



**Addis Ababa University**  
**Collage of Business & Economics**  
**Department of Accounting and Finance**  
**Master of Science in Accounting and Finance Program**

**The Effect of Corporate Governance on Financial Performance of  
Insurance Companies in Ethiopia**

**By: Jemal Ahmed**

**November, 2024**  
**Addis Ababa, Ethiopia**

**Addis Ababa University College of Business & Economics  
Department of Accounting and Finance Master of Science in  
Accounting and Finance Program**

***Graduate Studies***

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Insurance Companies in Ethiopia**

**By: Jemal Ahmed**

**A Thesis Submitted to Collage of Business & Economics  
Department of Accounting and Finance  
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**Advisor: Abebaw Kassie (Ph.D.)**

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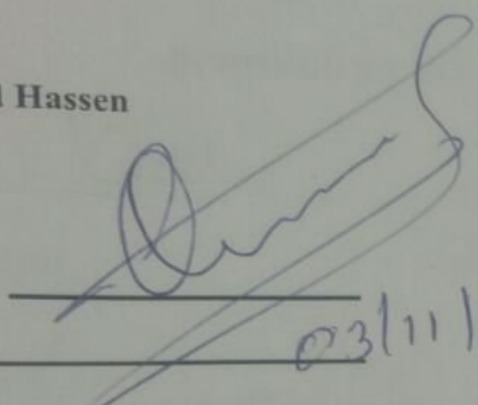
## DECLARATION

I hereby declare that the thesis is my original work prepared under the guidance of Dr. Abebaw Kassie, and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in the thesis.

This thesis has also not been submitted either in part or in full for any degree in any other university previously.

**Jemal Ahmed Hassen**

**Signature**

A handwritten signature in blue ink, appearing to be 'Jemal Ahmed Hassen', written over a horizontal line. The signature is stylized and somewhat cursive.

**Date**

\_\_\_\_\_ 03/11/2024

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## *List of Acronyms*

AOUCOM: Audit committee size

BGD: Board gender diversity

BMF: Board meeting Frequency

BSIZE: Board size

CLRM: classical linear regression model

ICGN: International Corporate Governance Network

NBE: National Bank of Ethiopian

OECD: Organization for Economic Cooperation and Development

OLS: Ordinary list square

VIF: variance of Inflation Factor

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## ***Abstract***

*Corporate governance refers to the system of rules, practices and processes by which a company is directed and controlled. It essentially involves the balancing of many interests. The objective of this study was to examine the connection between company governance instruments and the financial performance of Ethiopian insurers. Out of the entire of eighteen insurers which are functioning within Ethiopia, eight insurers were selected using purposive sampling. The study employed return on assets as a dependent variable including the size of the board, the frequency of board meetings, gender diversity in the board of directors, experience of the board of directors in the sector, their educational qualifications and the size of the audit committee are considered as independent variables. To attain stated objectives of the explanatory type and descriptive of research design with a mixed method employed. The primary data was gathered via designed surveys by using questionnaires tool filled by the executives as they were aware of the governance system in corporations. The secondary data was gathered from the National Bank of Ethiopia's annual performance Report. The study employed a panel data analysis procedure in drawing inferences. The results display that the size of the board, gender diversity in the board of directors and the size of the audit committee had significant and negative influences on the financial performance of Ethiopian insurers. Conversely, the frequency of board meetings, the prior exposure to the insurance sub-sector and the qualifications of board members regarding educational status had a significant and positive effect on Ethiopian insurers.*

*Keywords: Corporate governance, financial performance, Insurance companies*

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background of the study

A decent governance system in corporations exploits the effectiveness and lasting worth of the corporations for stockholders. Likewise clear via (OECD, 2004) by way of an establishment of associations among firm's executives, owners and additional participants. According to the OECD, company governance similarly delivers a system in which the purposes of business are established, the ways of attaining stated purposes and checking performances. According to Jensen (1993) corporate governance by way of the highest level seize of the structure, comprising of the choice rights owned by a panel of management and the administrative actions aimed at altering stated bodies, scope and relationship of the members of the board, and the reimbursement and shareholdings of the board in addition executives. However, the above- mentioned definitions disposed towards condemnation because of details that cannot identify further utmost significant factors related to corporate governance for example finance product and service providers, traders and above all the public in general (Fekadu, 2015).

Within corporate companies, a conflict of interest arises between shareholders. As stated by Imam and Malik (2007) conflicts of interest frequently arise due to two key motives. Primarily, diverse partakers have dissimilar purposes. Additionally, the members lack evidence with regard to respective activities. Governance in corporations is an approach used, based on company-wise, to resolve business governance glitches (Basuony et al., 2014). Meanwhile it is regarded as essential part of marketplace activity; robust practice regarding corporate governance is extremely required by stakeholders and other financial market partakers (Ramsay, 2001). Controllers have ratified the practice of corporate governance improvements into regulation in numerous nations, for example the United States of America done (Sarbanes- Oxley Act, 2002) which describes that so as to protect their lasting achievements, firms execute corporate governance to guarantee that they are focused and measured in a specialized, accountable, and clear means. Also, countries, like the United Kingdom, the idea of corporate governance laws, called as the Combined Code of Corporate Governance of 2003, procedures of finest exercise by some subsidiary component of government functioning over the particular stock exchange catalogue guidelines. In the financial industry, Basel I, II, and lately Basel III are extensively accepted via emerging and evolving capitalist and liberal economies to improve

their corporation's governance laws. Thus, a vigorous scheme of corporate governance is well-thought-out a significant instrument for resolving the struggle for benefits among shareholders as well as executives (Pandya, 2011). The association between the practice of corporate governance and firm performance put in many folds landscape in the availability of decent governance. Aimed at to achieve the stated objectives of this study, it is therefore significant to assume a functional meaning for corporate governance as an arrangement of instructions also organizations that regulate regulators and course a firm then describe relationships between the firm's main partakers together with directors of a respective board, executives, stockholders and other participants (Hussein Ahmed Tura, 2012). These syndicates are slight as well as wide meanings and reflect company governance way of guidelines and organizations that govern the control and course of the firm. The situation identifies not stockholders only nonetheless likewise investors that should take a part in the authority of stake firms.

## **1.2 Corporate Governance in Ethiopia**

Many firms were established via the sale of stocks to the broader public while the utmost these stake-based firms earlier were established among initiators. The rise of widely seized stock firms in Ethiopia provides an increase towards a wide array of matters on corporation governance. Characteristically, possession splits from the seizure of distributed stockholders and drives hooked on controls of limited executives, which inline generates the primary association of the agent. With these circumstances, agents (executives) might mislead the principals' (stockholders) funds as they have more evidence than information than stockholders. Wherever there are few block holders in stake-based firms, smaller stockholders might be oppressed by block-holders.

According to Meheret (2011) argues the authorized body pertinent to the administration of share firms in Ethiopia. She discovers the hypothetical context and lawful background of governance in corporations and scrutinizes guidelines of authority following existing benchmarks. The agency difficulties that could happen among distributed stockholders and executives and block stockholders of businesses in Ethiopia, hence, require decent corporate governance rules and organizations. Decent corporate governance makes the firm supplement a good profitable position. The administration choices designed by the corporation vastly touch the capability meanwhile a business function consequently.

The practice of corporate governance is exceedingly growing in addition comes up with further challenges in contemporary financial business with complex business conditions. Commonly, insurance firms are a significant spot in the financial computation of nations such that their decent or sluggish performance habitually touches the performance of the economy of the nation. Underdeveloped corporate business governance might cause insurers' loss, which raises public expenses meaningfully as well as the results because of their possible influence on any appropriate scheme. Deprived firms' corporate governance results market value to drop in self-confidence in the capability of firms to appropriately administer possessions and obligations, with credits, which could in turn activate liquidity disaster (Uwuigbeolu, 2011)

The insurance sector specifically is more likely toward corporate governance dangers than additional companies because of subsequent details: heterogeneousness of experiences, the difficulty of business, elevated grade necessity on expertise and verdict-determine nature of their commercial that upsurges space of executive entrenchment. Similarly, the scale of change of dangers, private profits and complete misapplication of authority is further noticeable in insurance firms than in any other type of company. Like other arrangements in companies, the worth of the insurance stockholders follows from augmented adventuresome thinking by the organization at the outlay debt claim holders as well as authority within the regime. Henceforth, the requirement towards setting decent business governance instruments that defend the attention of the entire shareholder's significant segment (Joshua, 2015) likewise depiction by Prowse (1997) displays that corporate governance practiced by financial mediators, particularly insurers, is certainly rare.

The practice of corporate governance of insurance within emerging economies has been nearly unnoticed in academics. This notion remained likewise provided by Caprio and Levine (2001). According to Macey and O'ara (2002) identical view besides well-known that even in industrialized economies; the governance of corporations of insurers has only lately remained conversed in the academic arena. Toward the finest scholar's facts found between texts studied, only insufficient researches were originated in the background of Ethiopian insurance firms. Because of the inattention of the insurance segment by additional studies and with fundamental changes in Ethiopian insurers in the previous few years, started major studies on insurance firms' governance have been. By taking into account the above proofs, this study is required towards scrutinizing the connection between an insurer's corporate governance instruments and financial performance to deliver relevant information to the readers.

### **1.3 Overviews of Ethiopia's Insurance Industry.**

The sector of insurance in Ethiopia does not have an extensive past of progress notwithstanding the nation's lengthy past of development. According to Schaefer (1992) as he specified the arrival of contemporary insurance in Ethiopia rewind towards the formation of the Bank of Abyssinia in 1905. The established state bank initiated towards performing fire and maritime coverage as a representative of an overseas insurance firm. The Imperial Insurance Company was an opening national insurance firm that was formed in 1951. Around the 1960s native private firms underway to rise in amount. As of 1962, as per the review of the data of the Central Statistical Agency (CSA), there were 34 insurers in Ethiopia, among them two of them are considered as national and the remaining were overseas embodied by representatives. Indirectly, at the mentioned time, the source of Ethiopia's insurance sector was connected towards ex-pats and overseas insurers (Zelege, 2007).

After the downfall of the royal administration in 1975 by the socialist soldierly government, private insurers became state-owned. The only public insurer formed by the designation of Ethiopia Insurance Corporation (EIC) that had a control in the insurance sector for two decades. Following to the administration change in 1991, there was a change to a mixed economy and a fresh insurance declaration licensing and supervision of insurance, No. 86/1994, was proclaimed in 1994. The commandment is permissible to private sector involvement in the insurance commercials (Mihretu, 2010). Seeing directive also declaration that the industry has generally unchanging in addition to rising in standings of increasing its services and upsurge its product varieties along with investment in comparative preceding years. Though, the sector still provides below 1% of the nation's Gross Domestic Product (Mitiku 2015).

The insurance service system and its practice in Ethiopia within contemporary approach is a fresh phenomenon that was supposed only to have remained underway in the initial 1920s. Per Proclamation No. 83/1994 and Proclamation on the licensing and regulation of banking and insurance, the introduced economic strategy has provided towards the increase of private segment stake in the banking and insurance commercial activities. Throughout the Dergue regime, the government possessed the Ethiopian Insurance Corporation has been in spot toward regulating and seizing insurance commercials by total control.

