



**Addis Ababa University
College of Business and Economics
Department of Management**

**Corporate Governance Mechanisms and Financial Performance in
Ethiopian Insurance Industry**

**BY
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Declaration

I, undersigned declare that this thesis is my original work. Furthermore, all sources of materials used for the thesis had been duly acknowledged.

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Certification

This is to certify that Bedilu Mekonnen Engida has done a study on the topic “Corporate Governance Mechanisms and Financial Performance in Ethiopian Insurance Industry”. This study is of his original work and all the sources of materials used for the thesis had been duly acknowledged.

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Place: Addis Ababa University

Abstract

Good corporate governance is an important pillar of the market economy and it enhances investor confidence. A strong and balanced board of directors is necessary as a supervising body for the executive management of a company with dispersed ownership and it has received new urgency due to various corporate scandals and failure. This study seeks to see impacts of corporate governance mechanism on financial performance of Insurers in Ethiopia. To address the research hypotheses needs and achieve the broad research objective, a quantitative research approach and explanatory research design were adopted in carrying out this research. The variables were chosen based on findings from both empirical and theoretical literature. Secondary data of seven insurers from 2006 to 2015 with a total of 70 observations were collected using purposive sampling technique. The study employed panel data estimation techniques and the researcher has adopted fixed effects regression technique instead of random effect models, in the case of cross section-fixed effects, the p-value is insignificant and only period fixed effects is allowed to analyse. The study analyses a range of internal corporate governance variables board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, board member other business managements experience, board member's industry specific experience and the study also controls the effect of premium growth of Insurers. The regression results show that, board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, and board member other business managements experience, had a significant effect on the financial performance in Ethiopian insurance sector. Other variables including board member's industry specific experience and premium growth have statistically insignificant impact on financial performance (ROA) of insurance companies in Ethiopia. So, stakeholders should give consideration to board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, and board member other business managements experience when they set governance policy for industry as general and for the company specifically.

Keyword: *Corporate Governance mechanism; agency theory, Insurers, financial performance and Ethiopia.*

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List of Abbreviation

Swiss Re= Swiss Reinsurance

CEO= Chief Executive Officer

OECD= Organization for Economic Cooperation and Development

CSA= Central Statistics Authority

EIC= Ethiopian Insurance Corporation

OLS= Ordinary Lest Square

ROE= Return on Equity

U.K= United Kingdom

U.S= United States

ROA= Return on Assets

NBE= National Bank of Ethiopia

NISCO= Nyala Insurance Share Company

AIC= Awash Insurance Company

UNIC= United Insurance Company

CLRM= Classical Linear Regression Model

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CHAPTER ONE: INTRODUCTION

1.1. Background of the study

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

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

Cadbury (2003) echoed the fact that corporate governance is all about maintaining a balance between social and economic goals and between personal and shared goals. The structure of governance is mainly presented to inspire the optimum use of resources to hold accountable the stewards of those resources.

From the global perspective, the history of corporate governance systems is now well documented. According to Gomez (2005), the past two decades have, however, witnessed significant transformations in corporate governance structures, leading to increased scholarly interest in the role of board of directors in driving corporate performance. Arising from many high profile corporate failures, coupled with generally low corporate profits across the globe, the credibility of the existing

corporate governance structures has been put to question. Subsequent research (Shleifer and Vishny, 1997) has thus called for an intensified focus on the existing corporate governance structures, and how they ensure accountability and responsibility.

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

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

Researchers in corporate governance (Huse, 1995, and Gomez ,2005) have reported that there is still lack of concurrence on the ideal corporate governance structure that could safeguard shareholders assets while promoting wealth creation ventures.

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

Specifically in Ethiopia, few studies had been conducted on corporate governance and financial performance and these few studies were conducted with major focus on banking industry but to the best of researcher's knowledge, no prior study has focused on Insurance industry in Ethiopia.

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

1.2. Overviews of Ethiopia Insurance Industry.

Insurance industry in Ethiopia does not have a long history of development despite the country's long history of civilization. Schaefer (1992) indicated that the emergence of modern insurance in Ethiopia is traced back to the establishment of the Bank of Abyssinia in 1905. The Bank began to transact fire and marine insurance as an agent of a foreign insurance company. Imperial Insurance Company was the first domestic private insurance company that was established in 1951. In the 1960s domestic private companies started to increase in number. In 1962, according to the survey of the Central Statistical Agency (CSA), there were 34 insurance companies in Ethiopia of which two were domestic and the rest were foreign represented by agents. In other words, the origin of Ethiopia insurance industry is linked to expatriates and foreign insurance companies (Zelege, 2007).

Following the overthrow of the imperial regime by the Marxist Military government, private insurance companies were nationalized in 1975. A sole public insurance company was established under the name Ethiopia Insurance Corporation (EIC), which had a monopoly in the insurance industry for 19 years. Following the regime change in 1991, there was a shift to a market economy and a new insurance proclamation, Licensing and Supervision of Insurance Business, No. 86/1994, was issued in 1994(N.B. this proclamation is repealed by proclamation No, 742/2012 which was issued on August 22, 2012). Both laws allowed private sector participation in the insurance business (Mihretu, 2010). Considering the regulation and proclamation, the sector have been broadly stable and growing in terms of expanding its services and increase its premium, total asset, total liabilities as well as capital in relative to previous years. However, the sector still contributes less than 1% to country's GDP. Currently, the Ethiopian insurance sector is composed of 17 insurance companies of which sixteen are privet share companies and one namely Ethiopian Insurance Corporation is government owned.

1.3. Statement of the Problem.

Past empirical studies examining the relationship between governance and firm performance produce mixed results. Some studies have shown no significant relationship between governance and firm performance (see for example Ibrahim, et al. 2010). Moreover, there is no clear evidence to suggest that better corporate governance enhances firm performance in different market settings. Furthermore, there is no unequivocal evidence that governance practices are endogenous (Klein et al 2005) and investors are still much sceptical about the existence of the link between good governance and performance indicators and for many practitioners and academics in the field of corporate governance, this remains their search for the Holy Grail- the link between returns and governance (Bradley, 2004).

However, there were studies which claim that good corporate governance enhances firm's performance. For instance, Klapper and Love (2002) reported that better corporate governance is highly correlated with better operating performance. They documented that firm level corporate governance provision matter happens more in countries with weak legal environments.

Coming back to the case of Ethiopia, prior studies conducted in the area of corporate governance are very few and those few studies were conduct on the banking industry with general assessment rather than its impact on firm performance. However, a design feature that works well in one country/industry may not work in another. As Bird (2005) noted this may be referred to as the No-One-Size-Fits-All (NOSFA) principle, i.e. the best policy and administrative design for each country/industry has to be determined carefully in light of the conditions and objectives of that country/industry. Specifically in Ethiopia, though few studies have been conducted on corporate governance and financial performance, no prior study has focused on the insurance corporate governance mechanisms and financial performance. Therefore this study seeks to see impact of corporate governance mechanism on financial performance of insurers that operate in Ethiopia to fill this left knowledge gap.

1.4. Hypotheses

As already shown in the first chapter, the intent of this study was to examine impacts of corporate governance mechanism on financial performance of Insurers in Ethiopia. In order to achieve this objective seven hypotheses have been developed. Hypothesis is constructed to see

the impacts of one or more independent variable(s) on one or more dependent variable(s). In this study corporate governance mechanisms variables namely board size, frequency of board meeting, board educational qualification, presence of female directors, Industry specific experience of directors, Other business managements experience of directors and chief executives compensation that were selected from the literature and controlled by firm specific variable such as Growth in premium tested for their impacts on insurers financial performance measured by ROA.

A. Board Size

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

B. Chief Executive Compensation

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

C. Educational Qualifications of Directors

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

D. Female Director Proportion

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

E. Frequency of Board Meeting

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

F. Other Business Management Experience of Directors

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

G. Industry Specific Experience

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

1.5. Objectives of the Study

In light of the problems stated in the preceding discussion, the intent of this study is to examine the impact of corporate governance mechanisms on financial performance of Ethiopia insurance industry in controlling the influence of some selected insurers' specific variables using ten years

data (2006-2015).

1. 5.1. Specific objectives of the study

Given the overall objective of examining the impact of corporate governance mechanisms on firms' financial performance using data from some selected insurance companies in Ethiopia, this study has several specific objectives:-

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

1.6. Significance of the Study

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

A. To the insurance industry

The result of this study will contribute to Insurance industry by identifying relevant internal corporate governance mechanism and how this governance affects financial performance.

B. To the existing literature

The result of this study contributes to the existing literature by providing evidence on the relation between internal corporate governance mechanism and Insurer's financial performance.

C. To the Regulator and shareholders

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

D. To the potential researchers

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

1.7. Scope of the study

The scope of the study is restricted to examine the impacts of internal corporate governance mechanisms on financial performance of insurance companies which are registered by the NBE and that has operated at least for ten years and which have been underwriting both main class of business (General and Life business). To this end, this study were limited to internal corporate governance mechanism variables (board size, Frequency of board meetings, existence of female directors in the board, director's educational qualification, director's industry specific experience, directors other business management experience and Chief executive compensation) as explanatory variable and the controlling variable were delimited to premium growth rate to see their impacts on financial performance. The dependent variables were delimited to Return on Equity (ROA). The secondary data used were collected for the period of 2006-2015. The sample includes one state owned (EIC) and six private insurance companies: NIB, NISCO, UNIC, AIC, AFRICA and NILE.

1.8. Limitation of the Study

As with any other study, this study has its own limitations. In this study the selected sample insurance companies were on the basis of purposive sample method based on the companies' age and line of operation.

This may introduce bias inherent with non-probability sampling method. Another limitation with this study is unavailability of active secondary market which forced the researcher to consider dependent variable as accounting based measure of performance (ROE) and at the same time this dependent variable are measured in terms of book values rather than market values.

1.9. Structure of the Study

The suggested structure of the research report is divided into five chapters. Chapter one is the introduction part as discussed above. Chapter two presents a discussion on literature review. Chapter three outlined the research methodology which will be followed in the study. Chapter four reports the results and a discussion thereon. In the final chapter which is chapter 5, conclusions, and summary recommendations will be forwarded

Chapter Two: Literature Review

2.1. Corporate Governance: Concepts and Theories.

The term corporate governance is a relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer, at least since Berle and Means (1932) and even earlier Smith (1776) cited on (Claudiu 2007). It is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation and it includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010). According to Imam and Malik (2007) corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfils the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance. The Organization for Economic Cooperation and Development's [OECD] also define *corporate governance as the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance determined.*

There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanism on firm's financial performance. The most important theories are the Agency Theory, Stakeholder's Theory and Resource Dependency Theory (Maher & Andersson, 1999).

2.1.1. Agency Theory

According to Habbash (2010) Agency Theory is the most popular and has received greater attention from academics and practitioners. The Agency Theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the

functioning of the agency theory. In modern corporations the shareholders(principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010).

From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centered behaviours of management and inspecting the financial reporting process (Habbash, 2010). As a consequence, enhancing corporate governance should result in improved financial performance. Taking agency theory into consideration, the study variables were identified with the aim of examining the impacts of corporate governance mechanism on financial performance. The corporate governance mechanism variable considered in this research include board size, board frequency of meeting, board gender diversity, educational qualification of board members, other general and industry specific experience of board members and chief executive compensation.

2.1.2. Stakeholders Theory

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

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

According to 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 cooperation amongst stakeholders to ensure the long-term profitability of the business firm (Maher & Andersson, 1999).

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

Companies are no longer the instrument of shareholders alone but exist within society. It has responsibilities to the stakeholders. However, most researchers argue that it is unrealistic task for managers (Sundaram & Inkpen, 2004b, Sanda et al. 2005). The stakeholder theory has not been subjected to much empirical study. The common criticisms for stakeholder theory is that how to align the stakeholders conflicting interests since the difficulties result from how to administer different stakeholders with various needs and demands. It is not possible to treat all stakeholders equally (Habbash, 2010).

