher financial performance.	148	3.72	0.939
The more frequent the meetings, closer the supervision and control over managers, the more relevant would be the advisory role.	148	3.95	0.806
Aggregate mean		<b>3.77</b>	<b>0.861</b>

Source: primary data (2022)

The respondents agreed that the number of board meetings has an impact on the performance of insurance companies as indicated in the aggregate mean (M=3.77, SD=0.861). The results reflect that respondents agrees that "There is poor attendance in board meetings" with a mean of (M=

3.69, SD=0.961), “All the board meetings have been relevant to the company mandate” with a mean of (M= 3.83, SD= 0.777), “The number of board meetings has an influence on firm performance” with a mean of (M=3.66, SD=0.821), “Board meetings held more frequently tend to generate higher financial performance” with a mean of (M=3.72, SD=0.939), and that “The more frequent the meetings, closer the supervision and control over managers, the more relevant would be the advisory role” with a mean of (M=3.95, SD= 0.806).

#### 4.4.5 Number of board committee

The study examined the impact of the board committees on firm’s performance. The results are indicated in Table 4.11 below

Table 4.11 Bored committee

Statement	N	Mean	Std. Deviation
Boards use committee structures to facilitate, evaluate, and to monitor the performance of senior management	148	3.91	0.737
Independent committees would focus on improving the company competitiveness and performance	148	4.17	0.759
The existence of independent committees enhance financial performance of the organization	148	3.93	0.701
The board delegates some of its responsibilities to sub-committees or subordinates	148	3.86	0.825
Aggregate mean		<b>3.97</b>	<b>0.756</b>

Source: primary data (2022)

The respondents agreed that the number of board committee has an impact on the performance of insurance companies as indicated in the aggregate mean (M=3.97, SD=0.756). Boards use committee structures to facilitate, evaluate, and to monitor the performance of senior management,(M=3.91, SD=0.737)Independent committees would focus on improving the company competitiveness and performance(M=4.17, SD=0.759),The existence of independent committees enhance financial performance of the organization(M=3.93, SD=0.701),The board delegates some of its responsibilities to sub-committees or subordinates(M=3.86, SD=0.825)

#### 4.4.6 Audit committee

The study examined the impact of Audit committee on firm's performance. The results are indicated in Table 4.12 below

Table 4.12 Audit committee

Statement	N	Mean	Std. Deviation
larger audit committee size helps for the effectiveness of the committee	148	3.76	0.805
larger audit committee helps the members to solve and discuss issues more effectively	148	3.76	0.759
larger audit committee size will increase problems in communication, solving of issues, coordination and decision making in the committee	148	3.71	0.740
Accounting policies are sound and financial statements are properly prepared and audited.	148	3.84	0.738
Audit committee are not effective against risk they are just overloaded	148	3.97	0.852
Aggregate mean		<b>3.81</b>	<b>0.779</b>

Source: primary data (2022)

The respondents agreed that the audit committee has an impact on the performance of insurance companies as indicated in the aggregate mean (M=3.81, SD=0.779). Larger audit committee size helps for the effectiveness of the committee (M=3.76, SD=0.805),larger audit committee helps the members to solve and discuss issues more effectively(M=3.76, SD=0.759),larger audit committee size will increase problems in communication, solving of issues, coordination and decision making in the committee (M=3.71, SD=0.740),Accounting policies are sound and financial statements are properly prepared and audited(M=3.84, SD=0.738),Audit committee are not effective against risk they are just overloaded (M=3.97, SD=0.852),

#### 4.4.7 Board members industryspecific experience

The study examined the impact of Board member’s industry experience on firm’s performance. The results are indicated in Table 4.13 below

Table 4.13 Board member’s industry experience

Statement	N	Mean	Std. Deviation
Board members fully understand the company’s business situation	148	3.59	0.902
Board members are capable of guiding, consulting and monitoring the management more effectively	148	3.78	0.845
Board members are well informed and proficient of opportunities and threats of the industry.	148	3.76	0.696
Board members have relevant skills and knowledge to perform task specific duties such as the firm’s internal control and procedures.	148	3.93	0.862
Board members contribute substantively for thePerformance of the company.	148	3.75	1.068
<b>Aggregate mean</b>		<b>3.76</b>	<b>0.875</b>

Source: primary data (2022)

The respondents agreed that the Board member’s industry experiencehas an impact on the performance of insurance companies as indicated in the aggregate mean (M=3.76, SD=0.875). Board members fully understand the company’s business situation (M=3.59, SD=0.902), Board members are capable of guiding, consulting and monitoring the management more effectively (M=3.78, SD=0.845), Board members are well informed and proficient of opportunities and threats of the industry (M=3.76, SD=0.696), Board members have relevant skills and knowledge to perform task specific duties such as the firm’s internal control and procedures, (M=3.93, SD=0.862), Board members contribute substantively for the Performance of the company (M=3.75, SD=1.068).