### **1.3.1 The Requirements to Carry on Insurance Business in Ethiopia**

As per article 656 of the commercial code of Ethiopia as it delivers that the regulation will govern the circumstances under which individuals or any commercial firms may convey on insurance business. So, it is better to mention further shares of the commercial code and decrees towards discovering to assume in engaging insurers business as well as the circumstances under which it might started.

Hence, Article 513 of commercial code of Ethiopia delivers that financial institutions like banks and insurers not formed as private limited companies cannot be involved in finance, insurance and business of comparable landscape. Likewise, Article 6(1) of the code stated the licensing and supervision of insurance business Pro No 86/1994 that an individual might not be involved in insurance trades of any type except it smears to and obtains a license from the National Bank of Ethiopia (NBE) within specific types of insurance business. Also, article 4(1) and Art 2(3) of the code) of this declaration deliver that an individual ha as stake firm as distinct under (article 304 of the commercial code of Ethiopia).

### **1.4. Statement of the problem**

The expansion of the f financial industry remains essential for the growth of the economy of any nation. It is tough towards spread economic expansion in short of resourcefully working in the financial industry. Insurers are the vital fragments of the financial industry, and the leading spot within emerging economic schemes, besides significant tools of economic growth (Levine, 1997). The concept of insurers' governance at the corporate level is huge and the urgency of the policy and program in advanced nations for more than ten years and is heating the situation as a significant in the African region (Uwuigbe, 2012). The agency theory as well as numerous corporate governance instruments propose decent governance on corporations' advances in company profitability (Garcia-Marco & Fernandez, 2008). Though, worldwide proceedings regarding weak performance and ultimate failure of prominent firms for instance Enron, because of the significance of governance in corporations, the Basel II board on banking and insurance emphasized the necessity for financial establishments towards hold unvarying governance practices at the corporate level for the greater good to nurturing constancy and performance in this significant part.

Further to discuss explicitly, governance practices in corporations' matters elevated in the directive of financial organizations. A drive for solidification of governance in companies in

the finance provision segment became deep-rooted. Different from other businesses, the financial service providers take part in a significant role in-between that depends on deeply on the trust of the public and assurance. Existed vastly noticeable institutes, gaps, and let downs in the governance of finance-related services, and product providers, even if actual or apparent, entice hostile public response and harshly touch status and the mass self-assurance. Employing public attention entities, arrangements by financial service providers' distant attainment inferences for an extensive variety of participants (Ibrahim 2014).

Yet, studies pursued exploring the association among governance of corporations' instruments and financial performance on insurers by counting diverse companywide governance variables not considered in the previous scholar through current data towards delivering more consistent reports in detail.

Precisely in Ethiopia, rare research showed regarding corporate governance and financial performance while numerous studies were in the banking sector no prior study absorbed on the insurance industry in Ethiopia with much emphasis. Moreover, Minga (2008) discovered legal and additional peripheral organizational backgrounds of governance of corporates in Ethiopia as well as determined the general benchmark of governance of corporations is unsatisfactory in the nation. Fekadu (2010) examined the possession configuration of companies within the nation and decided the departure between possession and control is rising in Ethiopia. Yet, there are flaws in the commercial code towards guarding marginal stockholder privileges.

As per the study conducted by Ahemad (2012), Ethiopian business decree does not have acceptable law making support on the governance of corporations connected to the departure of administration and supervision duties, and alignment, freedom, as well as compensation of panel of executives in stock businesses. According to Kidane (2016), the practice of disclosure, the size of the board, the gender variety of the board and the possession category have no momentous influence on the performance of Ethiopian banks specifically commercial ones. Additionally, Kelifa (2012) stated size of the board and the presence of an audit and inspection commission within the board had statistically noteworthy and negative conclusions on the performance of commercial banks in the standing of both return on equity and return on assets, while the size of the bank had statistically substantial together with positive effect on bank performance. According to Ferede (2012), findings dictate that large board size and audit commission adversely impact performance in terms of finance, panel associates qualifications

regarding education of members within the board optimistically related with performance in the context of finance, related directors experience within the respective sector optimistically linked alongside return on asset however an inverse influence on net interest margin and the ratio of directors in terms of number of female and panel members corporate administration skill does not substantial influence.

The cited research tried to clarify the influence of the governance of corporates on the performance in terms of finance earlier. Gardachew (2015) studies regarding the part of directors on boards of severely controlled insurers and would provide its portion on describing the part of governance instruments in the nonappearance of stock exchange in the locked Ethiopian financial sector nearly since 2024.

Asamnew (2016) came up with to inspect the impact of internal governance mechanisms in companies precisely panel features liability strategy and disbursement procedure on general firms' performance in fresh background in Ethiopia in which financial product market not advanced yet as well as stakeholders not satisfactorily guarded.

This study employed twenty years of data to inspect the effect of corporate-level governance on financial performance with lengthy fiscal spells. Basically, inside corporate level governance ways particularly directors in the board, liability strategy, dividend procedure, and administration expenses are supplementary significant since the single obtainable controlling instrument for governance schemes incorporates. Hence this paper largely studied the link between core governance issues at the corporate level and performance in the context of finance and pursues towards realizing the effect of corporate governance instruments on the financial performance of insurance that functions in Ethiopia to contribute to this gap and present academic material.

## **1.5. General Objectives**

The general objective of this paper is to examine the effect of corporate governance on the Financial Performance of insurers in Ethiopia.

## **1.5. Specific Objectives**

- To Determine the association between the size of the board and the performance
- To study the relationship between frequency of board meetings and performance
- To assess the connection between gender diversity of the board and performance
- To explore the impact of the experience of board members in on financial performance
- To discover the effect of the educational qualifications of directors on performance
- To inspect the relationship between the size of the audit committee and the performance

## **1.6 Hypotheses of the Study**

Ho1: There is a statistically significant relationship between the size of the board and insurers' financial performance

Ho2: The board meeting frequency is positively related to the insurer's financial performance

Ho3 There is a substantial and negative relationship between diversity of gender on insurance performance

Ho4: There is a substantial positive relationship between the experiences of board members in the financial performance

Ho5 There is an important and negative relationship between educational qualifications on insurance performance

Ho6: The audit committee size in a board has a significant positive relationship with the financial performance of insurers in Ethiopia.

## **1.7 Significance of the Study**

The outcome of this research was providing valuable information to investors and insurer companies by finding applicable governance of corporate-level instruments and how these authority apparatuses connected to performance in companies specifically insurers. In addition, forward controlling contexts on governance to create insurance businesses are economically comprehensive and take a significant part in companies' financial arrangements since they advance to modest benefit.

## **1.8 Scope of the study**

Many of corporate governance variables perhaps impact the performance of insurers nonetheless present study engrossed on internal governance in corporations to understand stated variables comprising the size of the board, meeting of board occurrence, variety of gender, board exposure in the financial area as well as the size of the audit team. The analysis period is for twenty years, extending from 2003 to 2022. Methodologically the study employed explanatory research design and used a mixed research approach.

## **1.9 Limitation of study**

The drawbacks of this paper were to stick on Accounting Based Return, and return on assets to measure insurance financial performance since the absence of the capital market to practice Market Based Returns.

## **1.10. Organization of the study**

The first chapter of this study deals with introduction and contextual issues in line with a proper problem statement, objective, significance, scope, and limitation of the study while chapter two deals with an extensive review of existing literature and presented deductively from universal contexts to local practices. Chapter Three provides the overall methodological aspect of the study and the road map of how the study was conducted, Chapter Four deals with a result and discussion with a detailed interpretation in line with universal findings, and chapter five summaries, concludes and recommends the overall flow of the paper in the aim of providing a proper highlight for the readers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 The Theoretical Review Part**

##### **2.1.1. The Notion of Corporate Governance**

The idea of corporate governance is demarcated with diverse perceptions by academic scholars as well as writers. As per (Brigham, 2004) governance in companies is stated as a set of regulations, guidelines and acts that impact a business's processes and the choices made by its executives. He added that the greatest governance in business companies' requirements derived from twofold methods, the first one sticks and the other carrots. Stick is the danger regarding elimination if executives do not exploit the worth of possessions assigned to themselves through the carrot rewards that act as an inducement for executives towards exploiting essential stock worth. Corporate-level governance is the conduct that providers of finance to companies make sure of receiving a return on their speculation. The Organization for Economic Cooperation and Development (OECD, 2001) provide a further inclusive definition as a set of associations among management of a business, its panel, its stockholders and other participants, though also providing the structure over which corporate purposes are set, and the means of achieving those aims and monitoring performance are defined. According to (Kim and Rasiah, 2012) corporate governance is the relationship among shareholders, the board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010). As stated, explanations, it may be specified that corporate governance contexts found schemes of responsibility and accountability among the business and its main constituencies by defining the nature of association (Habbash, 2010).

##### **2.1.2. The Theories of Corporate Governance**

This part provides some of the prominent corporate governance models that are studied to understand how they relate to corporate governance. This study also forwarded the argument of corporate governance theories comprising agency theory, stakeholder theory, stewardship theory, and resource dependency theory (Lawal, 2012).

### **2.1.2.1. Agency Theory**

The Agency theory is the furthermost common and has acknowledged superior consideration from researchers and practitioners. The agency theory is founded on the primary agent associations. The departure of possession from management in contemporary companies delivers the setting for the operations of the agency theory. In contemporary businesses the stockholders are extensively discrete and they are not usually intricate in the everyday operations and management of their businesses rather they hire managers to accomplish the goals of the business on behalf of them (Habbash, 2010). Representatives are selected to administer the operational processes of the firm. The parting of possession besides governing rights outcomes struggles of interest among agents and principals. Towards resolving stated delinquency and bringing into line the contradictory attention of executives on business experiences directing expenses as well as incentives given to managers (Habbash, 2010).

As per the agency theory a set of schemes in overriding contemporary company that is classically considered through the great number of stockholders who permit agents to control and manage their shared capital for upcoming earnings. The agent, naturally, may not constantly possess stocks but may own pertinent specialized skills and capabilities in managing the company. The theory suggests numerous valuable ways to inspect the association between owners and managers and authenticate how the concluding objective of exploiting the returns to the owners is attained chiefly when the managers do not own the company's possessions. Agency theory recognizes the part of the checking instrument of corporate governance to reduce agency expenses and the conflict of interest among managers and owners. It is vibrant that this theory is mostly considered as the preliminary theme for any argument about corporate governance. The Agency theory taking its origins in economic theory was elaborated by (Alchian and Demsetz, 1972) and supplemental advanced by (Jensen and Meckling, 1976).

Agency affiliation based on the agreement under the principal involves additional individuals and the representative to achieve provision on their representation which includes giving choice-making authority to the representative. If the parties towards the association useful application there is a decent motive to trust that the agent will not constantly act for the finest benefit of the principal. The principal boundary deviations from his interest through founding suitable inducements for the representative and by experiencing follow-up the expenses intended to perimeter asymmetrical actions of the representative (Jensen and Meckling, 1976).