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

2.1.3. Resource Dependency Theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

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

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

The agency theory concentrates on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. Recently, both economists and management scholars tend to assign to boards the dual role of monitoring and advising management. However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2010).

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

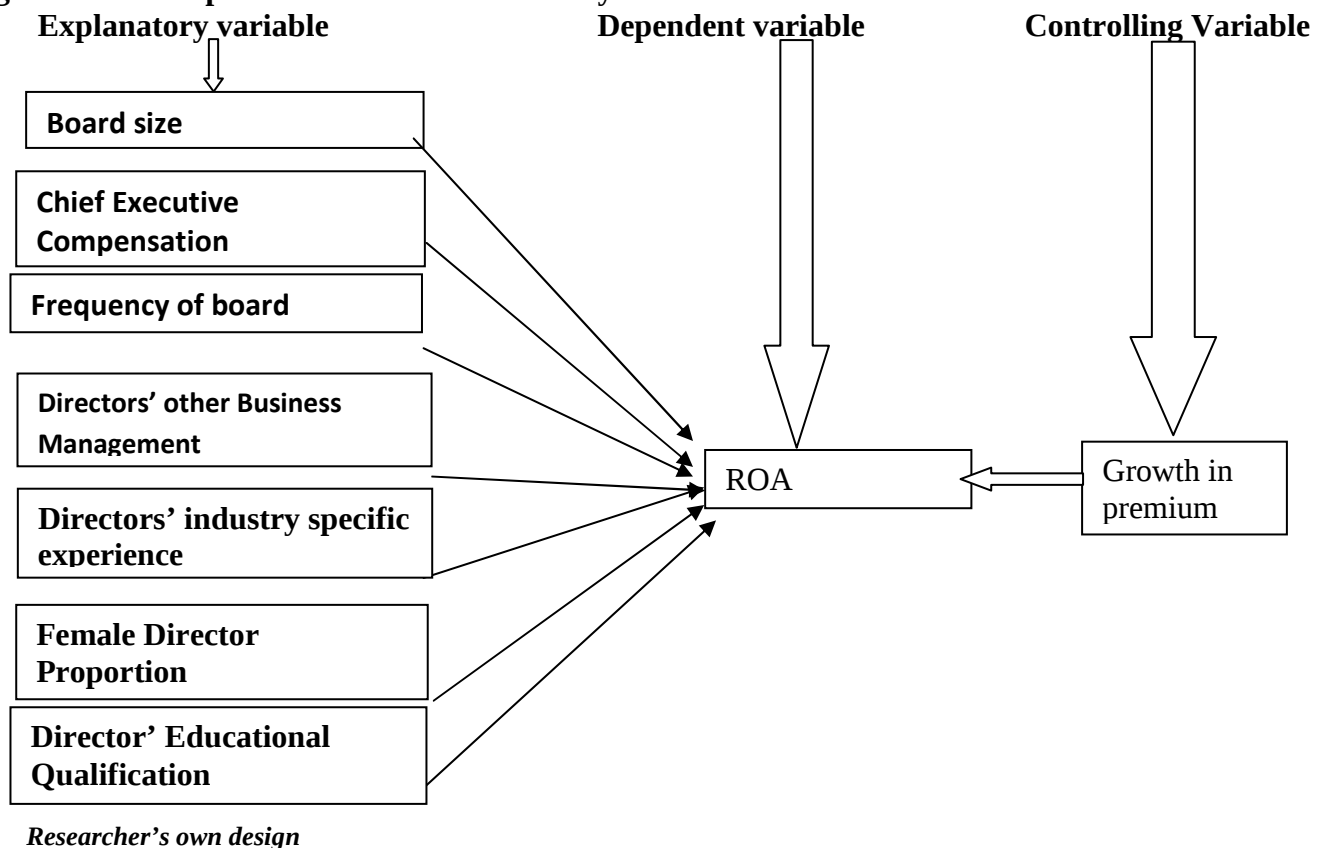
Each of the three theories is useful in considering the efficiency and effectiveness of the

monitoring and control functions of corporate governance. But many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2010).

2.2. Conceptual Framework of the study

Generally in relation to the research objectives, this study adopted the agency theory because, it focuses on the board of directors as a focal point which dominates the corporate governance literature. Unusual agency problems in insurance sector, lack of Competitive pressure and the special nature of insurance sectors suggest that insurers need stronger corporate governance practices than do the other. Taking agency theory into consideration, the study variables were identified. Based on the identified variable conceptual framework of the paper where developed since conceptual framework is the schematic diagram which shows the variables includes in the study.

Figure 2.1. Conceptual frame work of the study



2.3. Empirical Studies on Corporate Governance and organizational Performance.

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

Uadiale (2010) examines the impact of board structure on corporate financial performance in Nigeria. He found the existence of strong positive association between board size and corporate financial performance. It investigates the composition of boards of directors in Nigerian firms and analyses whether board structure has an impact on financial performance, as measured by return on assets and return on capital employed. Based on the extensive literature, four board characteristics (board composition, board size, board ownership and CEO duality) have been identified as possibly having an impact on corporate financial performance and these characteristics are set as the independent variables. The Ordinary Least Squares (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Further he noted the existence of positive association between outside directors sitting on the board and corporate financial performance. However, a negative association was observed between directors' stockholding and firm financial performance measures. In addition, the study reveals a negative association between return on capital employed (ROE) and CEO duality, while a strong positive association was observed between ROE and CEO duality. The study suggests that large board size should be encouraged and the composition of outside directors as members of the board should be sustained and improved upon to enhance corporate financial performance.

Ibrahim et al. (2010) examined the role of corporate governance in firm performance. Their study was a comparative analysis between chemical and pharmaceutical sectors of Pakistan using a sample of five companies from each sector from the year 2005 to 2009. Multiple linear regression models with panel data methodology were used. Return on asset and return on equity was used as a measure of performance and they used three corporate governance variables: board size, board independence and ownership concentration. They found that in both sectors, the

impact of corporate governance on return on equity is significant but there is no significant impact on return on asset. In case of sector analysis, there is an insignificant impact of corporate governance on return on asset for chemical and pharmaceutical. On the other hand, there is a significant impact of corporate governance on return on equity in chemical sector, but in pharmaceutical the impact is insignificant.

Aldamen et al. (2011) conducted a study on the effect of audit committee characteristics and firm performance during the global financial crisis. The researchers used logit model analysis with a sample of 120 firms listed on the S&P300 during the period of 2008 and 2009. The study revealed that smaller audit committees with more experience and financial expertise are more likely to be associated with positive firm performance in the market. It also found that longer serving chairs of audit committees negatively impacts accounting performance. However, accounting performance is positively impacted where audit committees include block holder representation, the chair of the board, whose members have more external directorships and whose chair has more years of managerial experience.

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

family controlled and non-family controlled firms respectively. On the other hand, there was a significant negative relationship between firm size and performance of both family controlled and non-family controlled firms. The other variables such as board independence and director's professional qualification were insignificant for both classes of firms.

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

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

German counterparts and that large shareholdings and concentrated ownership contribute to increase risk taking.

Lai and Lee (2011) exploit the particular organizational structure of the U.S. property and causality insurance industry to assess the link between corporate governance and risk taking (captured by underwriting risk, leverage risk and investment risk, in addition to a measure of total risk). According to the authors stock organizational structure may provide incentives for risk taking to increase the wealth of shareholders. Indeed, shareholders who have limited liability are more likely to take risk in order to maximize firm value and hence directly benefit from increased earnings Najjar (2012) examine the impact of corporate governance mechanisms on firm's performance of the insurance industry in Bahrain, to understand how to minimize the agency costs effectively and design the appropriate organizational structure. Also, to distinguish between good and bad corporate governance which is a crucial step in building the market's confidence and attracting positive investment flows to the institution and the economy. Pooled data method was used for Five insurance companies listed in Bahrain stock exchange for the period of 2005-2010 year and he conclude that there is no statistically significant impact of corporate governance expressed by CEO status, ownership concentration, the number of employees, industry performance, and number of shares traded on firm's performance in the insurance industry expressed by the dependent variable - return on equity (ROE). On the other hand board size, firm size, number of block-holders found to have statistically significant impact on firm's performance in the insurance industry expressed by the dependent variable return on equity (ROE). This result, confirms the importance of good governance structure on the firm and the whole economy in the long run. The researcher suggests that every insurance firm should properly define corporate governance and its mechanisms and implement them effectively in order to reach the firm's long-term goals, build stakeholders' confidence and generate positive investment flows.

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

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

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

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

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

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

2.3.1. Justification of variables

The following section explores in more detail the findings of various empirical studies on the impact of Corporate Governance mechanisms variables(independent variables), measure of financial performance(ROA-dependent variables and control variables(Growth in premim) used in this study .

2.3.1.1. Dependent Variables-Return on Assets(ROA)

In this study, the researcher used return on asset as dependent variable. The primary function of insurance companies is maximization of wealth. Return on Asset (ROA) measures the overall efficiency of management. It gives an idea as to how efficient management is at using its assets to generate wealth.

2.3.1.2. Independent Variables

A. Board size

Corporate board size is considered to be one of the most important board structure variables. It refers to the number of directors in the board. It is an important factor to determine the effectiveness of the board. As a corollary the extant literature has sought to provide a theoretical and empirical nexus between corporate board size and firm financial performance with mixed results (e.g Lipton and Lorsch, 1992, Yermack, 1996). Jensen and Meckling (1976) argued that a bigger size board of directors may improve the companies' board effectiveness and support the management in reducing agency cost that resulted from poor management and consequently leads to better financial results.

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

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

Empirically, the evidence regarding the association between board size and firm financial performance is conflicting (e.g. Yermack, 1996 Adams and Mehran 2005, Beiner *et al.* 2006, Henry 2008, Guest, 2009). Yermack (1996) is one of the first to investigate the relationship between board size and financial performance in a sample of 452 large US industrial corporations between 1984 and 1991. Generally, he reports an inverse relationship between corporate board size and performance (Tobin's Q). He demonstrates that his evidence is robust to firm specific characteristics like size, growth potential, board composition (% of outside directors), director ownership and industry. Specifically, Yermack's results show that investors valuation of companies' declines steadily over a range of board sizes between 4 and 10. Beyond a board size of 10, he finds no relationship between board size and market valuation. Yermack's results support prior theoretical suggestions (e.g. Lipton and Lorsch, 1992, Jensen, 1993). By contrast using a sample of 35 US listed Banking firms from 1959 to 1995, Adams and Mehran (2005) report a statistically significant and positive relationship between board size and Tobin's Q. They demonstrate that the positive relationship remain unchanged after accounting for potential endogeneities between board size and the Q-ratio.

By contracts to this Mangena and Chamisa (2008) examine the relationship between board size and the incidences of listing suspensions by the JSE Ltd. Using a sample of 81 South African listed firms from 1999 to 2005, they document no significant link between board size and incidences of listing suspension by the JSE. Although Commercial code of Ethiopia requires the number of boards of directors of share company to be between 3 and 7, NBE directive SIB/32/2012 requires an insurer to have a minimum of nine directors. This directive also stipulated that for any person to have a seat on the board he/she should be a shareholder and none-employee of the company.

B. Chief Executive Compensation.

According to John E. Core, Robert W. Holthausen, and David F. Larcker, CEO compensation is based on three different measures of compensation: total compensation, cash compensation, and salary. Cash compensation is the sum of salary and annual bonus, whereas salary simply measures the -component of compensation that is fixed (or non-contingent) at the beginning of the year. Total compensation is the sum of salary, annual bonus, and other benefits as approved by the Board. In this study the natural logarithms of total compensations is used to test the impact of CEO compensation on performance.