## **4.5 Diagnostics Test of Assumptions**

Five diagnostics assumption tests are conducted relating to classical linear regression model (linearity, homoscedasticity, autocorrelation, Multicollinearity, and normality). These are discussed below and refer appendix cc for analysis result of each assumption.

### **4.5.1 Linearity Test**

Multiple linear regression model assumptions assume that there is a linear relationship between the independent and dependent variables.

The linearity assumption for multiple linear regressions is independent and dependent variables can be represented by straight lines. The assumption that the linearity is already linear from the equations of some linear regression model independent and dependent variables (Gujarat, 2004).

Linearity assumption was not serious threat to the study since we can draw one straight line to approximate the observations for all independent variables against the dependent variable firm performance, and also the variance between the upper and lower cases of the observations were reasonably similar.

### **4.5.2 Homoscedasticity Test**

This assumption assumes that the error variance is constant. Assumptions can be confirmed using a scatterplot. The results plot the values predicted by the model against the residuals obtained. As the predicted values increase, the variation of the residuals should be approximately the same. Therefore, the model has equal variances.

### **4.5.3 Autocorrelation Test**

Multiple linear regression models assume the residuals are independent of one another. The Durbin-Watson statistic is used to test for the presence of serial correlation among the residuals. It is a test for autocorrelation in a regression model's output. The DW statistic ranges from zero to four, with a value of 2.0 indicating zero or there is no autocorrelation. Values below 2.0 mean there is positive autocorrelation and above 2.0 indicates negative autocorrelation.

From the result DW was positive autocorrelation, as a result the assumption of independence of residuals was satisfied.

### **4.5.4 Multicollinearity Test**

The VIF is a measure of the reciprocal of the complement of the inter-correlation among the predictors. The decision rule is a variable whose VIF value is greater than 10 indicates the

possible existence of multicollinearity problem. Tolerance (TOL) defined as  $1/VIF$ , it also used by many researchers to check on the degree of collinearity. The decision rule for tolerance is a variable whose TOL value is less than 0.1 shows the possible existence of multicollinearity problem (Gujarati, 2004).

From the assumption test the VIF values for all variables became less than the tolerable value, i.e., 10. Tolerance value of all variables also became above 0.1 which indicates that this model is free from multicollinearity.

#### **4.5.5 Normality Test**

This assumption test whether the data is well modeled by normal distribution or not. This test of normal distribution could be checked by graphical (histogram and dot plot) method of tests. The assumption was tested by using normal probability plot (NPP). The decision rule is, if the fitted line in the NPP is approximately a straight line, one can conclude that the variables of interest are normally distributed (Gujarati, 2004).

From the result residuals of the model were approximately normally distributed, because the fitted line on the NPP approximately straight line.

The study discussed five major assumptions that must be fulfilled for one to analyze data using multiple linear regression models. So, since all the five assumptions were not violated, the researcher examined the data collected by the questionnaires using correlation and multiple linear regression models.

## 4.6 Correlation Analysis

The Pearson's correlation analysis sought to find out whether there was any significant relationship between the independent and dependent variables. In this section the correlation of Board size, Board gender diversity, Board members industry specific experience, Educational qualification, Audit committee, Number of board committees, Number of meetings held annually with firm performance are presented. The possible range of Correlation coefficient values are from -1 to +1.

**Table 4.13. Correlation Matrix**

	BS	EQ	BG	NBC	NM	AC	BIE	Firm Performance
Board size	1							
Educational qualification	.530**	1						
Board gender diversity	.563**	.306**	1					
Number of board committees	.742**	.513**	.489**	1				
Number of meetings held annually	.779**	.556**	.660**	.673**	1			
Audit committee	.725**	.516**	.426**	.660**	.612**	1		
Board members industry specific experience	.438**	.355**	0.112	.313**	.326**	.267**	1	
Firm performance	.896**	.622**	.580**	.809**	.820**	.750**	.460**	1

\*\* . Correlation is significant at the 0.01 level (1-tailed).

Source: primary data (2022)

The above table showed that the correlation between the corporate governance mechanisms and firm performance. It shows positive relationship between governance mechanisms and firm performance. Board of directors industry specific experience had weakest correlation with firm performance ( $r = 0.460$ ) and the other types of governance mechanisms; Board size( $r = 0.896$ ), Board gender diversity( $r = 0.580$ ), Educational qualification( $r = 0.622$ ), Audit committee( $r = 0.750$ ), Number of board committees( $r = 0.809$ ), Number of meetings held annually( $r = 0.820$ ) were strongly correlated. Altogether, the relationship between all independent variables and firm performance was positive and significant at 1% significance level.