Regulators of agency glitches in the verdict course are significant when the choice of the managers who pledge and execute significant results are not the main outstanding applicants and do not tolerate the chief stake of the capital results of their choices. Exclusive of actual possessions, managers are more probably to make arrangements stray since the benefits of outstanding applicants. The individual decision agents participated in the administration of choices and the ownership of others nonetheless departure includes that a single agent does not practice restricted administration and monitor privileges over similar verdicts (Fama & Jensen, 1983).

### **2.1.2.2. The Stakeholders Theory**

This theory saw a company as a scheme of shareholders functioning within the greater system of the host society that delivers the essential legislature and market structure for the company's doings. The drive of the company is to generate capital and worth for shareholders through changing shares into goods and services (Clarkson, 1994). This opinion was reinforced by (Blair, 1995) who planned that the objective of executives and management should be to exploit the entire wealth of the formed company. The important thing towards attaining this improve the expression of and delivery of possession-like enticements to those members in the firm who provide and control critical, dedicated inputs and to bring into line the benefits of these critical investors with the interests of external, inactive stockholders.

As per (Mangunyi, 2011) shareholders can comprise stockholders, traders, clientele, Regimes, creditors, staff, local aids, and numerous interest collections. This theory poises among the interests of company shareholders and their fulfilment. The supporters of stakeholder theory necessitate company executives to plan and instrumentalist appropriate procedures to classify the nature of the association among the executives and attract parties to attain their goals. The economic worth of any company is shaped by parties who willingly come together, manage, collaborate, and then advance and augment everyone's. According to (Freeman et al. 2004), shareholder theory starts with the statement that values are essentially and clearly a slice of doing commercial. It requests managers to eloquent the collective sense of the worth they generate, and what takes its central investors composed. It also energises executives to be clear about how they want to do commercial, explicitly what types of relations they want and are required to make with their investors to bring on their determination. According to stakeholder theory, the company is determined to help and organize the interests of its numerous investors like stockholders, staff, credit providers, clients, merchants, administration, and the community

### **2.1.2.3 The Stewardship theory**

The stewardship model perceives robust connection among executives and the achievement of the company, and so the stewards defend and capitalize on stockholder capital via company performance. The steward, who improves performance effectively, satisfies utmost participant collections in an institute, these assemblies have benefits that are soundly aided through growing firm capital (Davis, Schoorman & Donaldson 1997). Once the spot of the chief executive and chairperson is seized by one individual, the destiny of the association and the control towards a regulated approach is the duty of an individual. Therefore, the emphasis of this theory is on structures that simplify and allow rather than check and control (Davis, Schoorman & Donaldson 1997). Hence, in this theory further tranquil opinion of departure of part of chairperson and chief executive, as well as provisions nomination of an individual for the spot of chairperson, business leader as well as mainstream experts' decision-making executives relatively than non-managers (Clarke, 2004).

### **2.1.2.4 The Resource Dependency Theory**

The third concept is Resource dependency theory (RTD) was established by (Pfeffer, 1972) and postulated firms are contingent on one another for receiving essential funds, via relations that remain formed (Ovidiu-Niculae, Lucian, & Cristiana, 2012). There are drives and reimbursements for the firm towards generating connections through external participants, aid to decrease the setting doubt the business appearances. Businesses consider returns of connecting and engaging in exposed discourse by considering the expenses and straight aids related to their choices because t their commitment to the discussion. Likewise, corporations with connections with the vital parties can make worth for the businesses and decrease their dangers. Therefore, businesses with robust connections with investors encounter fewer potential risks (Rehbein, Logsdon, & Buren, 2013).

In the context of corporate governance agency theory focused on checking and governing in the panel of executives although the resource dependency emphasis on the review and counselling part of directors to a firm administration. Lately, equally economists and management academics incline to allocate to boards the double part of follow up and consultants of management. Though, whether boards execute such purposes efficiently is a debatable matter (Ferreira, 2010). Within the notion of governance in corporations, the arrangement of corporate boards is critical to positioning the attention of management and stockholders, to providing data for monitoring and counselling, and to safeguarding actual decision-making (Marinova et

al.,2010). The two-fold part of boards is known. Though, board arrangement has relied on profoundly on theory of agency ideas, concentrating on the follow-up purpose of the panel (Habbash, 2010).

### **2.1.3 Insurance Business and Corporate Governance**

In decades numerous of institutes have been engaged regarding making several rules and values of companies' governance. Because of the financial scandals and corporate failures, there is normally the wish for transparency and answer ability which will upsurge stockholders' confidence (Mallin, 2004).

In the early period's progress, insurers are frequently perceived decently as a moneymaking initiative. The main insured entities are manufacturing companies and businesspersons. Moderately light directive and overseeing of the insurance corporations desired. Though, condition revolutions when obligatory courses of coverage are presented when automotive tertiary entities obligation coverage essential for all vehicle chauffeurs and main debt types of commercials have been presented, the community at huge turns to trust on insurers for important amounts of cash in the occasion of a disaster. Also, at stated phase elevated values of insurance firm governance became essential.

The payment for the accidents increases additionally once life cover and retirement pension became shared as well as the society capitalizes lasting reserves, counting superannuation revenue deposits. At this newest phase, the regime has a responsibility to certify guarantors and pension fund providers track extraordinary criteria of governance at the corporate level, and potential risk and uncertainty controlling (Lester, Reichert, 2009).

The formation of sufficient procedural assistance as well as funds are crucial components of health insurance risk and uncertainty management. In the case life-relate dated insurance guarantors, computations have relied on multifaceted expectations connecting death rates, payment concerning upcoming costs, interval as well as discontinuation frequencies and upcoming venture profits. Consequently, typical accounting and financial commentaries create problems to advance suitable visions for the economic position of a life insurer. The cover of insurance policy-holders are mainly reliant on the capability of administration and the guiding panel to take traditional as well as judicious hazards besides having wide-ranging investment

controlling strategies. Furthermore, insurance holders be contingent on the readiness plus capability of stockholders to donate extra investment when desired Lester & Reichart (2009). Robust insurers' governance necessitates dual outlines of guard. The initial line of the shield contains of the inside structures of the corporation and the management, schemes of uncertainties and managing risk, audit, and inspection activities internally, and the managerial panel that must oversee all. Peripheral actions deliver an additional line of protection that covers the overseeing influence that supervises the coverage firms and instruments applied in the market that follow up and impact the sector of insurance. The above-discussed appearances of protection are desired towards safeguarding a high level of transparency and accountability in the segment. Additionally, the load on the managerial ability is meaningfully decreased if the firm's internal governance activities remain robust (Lester & Reichart, 2009).

## **2.2 Reviews of Empirical Studies**

### **2.2.1 Corporate Governance Mechanisms and Firms' Financial Performance**

The above-discussed theories and corporate governance instruments propose that decent corporate-level governance develops the performance of companies (Garcia-Marco & Fernandez, 2008). However, universal proceedings regarding weak performance and the ultimate failure of prominent businesses are essential to reinforce corporate governance in industrialized and emerging nations (Sanda, et al. 2005). As a result of the benefits of governance of corporations, the Basel II board on banks underline necessity for banks especially commercial ones to hold unvarying corporate-level governance for their own good in nurturing profits in the financial sector. Banks debacles are recognized towards producing harmful outwardness in a nation for the following motives: it abolishes precise investment foremost to added contaminated harms in the scheme. Additionally, the closure of financial service providers decreases well-being in nations since it produces gaps of association among stated institutions with respective customers as well as detailed information of supervision and preferences of risks essential to advance the performance of the company (Myron et al. 1999). The expenses of closures of the bank are likewise huge since they might feast during the whole banking structure hereafter intensifying adverse results on dissimilar mediators. As per the results stipulated via (Linyiru, 2006), claims however there is a cognizance as well as the presence of a governance system within corporations' instruments in the financial service and product provision segment, there is the necessity to reinforce these achieves owing to the special nature of banks. Fresh results in research on the association between corporate

ascendency and performance in banking companies regarding diverse portions of the globe are indecisive and opposing. According to Love and Rachinsky (2007) discover undesirable governance systems and performance of financial institutions. However, (Mangu, 2011) finds that there is no important change in financial institutions' possession arrangement, economic-related performance and governance of corporate performance in Kenyan banks mostly in commercial ones.

Among the studies conducted in the Ethiopian context (Kidane, 2016) discovered regarding expose the customs, the size of the board, and the diversity of the gender within the board as well as possession kind no considerable influence in banks specifically in commercials. (Kelifa, 2012) finds that the size of the board and the presence of inspection and internal audit committee within the board in terms of statistics is significant with negative results on the performance of banks in terms of both return on assets and return on equity, while the size of the bank by itself had a statistically substantial affirmative influence on the profitability of banks, (Ferede, 2012) accomplished that huge size of the board and committee of audit team adversely affects performance in terms of profits, educational status and qualifications of board members certainly connected with performance, business explicit experience of executive optimistically aligned with performance then it has an adverse influence on net interest margin, and the proportion of woman executives and panel associates executive involvement not have substantial influence. The system of corporate governance fundamentals measured in this respective study focuses on the size of the board, frequency of board meetings within the specified time, audit and inspection committee size, diversity in terms of gender, educational qualifications of panel members and experience of board members in the stated sector.

#### **2.2.1.1 Size of the Board**

The size of the board touches the degree of management, monitoring, follow-up, and the actions carried out by members within the firm. The researchers not corresponded on one ideal board size. (Vintila & Gherghina, 2012) Determined there is a reverse association between a firm worth and the size of the board. However, defining a perfect size has been a continuing as well as debatable argument within the governance systems of corporations (Lawal, 2012). Even if great/small in terms of size aids the proper functioning of the firm. It is an arguable matter as well investigators establish diverse consequences regarding associations among the size of board and profitability.

The size of any in companies is evaluated by the number of members. Many authors including (Hermalin and Weisbach 1999, 2002), (Ferede, 2012), (Akpan, 2015) and (Jensen & Meckling, 1976) propounded in studies, that size has been understood to have a converse association with performance. Jensen M. (1993) claims greater size leads to a lesser extent efficient follow-up because of organization as well as procedure glitches. When size becomes bigger can be less involvement, lack of unity, and less ability to grasp agreement. Small sizes are preferred towards encouraging honest, intelligent discussion and participation between colleagues which seemingly might lead to effective corporate decision-making, monitoring and enhanced performance (Lawal, 2012). Furthermore, Akpan (2015) discovered that size and fairness are likewise adverse and substantial performance. According to Ferede (2012), the size of the board of executives is adversely linked with performance in the context of financial service providers in Ethiopia. Additionally, designated boards with small numbers are further genuine in follow-up and managing company administration and aid towards decreasing expenses. Therefore, the size has a straight association with functioning.