The agency-based theory generally supports that there is a positive relationship between executive compensation and firm performance (Haid and Yurtoglu, 2006; Nourayi and Mintz, 2008; and Lazarides *et al.*, 2008), although some scholars argue that a positive relation is not well-established or is only weakly supported. For instance, using data from the Portuguese Stock Exchange, Fernandes (2005) concludes that firm performance has little effect on CEO compensation and he further claims that there is no relationship between stockholders' wealth and executive remuneration. More recently, Jeppson *et al.* (2009) finds that CEO compensation is positively related to a firm's total revenue, but not related to the changes in total shareholders return or total net income. In sum, the pay-for-performance setting varies with different data, institutions, and model specifications. Comparatively, executive compensation and CEO equity incentives have not been well studied in emerging economies (Kato and Long, 2006). Moreover, little is known about how Chinese CEOs are compensated compared to those in developed countries.

C. Educational Qualifications of Directors

Higher education of top management directors in organizational contexts is positively related to receptivity to innovation, creativity, and better strategic decision making (Bantel, 1992). Therefore, innovation has become a key firm strategy to gain competitive advantage and the qualifications of directors are positively related to firm performance. This relationship suggests that education level and a diverse functional background are positively related to organizational performance (Bantel, 1992; Haniffa and Cooke, 2002), especially in business-related background such as in Economics, Law, Marketing, Accounting, Management, or Finance. In addition, (Poon, Heong and Lee, 2013) find that there is positive relationship between performance and the qualifications of directors. Their finding supports the belief that top management teams who have qualifications in business-related disciplines such as Marketing, Management, Finance, Law or Economics, improved higher insurer performance. These qualified directors chose to increase firm performance to promote corporate image, and demonstrate accountability and credibility within the management team. Hence, less qualified directors are possibly less effective than directors with business qualifications (Ferreira, 2009).

D. Female Director Proportion

There have been disagreements among the scholars regarding the presence of female directors in the board. Some have revealed positive relationships between financial performance and presence of female directors in the board (Bonn, 2004) and other study found that female director proportion has a negative relationship to the financial performance of the firms (Mentes, 2011). On the other hand, recent studies conducted by (Farrell and Hersch, 2005) did not find significant relationship between women directors and shareholder returns. The women participation in all most all the activities around the world is increasing. As laid out in the literature, diversity within the board in terms of female director proportion has had a positive relationship to the performance. It is measured as number of female directors who serve as the board members.

E. Frequency of Board Meeting

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

One theoretical proposition is that the frequency of board meetings measures the intensity of a board's activities, and the quality or effectiveness of its monitoring (Vafeas, 1999a, p.116, Conger *et al.* 1998, p.142). All else equal, a higher frequency of board meetings will result in a higher quality of managerial monitoring, which can impact positively on financial performance. It has been contended that regular meetings allow directors more time to confer set strategy and to appraise managerial performance (Vafeas 1999a, p.118). It can help directors to remain informed and knowledgeable about important developments within the firm. This will place the directors in a better position to timely address emerging critical problems (Mangena and Taurigana, 2006 p.12). In fact, Sonnenfeld (2002, p.107) suggests that regular meeting attendance is considered a hallmark of the conscientious director. Also, frequent meetings intermingled with informal sideline interactions can create and strengthen cohesive bonds among directors (Lipton and Lorsch 1992, p.69).

An opposing theoretical view is that board meetings are not necessarily beneficial to shareholders. Firstly, Vafeas (1999a, p.114) argues that normally the limited time directors spend together is not used for the meaningful exchange of ideas among themselves. Instead, routine tasks, such as presentation of management reports and various formalities absorb much of the meetings. This reduces the amount of time that outside directors would have to effectively monitor management (Lipton and Lorsch 1992 p.64). Secondly, board meetings are costly in the form of managerial time, travel expenses, refreshments and directors' meeting fees (Vafeas 1999a, p.118).

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

F. Other Business Management Experience of Directors

Business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management (Saat et al.2011). Directors need to be competent and capable of understanding the business operation. Kroll, et al (2008) found that boards rich in appropriate experience are associated with superior returns. He argues that boards comprising directors with appropriate knowledge gained through experience can be not only better monitors, but also more useful advisors to top managers. According to Castanias et al. (2001) differences between firms in the human capital of boards of directors are related to differences in strategic actions and performance

G. Industry Specific Experience

It is measured as the percentage of number of directors who served in other insurers earlier in the same capacity divided by the total number of board members. It is important for insurers

to have skilled and experienced directors on board particularly prior experience in the same sector and position. Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat et al 2011). He claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. However, empirical studies examining the effect of business management and industry specific experience of board members on firm performance is scarce in the literature.

2.3.1.3. Control Variable

In this study the variables that is selected as control variable is Premium growth (PG). An insurance premium is the amount of money that an individual or business must pay for an insurance policy. The insurance premium is considered income by the insurance company once it is earned, and also represents a liability in that the insurer must provide coverage for claims being made against the policy. Premium growth is the change of insurance premium as compared to the previous year. It is obtained by subtracting current year insurance premium income from the base year and dividing the result by the base year and converting to percentage.

Table 2.1: Description of the Variables used in the Regression Model

Variables	Measures	Notation
Dependent variables		
Financial Performance	Net Income After Tax / Total Asset	ROA
Independent Variables		
Board Size	Number of directors sitting on the board.	BS
Frequency of Board Meeting	Number of meeting in the year.	FBM
Female Director proportion	Number of female who serve as board member	FDB
Educational Qualification	Number of directors who had college degree or higher	BMEQ
Industry Specific Experience	Number of directors who served in other Insurers earlier in the same capacity.	BMISE
Other business management experience of directors	Number of directors who have other directorial ship responsibility in other sectors divided by total number of directors	BMOE
Companies' executives' compensation	Natural log. Of chief executives composition in amount birr.	CEco
Controlling Variable		
Growth In Premium	Percentage change in growth annual premium production	GDP

2.4. Corporate Governance in Ethiopia

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

Corporate governance in Ethiopia is at its rudimentary stage even though the Ethiopia economy is at a stage of transformation. This is evidenced by study of Ahamed (2012) who critically

examines Ethiopia company law and found that the Ethiopia company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. Furthermore, the author argues that there is a need to distinguish between corporate governance and corporate management in Ethiopia company law, and that the board should be suitably composed of non-executive and truly independent members who should be professionally competent.

In addition, Minga (2008) states that the status of corporate governance in Ethiopia is disappointing and noted that the Commercial Code of 1960 does not provide adequate legislative response to complex governance issues of the day, the new draft corporate law has not yet been finalized; and he further states that key international conventions, codes and standards are not ratified; political parties own substantial number of business enterprises and operate in key sectors of the economy; ownership concentration through pyramid structure introduces particular problems of agency and creates crony capitalism; investor and creditor protection laws are inadequate; the absence of organized equity market is a serious void. Consistently, Kiyota, Peitsch, and Stern (2007) contended that the closed nature of the Ethiopia financial sector in which there are no foreign banks, a non-competitive market structure, and strong capital controls in place; and the dominant role of state-owned banks are the two major factors that may constrain Ethiopians financial development.

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

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

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter gives a detailed account of the methodology used to carry out the study. The chapter discusses about model specification, the variables used and diagnostic tests to be conducted. The chapter also presents the data presentation and analysis plan. A summary of the main points is also provided at the end of the chapter.

3.2. Methodology of the Study

3.2.1. Research Design and Approach

The choice of research design depends on objectives that the researchers want to achieve (Admas et al., 2007). Since this study was designed to examine the relationships between financial performance and corporate governance mechanisms, a logical reasoning either deductive or inductive is required. Deductive reasoning starts from laws or principles and generalizes to particular instance whereas inductive reasoning starts from observed data and develops a generalization from facts to theory.

Besides, deductive reasoning is applicable for quantitative research whereas inductive reasoning is for qualitative research (Admas et al., 2007). Thus, due to quantitative nature of data, the researcher used deductive reasoning to examine the cause and effect relationships between financial performance and corporate governance mechanisms

As noted by (Kothari, 2004) explanatory research design examines the cause and effect relationships between dependent and independent variables. Therefore, since this study was examined the cause and effect relationships between growth of financial performance and corporate governance mechanisms, it is an explanatory research. The objective to be achieved in the study is a base for determining the research approach for the study. In case, if the problem identified is factors affecting the outcome having numeric value, it is quantitative approach (Creswell, 2003).

Therefore, the researcher employed quantitative research approach and explanatory research design to see the regression result analysis with respective empirical literatures on the financial performance by corporate governance mechanisms.

3.2.2. Population Size and Sampling Techniques

The target populations of the study were all insurance companies registered by NBE and under operation in Ethiopia. Currently, seventeen insurance companies are working in Ethiopia. Those are Africa Insurance Company S.C, Awash Insurance Company S.C, Global Insurance Company Lion Insurance Company S.C, NIB Insurance Company, Nile Insurance Company S.C, Nyala Insurance Company S.C, United Insurance S.C, Ethiopia Insurance Corporation, Abay Insurance Company, Berhan Insurance S.C., National Insurance Company of Ethiopia S.C, Oromia Insurance Company S.C., Ethio-Life and General Insurance S.C., Tsehay Insurance S.C., Lucy insurance S.C. and Buna insurance S.C.

As noted by (Kothari, 2004) good sample design must be viable in the context of time and funds available for the research study. Accordingly, this study employed purposive sampling technique to select the required sample of insurance from the above listed insurers since it is viable in line with time and funds available for this study. This sampling method is a form of non-probability sampling in which decision concerning the individual source of data to be included in the sample is taken by the researcher, based upon a variety of criteria.

The selection criteria set by the researcher was first, the required insurance companies should provide both non-life and life insurance in Ethiopia. Second, those insurance companies should operate after 2006/07 and before 2014/15 having financial statements for consecutive ten years. Based on such criteria, seven insurers out of seventeen insurers operating at 2006 G.C are selected. These insurance companies included Africa Insurance Company S.C, Awash Insurance Company S.C, NIB Insurance Company, Nile Insurance Company S.C, Nyala Insurance Company S.C, United Insurance S.C, and Ethiopia Insurance Corporation.

To this end, the sample size for this study is not less than specified sample size required for ones' study since the accuracy and validity of the works never guaranteed by increasing the sample

size beyond specified limit. This is due to the fact that increasing the number of sample size beyond the specified sample size required for ones' study never add value to the accuracy of the study rather it made information unmanageable due to redundancy (Eshete, 2011). That is why this study used seven experienced insurers in Ethiopia for ten years.

3.2.3. Nature, Source of Data, Collection Methods & Instrument

This study used secondary panel data set for insurance companies between 2006 and 2015, for ten years. Seven insurance companies operating in Ethiopia during the period under the study were included in the panel data set. The researcher prefers to use panel data since panel data can take heterogeneity among different units into account over time by allowing for individual-specific variables. Besides, by combining time series and cross-section observations, it gives more informative data. Furthermore, panel data can better detect and measure effects that simply cannot be observed in pure cross-section or pure time series data (Gujarati, 2004) and panel data models provide much more insights than time series models or cross section data models because it is theoretically possible to isolate the effects of specific effects and actions (Hsiao, 2003).

Accordingly, the researcher used secondary sources of data that is panel in nature. A secondary source of data was preferred by the researcher since it is less expensive in terms of time and money while collecting. And also, it affords an opportunity to collect high quality data (Saunders et al., 2007) cited in (Gadise, 2014).

Accordingly, secondary data was obtained from the audited annual financial statements of the concerned insurance companies in Ethiopia. All insurance data was sourced from annual reports and statement of accounts of the selected insurance companies.

3.2.4. Data Analysis and Regression Methodology

As noted by (Kothari, 2004), data has to be analysed in line with the purpose of the research plan after data collection. Accordingly, secondary data collected from annual financial statements of the concerned insurance companies were analysed to determine its suitability, reliability, adequacy and accuracy. Thus, this study utilized both descriptive and econometric analysis based

on a panel data from 2006-2015 to examine the relationship between financial performance and corporate governance mechanisms in insurance companies found in Ethiopia.