#### **4.7 Multiple regression analysis**

Any modeling and analytic methods using multiple variables that place the emphasis on the correlation between a dependent variable and one or more independent variables are included in regression analysis. Regression analysis, more particularly, enables one to comprehend how the usual value of the dependent variable varies when any one of the independent variables is changed while the other independent variables are maintained at their original values.

Regression analysis is also employed to identify the independent variables that are connected to the dependent variable and to investigate the nature of these connections. Regression analysis may be used to establish causal connections between the independent and dependent variables under specific conditions.

The purpose of the study was to find out the impact of corporate governance practices on a firm's performance. The following corporate governance mechanisms were taken into consideration: Board size, board independence, board gender diversity, number of board committees, and frequency of board meetings. The results of the regression analysis are as follows.

#### 4.7.1 Model summery

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944 <sup>a</sup>	0.892	0.887	0.12241
a. Predictors: (Constant), Board Members Industry Specific Experience Board Gender Diversity, Educational Qualification, Audit Committee, Number Of Board Committees, Number Of Meetings Held Annually, Board Size				

Source: primary data (2022)

According to the table above the independent variables of corporate governance mechanisms statistically predicted firm performance. From this finding the R is equal to 0.944 which indicate that the presence of strong correlation between the independent variables and dependent variable. The value of R<sup>2</sup> 0.892 which indicated that independent variables of corporate governance mechanisms explain 89% of the variations on performance of the dependent variable with unexplained factors of 11%.

#### 4.7.2 Analysis of variance

An analysis of variance was used to determine whether there are any statistically significant differences between the means of the independent variables. ANOVA test produced an f-value of 165.2 which was the significant at p=.000. This describes that the regression model is significant at 95% confidence level. This showed that Board Members Industry Specific Experience, Board Gender Diversity, Educational Qualification, Audit Committee, Number Of Board Committees Meetings Held Annually and Board Size has statistically significant role on firm performance. The results are indicated below in table 4.13

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.329	7	2.476	165.209	.000 <sup>b</sup>
	Residual	2.098	140	0.015		
	Total	19.427	147			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Board Members Industry Specific Experience, Board Gender Diversity, Educational Qualification, Audit Committee, Number Of Board Committees Meetings Held Annually, Board Size						

Source: primary data (2022)

### 4.7.3 Regression coefficients

The regression coefficient indicated that at 95% confidence level, corporate governance mechanisms (Board Size, Educational Qualification, Board Gender Diversity Number of Board Committees, Number of Meetings Held Annually Audit Committee, Board Members Industry Specific Experience) has a combined positive impact on performance of firms. The results are as indicated in table 4.8

Table 4.8. Regression coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.152	0.137		-1.114	0.267
	Board size	0.407	0.060	0.387	6.780	0.000
	Educational qualification	0.092	0.035	0.092	2.581	0.011
	Board gender diversity	0.037	0.035	0.040	1.059	0.291
	Number of board committees	0.190	0.038	0.220	4.972	0.000
	Number of meetings held annually	0.160	0.043	0.191	3.686	0.000
	Audit committee	0.110	0.040	0.118	2.762	0.007
	Board members industry specific experience	0.060	0.021	0.090	2.807	0.006
a. Dependent Variable: Firm Performance						

Source: primary data (2022)

The above table shows that, all of the independent variables have statistically significant relationship with the dependent variable since their p-value is below the alpha level which is 0.05. Board Size (t = 6.780, P <0.01), Educational Qualification (t = 2.581, P <0.01), Number of Board Committees (t = 4.972, P <0.01), Number of Meetings Held Annually (t = 3.686, P <0.01), Audit Committee (t = 2.762, P <0.01) and Board Members Industry Specific Experience (t = 2.807, P <0.01) found to be the strongest and statistically significant influencer. Though the coefficient of Board Gender Diversity (t=1.059) is positive, statistically had insignificant impact on firms performance. The equation for the regression model is expressed as:

$$Y = -0.152 + 0.407X_1 + 0.092X_2 + 0.037X_3 + 0.190X_4 + 0.160X_5 + 0.110X_6 + 0.060X_7 + e$$

Where:

Y= Firm performance (dependent variable)

X1= Board size

X2= Educational qualification

X3 = Board gender diversity

X4= Number of Board committees

X5 = Number of meetings held

X6= Audit Committee

X7= Board Members Industry Specific Experience

## **4.8 Discussion of the Findings**

A discussion of the findings is presented in this section according to the study objectives. Here the researcher assesses how the findings of the study are in agreement or disagreement in light of the study in this field in order to successfully answer the research questions that this study raised.