With some distinction, several researchers struggled regarding larger boards having paybacks and when size upsurges performance increases extra members deliver better follow-up (Chenuos, Mohamed, & Bitok, 2014). Furthermore, Klein (2002) recommended greater board endorse actual follow-up as an outcome of their capability to allocate the workload over a better number of spectators. Furthermore, results from the (Akpan & Amran, 2014) study displayed that the size the of board optimistic substantial impact on business profitability.

Regarding qualifications of education touches the oversight and follow-up part of panels of executives. Akpan (2015) members' educational status is certainly a momentous influence on the performance of a business firm. Besides, Ferede (2012) stated the attendance of trained executives on the panel plays a significant part in assisting the panels' follow-up duty and in assisting profitability. Therefore, associates who participated in the board training and educational background have a momentous encouraging result on performance.

### **2.2.1.2 The Frequency of Board Meetings**

The frequency of meetings denotes to the specified spell the board assembled annually. To the efficiently achieve purpose and follow-up organizational activities, the board should grasp consistent gathering. Assessing the strength as well as efficiency of corporates' follow-up and clearing is the meetings catch-ups (Jensen M., 1993). Empirical results on meetings and company performance show varied outcomes. Several researchers decided high frequent

meeting has an undesirable influence on the functioning of companies in the context of corporate governance. According to Vefeev (1999) statistical weight and undesirable association among intense meetings and performance. Similarly working performance meaningfully advances after a year of irregular board action. The frequency of meetings has a momentous undesirable influence on return on assets as well and a rise in meeting occurrence will decrease return on assets (Danoshana, Ravivathani, 2013). Furthermore, Akpan (2015) panel assemblies adversely and meaningfully share with performance. An additional report undertaken on registered businesses in Malaysia with data from five years including more than three hundred businesses, displays that the greater the figure of assemblies the inferior the company's performance (Amran, 2011).

### **2.2.1.3 Board Gender Diversity**

In current times, there is growing curiosity in examining the influence of a variety of the genders on the performance of the company, which is even the growing number of a females on the panel touches the functioning of the firm, and several study plans have tried towards delivering signal for the contradiction of this case. Some opinions in approval of diversity of gender in increasing the performance of organizations claim that subjective indication that females have a capability, as well as link, could be inattentive with man-dominated boards, and supplies to product, procedure, structural and marketplace improvement on firm's performance (Huse, 2007). Nonetheless, there is a shared forewarning that variety, not be completed for tokenism.

The overhead postulation grew from experimental discoveries. The study made on companies in Denmark recognized females employed in top executive spots have an optimistic result on the organization's performance (Smith, et al., 2005). A topical study undertaken in United Kingdom businesses registered in the FTSE, also recognized an optimistic outcome in companies' overall performance for diversity of gender presence. It exposed that functioning and stake value overall performance are meaningfully higher for firms with more than 20% women on boards than those below that (Bhogaita, 2010). Furthermore, a further latest analysis which was conducted in registered companies in China, also confirmed the positive association (Liu, et al., 2014). Also, a survey undertaken for (Heidrick & Struggles Consultancy by Groyberg & Bell, 2010) acknowledged that in the mainstream of women surveyed directors 51% observation for the contribution of at more than two women executives in the meeting room to bring efficacy.

#### **2.2.1.4 Board Experience in the Finance Sector**

The exposure of the board in the finance industry is defined as a panel associate who has any finance-related associated experience of work. Assigning managers linked and pertinent abilities and expertise to achieve job-specific responsibilities for example the company's internal control and actions will improve the excellence of data collected and the key to solve difficulties and of the opinions detained and decisions made during the managerial process (Saat, 2011). Her paper displays that exposure of directors allows them to guide direct and check the companies more efficiently. In addition, their familiarity with the business, its chances and fears and their influences on the business participants based on their experience permits them to contribute fundamentally to the firm performance. Furthermore, (Ferede, 2012) established that an affirmative connotation is found among industry precise familiarity and performance on in the stated sector.

#### **2.2.1.5 Board of Directors Educational Qualifications**

In terms of qualification of the status denotes to competency board of specific board associates. The education qualifications of individual panel affiliates are significant for decision-making. Board members with advanced educations help the companies through a combination of capabilities and abilities which aids in making miscellaneous viewpoints to decision-making. The existence of extra trained members would encompass a knowledge base, rouse board members to reflect other changes and improve a further thoughtful processing of difficulties. It is measured by the proportion of panel members who had at slightest university degree to the total number of board members. The higher the number of refined directors in organizational settings is positively connected to accessibility to modernization, inventiveness, and improved deliberate choice-making. The director's educational training are vital to successfully understand and employ the information provided by the management. The educational qualification is imperative subsequently the capability to pursue and understand proper information is indispensable for the effectual process of the contemporary company and the actual control and leadership of management by panels of directors. It touches on the oversight and monitoring part of boards of directors (Gantenbein Volonte, 2011).

#### **2.2.1.6 Audit Board Size**

The internal audit team is as a panel of executives who take a part in financial reporting and disclosure. The team affiliates are selected from participants of the directors of the respective

board, with a president nominated amongst the team associates. The part comprises making decisions and supervising of financial and accounting activities, beliefs and guidelines, supervising selection, and discharge of outside examiners, following internal procedure, deliberating managing risks guidelines and practices with management, and overseeing the performance of inside inspection purposes.

Globally, the audit team is a group of the board of directors in charge of oversight of the financial reporting procedure, choice of the autonomous auditor, and receiving of audit outcomes including internal and external. The respective committee contributions the directors achieve governance in the context of corporate systems and directing duties regarding to a firm's financial recording, internal control arrangement, risk and uncertainty supervision system and purposes. To deliver guidance and commendations to the panel within the possibility of its terms of orientation and contract.

Previous research discoveries of the scope of audit teams and performance display diverse consequences. (Danoshana et al, 2013) growing audit team size affects profitability, since thorough dialogue on the financial declaration of the firms directly acquires additional notions concerning the details and it guides to an upsurge company's performance. However, in the banking sector in Ethiopia according to (Ferede, 2012) wide audit team has an undesirable and important result on performance in financial terms.

### **2.2.1.7 Research Gaps**

The practice of governance in corporations is vital in business companies irrespective of business, scope, and level of progress. A decent governance system has a constructive financial influence on an organization in the enquiry by way of protecting from numerous forfeitures like occasioned by deceptions, dishonesty, and similar indiscretions. As well as risk-taking improvement allowing the firm to have an improved grasp of the monetary chances used as a method. Corporate governance topics that are presently getting consideration sufficiently departing administration from the panel towards safeguard board is leading and overseeing controlling, counting departure.

The board president as well as the first in command of the organization parts guarantees that the board has an actual combination of autonomous and non-independent directors and found the freedom of the auditor and so the truthfulness of financial reporting, counting on creating an

audit committee of the panel. A good corporate goal at grow the productivity and efficacy of firms and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Thus, the main tasks of Corporate Governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, dropping risk for investments and providing high earnings for stockholders and bringing outline for executive responsibility. The studies mentioned in the literature typically focused on the industrialized nations whose strategic approach and corporate governance schemes are not similar to those of Ethiopia. A study conducted in Ethiopia on corporate governance theories is very insufficient in number for example (Minga, 2008) discovered the legal and additional external established contexts of corporate governance and concluded that the general standard of corporate governance was unsatisfactory in the nation. According to (Fekadu, 2010) also examined the possession structure of businesses in the nation and determined that the parting among ownership and control is increasing in Ethiopia, there are drawbacks in the trade code towards guarding marginal stockholder rights. Furthermore, (Ahemad, 2012) studied Ethiopia's business decree and found that the Ethiopian company law does not have satisfactory legislative necessities on governance matters connected to the parting of management and administration duties, and on the arrangement, freedom and compensation of panel of directors in share firms. More precisely research reports submitted on Ethiopia's banking segments, for instance, unpublished graduate-level research (Ferede, 2012) studied to explore the corporate governance instrument and their influence on the performance of commercial banks in Ethiopia. Mostly, previous studies have made enormous aids to the corporate governance and financial performance; they were disposed to the industrialized nations. Though, emerging nations established little care in numerous literatures on this matter, at the same time common of these studies were in the banking business. Therefore, a proposal feature that works well in one nation and industry may not effort in another. Explicitly in Ethiopia, however insufficient studies have been undertaken on corporate governance instruments and financial performance, to the finest of investigator's knowledge.

### 2.3 Conceptual Framework

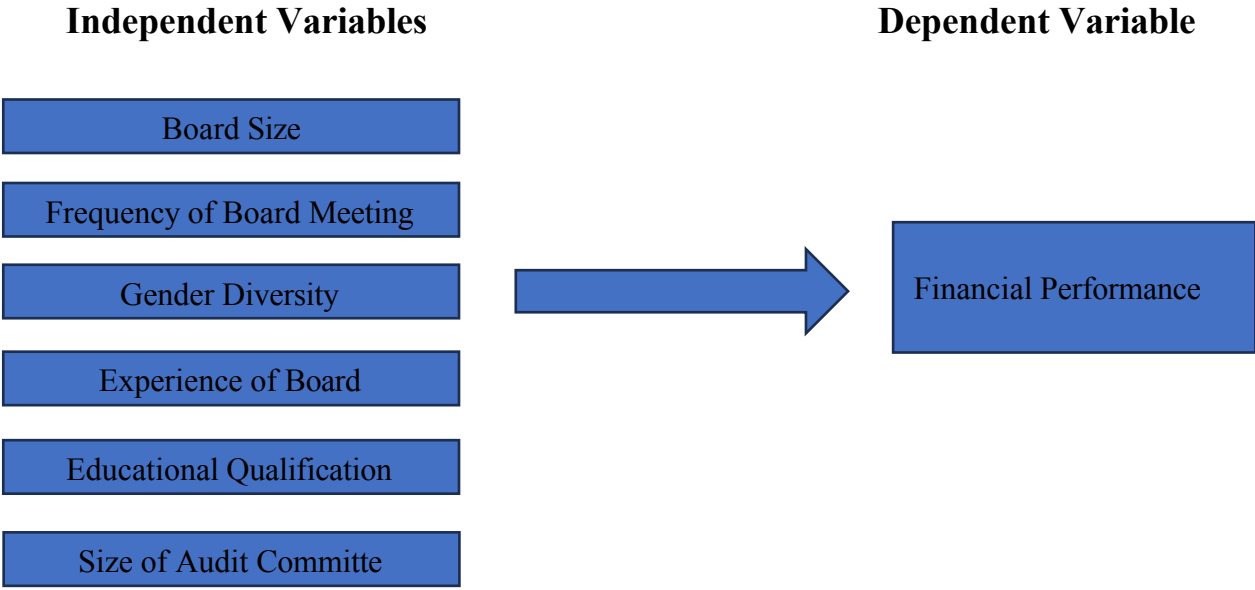


Fig1. Conceptual Framework Model

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This unit delivers regarding the form of research design employed. It offers the total population and study sample. Also, it considers the collection of data, presentation and analysis in detail methods employed.