The study conducts its data analysis based on insurance companies operating in Ethiopia over the period from 2006-2015, resulting 70 insurance-company's year observations. In examining the financial performance and corporate governance mechanisms in Ethiopia, the study employs panel data procedures since the sample contains data across insurers and over time. To this end, the researcher used panel data methodology to examine the effect of each explanatory variable on performance and corporate governance mechanisms in Ethiopia.

In panel data regression methodology three estimation models were adopted, namely, pooled OLS, fixed-effects and random effects. The selection between fixed effect and random effect panel estimation method was based on compatibility of the model and based on number of cross-section, number of observations and nature of omitted variables. The panel regression results were presented in a tabular form evaluated using individual statistical significance test (T-test) and overall statistical significance test (F-test). The goodness of fit of the model would be tested using the coefficient of determination (R-squared). In conducting all our data analysis, the study used EViews 8 software.

3.3. Model Specification and Justification of Variables

3.3.1. Model Specification

The literature reviewed in the previous chapter identified the deferent factors determining financial performance in various countries. This section presents a framework of analysis on the basis of these studies, and involves adopting a model that would help demonstrate the responsiveness of certain key variables that influence financial performance by corporate governance mechanisms in Ethiopia.

A general function accommodating all the hypotheses that explain financial performance and the variables obtained there from. The model is consistent with research hypothesis that addresses the all factors for different cross sections. Panel regression model has employed to test the relationship between financial performance and corporate governance mechanisms. The general form of the panel data model can be specified more compactly as:

$$ROA_{it} = C + \sum_{k=1}^k \beta_k X_{it}^k + \epsilon_{it} \dots \dots \dots (1)$$

Where ROA_{it} is the return on asset of insurer i at time t, with $i=1,\dots,N$; $t = 1,\dots,T$, C is a constant term, X_{it} s are explanatory variables and ϵ_{it} is the error term.

To decompose the model into its actual variables to be estimated, the equation can be presented as below: -

$$ROA_{it} = \alpha_i + \beta_1 * BS_{it} + \beta_2 * CEco_{it} + \beta_3 * BMEQ_{it} + \beta_4 * FDB_{it} + \beta_5 * FBM_{it} + \beta_6 * BMOE_{it} + \beta_7 * BMISE_{it} + \beta_8 * PG_{it} + \epsilon_{it} \dots \dots \dots (2)$$

Where:

$I=1, 2 \dots N$ is the i-insurer; $t=1,2,\dots, T$ corresponds to the year t

$\alpha_i, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$, and β_8 is a vector of parameters and α_i represents fixed effect.

ROA_{it} : Return on Asset (ROA) of insurer i at time t is calculated as Net income after tax to Total Asset;

BS_{it} : Board size (BS) of insurer i at time t is calculated as number of directors sitting on the board;

$CEco_{it}$: Chief executive's compensation (CEco) of insurer i at time t is measured by logarithm. of chief executives' composition in amount birr;

$BMEQ_{it}$: Board member educational qualification (BMEQ) of insurer i at time t is measured as number of directors who had college degree or higher;

FDB_{it} : Female directors in the board (FDB) of insurer i at time t is measured as percentage of female who serve as board member.

FBM_{it} : Frequency of board meeting (FBM) of insurer i at time t is measured as logarithm of number of meeting in the year.

$BMOE_{it}$: Board member other business managements experience (BMOE) of insurer i at time t is measured as Number of directors who have other directorial ship responsibility in other sectors divided by total number of directors (in terms of percentage)

$BMISE_{it}$: Board member's industry specific experience (BMISE) of insure i at time t is measured as number of directors who served in other insurers earlier in the same capacity divided by total number of directors (in terms of percentage)

GDP_t : Premium growth (PG) measured as percentage change in growth annual premium production, and

ϵ_{it} : Is the error term

3.4. Diagnostic Tests

Diagnostic tests were performed to check for the validity of the parameters. The researcher is to test for normality, multicollinearity, heteroscedasticity and autocorrelation.

3.4.1. Normality

One assumption of classical linear regression model (CLRM) is the normal distribution of the residual part of the model. As noted by (Gujarati, 2004), OLS estimators are BLUE regardless of whether the error terms are normally distributed or not. If the disturbances are independently and identically distributed with zero mean and constant variance and if the explanatory variables are constant in repeated samples, the OLS coefficient estimators are asymptotically normally distributed with means equal to the corresponding β 's.

However, as per the central limit theorem, if the disturbances are not normally distributed, the OLS estimators are still normally distributed approximately if there are large-sample data. Thus, since the sample size for this study is large enough, it is approximately considered as normally distributed. This implies that residuals are asymptotically normal in this study.

3.4.2. Multicollinearity

The term multicollinearity refers to the existence of a "perfect," or exact, linear relationship among some or all explanatory variables of a regression model (Gujarati, 2004). If it exists the

remedy is to drop a variable with a high R-square or do nothing. The correlation matrix was used to detect the presence of severe multicollinearity. A correlation coefficient is high if it is in excess of 0.8.

3.4.3. Heteroscedasticity

According to (Gujarati, 2004) this is a situation whereby the error variances are not constant. This is a violation of one important assumption of the classical linear regression assumptions. To detect heteroscedasticity, the research employed the Whites test for heteroscedasticity. The problem of continuing to use data that suffers heteroscedasticity is that whatever conclusion or inferences, they will be misleading.

3.4.4. Autocorrelation

The violation of the basic assumption that residuals are mutually independent results in serial autocorrelation. In time series data, the successive residuals tend to be highly correlated. Autocorrelation can also be extended to cross section data where the residuals are correlated with those of the neighboring units (Maddala, 1977). The Durbin-Watson method is used to test for autocorrelation. A Durbin Watson statistic around two is generally accepted though there are zones of indifference and zones of both positive and negative correlation.

3.5. Data Presentation and Analysis Plan

Descriptive statistics of the variables (both dependent and independent) were first calculated over the sample period. This is in line with (Malhotra, 2007), which states that using descriptive statistics methods helps the researcher in picturing the existing situation. Then, a diagnostic test includes multicollinearity; heteroscedasticity, autocorrelation, and normality were to ensure that the data are suitable for ordinary least square (OLS) analysis.

Before moving to interpretation of regression results the suitability of fixed model over random effects model need to be determined based on number of cross-section, number of observations and nature of omitted variables.

3.6. Summary

The chapter began by outlining the research methodology that was adopted for the study. It went on to discuss the model specification that was adopted in conducting the research. The chapter outlined the various sources of data that were utilized in the study. It also looked at the justification of the variables that were adopted from the literature and a discussion of the diagnostic tests that were going to be used. The next chapter will look at data analysis, presentation and interpretation.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1. Introduction

The preceding chapter presented the research methods adopted in the study. This chapter analysis the corporate governance mechanisms and financial performance in the case of Ethiopian insurance industry, using the annual balanced panel data, where all the variables are observed for each cross-section and each time period. The study has a time series segment covering from the period 2006 up to 2015 and a cross section segment which considered seven Ethiopian insurance companies. This chapter is organized into four sections. Section one discusses descriptive statistics and correlation analysis. Section two presents model specification & tests for the classical linear regression model assumptions. Section three presents discussion of results and the chapter is concluded by a summary of the chapter.

4.2. Descriptive Statistics

This section presents the descriptive statistics of dependent and explanatory variables used in this study. The dependent variable used in this study was return on asset (response variable), board size, chief executive compensation educational qualification of board, female directors in board, frequency of board meeting, other business management experience and directors' industry specific experience as independent variable and growth in premium (Control variable).

4.2.1. Summary Statistics

Table 4.1 shows the summary of descriptive results for all the variables used in the study such as mean, maximum, minimum, standard deviation, skewness, kurtosis and number of observation.

Table 4.1-Summary of descriptive statistics of study variables over the period of 2006-2015

	ROA	Board size	Chief Executive Compensation	Educational qualification of board	Female directors in board	Frequency of board meeting	Other Business Management experience	Directors' industry specific experience	Growth in premium
Mean	0.1022	7.8857	12.9477	6.3714	0.1025	2.5640	0.8689	3.4143	0.2296
Median	0.0991	9.0000	13.1750	7.0000	0.1110	2.9440	1.0000	3.0000	0.2000
Maximum	0.1820	9.0000	14.2500	9.0000	0.4440	4.1900	1.0000	6.0000	0.6900
Minimum	0.0204	5.0000	10.8200	2.0000	0.0000	0.6930	0.5600	1.0000	-0.1000
Std. Dev.	0.0418	1.4299	0.7947	2.2533	0.1262	1.0619	0.1489	1.4090	0.1724
Skewness	-0.0435	-0.9362	-0.8920	-0.6379	1.5388	-0.5456	-0.4581	0.1136	0.2987
Kurtosis	2.2707	2.5222	2.9996	2.4338	4.9647	2.1007	1.4929	1.9465	2.5966
Jarque-Bera	1.5734	10.8919	9.2820	5.6824	38.8858	5.8315	9.0736	3.3878	1.5156
Probability	0.4553	0.0043	0.0096	0.0584	0.0000	0.0542	0.0107	0.1838	0.4687
Sum	7.1527	552.0000	906.3400	446.0000	7.1730	179.4770	60.8200	239.0000	16.0710
Sum Sq. Dev.	0.1205	141.0857	43.5784	350.3429	1.0987	77.7995	1.5289	136.9857	2.0513
Observations	70	70	70	70	70	70	70	70	70

Source: Eview 8's Output from Data of Sample Insurers, 2006– 2015

As indicated in the above table, financial performance measure (ROA) shows that Ethiopian insurance company achieved on average a positive return on assets(ROA) over the last ten years. For the total sample, the mean of ROA was 10.22 percent with a maximum of 18.20 percent and a minimum of 2.04 percent. That means the most profitable insurance company among the sampled earned 18.20 cents of Return on Assets for a single birr invested in the assets of the firm. On the other hand, not profitable insurance company of the sampled gain 2 cents of ROA for each birr invested in the assets of the firm. This clearly illustrates the disparity of rates of return earned by insurance companies. Regarding the standard deviation, it means the value of ROA deviate from its mean to both sides by 4.18 percent which indicate that there was low variation from the mean. This implies that companies incurred loss need to optimize the use of their assets to increase the return on their assets.

Regarding explanatory variable there are some imperative statistics that have to be mentioned. The mean of board size is nearly 8 with minimum size of 5 and maximum of 9 members. In fact, the ceiling and floor of the board size are within the requirements of the Commercial Code under Art.347 (2), which state that an incorporated body should have a minimum of 3 and a maximum of 12 board members. However, in the case of Ethiopian insurance companies with the growing nature of the industry, the size of the board needs to be large enough to form different subcommittees and to take the advantage of directorial network. Board compensation, measured by the logarithm of board compensation, shows a significant difference between the highest and the lowest compensation. The logarithm of the mean value of the board compensation is 12.94

with a minimum value of 10.82 which implies the absence of compensation in some insurance companies due to low performance resulting in undeclared dividends. On the other hand, there are also boards with maximum board compensation of logarithmic value of 15.33. Concerning to educational qualified directors measured as number of directors who had college degree or higher is a mean value of 6.37 or 6 directors which indicates on average directors who have collage degree or above was 6 people during study period sample Insurers. On the hand maximum and minimum value of statics is nine and two respectively. This indicates that from sample Insures there is a company which have maximum of qualified of nine directors and at the minimum from the sample Insures there is a company which have only two qualified directors during study period. Gender diversity also indicates a mean of 10.25 percent ratio for the presence of female directors in the boards of the insurance companies. A further investigation of the gender diversity remarks that the maximum observation for women director is 44.40 percent and there is no board without female directors during the panel period. With regard to the average number of board meetings the number nearly is 20 with minimum meetings of 2 and maximum of 66¹. In regard to other business management experience, there are insurance company who appoints all directs who have other business management experience and the minimum that a company which only appoint 56 percent those who have other business management experience. At the same time the variation in sample insurers during the study period is 14.89 percent which stipulates as there is high vibration among the sample insurers in terms of appointing directors who have other business management experience. Concerning directors who had prior insurance industry experience which was measured as number of directors who served in other insurers earlier in the same capacity, the descriptive statistic has shown as the maximum and minim value of 1 and 6 respectively. The mean value of 3.4 units also suggests that only small number of directors in Ethiopia insurance industry have specifically prior Insurance related experience. Finally, the mean values of premium growth rate are 22.96% on average as measured by a change in annual premium production with a range of 69% to -10% at standard deviation of 17.24 percent from the mean value of growth premium.