### **4.8.1 Board size**

As shown above table 4.8, this study found a positive (coefficient = 0.407) and statistically significant (p-value of  $0.0001 < 0.05$ ) association between board size and firm performance at 1 percent level of significance level. The finding revealed that there was a strong and statistically positive correlation between board size and firm performance, which was an implication that board size positively affects organizational performance of insurance companies in Ethiopia. Thus, the alternative hypothesis (Ha1) is accepted that the size of the board has a significant positive impact on the performance of insurance companies in Ethiopia. The findings were further supported by the multiple regression results which revealed that board size determined a change in organizational performance. In support of the finding of the study, Kiel and Nicholson (2003) found out board size is crucial to the board effectiveness and improved firm performance. This finding is consistent with previous study of Bathula (2003) found out board size were positively related with firm performance.

### **4.8.2 Board gender diversity**

The relationship between board gender diversity and firm performance has a positive coefficient (0.037) which is insignificant (p-value of  $0.291 > 0.05$ ). The finding also revealed that the relationship between board gender diversity and firm performance is significantly & positively correlated but statistically insignificant effect on firm performance. Hypothesis Ha2 predicts that the number of women directors on the board is positively associated with firm performance. The positive and insignificant coefficient of the percentage of women directors does not support this hypothesis. Meaning that the null hypothesis which states the composition of board in terms of gender does not have a significant impact on organizational performance of insurance companies in Ethiopia is accepted.

This finding is consistent with previous study of Rose (2007), revealed insignificant association between number of women directors on the board and firm performance.

#### **4.8.3. Board Member Educational Qualifications**

Firm performance with board members educational qualifications coefficient is 0.092, test of p-value is  $0.011 < 0.05$ . This result depicts that, board members educational qualifications has a significant positive impact on firm organizational performance. So board members educational qualifications have significant positive impact on the firm performance of insurance companies in Ethiopia.

The result indicate that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the organizational performance of insurance companies and vice versa. In other words the higher the number of directors who had degree and above in the board room, the higher the performance of firms.

Therefore, alternative hypothesis Ha4 is accepted and means that, increase in the proportions of directors who had college degree or higher have a significant positive influence on the organizational performance of insurance companies and vice versa. This suggests that the presence of qualified board members on the board room plays a vital role in carrying the boards monitoring responsibility and make decision proactively & with innovative way for the improvement performance.

This result supports the finding revealed by Amran(2011) and Yasser(2011). They argue that board members with higher educational background are better in managing the business operation and controlling agency problem than less educated.

#### **4.8.4 Industry Specific experience of director**

Hypothesis Ha7 expected that Board members industry specific Experience is positively and significantly associated with firm organizational performance. As expected, a positive (Coefficient = 0.060) and significant (p-value of  $0.006 < 0.05$ ) association is found between board experience in the sector and firm performance. A positive association is found between industry specific experience and firm performance. It means the higher the proportions of board member who had previous working experience in the industry and directors had full understanding of the insurance companies' business situations the higher the performance of the companies.

According to Saat,etal.(2011) board director's specialist knowledge will be valuable to the creation of a strong & informed board.

#### **4.8.5. Audit Committee**

The finding revealed that the effect of audit committee size on organizational performance of insurance companies is positive with a coefficient of 0.110 and statistically significant (p-value of  $0.007 < 0.05$ ) level of Significant. Which means with the existence of audit committee the higher the performance of firms will be. Hypothesis Ha5 predicts that: there is a significant negative relationship between sizes of audit committee and firm organizational performance. The positive and significant coefficient of the audit committee does not support this hypothesis. Meaning that the null hypothesis which states the existence of audit committee has a significant impact on firm organizational performance is accepted.

#### **4.8.6. Number of meetings held annually**

It was also observed from the finding that the number of meetings held annually affects the performance of insurance companies in Ethiopia to a great extent as evidenced by an aggregate mean of 3.77 and standard deviation of 0.861. And it has a significant positive impact on the firm performance with a coefficient of 0.160 and significantly at 1 percent level of significance.

So, meeting frequency has significant positive impact of the organizational performance of insurance companies in Ethiopia. Therefore, the alternative hypothesis Ha3 that states number of meetings held annually has a significant positive impact on firm performance is accepted.

The result is consistent with previous study of (Funmi, 2014). When boards hold regular meetings, they are more likely to remain informed and knowledgeable about relevant performance of the company leading them to take or influence and direct the appropriate action to address the issue.