#### **3.1 Research design**

The paper implemented an explanatory type of design in line with the mixed method employed. Explanatory research design aids towards finding as well as assessing causal relationships among diverse variables discussed (Marczyk, 2005). For the attainment of this research stated objectives, explanatory design and application to inspect the association of specified variables. Consequently, employing a mixed method it is capable of exploiting the potency of quantitative and qualitative method and eliminating any prejudices that happen in any solitary research technique (Creswell, 2003). A panel data scheme which syndicates characteristics of cross-sectional and time series data is employed. The benefit of panel data further consistent valuations of the parameters in the model can be gained (Gujarati, 2004).

#### **3.2 Data Sources and Collection Methods**

So as towards attaining the aim of the study, the author utilized primary and secondary data sources. The secondary data is gathered from the audited financial statements of insurers in Ethiopia. The primary data was gathered through via surveys.

#### **3.3 Population and Sampling Technique**

Presently Eighteen insurers are functioning in Ethiopia the target populations of the study were all insurance companies registered Under the National Bank of Ethiopia. The sample was in use towards comprising all insurers established and serving within the stated period from 2003 to 2022. The size of the sample was computed by considering the data accessibility to touch variables under the study. The size for sample was eight insurers namely Nile, Awash, Global, Ethiopian Insurance corporations, Nice, Africa, Nyala, and United Insurance operating over the age of twenty years and the rest of the insurance businesses have not an opportunity to comprised and the reason not included they did not have financial data on the stated year as they yet not established since 2002.

### **3.4 Data Analysis Method and Presentation**

The data analysis method employed is correlation in the context of descriptive statistics and the approaches of diverse linear regressions. Descriptive statistics are employed to quantify and define significant characters of the stated variables utilizing mean, minimum, maximum, and standard deviations. Regarding the analysis of correlation employed towards recognizing the association among the dependent, independent and control variables using relationship analysis. The analysis regarding correlation demonstrates only the degree of relationship among variables and does not allow the scholar to sort connecting implications concerning the association among variables.

Thus, panel data concerning multiple linear regression analysis's likewise employed to check the premise or hypothesis and clarify the relationship among variables of governance systems in corporations and performance of selected companies about their finance by adjusting the effect of the stated variables. STATA software was utilized for analysis and the consequences remained accessible in different formats.

### **3.5 The Description and Measurements of Variables**

The study variables designated as per substitute models and preceding previous studies connected to governance corporate companies' and their performance. By maintaining harmony with the model and previous studies including independent, dependent and control variables of the study have been recognized to examine the connection of corporate governance instruments and performance of insurers in Ethiopia.

#### **3.5.1. Study Dependent Variable**

Typically, variables from the independent side financial performance measures whichever with accounting-based return, market-based return, or both. Albeit market-based returns are extensively adequate for performance measure by most investigators, they are accepted from this study. This is since the inaccessibility of data. To use Tobin's Q as essential present market price of shares. Such data is not obtainable in Ethiopia as the nation has no stock market. In absenteeism of market-based data most studies employed return on asset and return on equity as a proxy to performance. In this paper the investigator takes return on asset and return on equity as a proxy to insurances performance due to the subsequent details. Since return on equity considers net income only in contradiction of title-holders' equity, it doesn't say much about how well a firm uses its financing from borrowing and bonds. Such firm may bring an

inspiring return on equity without really being more actual at using the stockholders' equity to cultivate the firm. Return on assets, since its denominator comprises debt and equity, can aid to see how well a business uses these procedures of financing. Meanwhile insurance industry financial structure is more of debt than equity using return on both equity and debt is judicious base to measure performance. In this study accounting-based measure, return on assets is used. Return on assets is calculated by the ratio of after-tax net income to total assets of the sample insurers.

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

### **3.5.2. Independent Variables**

The independent variables which are used for this study are variables that are employed as a factor of corporate governance of financial institutions. Board size, Board meetings frequency, Board Gender Diversity, Board Experience in the Finance Sector Board Educational Background Board Audit committee.

#### **3.5.2.1 Board Size**

The board size can be demarcated as the number of directors sitting on the board. According to the agency theory restrictive board size to a specific level is usually supposed to be enlightening financial performance.

#### **3.5.2.2 Meeting frequency of Board**

A Meeting occurrence refers to how much time board meet annually. For board to efficiently achieve its oversight purpose and monitor management performance, the board must grasp a regular meeting.

#### **3.5.2.3 Board Gender Diversity**

It is one of the proxies employed for the corporate governance and it was measured as the proportion of number of female directors separated by the total number of panel members. The board gender variety is measured to advance firm performance meanwhile it delivers new perceptions and viewpoints (Bathula, 2008, Erhardtetal, 2003). The female panel members shall carry varied perspective to the meeting room that is not likely with all male executives. The researcher supposes that there is an important positive linked among board gender variety and the insurances financial performance.

### 3.5.2.4 Board experience in the sector

The board exposure in the industry denotes to board member who had any finance connected work experience.

### 3.5.2.5. Educational Qualifications of Directors:

The educational qualification is significant factor of board efficiency. According to Rose (2007) provided that board affiliates have a college degree and equal skills, board members have adequate human capital so as to comprehend and examine information that is provided by management. The educational qualifications of individual panel followers are very vital for board decision making (Amran 2011; Yasser; 2011). The monitoring part likely to be successfully applied if the board associates are fit and experienced. The scholar expects that there is a important positive connotation among directors educational qualifications and the insurances financial performance.

### 3.5.2.6. Size of Board Audit committee

An audit team is an functioning committee of the board of directors charged with oversight of financial reporting and expose mixed consequences (Danoshana, 2013) found that growing audit committee size will consequence high financial performance, because thorough conversation on the financial statement of the firms will lead to become more ideas concerning the reports and it will guide to upsurge the firm's performance.

## 3.6 Specifications of empirical research model

Towards examine the connection of corporate governance instruments and financial performance of sample insurers in Ethiopia the subsequent overall empirical research model is established.

$$Y_{it} = \alpha + \Sigma \beta X_{it} + \epsilon_{it}$$

*Where*

**Y<sub>it</sub>** signifies the dependent variable in the model

**X<sub>it</sub>** covers the set of explanatory variables in the model

The **i** and **t** represent the cross-sectional and time-series measurement correspondingly. Also, **α<sub>i</sub>** is taken to be persistent over time **t** and precise to the individual cross sectional unit **i**. If **α<sub>i</sub>** is taken to be the equivalent across units, then Ordinary Least Square (OLS) delivers a reliable and efficient estimation of **α<sub>i</sub>** and **β**. In view of the above model and on the base of the

designated explanatory variable the present study will use the econometric model as exposed below.

$$ROA_{it} = \alpha + \beta_1 BS + \beta_2 Ccopit + \beta_3 EQDit + \beta_4 GDit + \beta_5 FMit + \beta_6 ODSit + \beta_7 ISEit + \epsilon_{it}$$

**Where:**

*i* mean insurers ranging from 1 to 8 (cross-sectional measurement).

*t* denotes years ranging from 2003 to 2022 (time-series measurement).

*ROA<sub>it</sub>* Return on the asset for *i* the insurer and period *t*

- *BS<sub>it</sub>* **Board** size for *ith* insurer and time period *t*
- *BFM<sub>it</sub>* **Frequency** of board meeting for *ith* insurer and time period *t*
- *BEQD<sub>it</sub>* Board member educational qualification for *ith* insurer and time period *t*
- *BGD<sub>it</sub>* board gender diversity for *ith* insurer and time period *t*
- *DS<sub>it</sub>* Board member other business managements experience *ith* insurer and time period *t*
- *ISE<sub>it</sub>* Board members industry specific experience for *ith* insurer and time period *t*

### **3.7. Ethical Considerations**

The study gave due consideration to ethical issues such as confidentiality and anonymity. Therefore, the participants were first informed as to the purpose and significance of the study and their responses would be used only for academic purpose and kept confidential. They had also been assured that there were not any questions asking them to tell their names and identities.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSIONS**

This section delivers the financial model results and discussions, descriptive statistics; analysis terms of correlation and multiple regression analysis of panel linear the study variables. Comprising four units. The first segment is the economic model discussions it comprises model fit, data arrangement. The second segment is the descriptive statistics which reviews the chief characteristics of the study variable for instance maximum, minimum, standard deviation mean, and. The third part is association analysis which displays the level of implication among the study variables. The fourth pieces of the chapter, regression report with effect of yield of the regression model random assessment.

#### **4.1. The Economic Model Discussions**

##### **4.1.1 Model Fit**

The Panel data comprise time-series and cross-section. There are multiple units, each of which has recurrent extents with dissimilar times.

##### **4.1.2 Data Arrangement**

This segment provided the highlights of statistics variable. The stated variables comprise the independent and dependent. A panel data set covers entities and subjects, each of which contains  $T$  observations measured at 1 concluded  $t$  is for time. Therefore, the total number of observations is  $nT$ . Preferably, panel data are measured at steady time breaks for instance in year, quarter, and month.

Formerly, panel data must be examined with carefulness. A brief set of panel data has many parts however limited time periods with  $t$ , though a extended panel includes numerous time periods denotes in  $T$  nonetheless limited parts (Cameron and Trivedi 2009: 230).

The panel data have a time-series variable and a cross-section variable. Within STATA, this procedure is named as the extended form equally different to the varied shape. Though long form has group and individual time and level of variables, the extensive form comprises both time and group variables.

A panel of data represents evidence across space and time. Prominently, a panel possesses the same entities and matters hereafter entities and processes quantity about them over period.

To describe in detail econometrically, the arrangement labelled in the subsequent calculation  $Y_{it} = \alpha + \beta x_{it} + U_{it}$  where  $Y_{it}$  is the dependent variable,  $\alpha$  is the intercept term,  $\beta$  is a  $k \times 1$  vector of parameters to be assessed on the explanatory variables, and  $x_{it}$  is a  $1 \times k$  vector of observations on the explanatory variables.

$$t = 1, \dots, T; i = 1, \dots, N.2$$

A modest method to arrange to estimate a joint regression, includes approximating a sole equation on all the data composed, consequently that the set of data for  $y$  is stacked up into a single column containing all the cross-sectional and time-series observations, and likewise all explanations on explanatory variable loaded up into particular columns in the  $x$  matrix. Then this calculation would be assessed in the typical fashion using OLS. Though this is certainly a modest method to continue, and needs the estimation of as few parameters as likely, it has some severe limits. Most significantly, pooling the data in this method indirectly assumes that the typical values of the variables and the relations between them are constant over time and across all of the cross-sectional units in the sample. They estimate distinct time-series regressions for each of objects and entities; nonetheless this is likely to be a sub-optimal method to advance meanwhile this method would not take into account any common structure present in the series of interest. Alternatively, the estimate separates cross-sectional regressions for each of the periods, but again this may not be wise if there is some common variation in the series over time.