¹ $\ln(X)=y$ implies that $e^y=X$ where the constant e represents 2.7182818

4.2.2. Correlation Matrix

Correlation is a way to index the degree to which two or more variables are associated with or related to each other. The sample size is the key element to determine whether or not the correlation coefficient is different from zero/statistically significant. The values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that the two variables are perfectly related in a positive linear sense; while a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense. A correlation coefficient of 0, on the other hand indicates that there is no linear relationship between two variables (Brooks, 2008). The correlation matrix in table 4.2 predicts the likely relationship among variables in the study.

Table 4.2-Correlation Matrix (With Dependent Variable)

Correlation Probability	ROA	Board size	Chief Executive Compensation	Educational qualification of board	Female directors in board	Frequency of board meeting	Other Business Management experience	Directors' industry specific experience	Growth in premium
ROA	1.00000 -----								
Board size	-0.16029 0.18500	1.00000 -----							
Chief Executive Compensation	0.15476 0.20080	0.19132 0.11260	1.00000 -----						
Educational qualification of board	0.08589 0.47960	0.78701 0.0000*	1.961362 0.32200	1.00000 -----					
Female directors in board	0.41550 0.0003*	0.03251 0.78930	-0.11112 0.35980	0.17436 0.14890	1.00000 -----				
Frequency of board meeting	-0.21104 0.079***	0.63202 0.0000*	0.57680 0.0000*	0.40562 0.0005*	-0.08487 0.48480	1.00000 -----			
Other Business Managementexpe	0.40976 0.0004*	-0.18310 0.12920	0.22388 0.062***	-0.14649 0.22630	0.07025 0.56330	0.05134 0.67300	1.00000 -----		
Directors' industry specificexperie	0.05244 0.66640	0.54894 0.0000*	0.63518 0.0000*	0.27036 0.0236**	-0.10659 0.37980	0.63735 0.0000*	-0.04746 0.69640	1.00000 -----	
Growth in premium	-0.08899 0.46380	0.10385 0.39230	-0.18586 0.12350	0.17610 0.14480	0.13165 0.27730	0.02625 0.82920	-0.12468 0.30380	-0.06198 0.61020	1.00000 -----

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

Source: Eview 8's Output from Data of Sample Insurers, 2006– 2015

The correlation matrix in Table 4.2 produced statistical evidence that return on asset is insignificantly and positively linear relationship with chief executive compensation, educational qualification of board and directors' industry specific experience even at 10% level with

correlation coefficient of 0.154, 0.086 and 0.052 respectively. Similarly, board size and growth in premium has insignificant and negatively correlated with return on asset even at 10% level with correlation coefficient of -0.160 and -0.089 respectively. The correlation matrix table also show that return on asset is significantly and positively linear relationship with female directors in board and other business management experience at 1% significant level with correlation coefficient of 0.415 and 0.409 respectively and the return on asset is also significantly and negatively correlated with frequency of board meeting at 10% with correlation coefficient of -0.211.

Cooper and Schindler, Mashotra, and Hair and et al. (as cited in Habtamu 2012) suggested that the correlation coefficient can be 0.75 but a correlation coefficient above 0.8 between independent variables should be corrected for because it is a sign for multicollinearity problem. They also argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. In general, even though the correlation analysis shows the direction and degree of associations between variables, it does not allow the researcher to make cause and effect inferences regarding the relationship between the identified variables, is simply stated that there is evidence for a linear relationship between the two variables, and that movements in variables are on average related to an extent given by the correlation coefficient. Thus, in examining the effects of selected independent variables on financial performance proxied by ROA the econometric regression analysis which is discussed in the forthcoming section of the paper gives assurance to overcome the shortcomings of correlation analysis.

4.3. Econometric Analysis

This section of the study presents the results and discussions of the regression (econometrics) analysis. So far the study has established a framework of literature and data analysis including summary statistics and correlation analysis in order to investigate corporate governance mechanism on financial performance in Ethiopian insurance industry. To shed more light on corporate governance mechanism on financial performance in Ethiopian insurance industry linear panel data (analysis of cross sectional and time series) regression models have been run. Before running the regressions, the data sets were checked for certain tests; heteroscedasticity, autocorrelation, normality, multicollinearity, and model specification tests have been made to fit

the Classical Liner Regression Model (CLRM) assumptions and to undertake reliable estimations.

4.3.1. Multicollinearity Test

The result of the test for existence of multicollinearity between independent variable are presented in the test analysis using only independent variables in Table 4.3

Table 4.3-Correlation Matrix (Only Independent Variables)

	Board size	Chief Executive Compensation	Educational qualification of board	Female directors in board	Frequency of board meeting	Other Business Management experience	Directors' industry specific experience	Growth in Premium
Board size	1							
Chief Executive Compensation	0.1913	1						
Educational qualification of board	0.7870	-0.1201	1					
Female directors in board	0.0325	-0.1111	0.1744	1				
Frequency of board meeting	0.6320	0.5768	0.4056	-0.0849	1			
Other Business Management experience	-0.1831	0.2239	-0.1465	0.0702	0.0513	1		
Directors' industry specific experience	0.5489	0.6352	0.2704	-0.1066	0.6373	-0.0475	1	
Growth in Premium	0.1038	-0.1859	0.1761	0.1317	0.0262	-0.1247	-0.0620	1

Source: Eview 8's Output from Data of Sample Insurers, 2006– 2015

According to Lewis-Beck (1993) suggestion in order to find out the multicollinearity problem, the bivariate correlations among the independent variables should be examined and the existence of correlation of about 0.8 or larger indicates a problem of multicollinearity. Hair et al (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. Also, Cooper and Schendlar (2009) suggested that a correlation above 0.8 should be corrected for. The results in the above correlation matrix table shows that the highest correlation of 0.78 which is between board size and educational qualification of board.

Since there is no correlation above 0.8, and 0.9 in this study according to Cooper and Schendlar (2009), Lewis-Beck (1993) and Hair et al (2006) respectively, it can be concluded in this study that there is no problem of multicollinearity, thus enhanced the reliability for regression analysis. Therefore, it can be concluded that in this study that there is no problem of multicollinearity or the results showed that the problem of multicollinearity did not exist between variables in the model. Hence all the variables were retained for use in the estimations.

4.3.2. Heteroscedasticity Test

It has been assumed that the variance of the errors is constant. This is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be Heteroscedasticity. The Breusch-Pagan-Godfrey test was used to check for the presence of heteroscedasticity in the residuals (see Table 4.4).

Table 4.4-Heteroscedasticity Test: White (Summary)

Version of Test	Value	df	Probability
F-statistic	1.108989	Prob. F(44,25)	0.3991
Obs*R-squared	46.28582	Prob. Chi-Square(44)	0.3781
Scaled explained SS	35.36416	Prob. Chi-Square(44)	0.8203

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

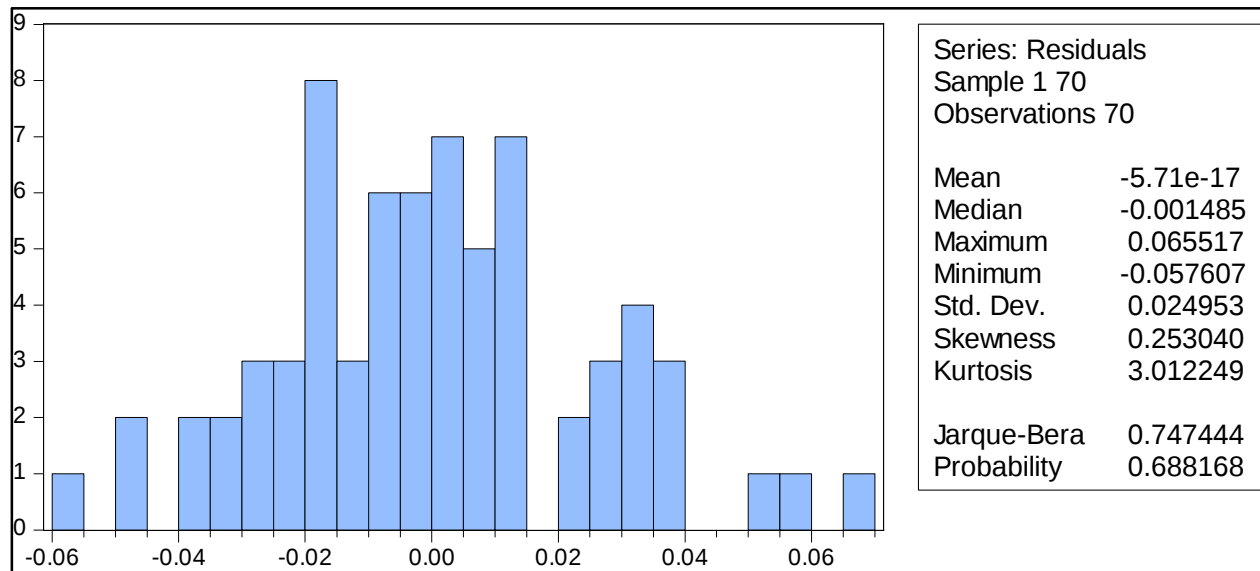
As shown in Table 4.4 both F-statistic and Obs*R-squared version of test give the same conclusion that there is no evidence for the presence of heteroscedasticity since the p-values in all of the cases were above 0.05. The third version of the test statistics “Scaled explained SS”, which is, as the name suggests, based on a normalized version of the explained sum of squares from the auxiliary regression also give the same conclusion.

Generally, in the regression models used in this study it was proved that the test statistics is not significant and the variance of the error term is constant or homoscedastic and we had sufficient evidence to accept the null hypothesis of Homoscedasticity. The linear model is also correctly specified.

4.3.3. Normality Test

A normal distribution is not skewed and is defined to have a kurtosis coefficient of 3. Bera-Jarque formalizes this by testing the residuals for normality and testing whether the coefficient of Skeweness and kurtosis are zero and three respectively. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how fat the tails of the distribution are. The Bera-Jarque probability statistics/P-value is also expected not to be significant even at 10% significant level (Brooks, 2008). According to (Gujarati, 2004), the BJ is a large sample test and our sample of 70 was equal to the frame was large; the study considered the BJ test also.