#### **4.8.7 Number of Board committee**

This study found a positive Coefficient of 0.190 and statistically significant P value of 0.001 association between number of Board Committees and firm performance at 1% significance level. It implies that the number of Board committees have significant impact on the performance of Ethiopian Insurance Companies. Therefore, the alternative hypothesis Ha6 that states number of board committee has a significant positive impact on firm performance is accepted.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The study's summary; conclusion and recommendations are presented in this chapter. The objective of the study was to determine the impact of corporate governance mechanisms on performance of firms (insurance companies in Ethiopia). The study limitations and suggestions for further research have also been presented.

#### 5.2. Summary of Findings

The main objective of this study was to determine the impact of corporate governance mechanisms on organizational performance of insurance companies in Ethiopia. The study used descriptive design. The population of the study comprised 148, the sample was selected through purposive sampling technique and research data was collected through questionnaire. The independent variables for the study was corporate governance mechanisms (Board size, Board gender diversity, Board educational qualification, board meeting frequency, Audit committee, number of board committee and Board of directors industry specific experience). While the dependent variables was firms performance measured by (Market share, Customer retention, Sales volume, profitability) and the data was analyzed with the use of statistical package for social science (SPSS) software version 26.0, which presented results in tabulation of frequencies, correlation and regression analysis.

From the findings on the demographic characteristics, the majority of the respondents 123(83%) were male, 103(69%) of the respondents were top level managers, 117(79%) of the respondents possessed BA degree level of education, 100(67.6%) of respondents had accumulated experience of over 5 years.

The study established that smaller board improves the performance of the firm. A large size board is more capable in the provision of resources although large boards are prone to more conflicts among board members who make it difficult to reach an agreement. The number of board meetings held annually enhances the firm's performance.

The study discovered that directors are better placed to handle the affairs of the company since they have a broader understanding of the organizations operations. The study further recognized

that there is an audit committee and this helps the company to focus on improving performance. The result of the study also revealed that the board room fulfilled with the relevant qualification holder directors.

The regression findings revealed that a strong association ( $R=0.944$ ) exists between the dependent variable and independent variable with corporate governance accounting for 89% of the total variance in insurance companies performance and an adjusted R-square value of the study is 88.7% of the variance in the organizational performance of insurance companies in Ethiopia. This can be explained by corporate governance while the remaining percentage is explained by other factors which were not captured in this study.

Analysis of variance ( $F(7,140) = 165.2$   $P = .000$ ) with statistically significant at  $P < .05$  (level of significance) showed that corporate governance mechanisms has statistically significance role on firms performance, which indicates that there was significant relationship of governance mechanisms and insurance companies performance.

### **5.3 Conclusion**

Based on the finding of the study, the following conclusion was made on the impact of corporate governance on the performance of insurance companies in Ethiopia.

The correlation analysis indicates that board size, board educational qualifications, board industry experience in the sector, meeting frequency, board committee and audit committee size are positively and significantly correlated with the organizational performance of insurance companies in Ethiopia. However, board gender diversity is positively correlated but statistically insignificant with firm performance.

The regression result shows that Board size has a significant Positive effect on firm performance. This finding is consistent with previous study of Bathula (2003), found out board size were positively related with firm performance. Accordingly, the researcher concludes that board size has significant effect on the organizational performance of insurance companies.

The researcher found no statistically significant relation between board gender diversity and firm performance. The result is consistent with (Ferede, 2012), (Rose, 2007) and (Habbash, 2010).

Board educational qualification significantly and positively influences the performance of insurance companies. The presence of competence and qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. The result supports the finding revealed by Amran(2011) and Yasser(2011). They argue that board members with higher educational background are better in managing the business operation and controlling agency problem than less educated. Therefore, the researcher concludes that board members competency has a significant positive effect on insurance company's performance.

From the regression result, Board industry Experience has positively and significantly influences firm performance. The result supports the finding revealed by Saat,etal.(2011).Board director's specialist knowledge will be valuable to the creation of a strong & informed board.

Meeting Frequency has a significant positive impact on firm performance and an increasing in meeting frequency will improve the organizational performance of Ethiopian insurance companies. The result is consistent with previous study of (Funmi, 2014). When boards hold regular meetings, they are more likely to remain informed and knowledgeable about relevant performance of the company leading them to take or influence and direct the appropriate action to address the issue.

Size of audit Committee has a positive and statistically significant relation with the firm's organizational performance. Thus, audit committee size has significant positive impact on the financial performance of Ethiopian insurance companies.

The number of Board committees has positive significant impact on the performance of Ethiopian Insurance Companies.

Generally, the findings suggest that insurance companies with effective corporate governance mechanisms improve organizational performance. The study has achieved its objective by identifying the attributes that help to test the research hypothesis.

Therefore, it is concluded that listed corporate governance mechanisms have a positive and strong impact on insurance company's performance.