It is good enough to have a panel of data at the disposal; there are significant rewards to making full use of this rich structure: First, and possibly most prominently, address a wider variety of matters and challenge extra multifaceted difficulties with panel data than would be likely with pure time-series and pure cross-sectional data alone. Subsequent, it is often of interest to review how variables and the links among them change energetically over time. To do this using pure time-series data would often require a long run of data simply to get a sufficient number of observations to be able to conduct any expressive hypothesis tests. Nonetheless by combining cross-sectional and time series data, one can upsurge the number of degrees of freedom, and thus the power of the test, by employing information on the dynamic behaviour of a large number of entities at the same time.

The extra variation presented by combining the data in this way can also aid in mitigating problems of multi-collinearity that may arise if time series are modelled individually. Third, as will become apparent below; by appropriately structuring the model, we can remove the impact of certain forms of omitted variables bias in regression results.

#### **4.2 The Regression Analysis Result**

This part discussed the observed regression employed and the outcome of the analysis of the regression. The panel records are employed to track the regression towards examination between performance and corporate governance insurers in Ethiopia. The empirical model was established.

$$ROA_{it} = \alpha_0 + \beta_1 BSIZE_{it} + \beta_2 BMEET_{it} + \beta_3 LIQ_{it} + \beta_4 BES_{it} + \beta_5 AUD.SIZE_{it} + \beta_6 BS_{it} + \beta_7 BL_{it}$$

##### **4.2.1 Testing assumptions of classical linear regression model (CLRM)**

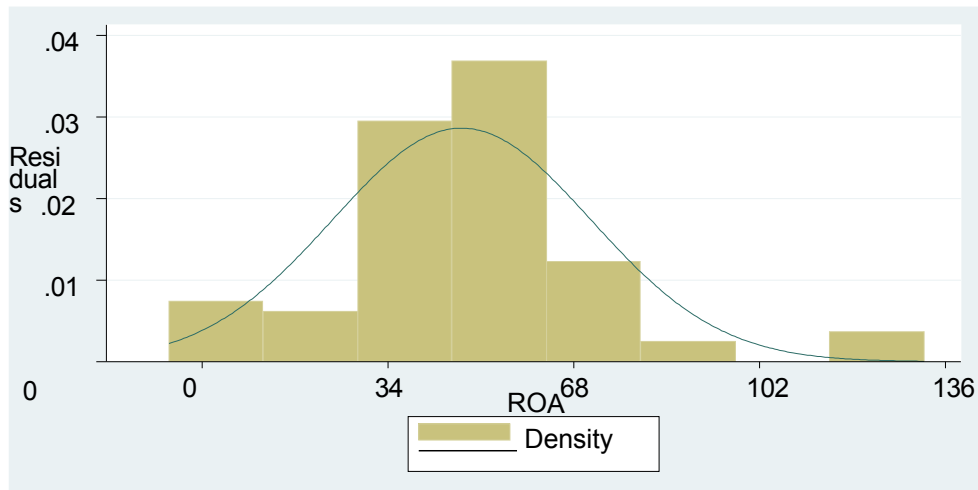
The linearity of the parameter is presumed because the model smears the linear ordinary least square. The purpose of the model is to forecast the power and course of the relationship between the independent and dependent variables. Therefore, to uphold the rationality and strength of the regression outcome of the research in the classical linear regression model, it is improved to please the founding postulation of the stated model. When expectations are fulfilled, it is studied as all available data is employed. Though, if these expectations are dishonoured, there will be data that is absent. (Brooks, 2008).

Consequently, applying the testing model for testing the weight of the angles and examining the outcome of regression, normality, multicollinearity, autocorrelation, and heteroscedasticity assessments are made for finding misspecification of data if any to achieve study excellence.

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

The first postulation essential is standard value of the errors is zero. If a constant term is comprised in the regression equation, this postulation will not ever be despoiled. Consequently, meanwhile, the persistent term (i.e.  $\alpha$ ) was comprised in the regression calculation, the average value of the error term in this paper is expected to be zero.

### 4.2.1.1 The Normality Test



**Graph 4.2.1.1 Kernel Density Estimate Test of normality**

According to the Kernel Plot, the error term is considered normally distributed if there is little difference between the two plots, or the non-smooth normal delivery curve and the level and bell-shaped curve. Brooks (2008) states that the Jarque-Bera statistic would not be significant and the histogram should have a bell shape if the residuals are normally distributed. This indicates that to support the null hypothesis that a normal distribution exists at the five per cent level, the p-value at the bottom of the normality test screen must be larger than 0.05. Density 0,.01,.02,.03, and.04 residuals 0 34 38 102 136.

The normalcy assumption is supported by the picture below (4.1), which also shows that the conclusions drawn about the population parameters from the sample parameters are likely to be accurate.

### 4.2.1.2 The Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity
Ho: Constant variance
Variables: ROA
chi2 (1) = 0.20
Prop > chi2 = 0.6563

One of the diagnostic tests used in this research is the heteroscedasticity test among the model moulds. This is theoretically expressed as follows:  $\text{var}(u_t) = \sigma^2 < \infty$  (Brooks 2008, p.133); the variance of the errors has been assumed to be constant at  $\sigma^2$ . One of the fundamental tenets of

the conventional linear regression model is the homoscedasticity postulation, which holds that the probability of spreading of the disturbance factor is constant across all data. In other words, the variance of each is comparable across all explanatory variable values. The defects are said to be heteroscedastic if their variance is not constant.

Therefore, the Breusch-Pagan test was used in this work to identify the heteroscedasticity issues. There is a heteroscedasticity issue with the data if the p-value is significant at 95 CIs, and no heteroscedasticity problem with the data if the value is insignificant (larger than 0.05). The p-value of 0.05 (5%) is less than the BP/CW test result of 0.6563 (ROA).

In the meanwhile, the regression model has no heteroscedasticity issue, and the probability value is unable to rule out the null hypothesis that homoscedasticity exists at the 5% significant level. Therefore, it is likely to be concluded that the study's regression model of rate of return shows no signs of heteroscedasticity and that the variance of the error component is constant.

#### 4.2.1.3 The Autocorrelation Test

The autocorrelation test is the other significant diagnostic test carried out in this investigation. Many academics have theoretically expressed this OLS concept, such as Brooks (2008). Serial correlation tests are applicable to macro panels with large time series of 23–30 years, claims Reyna (2007). In tiny panels that are just a few years old, this is not an issue. Thus, there is no autocorrelation since the panel data used in this research spans a few years.

#### 4.2.1.4 The Multicollinearity Test

##### *The Variance Inflation Factor Technique*

*Table 4.2.1.4 VIF test of multi collinearity*

<i>Variable</i>	<i>VIF</i>	<i>1/VIF</i>
<i>BGD</i>	<i>1.93</i>	<i>0.519196</i>
<i>BEDU</i>	<i>1.81</i>	<i>0.552941</i>
<i>AUDCOM</i>	<i>1.12</i>	<i>0.891990</i>
<i>BSIZE</i>	<i>1.11</i>	<i>0.898749</i>
<i>BEXP</i>	<i>1.05</i>	<i>0.954165</i>
<i>BMF</i>	<i>1.03</i>	<i>0.970316</i>
<i>Mean VIF</i>	<i>1.34</i>	

*Source: STATA result*

Extensive correlations between independent variables are suggested by the regression model's multicollinearity. Because the estimations of the sample parameters grow incompetent and contain huge standard errors, the coefficient values and signs become unreliable, posing a delinquency problem. Moreover, the model does not gain any additional information from many independent variables that have a strong correlation. Additionally, it hides how each variable really affects the dependent variable (Anderson et al. 2008).

The Variance Inflation Factor, or VIF, is the other most popular and effective technique for determining if a multicollinearity issue exists. If each independent variable's VIF and Mean VIF values are less than 10, the null hypothesis or significant multicollinearity issue is not identified (Lawrence, 2006). The Mean VIF indicates the extent to which multicollinearity has inflated the factual variation in this kind of situation. There is no multicollinearity impact, as the preceding table demonstrates, and all variable and mean values are less than 10.

### 4.3 Descriptive statistics of the study variables

The summary statistics for each research variable were discussed in this section. The dependent, independent, and control variables are all included in the variables. The dependent variables used to measure the sample in this research Insurers' financial performance is the return on assets, while the explanatory factors are: Board size, Board meetings frequency, liquidity ratio, Size of Board Audit Committee, and Board Experience in the Finance Sector. The table below shows the descriptive statistics for each variable.4.3

*Table 4.3 Descriptive Statics*

Variable	Obs.	Mean	Std. Dev.	Min	Max
Roa	136	0.0746115	.0788673	-0.08879	0.57304
Bsz.	136	7.014706	1.424574	5	9
Bmf	136	3.845588	1.252427	2	7
Bgd	136	0.9779412	1.10532	0	4
Bexp	136	3.617647	1.20529	1	6
Bedu	136	4.933824	1.339996	2	8
audcom	136	4.125	1.151086	3	7

The mean, standard deviation, minimum and maximum values for the independent and dependent variables are shown in Table 4.3 above. There were 136 ideas in all for both the explanatory and dependent variables. As stated above table expressions, the greatest value of return on asset is 0.57304 and the smallest return is -0.08879 Insurance companies have made a minimum profit of -0.08879 cents and a maximum profit of 57 cents in net income on a single birr investment. This indicates that, for every birr invested in assets, the most successful insurance company in the study generated 0.57304 cents in net income.

The sample's insurance companies' board size is approximately 9.00, or 90% of the maximum number of 12 people who were settled by the national bank, and a minimum of 5.00 directors (50 per cent of the maximum number of 12 people who were settled by the NBE). The average rate of return is -0.08879, with a minimum of -0.08879 cents on each birr of asset investment. Additionally, most of the the remaining insurance companies earned an average of 0.00676 cents from each birr investment by the insurance firms.

According to the standard deviation, the board size of the sample insurance companies deviates by 0.122 from the mean of 7.01 (70%). The sample insurance's board size seems to be somewhat dispersed, according to the standard deviation of 1.42457.

The average length of meetings recorded by the board of directors' insurance companies over the last 20 years is 38 minutes (mean = 3.8455882), with sessions lasting no less than 2 minutes and no more than 7 minutes annually. Compared to the mean of 3.8455882, the standard deviation is 1.2524. The number of women on the board, or board gender diversity, is the additional explanatory variable.

As shown by the absence of female directors on the board, the average score for the board gender diversity sample of insurance companies is 3.6176471, with a minimum score of 1 and a maximum score of 6. This indicated that the number of insurance companies in the sample that have no female directors on their boards has been low over the last several years. 1.205 is the standard deviation from the mean. Based on the percentage of directors having expertise in the industry, the sample insurance businesses' board experience in the financial sector has a mean of 0.9779412 with a minimum of 0 and a maximum of 4.

This shows that, during the last 20 years, the board of directors of Ethiopian insurance companies has had little expertise in the financial industry. 1.1053 is the standard deviation from the mean. According to the percentage of directors with educational qualifications, the sample insurance companies' board educational qualifications had a mean of 4.9338, with a minimum of 2.00 and a maximum of 8. This demonstrates that over the last 20 years, Ethiopian insurance companies' boards have had inadequate educational qualifications. 1.33999 is the standard deviation from the mean.