Figure 4.1-Normality Test result



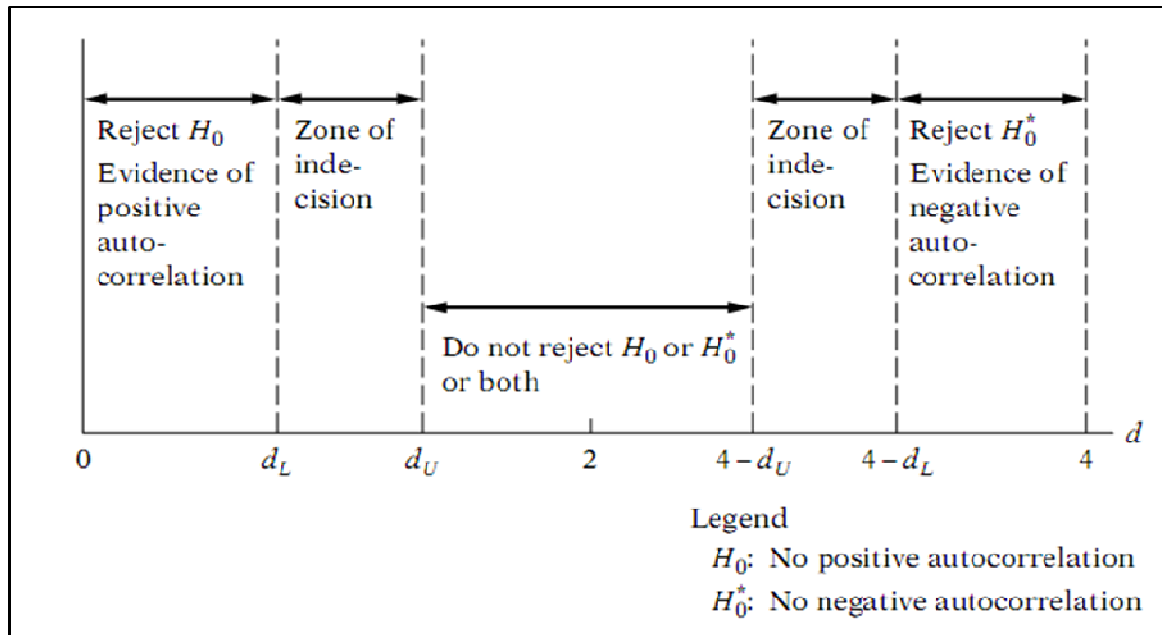
Source: *Eviews Output from Data of Sample Insurers, 2005– 2014*

As shown in the histogram in the figure 4.1 skewness and kurtosis approaches to zero (i.e. 0.253040) and Three (i.e. 3.012249) and the Jarque-Bera statistics (i.e. 0.747444) was not significant even at 10% level of significance as per the P-values shown in the histogram in the appendix was 0.688168). Hence, the null hypothesis that is the error term is normally distributed should not be rejected and it seems that the error term in all of the cases follows the normal distribution. Also, it indicates that the inferences made about the population parameters from the sample parameters tend to be valid.

4.3.4. Autocorrelation Test

The test for autocorrelation was made by using Durbin and Watson (1951). Durbin-Watson (DW) is a test for first order autocorrelation i.e. it tests only for a relationship between an error and its immediately previous value. DW is approximately equals to two, when there is no autocorrelation between the error term and its first order lag (Brooks, 2008). The null hypothesis for the DW test is no autocorrelation between the error term and its lag. According to (Brooks, 2008), DW has 2 critical values: an upper critical value (dU) and a lower critical value (dL), and there is also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected. The rejection, non-rejection, and inconclusive regions are shown on the number line in figure 2 below.

Figure 4.1-Rejection and Non-Rejection Regions for DW Test



Source: *Basic Econometrics, Fourth Edition by Gujarati, 2004 Page No. 469.*

The study used the d_L and d_U values for 70 observations as approximation of 7same observations. As per the DW table for 70 observations with 8 explanatory variables at 1% level of significance, the d_L and d_U values are 1.223 and 1.716 respectively. The DW value for 70 observations was 2.0124 (See Table 4.6)

The Durbin-Watson test statistic of 2.0124 is clearly between the upper limit ($4-d_U$) which is 2.284 and the critical value of 2 i.e.2.0124 and thus the null hypothesis of no autocorrelation is within the non- rejection region of the number line and thus there is no evidence for the presence of autocorrelation.

4.4. Statistical Distinguish Between Models

With panel/cross sectional time series data, the most commonly estimated models are probably fixed effect and random effects models. The researcher has used fixed effect regression instead of random effect model because of the following reasons:

- i. According to (Gujarati, 2004), if T (the number of time series data) is large and N (the number of cross-sectional units) is small, there is likely to be little difference in the values of the parameters estimated by fixed effect model/FEM and random effect model/REM.

Hence, the choice here is based on computational convenience. On this score, FEM may be preferable since the number of time series (i.e. 10 year) is greater than the number of cross-sectional units (i.e. 7 insurance companies).

- ii. According to (Brooks, 2008; Verbeek, 2004 and Wooldridge, 2004), it is often said that the REM is more appropriate when the entities in the sample can be thought of as having been randomly selected from the population, but a FEM is more plausible when the entities in the sample effectively constitute the entire population/sample frame. The sample for this study was not selected randomly rather purposively and as such FEM is more appropriate than REM.
- iii. According to (Richard, 2015), the nature of the variables that have been omitted from the model affects the selection of the models i.e. if we think there are no omitted variables—or if we believe that the omitted variables are uncorrelated with the explanatory variables that are in the model, then a random effects model is probably best. However, if there are omitted variables that are correlated with the variables in the model, fixed effects models may provide a means for controlling for omitted variable bias. In a fixed-effects model, subjects serve as their own controls. In this study, the researcher identified variables that are omitted such as quality of management, management style, and differences in the skills of the workforce, and others which were correlated to explanatory variables. Thus, the FEM is more preferable.

Considering the above theoretical backgrounds in to consideration, the researcher has adopted fixed effects regression technique instead of random effect models. The p-value is insignificant in the case of cross section -fixed effects where only the period fixed effects are allowed. As a result, the period-fixed effect approach was used. Hence, with time-fixed effects, the intercept is allowed to vary over time but assumed to be the same across entities (insurances) at each given point in time. The dummy variables capture time variation rather than cross-sectional variation and it allow time specific heterogeneity. Therefore, fixed period effect specifications were used to run the regression.

4.5. Results of Regression Analysis and its Interpretation

4.5.1. Results of Regression Analysis

This section presents the regression result of fixed effect model that examines the corporate governance mechanisms and financial performance in the case of Ethiopian insurance industry.

Operational model: the operational panel regression model used to find the statistically significant corporate governance mechanisms on the financial performance in the case of Ethiopian insurance industry was:

$$ROA_{it} = \alpha_i + \beta_1 * BS_{it} + \beta_2 * CEco_{it} + \beta_3 * BMEQ_{it} + \beta_4 * FDB_{it} + \beta_5 * FBM_{it} + \beta_6 * BMOE_{it} + \beta_7 * BMISE_{it} + \beta_8 * PG_{it} + \epsilon_{it} \dots \dots \dots (4.1)$$

Accordingly, Table 4.6 below presents the result of fixed effect regression model that examines the impact of explanatory variables on financial performance. Hence, ROA is dependent variable whereas board size (BS), chiefexecutive's compensation (CEco), board member educational qualification (BMEQ), Female directors in the board (FDB), frequency of board meeting(FBM), board member other business managements experience (BMOE), board member's industry specific experience (BMISE) are explanatory variables and premium growth (PG) is control variable.

Table 4.6-Results of fixed effect regression model

Explanatory Variable	Coefficient	Std. Error	t-Statistic	Prob.
Board size (H1*)	-0.0118250	0.0047650	-2.4814750	0.0164**
Chief Executive Compensation(H2*)	0.0154870	0.0084650	1.8295500	0.0731***
Educational qualification of board(H3*)	0.0088290	0.0031800	2.7761440	0.0076*
Female directors in board(H4*)	0.1307510	0.0257150	5.0846580	0.0000*
Frequency of board meeting(H5*)	-0.0180300	0.0055110	-3.2717300	0.0019*
Other Business Management experience (H6*)	0.0830470	0.0221220	3.7540420	0.0004*
Directors' industry specific experience(H7**)	0.0057020	0.0035260	1.6169750	0.1119****
Growth in premium(H8**)	0.0255800	0.0252980	1.0111480	0.3166****
Constant	-0.1260150	0.1038700	-1.2131910	0.23050
R-squared	0.743460	Log likelihood		171.061800
Adjusted R-squared	0.659591	F-statistic		8.864550
S.E. of regression	0.024379	Prob(F-statistic)		0.00000
Sum squared resid	0.030904	Durbin-Watson stat		2.012455

Note: * Significant at 1%, ** Significant at 5% , *** Significant at 10% and **** insignificant

H* accept null and H** reject null hypothesis

Source: Eview 8's Output from Data of Sample Insurers, 2006– 2015

Based on the regression result, the relationship between the variables included in the model can, therefore, be represented as follows;

$$ROA_{it} = -0.126 - 0.118 * BS_{it} + 0.154 * CEco_{it} + 0.009 * BMEQ_{it} + 0.131 * FDB_{it} - 0.0180 * FBM_{it} + 0.0830 * BMOE_{it} + 0.006 * BMISE_{it} + 0.0256 * PG_{it} + \epsilon_{it} \quad (4.2)$$

Where: - Dependent variable-is return on asset (ROA) and independent variables includes board size (BS), chief executive's compensation (CEco), board member educational qualification (BMEQ), Female directors in the board (FDB), frequency of board meeting(FBM), board member other business managements experience (BMOE), board member's industry specific experience (BMISE) and premium growth (PG) is control variable.

4.5.2. Interpretation of R-squared, Adjusted R-squared and F-statistic

4.5.2.1. Interpretation of R-squared

As shown in Table 4.6, an R-squared coefficient of 0. 0.743460 obtained from the estimated model revealing that 74.34 percent of variation in return on asset (ROA) is explained by the selected explanatory variables board size (BS), chief executive's compensation (CEco), board member educational qualification (BMEQ), Female directors in the board (FDB), frequency of board meeting(FBM), board member other business managements experience (BMOE), board member's industry specific experience (BMISE) and premium growth (PG). The R-square result makes sense because there are other factors such as size of the insurance, age of the insurance and management efficiency that were not included in the model but could help in explaining ROA in insurance industry. These and other remaining factors can account for the remaining 25.66 percent.

4.5.2.2. Interpretation of Adjusted R-squared

An adjusted R-squared value which takes into account the loss of degrees of freedom associated with adding extra variables were inferred to see the explanatory powers of the models. In other words, the adjusted R-squared shows satisfactory levels, which mean that nearly 66 percent of the volatilities in ROA are explained by the volatilities of independent variables included in the equation. Therefore, an adjusted R-square having value of 0.659591 shows that 66 percent of dependent variable is explained by the independent variables included in the model.

4.5.2.3. Interpretation of F-Statistics

The F-statistics tests the fitness of the model and a recommended F-statistics should be greater than 5 for it to be considered fit. The regression F-statistic takes a value of 8.864550 which is greater than 5 hence the model was fit for estimation. Furthermore, F-statistics tests for the joint impact of all explanatory variables on the dependent variables. A corresponding p-value of zero attached to the test statistic shows that the null hypothesis that all of the slope parameters are jointly zero should be rejected even at 1 percent level of significance. This implies that all selected explanatory variables can affect the level of ROA.

4.5.3. Interpretation Results of the Regressors Values

A. Board Size Vs Financial Performance (ROA) of insurance companies in Ethiopia

As shown above, table 4.6, this study found a negative and statistically significant association between boards size (BS) and return on asset at 5 percent level of significance. It implies that the numbers of board of directors' are negatively related with insurances 'financial performance proxied by ROA. In other words, the higher the number of board members of insurance companies, the lower their financial performance achievement is and vice versa. The result indicates that small boards are more effective in monitoring and controlling insurance company's management and it help to reduce agency costs. The finding supports the argument of Jensen (1993) that an increase in board size leads to less effective monitoring due to coordination and process problems inherent in large board size.

The result is also consistent with prior studies which argue that coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases (Sanda et al., 2005; Adusei, 2011; Yermack, 1996; Al-anaseer et al., 2012).

As per the regressions result a one-unit increase in the board size seats results in a 0.012-unit decrease in the ROA of insurance companies in Ethiopia, the best justification given is that, if the number of board members is large, it creates conflict of interest between the board members, which erodes the wealth of the insurance companies. Insurance companies need to have reasonable numbers of directors in order to perform the board task effectively. The outcome of the analysis data indicates that there is a negative relationship between board size and financial performance of sample insurance companies in Ethiopia. The result also indicates as the proposed National Bank of Ethiopia Corporate Governance guideline for insurance sectors which say an insurer shall have at least nine directors was not empirically supported.