## 5.4 Recommendations

According to the results and conclusion made, the following recommendations were forwarded.

- ❖ This research found that board meeting frequency has a significant and positive impact on the organizational performance of Ethiopian insurance companies. Therefore, the researcher recommends that board of directors should increase the frequency of meetings and attend regularly by having a good agenda to make them knowledgeable and informed to generate superior firm performance.
- ❖ The study found that having board members with industry-specific experience and educational qualifications has a significant and positive impact on the performance of the company. As a result, the study advises shareholders to ensure that all board members are qualified and have relevant industry experience required to steward the organization.
- ❖ The study revealed that board gender diversity has an impact on the organizational performance of Ethiopian insurance companies. Therefore, the study recommends that shareholders need to promote and include qualified and competent female directors to enhance gender balance consequently to improve firm performance.
- ❖ Attention should be given for the board size of insurance companies in Ethiopia. The board should be organized in a way that will help the insurance companies improve their overall performance. The regulatory body, NBE has to amend some regulations related to board size. The size of the board should be sufficient to oversee management through the creation of several subcommittees, which would enhance the firms' performance.
- ❖ Moreover, it has found that number of committees and audit committee has significant impact on firm's performance. Therefore, the study suggests that businesses support the independence of the audit committee and maintain subcommittee arrangements for better categorizing tasks given by split work and grouping it according to quality and profession.

## 5.5 Recommendation for further Research

The relationship between corporate governance mechanisms and firm performance can be also further explained and the result will be stronger by taking evidence from both primary and secondary data.

Similar studies to this can be carried out in the future by including more corporate governance mechanisms and accounting and marketing based measures as a measurement of firm performance.

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## Appendix A: Questionnaire

### QUESTIONNAIRE

Dear Respondent,

This questionnaire is aimed at collecting data to undertake a study on the impact of Corporate Governance on performance of selected Insurance companies. The research is in partial fulfillment of the requirements for the award of an Executive Master of Business Administration of Addis Ababa University. All information provided will be treated with utmost confidentiality and will be used for purely for academic purposes.

Note: - Kindly tick (✓) you feel appropriate for your feedback.

Thank you in advance for your cooperation!!!

#### SECTION I: General Information

1. Educational qualification

Diploma  Degree  Master Degree  PHD  Other

2. Gender: Male  Female

3. What is your level of management?

Board of director  Top management  Middle Management

4. How long have you worked at the Company?

Less than 2 years  3-5 Years  6-10 years  above 10 years

#### Section II: Corporate governance Mechanisms

To what extent do you agree with the following statement on the corporate governance practice as observed in your company? Please indicate the extents of your agreement with statements listed below ranging from 5 -strongly agree (SA), 4- agree (A), 3 not certain (NC), 2 disagree (D), 1- strongly disagree (SD).

<b>BOARD SIZE</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
Smaller Board improve firm performance	1	2	3	4	5
very small boards lack the advantage of having the spread of expert advice and opinion	1	2	3	4	5
Large board of directors are prone to more conflicts among board members which makes it to reach agreements	1	2	3	4	5
The firm benefits from larger boards since they provide effective oversight of management and increase resource availability in the company which leads to the improvement of organizational performance	1	2	3	4	5
A large board will bring more expertise and experience to the board room	1	2	3	4	5
Board of directors get bigger, they become less effective because free-riding problems erupt and decisions become harder to make in a timely manner.	1	2	3	4	5
<b>EDUCATIONAL QUALIFICATION</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
Board members of the company are characterized by open mindedness, capacity for information processing, and tolerance to changes	1	2	3	4	5
Educationalqualification affects the oversight and monitoring role of boards of directors	1	2	3	4	5
Personal profile factors of directors especially education is important for board efficiency.	1	2	3	4	5
The board takes decisions with proactive and technical innovations independently.	1	2	3	4	5
75% of board members hold a minimum of first degree or equivalent	1	2	3	4	5
<b>BOARD GENDER DIVERSITY</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
The board has been composed of both genders	1	2	3	4	5