With a minimum of zero audit committee members and a maximum of three, the audit committee of the sample insurance businesses has an average value of 4.12529. 1.1508 is the standard deviation from the mean.

**4.4 Analysis of Correlation**

	roe	Bsz	bmf	bg d	bexp	bed u	audco m
Roa	1.0000						
Bsz	-0.1593	1.0000					
Bmf	-0.1897	-0.0319	1.0000				
Bgd	0.1898	0.2731	0.0243	1.0000			
Bexp	0.0184	0.0723	-0.0443	-0.0842	1.0000		
Bedu	0.0725	0.3769	-0.1165	0.5841	0.0714	1.000 0	
Audcom	0.0977	- 0.077 9	0.0083	-0.1783	0.152 2	- 0.153 1	1.000 0

*Table 4.4 Correlation of ROA with independent variables*

The correlation analysis's conclusions and ideas are presented in this section. Correlation coefficients were used to categorize the link between the corporate governance and financial performance factors. The correlation matrix in table 4.4 above shows how the return on assets

is related to the size of the board, the frequency of board meetings, the gender diversity of the board, the board's expertise in the financial industry, the board's educational background, and the size of the audit committee.

Return on assets has a positive association with the independent variables of board gender diversity, audit committee size, board directors' educational background, and financial skill, according to the correlation matrix. However, there is a negative correlation between return on asset and board size and frequency of meetings.

The correlation analysis merely displays the direction and strength of the link between variables; it does not allow the researcher to draw conclusions about the causality of the relationship between the variables that have been detected. Therefore, using correlation analysis to control the influence of a few chosen factors is unlikely to provide light on the link between corporate governance characteristics and performance measures. Regression analysis, which overcomes the shortcomings of correlation analysis, is therefore left to handle the primary analysis.

#### **4.5 The Random Vs. Fixed Effect Models**

Whether the individual impact is regarded as fixed or random is the second issue that might arise from the use of panel data. Determining the appropriateness of the fixed effect and random effect models is crucial. A common approach in finance is to use the Hausman test to sequentially choose one of the strategies mentioned. Cross-sections must be more than the number of coefficients to be evaluated in order to perform a Hausman test. Consequently, in this study the numbers of coefficients are lower than the number of cross-sections consequently it is likely to undertake a Hausman test.

This test, which is conducted using the STATA version, enables the researcher to distinguish between fixed and random effects at five (5%) percent levels using the successive Hausman specification test. The RE estimator is based on the fundamental premise that the intercept of a single unit is a random component selected from a wider population with a constant mean value. The variance from this constant mean value is then used to represent the individual intercept.

The RE's cost-effectiveness in degrees of freedom is one of its primary advantages over the FE. This is due to the fact that one just has to estimate the mean value of the intercept and its variation rather than estimating N cross sectional intercepts. When there is no correlation

between the regressors and the (random) intercept of each cross-sectional unit, the RE technique is suitable.

So, the random effect is selected to run the regression analysis

$b$  = consistent under  $H_0$  and  $H_a$ ; obtained from xtreg

$B$  = inconsistent under  $H_a$ , efficient under  $H_0$ ; obtained from xtreg Test:

$$\begin{aligned} H_0: \text{difference in coefficients not systematic} \quad \chi^2(7) &= (b-B)'[(V_b - \\ &V_B)^{-1}](b-B) \\ &= 5.77 \end{aligned}$$

Prob>chi2 = 0.5669

( $V_b - V_B$  is not positive definite)

Since the assumption is true, the results of the regression model in this study are dependable, impartial, and efficient, as demonstrated by the aforementioned tests of the basic assumptions of the classical linear regression model for OLS estimation. The next step is to examine and consider the regression's outputs.

The regression's success in predicting the values of the dependent variable in the sample is gauged by the R-squared statistic. In a typical context, it may be understood as the percentage of the dependent variable's variation that the independent variable explains. If the regression fits the dependent variable properly, the statistic will equal one; if not, it will equal zero.

R-squared is modified to account for the number of explanatory variables in the model, and this is known as the adjusted R-squared. According to table 4.5 below, the adjusted R-squared for the rate of return on assets model is equal to 0.6535, meaning that the regression variables account for 65% of the variance in return on assets. The explanatory variables included in this regression are thus good indicators of the assets' rate of return.

Variable	Measure					
	Coef.	Std. Err.	Z	P> Z	[95% Conf.	Interval]
ROA						
Bsize	-5.627857	1.47276	-3.82	0.000	2.691963	8.563751
BMF	.0670113	.0211726	3.16	0.002	.0248044	.1092182
BEXP	3.348288	1.340373	2.50	0.015	.6763029	6.020272
AUDCOM	1.67953	2.387881	0.70	0.484	-6.439683	3.080623
BGD	.0009718	.0007967	-1.22	0.223	.0024165	.0005897
BEDU	.0038723	.0007427	5.21	0.000	-.0328411	.005328
_cons	.2034413	.0468898	4.34	0.000	.1115389	.2953437

**Table 4.5 Random effect Regression result of ROA**

*R-sq: within = 0.5836*

*R 2 between = 0.9084*

*Adjusted R 2 overall = 0.6535*

*Wald chi2 (6) = 135.77 corr(u\_i, X) = 0 (assumed)*

*Prob> chi2 = 0.0000*

Source: STATA 12 version

## **4.6. Results and Discussion on Corporate Governance**

### **4.6.1 Size of Board**

Table 4.6 above shows that, at the five percent significance level, there is a negative and statistically significant correlation between board size and return on assets. It implies that the financial success of insurance companies is inversely correlated with the number of board members. Additionally, the financial performance of insurance companies is slower the more board members they have, and vice versa. According to the findings, reasonable boards are more involved in monitoring and controlling insurance management, which helps to lower agency costs. The outcome supports the claim made by Jensen (1993) that an increase in board

size results in less real monitoring due to coordination and procedural issues that come with larger boards.

The outcome is also consistent with other research that suggests that as the number of director's increases, corporate performance is gradually hampered by synchronization, communication, and decision-making issues (Sanda et al., 2005; Adusei, 2011; Yermack, 1996; Al-Manaseer et al., 2012). Furthermore, it was reported by Cheng Wu, Chiang Lin, I-Cheng, and Feng Lai (2005) that board size has a negative and substantial relationship with governance and business performance.

The first hypothesis, which states that board size has a significant relationship to the financial success of insurance companies, is supported by the results and is rejected. Yermack's findings support earlier theoretical suggestions (Jensen, 1993; Lipton and Lorsch, 1992). Adams and Mehran (2005) establish a statistically significant and positive relationship between board size and Tobin's Q using a sample of 35 US-registered banking businesses from 1959 to 1995.

#### **4.6.2 Frequency of Board Meetings**

The coefficient for the Return on Asset (ROA) with meeting frequency is 0.263504, and the p-value is  $0.0000 < 0.05$ . This result demonstrates that meeting frequency has a significant beneficial impact on return on assets, and increasing meeting frequency would improve Ethiopian insurance companies' financial performance. Therefore, the frequency of meetings has a significant favourable effect on insurance businesses' firm performance. The outcome is consistent with other research, such as that conducted by Karanou and Vefas (2005), Mangena and Thuringian (2008), and Ntim and Osei (2011), in a system where the frequency of board meetings is a gauge of the board's actions and follow-up effectiveness.

While shareholders are only allowed to serve on boards in Ethiopia, a high frequency of board meetings may indicate that investors have a substantial influence on management choices.

Since it may be difficult for management to approve a choice that benefits at the expense of the owners' thorough observation, a high owner input rate on management decisions might thus

support business success. A regular board meeting may result in more management follow-up opportunities, which will have a direct effect on the financial success of the company. Therefore, null hypothesis H2 was not rejected, indicating that increasing the frequency of board meetings would lead to improved financial performance since they generate new ideas and keep an eye on insurers.

#### **4.6.3 Experience of Board Members in Insurance Industry**

The hypothesis that was expressed Ha4 predicted that the financial success of insurance businesses is favourably and strongly correlated with board experience in the finance industry. Positive (Coefficient = 3.348288) and significant (p-value of 0.015) as anticipated. It shows that the bigger the percentage of directors with prior financial industry expertise, the better the financial success as determined by Ethiopian insurers' return on assets, and vice versa. The participants in this study were asked a subjective question regarding the directors' prior experience in the financial sector. They responded that all the members of the board had prior experience in the financial sector and that it is very important that the board of directors with prior exposure to the financial sector share their experiences, encounters, and actions from their previous careers. The null hypothesis that board experience in the finance sector is favourably and significantly associated to the financial success of insurance firms is supported by the qualitative findings and regression results, which are based on return on asset performance indicators.

#### **4.6.4 Board of Directors Educational Qualifications**

The financial success of insurers is positively impacted by the educational background of board members. The educational background of the board members explains the differences in insurers' financial performance with a coefficient of 0.0038723 and a statistically significant return on assets of 5%. According to the findings, the financial performance of Ethiopian insurers has significantly improved as the percentage of directors with a college degree or more has increased, and vice versa.

In other words, the financial success of Ethiopian insurers is positively correlated with the proportion of directors on the panel who have a university degree or higher. This suggests that having competent members on the board is essential to fulfilling the board's oversight responsibilities and improving financial performance. The alternative hypothesis was accepted, while the null hypothesis's premises—that there is no meaningful positive correlation between

directors' business-related educational background and insurers' performance—were rejected. This outcome is consistent with the findings of Yasser (2011) and Amran (2011).

They contend that more educated directors are more adept at handling business processes and managing agency issues than their less educated colleagues, which lowers agency costs. Panels of directors' supervision and follow-up functions are impacted by the idea of educational qualifications. The conclusion offers the viewpoint that educational background may be important, and that the capacity to seek and comprehend pertinent information is essential for the efficient operation of insurers as well as the actual oversight and monitoring of management by boards of directors.

The performance of Ethiopian insurers is significantly impacted by the qualifications of directors, as shown by the proportion of directors with a university degree or above. As a result, executives' educational backgrounds have a significant role in the board's overall operation. According to the regression impact and the qualitative result, CEOs' educational backgrounds significantly contribute to the insurance businesses' improved financial performance in Ethiopia.

#### **4.6.5 The Board of Directors' Gender Diversity**

The null hypothesis of this research, which states that there is a significant and negative impact between gender varieties on insurance performance, was rejected, whereas the relationship between female board attendance and financial performance metrics by return on assets is insignificant. As a result, the idea that gender diversity improves insurers' financial success is not supported by this research. According to empirical research, having women on boards has a favourable impact on decision-making quality and business profitability (Bathula, 2008; Erhardt et al. 2003). However, this analysis finds no significant positive or negative correlation between the financial success of insurers and the number of female directors.

Other research that examined the relationship between the number of women on boards and business performance also found it to be unimportant, therefore the conclusion is not shocking (Rose, 2007, Habbash, 2010). The outcome thus only states that the presence of female directors will not improve the performance and procedure of insurers, even if they are qualified and experienced. Depending on factors including the experience, education, and assertiveness of female directors, gender diversity may or may not improve insurers' procedures and performance.