B. Chief Executive's Compensation (CEco) Vs Financial Performance (ROA) of insurance companies in Ethiopia

The fixed regression result provided in table 4.6 reveals a positive coefficient parameter of 0.015 between the chief executive compensation and ROA which is significant at 10% which entails

that the more compensation is made for CEO, the higher the financial performance of insurers in Ethiopia. A 100 percent increase in Chief executive's compensation results in a 0.015-unit increase in financial performance (ROA) of insurance companies in Ethiopia.

The level of compensation must be attractive enough to get and retain qualified professionals with the knowledge required to advise and monitor the corporation (Larcker & Tayan, 2011). There is a large volume of published studies evidencing the importance of top executive compensation on firms' performance, such as Murphy (1985); Jensen & Murphy, (1990). The result is in line with Zhang and Yang (2011) who argue that executive compensation incentives have a significant positive impact on firm performance. The positive and significant coefficient of CEO shows that there is a point at which adding a compensation for CEO increases insurers' value. Compensation contracts are therefore seen as a remedy to the principal agent problem. Furthermore, the result suggests that at least in Ethiopia insurance industry the incentive of chief executives pay is directly linked to insurers' performance.

Thus, the chief executive's compensation plays important and efficient incentive mechanisms, which inevitably enhances performance.

C. Board Member Educational Qualification (BMEQ) Vs Financial Performance (ROA) of insurance companies in Ethiopia

Board members' educational qualification (BMEQ) has a positive effect on insurers' financial performance proxied by ROA. Board members' educational qualification explains the variations of the financial performance of insurers in Ethiopia with a coefficient of 0.0088 and is statistically significant at 1 percent levels of significance for return on asset. The result indicates that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of insurance companies in Ethiopia and vice versa. A one-unit increase in members' educational qualification results in 0.0888-unit increase in financial performance of insurance companies proxied by ROA. The qualification of directors as measured by the percentage of directors who had college degree or higher significantly influences insurance companies' performance. In other words, the higher the number of directors who had college degree or above sitting on the board the higher the financial performance of sample insurers in Ethiopia and vice versa. This suggests that the presence of

qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance.

Thus, there is significant positive relationship between board members' educational qualification and financial performance of insurance companies in Ethiopia. This result supports the finding revealed by Amran (2011) and Yasser (2011). They argue that directors with higher education are better in managing the business operation and controlling agency problem than less educated counterparts this reduce agency cost.

Educational qualification affects the oversight and monitoring role of boards of directors. The result supports the view that educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of insurance companies and the effective control or guidance of management by boards of directors.

D. Female Directors in the Board (FDB) Vs Financial Performance (ROA) of insurance companies in Ethiopia

The relationship between female presence in board gender (FDB) and financial performance measures by ROA are significant. The result implies that this study support that gender diversity leads to superior Insurers financial performance. A one-unit increase in female director in the board results in a 0.131-unit increase in financial performance of insurance companies in the Ethiopia proxied by ROA. This is consistent with the findings of other studies that examined the role of women on boards (e.g., Carter et al., 2003; Bonn, 2004; Smith et al., 2006). Various studies point out that woman board members contribute to quality of decision making by questioning the conventional wisdom and provoking lively board discussion (Fondas & Sassalos, 2000; Letendre, 2004; Huse & Solberg, 2006).

This finding provides evidence to stakeholder perspective and also to resource dependency perspective that diversity is beneficial to firms. Perhaps women directors can bring their view points more effectively in a smaller board, thereby making effective contribution, rather than in a larger board. It appears that in larger boards, women are constrained or made ineffective by members of other gender. They may not be even having proportional representation as found by Kang, Cheng & Gray (2007) of Australian boards. The findings imply that women members

should not be treated as tokens of representation to gender diversity but as a source of invaluable input to the boards, and should be represented in proportion to board size.

E. Frequency of Board Meeting (FBM) Vs Financial Performance (ROA) of insurance companies in Ethiopia

The frequency of board meeting is significantly related to firm performance measured by ROA (p-value 0.0019). For this reason, boards that meet frequently are more likely to perform their duties negligently and not in accordance with shareholders' interest. This implies that the amount of time and effort directors devote to board meetings is not taken as an indicator of board effectiveness. Board meetings have negative significant relationship with company performance. This is consistent with Vafeas (1999) that reports a statistical significance and negative association between frequency board meetings and corporate performance. This means that the frequency of meetings reduced shareholder's earnings as company incurred more financial expenses in terms of sitting allowance, travelling expenses, hotel accommodation and entertainment during meetings

A one-unit increase in frequency of board meeting (FBM) results in a 0.0018-unit decrease in financial performance (ROA) of insurance companies in Ethiopia, since shareholders are only allowed to be a board member, high board meeting frequency may indicate significant involvement of shareholders on the management decision. High owner involvement on management decision in turn can reduce firm performance as it may be difficult for the management to pass a decision that benefits the insurances companies at the expense of the owners closely watching him. So, it is not amazing to get a result that board meeting frequency has negative and significant effect on firm's financial performance.

F. Board Member Other Business Managements Experience(BMOE)V s Financial Performance (ROA) of insurance companies in Ethiopia

As per the regression result stipulated in table 4.6 board member other business managements experience (BMOE) positive and significant effect on financial performance (ROA) of insurance companies in Ethiopia. The result suggests that directors who are business managements experience in the insurance industry are well equipped to advance sound environmental practices

by virtue of their significant current business expertise. Similarly, it appears that board members with business backgrounds are more likely to understand, monitor, and address issues relating to the environment. Collectively, these findings support the view that resource-rich boards can significantly enhance the firm's ability to attain strong environmental performance. In addition, consistent with our resource dependency arguments, we find evidence to suggest that higher director tenure can also provide rich firm-specific expertise to minimize the occurrence of environmental weaknesses.

A one-unit increase in board member other business managements experience (BMOE) results in a 0.083-unit increase in financial performance (ROA) of insurance companies in Ethiopia. This finding is consistence with (Saat et al.2011).He argues as business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management. The results also parallel with Kroll, et al (2008) which point outs that boards rich in appropriate experience are associated with superior returns. NBE Directive SIB/32/2012(Licensing and Supervision of Insurance Business: Requirements for persons with significant Influence in an Insurer) does also require a director to have adequate experience in business management supporting the finding of the study.

G. Board Member's Industry Specific Experience (BMISE) Vs Financial Performance (ROA) of insurance companies in Ethiopia

The regression result in table 4.6 also indicates that coefficient parameter of board member's industry specific experience (BMISE) 0.0057 is insignificant even at 10% significance level. A one-unit increase in board member's industry specific experience (BMISE) results in a 0.006-unit increase in financial performance (ROA) of insurance companies in Ethiopia. In other words if one board directors with prior experience in insurance industry is added to board of directors then Insurers' ROA will increase by 0.57%. This is against the study by Poon, Heong and Lee (2013) who suggested that the more senior the firm's director, the greater experience, wisdom and understanding of the industry and the better the firm performance. Senior directors are more conservative in pursuing firms' strategies and tend to focus on business activities that yield immediate profits in the short term during their service periods, ultimately improving firm performance. In the context of Ethiopian insurance industry the regulatory body, National Bank

of Ethiopia, sets this requirement on an optional, not mandatory basis, for holding a director position but requiring further that a board should take adequate training in insurance business management after holding a seat on the board which is appropriate in order to increase the financial performance of Insurers in Ethiopia. However this researcher has found that it has statistically insignificant impact on financial performance (ROA) of insurance companies in Ethiopia.

H. Premium Growth (PG) Vs Financial Performance (ROA) of insurance companies in Ethiopia

Concerning the premium growth, the regression results in this research imply that the relation between premium growth and ROA is positive and insignificant even at 10 % significance level (with p value of 0.3166). A one-percent increase in premium growth (PG) results in a 0.0256-unit increase in financial performance (ROA) of insurance companies in Ethiopia.

The positive coefficient of growth in writing premium indicates a positive relationship between growth in writing premium and ROA. It implies that insurance companies underwrite more premium over the years have better chance of being profitable for the reason that they gain return from premium collected when the excessive attention on marketing to grow premiums with a proportionate allocation of resources towards the management of their investment portfolios is given. As the result signify premium growth in the Ethiopia insurance industry vital factors that increase industry financial performance but it is statistically insignificant.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The study established corporate governance mechanisms and financial performance in the case of Ethiopian Insurance Industry during the period from 2006-2015. Findings indicated that insurance financial performance are influenced by board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, board member other business managements experience, board member's industry specific experience and premium growth. This chapter outlines the summary and conclusions of the study in accordance with the study results. It also gives an insight on the policy recommendations as well as suggestions for future studies.

5.2. Summary of the Study

Corporate governance helps to protect stakeholders' interest by aligning their interest with that of managers. To this end, this study aimed at examining corporate governance mechanism that could influence the performance of insurance companies in Ethiopia. In order to achieve this objective, seven hypotheses have been developed. To address research hypotheses and achieve the broad research objective, a quantitative research approach and explanatory research design were adopted in carrying out this research. The variables were chosen based on findings from both empirical and theoretical literature. Secondary data were collected from selected seven insurers that are registered by NBE and have operated at least for ten years and transacting both life and non-life operations out of seventeen insurance companies using purposive sampling technique. The study employed panel data estimation techniques and the researcher has adopted fixed effects regression technique instead of random effect models, in the case of cross section - fixed effects, the p-value is insignificant and only period fixed effects is allowed to analyse the impact of corporate governance mechanisms on the profitability. The panel data were used for the sample of seven insurers from 2006 to 2015 with a total of 70 observations.

Data were presented by using descriptive statistics; balanced correlation and regression analysis for profitability were conducted. Before performing OLS regression the researcher uses model specification test to select the appropriate model for regression analysis. Based on the result of

model specification test, the researcher had used the period fixed effect model. Furthermore, the models were tested for the classical linear regression model assumptions and the results showed that all the tests are satisfactory in all regressions.

Results from the regression analysis estimated by fixed effect regression model showed that board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, and board member other business managements experience, had a significant effect on the financial performance in Ethiopian insurance sector. The impact of board member's industry specific experience and premium growth on financial performance could not be established because members of board of directors take adequate training in insurance business management after holding a seat on the board might be appropriate in order to increase the financial performance of insurers in Ethiopia.

Generally, six findings out of eight were in line with literature which postulates that corporate governance mechanisms have an impact on financial performance. Specific conclusion on each factor is depicted in the following section.

5.3. Summary of the findings and conclusions

Based on the results of the descriptive statistics, correlation and regression analysis the researcher made the following conclusions.

 **Board Size:** - board size has a negative and statistically significant association with return on asset at 5 percent level of significance. It implies that the numbers of board of directors' are negatively related with insurances' financial performance proxied by ROA. In other words, the higher the number of board members of insurance companies, the lower their financial performance achievement is and vice versa. The result indicates that small boards are more effective in monitoring and controlling insurance company's management and it help to reduce agency costs. The researcher concludes that, if the number of board members is large, it creates conflict of interest between the board members, which erodes the wealth of the insurance companies.

-  **Chief executive's compensation:** -chief executive's compensation has a positive and significant association with return on asset at 10 percent level of significance which implies that more compensation is made for CEO, the higher the financial performance of insurers in Ethiopia. In the Ethiopia insurance industry, the incentive of chief executives pay is directly linked to Insurers performance. Therefore, the researcher concluded that the level of compensation must be attractive enough to get and retain qualified professionals with the knowledge required to advise and monitor the corporation.

-  **Education Qualification of the Board:** -Board member's educational qualification significantly and positively influences the financial performance of sample insurers. Since, board member's educational qualification has a significant positive effect on insurer's financial performance and the researcher concludes that, the presence of qualified director son the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance.