Presence of female board member improves performance of the Company	1	2	3	4	5
Existence of Female board members provides new insights and perspectives for the board room	1	2	3	4	5
Board diversity promotes more effective monitoring and problem-solving	1	2	3	4	5
Female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.	1	2	3	4	5
The greater the company's proportion of female directors on its board room the better its financial performance.	1	2	3	4	5
Different styles, attitudes, and perspectives may increase conflict, reduce cohesion, and hinder communication and coordination within the team.	1	2	3	4	5
<b>NUMBER OF BOARD COMMITTEES</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
Boards use committee structures to facilitate, evaluate, and to monitor the performance of senior management	1	2	3	4	5
Independent committees would focus on improving the company competitiveness and performance	1	2	3	4	5
The existence of independent committees enhance financial performance of the organization	1	2	3	4	5
The board delegates some of its responsibilities to sub-committees or subordinates	1	2	3	4	5
<b>NUMBER OF MEETINGS HELD ANNUALLY</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
There is poor attendance in board meetings	1	2	3	4	5
All the board meetings have been relevant to the company mandate	1	2	3	4	5
The number of board meetings has an influence on firm performance	1	2	3	4	5
Board meetings held more frequently tend to generate higher financial performance.	1	2	3	4	5
The more frequent the meetings, closer the supervision and control over managers, the more relevant would be the advisory role.	1	2	3	4	5
<b>AUDIT COMMITTEE</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
larger audit committee size helps for the effectiveness of the committee	1	2	3	4	5
larger audit committee helps the members to solve and discuss issues more effectively	1	2	3	4	5

larger audit committee size will increase problems in communication, solving of issues, coordination and decision making in the committee	1	2	3	4	5
Accounting policies are sound and financial statements are properly prepared and audited.	1	2	3	4	5
Audit committee are not effective against risk they are just overloaded	1	2	3	4	5
<b>BOARD MEMBERS INDUSTRY SPECIFIC EXPERIANCE</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
Board members fully understand the company's business situation.	1	2	3	4	5
Board members are capable of guiding, consulting and monitoring the management more effectively	1	2	3	4	5
Board members are well informed and proficient of opportunities and threats of the industry.	1	2	3	4	5
Board members have relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures.	1	2	3	4	5
Board members contribute substantively for the Performance of the company.	1	2	3	4	5

## Section II: Firm Performance

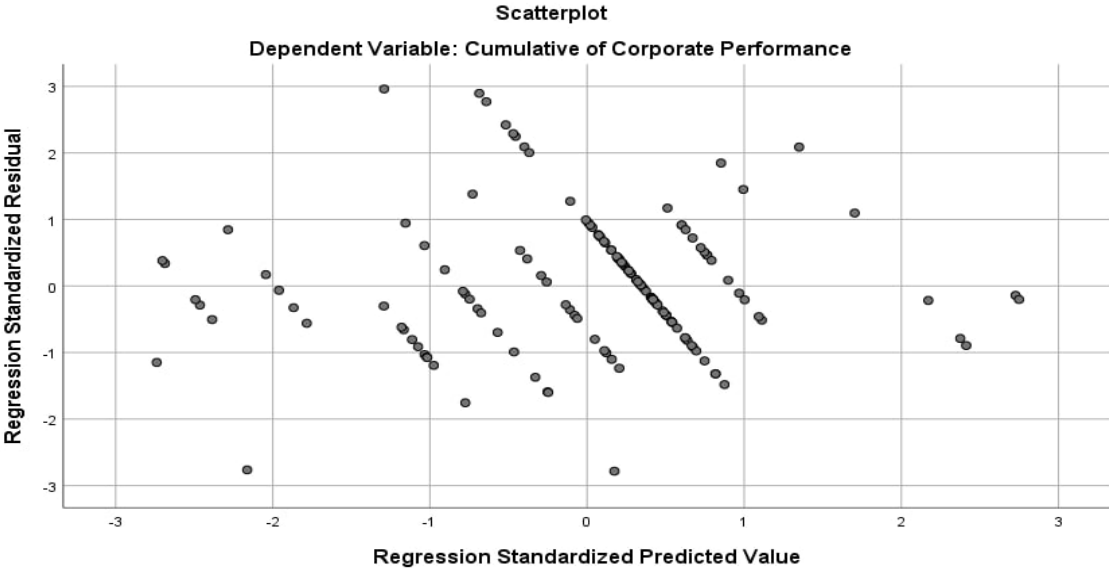
To what extent do you agree with the following statements in relation to the corporate performance of the insurance companies? Ranging from 5 -strongly agree (SA), 4- agree (A), 3 not certain (NC), 2 disagree (D), 1- strongly disagree (SD).

<b>Items</b>	<b>SD</b>	<b>D</b>	<b>NC</b>	<b>A</b>	<b>SA</b>
The firms production and sales has grown over the years					
The firm has grown its production and number of branches					
The profit of the firms has been steadily increasing					
The firms return of investment has been grown over the years					
The firms customer base has grown and value its customer					