-  **Female directors in the board:** - The relationship between female presence in board and financial performance measures by ROA are positive and statistically significant. The findings imply that women members should not be treated as tokens of representation to gender diversity but as a source of invaluable input to the boards, and should be represented in proportion to board size. The researcher concluded that, gender diversity leads to superior Ethiopian insurance industry financial performance.

-  **Frequency of board meeting:** -Frequency of board meeting is negative and significantly related to firm performance measured by ROA. This means that the frequency of meetings reduced shareholder's earnings as company incurred more financial expenses in terms of sitting allowance, travelling expenses, hotel accommodation and entertainment during meetings. Therefore, the researcher concludes that, boards that meet frequently are more likely to perform their duties negligently and not in accordance with shareholders' interest.

-  **Board member other business managements experience:** - board member other business managements experience positive and significant effect on financial performance (ROA) of insurance companies in Ethiopia. The researcher concluded that, business management

experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management.

✚ **Board member's industry specific experience:** - board member's industry specific experience is positive and insignificant even at 10% significance level. This implies that senior directors are more conservative in pursuing firms' strategies and tend to focus on business activities that yield immediate profits in the short term during their service periods, ultimately improving firm performance. The researcher concluded that, board member's industry specific experience less important to financial performance (ROA) of insurance companies in Ethiopia.

✚ **Premium growth:** - the relation between premium growth and profitability is positive and statistically insignificant even at 10 % significance level. It implies that Insurance companies underwrite more premium over the years have better chance of being profitable. The researcher concluded that reason that insurers gain return from premium collected when the excessive attention on marketing to grow premiums with a proportionate allocation of resources towards the management of their investment portfolios is given.

In general, the findings suggest that insurance with effective corporate governance mechanisms improve financial performance depending on the financial performance measure being used. Although not all corporate governance variables support the stated hypotheses, the study has achieved its objective by identifying the attributes that help to test the research hypothesis. This study, therefore, finds that agency theory offers generally good explanation of the associations between corporate governance mechanisms and financial performance.

5.4. Recommendation

This study examined the impact of corporate governance mechanisms on firms' financial performance by taking evidence from selected insurance companies in Ethiopia. On the basis of the findings and conclusions reached, the following recommendations were forwarded to insurance companies and regulatory body (NBE).

5.4.1. Recommendation to Insurance Companies

- ✚ The board size should be in line with corporate size and activities. Setting arbitrary benchmark for board size may not be productive especially in relatively small companies i.e. insurance companies need to have minimum board size is recommended, so long as that minimum size enables the board to perform its supervision activities properly and in order to perform the board task effectively and NBE shall rethink on the proposed guideline namely “Ethiopia corporate governance guideline for insurance sectors” which say an insurer shall have at least nine directors was not empirically supported.
- ✚ CEOs compensation does have significant and positive impact upon Insurer's performance in Ethiopia. This Compensation contracts are therefore seen as a remedy to the principal agent problem. Besides this, short term and long term incentive plans benefit shareholders by incentivizing managers to perform better in their own interests. So it is good for insurers operating in Ethiopia to give further attention on their CEO compensation package.
- ✚ Attention should be given for better educational qualification since small board size with better educational qualification is more effective in monitoring managers and help to improve performance. In this regard NBE has already set minimum education qualification for board members which is effective from June, 2015.
- ✚ This study revealed that the boards of insurance companies in Ethiopia are dominated by male and board gender diversity is very limited in Ethiopian insurance companies. Thus, there is much to be done to improve the gender balance of boards in Ethiopian insurance industry with a great care about their qualification and competency.

- ✚ As the finding of this study indicates in Ethiopia insurance industry board of directors both industry and general business experience plays pivotal role in increasing Insurers financial performance. So if shareholders give due considerations to director's experience during their nomination for approval they further allow their company to better performance. Business management experienced directors shall be assigned in committee based on their practical background to make them to contribute more in promoting good governance. Because the general experience of directors is only relevant for insurance corporate governance when they are assigned to committee based on their prior experience as revealed in the qualitative analysis

5.4.2. Recommendation to Regulatory Body(NBE)

- ✚ The number of board meetings has significant and negative impact on firms' performance. This deserves attention not only by the insurance companies, but also by the regulatory body of these companies. Of course, in such large and volatile industry, board of directors needs to have a regular meeting to get in line with the industry status. However, some of the increase in the board meeting may be due to the deliberation of all corporate matters by the full board. Hence, the board needs to delegate some of the tasks to a special committee which is to be composed of directors with specific educational, training or experience for the duties and responsibility to be assigned. However, this doesn't mean boards need to be experts, but at least they need to have trainings. Together with this, the supervisory body needs to monitor and follow-up the relevance of the board's agenda.
- ✚ The compensation to the board is the other important factor that leads to improved firms' performance. This implies the need to make attractive reward for boards to improve firms' performance. However, a caution needs to be made in the level of compensation of the boards, since within the same industry, having a comparable experience and qualifications there is a wider gap in the compensation of the directors. Thus, the regulatory body together with the shareholders of the insurance companies should limit the ceilings of the board compensation as it might result in a conflict of interest among shareholders following high performance of these firms. Moreover, the regulatory body is required to increase the minimum required capital for insurer which enables them to get the trust and confidence of insured and society.

- ✚ The National Bank of Ethiopia should encourage insurance companies to implement good corporate governance practices through enacting rules and regulations and the government, and financial institutions as well as the business community should work towards the establishment of a formal capital market institutions especially stock exchange which enhances corporate governance, and competition among businesses in the country.
- ✚ Finally, it is recommended that with the participation of all stakeholders in the industry a comprehensive framework of corporate governance system should be designed which enables the firms to mitigate from the potential hazards as well as to realize a fair return on investment.

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Appendix

Appendix1: Insurance Companies operating in Ethiopia and their date of establishment

No	Insurer	Date of commencement	Duration in Business	Line of Business
1.	Africa Insurance Company S.C	1/12/1994	22 years	Composite
2.	Awash Insurance Company S.C	1/10/1994	22 years	Composite
3.	Global Insurance Company S.C.	11/1/1997	19 Years	General
4.	Lion Insurance Company S.c	1/7/2007	9 years	General
5.	NIB Insurance Company	1/5/2002	14	Composite
6.	Nile Insurance Company S.C	11/4/1995	21	Composite
7.	Nyala Insurance Company S.C	6/1/1995	21	Composite
8.	United Insurance S.C	1/4/1997	19	Composite
9.	EthiopiaInsurance Corporation	1/1/1976		Composite
10.	Abay Insurance Company	26/07/2010	6	General
11.	Berhan Insurance S.C.	24/05/2011	5	General
12.	National Insurance Company of Ethiopia S.C.	23/09/1994	22	General
13.	Oromia Insurance Company S.C.	26/01/2009	7	Composite
14.	Ethio-Life and General Insurance S.C	23/10/2008	8	Composite
15.	Tsehay Insurance S.C.	28/03/2012	4	General
16.	Lucy insurance S.C.	15/11/2012	4	General
17.	Buna insurance S.C.	23/8/2011	5	General

Appendix 2: Raw Data of Composite insurers in Ethiopia

Ethiopian Insurance Industry									
Raw Data For Composit Insurers									
1. Ethiopiainsurance corporation (EIC)									
year	ROA	BS(NO.)	FM(NO.)	FD(no)	EQD(NO)	ISE(NO)	GP(%)	ODS(%)	ccop(LO G.)
2006	7%	7	2	1	7	1	14%	86%	
2007	9%	7	2	1	7	1	20%	86%	
2008	9%	7	2	1	7	2	19%	86%	
2009	9%	7	2	1	7	2	18%	86%	
2010	13%	7	2	1	7	2	33%	86%	
2011	11%	7	2	1	7	3	27%	86%	
2012	14%	9	2	1	9	3	51%	67%	
2013	17%	9	2	1	9	3	37%	67%	
2014	19%	7	2	1	7	2	-8%	86%	
2015	18%	7	2	1	7	1	25	82%	
2. Nib insurance company									
year	ROA(%)	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	12%	9	40	1	9	2	41%	100%	
2007	19%	8	39	1	9	2	43%	100%	
2008	36%	8	40	1	9	3	51%	100%	
2009	31%	9	36	0	9	3	32%	100%	
2010	31%	9	46	0	9	4	31%	100%	
2011	30%	9	38	0	9	4	26%	100%	
2012	34%	8	53	1	8	4	55%	100%	
2013	33%	9	61	1	9	4	-6%	100%	
2014	32%	9	66	1	9	3	6%	100%	
2015	29%	9	24	1	9	3	12%	100%	
3. Nyala insurance companies (unisco)									
year	ROA	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	19%	5	3	0	2	1	27%	100%	
2007	19%	5	6	0	2	1	15%	100%	
2008	13%	5	7	0	2	2	17%	100%	
2009	27%	5	3	1	2	2	-4%	100%	
2010	25%	5	4	1	2	2	34%	100%	

2011	30%	5	3	1	2	2	10%	100%	
2012	35%	5	7	1	2	2	34%	100%	
2013	35%	5	11	1	2	5	30%	100%	
2014	31%	5	10	1	2	5	9%	100%	
2015	33%	6	8	0	3	4	15%	100%	
4. Nile Insurance Company (NILE)									
year	ROA	BS(NO.)	FM(NO.)	FD(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	4%	9	30	0	5	3	24%	67%	
2007	2%	9	33	0	5	3	10%	67%	
2008	-3%	9	38	0	5	5	-1%	67%	
2009	2%	9	38	0	5	5	11%	67%	
2010	14%	9	39	1	9	5	16%	67%	
2011	10%	9	45	1	9	5	34%	67%	
2012	10%	9	45	1	9	6	45%	67%	
2013	11%	9	40	1	9	6	-4%	67%	
2014	12%	9	40	1	9	6	17%	67%	
2015	7.6	8	30	0	9	4	20	72%	
5. Awash Insurance Company (AIC)									
year	ROA	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	6%	9	21	0	6	5	36%	67%	
2007	7%	9	21	1	6	5	28%	67%	
2008	7%	9	16	1	6	5	16%	100%	
2009	5%	9	19	1	6	5	14%	100%	
2010	11%	9	21	1	6	5	20%	100%	
2011	8%	9	24	0	6	5	47%	100%	
2012	8%	9	21	0	6	5	58%	100%	
2013	15%	9	21	0	6	5	8%	100%	
2014	10%	9	26	0	5	5	2%	100%	
2015	11%	9	25	0	7	3	12%	100%	
6. United insurance company (UNIC)									
year	ROA	BS(NO.)	FM(NO.)	fd(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	15%	9	18	4	8	3	44%	56%	
2007	22%	9	14	4	8	3	69%	67%	
2008	35%	9	19	4	8	3	36%	89%	

2009	15%	9	20	4	8	3	4%	100%	
2010	31%	9	25	4	8	4	10%	100%	
2011	23%	9	21	4	8	4	29%	100%	
2012	29%	9	24	0	8	4	48%	100%	
2013	37%	9	20	0	8	5	4%	100%	
2014	30%	9	20	0	8	5	10%	100%	
2015	21%	9	15	0	7	6	15	100	
7. Africa insurance company(Africa)									
year	ROA	BS(NO.)	FM(NO.)	FD(no)	EQD(NO)	ISE(NO)	GP(%)	ods(%)	
2006	7%	6	12	0	5	3	27%	83%	
2007	2%	7	8	0	5	3	22%	71%	
2008	4%	8	6	0	5	2	29%	63%	
2009	5%	7	8	0	5	2	13%	71%	
2010	6%	7	9	0	5	2	45%	71%	
2011	5%	7	7	0	5	2	39%	71%	
2012	5%	7	6	0	5	3	40%	71%	
2013	6%	7	12	0	5	3	-10%	71%	
2014	8%	7	12	0	5	3	2%	71%	
2015	6%	8	8	1	6	2	4.10%	100%	