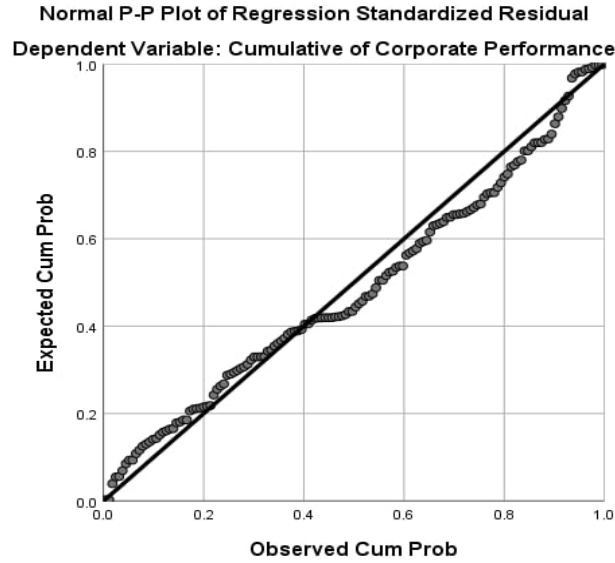
Thank you for your cooperation!!

## Appendix B: CLRM Assumptions Test

Homoscedasticity Test



Linearity test



#### Durbin Watson Test

Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate	Durbin-Watson
1	.944a	0.892	0.887	0.12241	1.188

A. a. Predictors: (Constant), Board size, Board Gender Diversity, Educational Qualification, Audit Committee, Number of Board Committees, Number of Meetings Held Annually, Board Members Industry Specific Experience

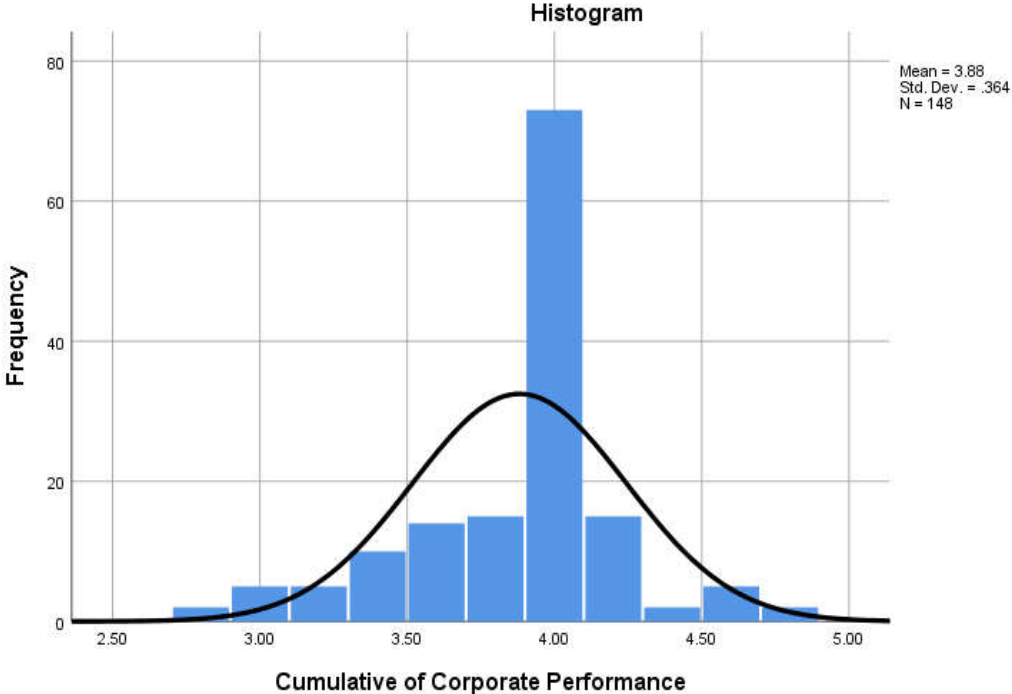
B. Dependent Variable: Firm performance

#### Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board size	0.237	4.227
	Educational qualification	0.601	1.664

	Gender diversity		0.533	1.877
	Number of Committee		0.394	2.538
	Number of meetings held annually		0.288	3.467
	Audit committee		0.421	2.377
	Industry specific experience		0.749	1.336
a. Dependent Variable: Firm performance				

# Normality test



## Appendix C

List of Insurance companies in Ethiopia considered in this study

S/N	Company Name	Year of establishment
1	Awash Insurance S.C	1994
2	Global Insurance S.C	1997
3	Nile Insurance S.C	1995
4	Nice Insurance S.C	1994
5	Africa Insurance S.C	1994
6	Nib Insurance S.C	2002
7	Nyala Insurance S.C	1995
8	United Insurance S.C	1997
9	Oromia Insurance S.C	2009
10	Lion Insurance S.C	2007
11	Abay Insurance S.C	2010
12	Berehan Insurance S.C	2011
13	Tsehay Insurance S.C	2012
14	Ethio life and general Insurance S.C	2008
15	Buna Insurance S.C	2013
16	Lucy Insurance S.C	2012