#### **4.6.6 The Size of the Audit Committee**

According to the study's hypothesis, Ho6, the size of an audit committee on a board is significantly correlated with insurers' financial success. According to Table 4.5, this research discovered a statistically insignificant ( $p$ -value of  $0.484 > 0.05$ ) and negative (coefficient =  $-6.439683$ ) relationship between return on asset and the accessibility of diversity in the number of board audit committees. It suggests that the number of board committees has a small but favourable impact on Ethiopian insurers' financial results.

Subtly, there is no correlation between the number of varied panel committees of Ethiopian insurers and the achievement of financial success. Accessibility and diversity of board audit committees have little impact on Ethiopian insurance companies' financial results. Therefore, it is recognized that the null hypothesis, according to which the number of board audit size committees that may be found on the board has no significant impact on the financial performance of Ethiopian insurance companies. The results are inconsistent with earlier research that said that (Hlanganipai Ngirande 2014), (Godfrey Ndlovu 2014), (Rajendran Kajanathan 2012), and (Bussoli 2013) found a positive and substantial correlation.

The results of the quantitative and qualitative data analysis indicate that, despite the regression's insignificance, there is a positive correlation, and the qualitative analysis also demonstrates that having a reasonable number of board subcommittees is a crucial factor in improving the financial performance of Ethiopian insurers.

## CHAPTER FIVE

### SUMMARY CONCLUSIONS AND RECOMMENDATIONS

The key purpose of this chapter is to deliver a summary, draw an inference and make essential recommendations as per the qualitative and quantitative analysis presented in the previous chapter.

#### 5.1 Summary of Findings

Using data from 2002 to 2022, the research sought to investigate the relationship between corporate governance and the performance of insurance companies in Ethiopia. This research used both primary and secondary data to examine and contextualize the link between corporate governance's impacts on insurance companies' financial performance. The audited financial accounts of a few chosen insurance products from the Ethiopian National Bank were the primary source of the secondary data. To determine if there is a link between the variables to be measured the impact of corporate governance on the financial performance of insurance companies and whether the relationship is significant or not, correlation and regression analysis were also used.

The size of the board, the frequency of board meetings, and the gender diversity of the board, the board's expertise in the financial industry, the board's educational background, and the audit committee were all used as independent variables in corporate governance procedures. Additionally, Ethiopian insurance businesses' performance is significantly impacted negatively by board size. It suggests that the number of board members has a negative relationship with the financial success of insurance firms; in other words, the more board members an insurance company has, the worse its financial performance is, and vice versa.

Meeting frequency significantly boosts return on assets (ROA), and more frequent meetings will boost insurance firms' bottom lines. The outcome is in line with other research that found that the frequency of board meetings is a good indicator of the board's operations and monitoring efficacy (Karamanou & Vefas, 2005; Mangena, Tauringana, April 2008; Ntim, Osei, June 2011).

There is a negligible positive correlation between the proportion of female directors and the financial success of insurance companies when it comes to gender diversity on boards. According to the regression's first findings, return on asset is favourably and considerably impacted by board experience in the finance industry. Moreover, from the qualitative analysis,

respondents justified that a board of directors who had an experience in the financial sector is highly important because they share the experience they had, challenges they faced and actions they took in their previous jobs. The performance of Insures is positively and significantly impacted by the educational background of board members. This indicates that the financial performance of Ethiopian insurance companies has been significantly improved by the rise in the percentage of directors with a college degree or above. The size of the audit Committee has a negative and statistically insignificant relation with the financial performance of Insurance companies in Ethiopia.

## **5.2 Conclusions**

This study examined the relationship between corporate governance mechanisms and the financial performance of Ethiopian insurance companies, using panel data regression analysis. The findings provide significant insights into how various governance attributes, including board size, frequency of board meetings, board experience, educational qualifications, gender diversity, and audit committee size, influence financial performance as measured by Return on Assets (ROA). The results underscore the importance of effective corporate governance structures in enhancing firm performance and ensuring sustainable growth in the insurance sector.

One of the key findings of this study is that board size has a significant negative relationship with financial performance. The results indicate that as the number of directors increases, firm performance declines due to coordination and decision-making inefficiencies. Larger boards tend to be less effective in monitoring and controlling management actions, leading to reduced accountability and increased agency costs. This finding aligns with existing literature, such as studies by Jensen (1993) and Yermack (1996), which argue that smaller, more focused boards contribute to better oversight and improved financial outcomes. Thus, maintaining an optimal board size is crucial for insurance companies to ensure effective governance while avoiding the drawbacks associated with excessive board members.

Conversely, the study found a positive and significant correlation between the frequency of board meetings and financial performance. This suggests that boards that meet more frequently are better equipped to provide strategic direction, oversee management, and respond to challenges in a timely manner. Regular meetings facilitate improved communication, enhance

decision-making, and strengthen the board's ability to monitor corporate activities effectively. This result is consistent with previous research indicating that frequent board meetings are associated with higher firm performance due to increased oversight and accountability. In the Ethiopian insurance sector, where regulatory compliance and risk management are critical, frequent board engagement can play a vital role in ensuring financial stability and operational efficiency.

Board members' experience in the financial sector also emerged as a significant determinant of firm performance. The findings reveal that insurance companies with a higher proportion of directors who have prior financial industry experience tend to perform better financially. Experienced board members bring valuable insights, industry-specific knowledge, and strategic expertise that contribute to effective decision-making and risk management. Their familiarity with financial regulations, market dynamics, and corporate governance best practices enables them to guide firms towards improved financial outcomes. This finding highlights the importance of appointing directors with relevant industry experience to enhance governance effectiveness and firm profitability.

Similarly, the educational qualifications of board members were found to have a strong and positive impact on financial performance. The results indicate that boards with a higher proportion of members holding university degrees or advanced professional certifications are more effective in overseeing management and making informed strategic decisions. Well-educated directors possess the analytical skills, technical knowledge, and strategic foresight required to navigate complex business environments, assess risks, and implement policies that enhance firm performance. This supports the argument that corporate governance effectiveness is significantly influenced by the intellectual capacity and qualifications of board members. Therefore, ensuring that board members have adequate educational backgrounds should be a priority for Ethiopian insurance companies aiming to strengthen their governance frameworks.

In contrast, the study did not find a significant relationship between board gender diversity and financial performance. While existing research suggests that gender diversity can enhance decision-making quality and corporate governance effectiveness, the findings of this study indicate that simply having female directors on the board does not automatically translate into better financial outcomes. This may be due to various contextual factors, such as the experience, influence, and decision-making authority of female board members within the Ethiopian insurance sector. It suggests that policies promoting gender diversity should go

beyond mere representation and focus on the qualifications, expertise, and leadership roles of female directors to maximize their contribution to corporate performance.

Additionally, the study found no significant relationship between audit committee size and financial performance. While audit committees play a crucial role in ensuring financial transparency, regulatory compliance, and risk management, the findings suggest that merely increasing the number of audit committee members does not necessarily improve firm performance. This could be attributed to the effectiveness of the audit committee rather than its size, meaning that the qualifications, expertise, and engagement levels of committee members are more critical factors in determining their impact on financial outcomes. Therefore, Ethiopian insurance companies should focus on enhancing the competency and effectiveness of their audit committees rather than expanding their size without clear strategic benefits.

Overall, the findings of this study emphasize the vital role that corporate governance plays in shaping the financial performance of Ethiopian insurance companies. The results suggest that maintaining an optimally sized board, holding frequent board meetings, appointing directors with financial industry experience, and ensuring strong educational qualifications among board members are key factors that contribute to better financial performance. However, simply increasing gender diversity or the size of audit committees without ensuring their effectiveness does not guarantee improved firm performance.

Given these findings, this study offers several important implications for policymakers, regulatory bodies, and corporate leaders in the Ethiopian insurance sector. First, regulatory agencies such as the National Bank of Ethiopia should consider implementing guidelines that encourage optimal board sizes and emphasize the importance of industry experience and educational qualifications when appointing directors. Second, insurance companies should adopt governance practices that promote frequent and productive board meetings to enhance oversight and strategic decision-making. Third, firms should focus on enhancing the effectiveness of their audit committees by ensuring that members possess the necessary skills and experience to fulfil their responsibilities effectively.

For future research, it is recommended that additional corporate governance variables such as CEO duality, board independence, and ownership structure be explored to provide a more comprehensive understanding of their impact on firm performance. Furthermore, qualitative studies could offer deeper insights into the contextual factors influencing the effectiveness of

corporate governance practices in the Ethiopian insurance industry. By expanding the scope of analysis and considering broader governance dynamics, future research can further contribute to strengthening corporate governance frameworks and improving financial outcomes in the sector.

In conclusion, this study highlights the significance of corporate governance in enhancing the financial performance of Ethiopian insurance companies. Effective governance structures, characterized by optimal board sizes, frequent meetings, experienced and well-educated directors, play a crucial role in driving firm success. However, corporate governance policies should not merely focus on board composition but should also ensure that governance mechanisms function effectively in practice. By implementing strategic governance reforms, Ethiopian insurance companies can enhance their financial stability, competitiveness, and long-term sustainability in an evolving market environment.

### **5.3 Recommendations**

Based on the findings of this study, several recommendations can be made to enhance corporate governance practices and improve the financial performance of Ethiopian insurance companies. The results indicate that different governance attributes, such as board size, meeting frequency, board experience, educational qualifications, gender diversity, and audit committee size, influence firm performance in varying ways. To align with these findings, targeted improvements should be implemented to ensure more effective governance structures.

The study found that larger board sizes negatively impact financial performance due to inefficiencies in decision-making and coordination challenges. To mitigate this, Ethiopian insurance companies should maintain an optimal board size that balances diversity in expertise with efficiency in governance. Boards that are too large may struggle with slow decision-making and diluted accountability, whereas excessively small boards may lack the necessary diversity in perspectives. The National Bank of Ethiopia (NBE) should consider setting a recommended range for board sizes to help companies maintain a governance structure that fosters both efficiency and strategic oversight.

A significant and positive relationship was found between the frequency of board meetings and financial performance. This suggests that boards that meet regularly are better positioned to provide continuous oversight and strategic direction. To capitalize on this, insurance companies

should implement a structured schedule that ensures frequent and well-planned board meetings. Meetings should not just be a formality but should focus on critical financial matters, risk assessment, and regulatory compliance. Enhancing the quality of discussions and decision-making within these meetings will lead to better financial outcomes for insurance firms.

The study also found that having board members with financial industry experience significantly improves firm performance. This indicates that experienced directors bring valuable knowledge, industry-specific insights, and strategic foresight that positively impact governance and risk management. Therefore, insurance companies should prioritize appointing board members who have prior experience in the financial or insurance sectors. Furthermore, regulatory bodies should introduce guidelines encouraging the inclusion of experienced professionals in board appointments to strengthen corporate governance practices across the industry.

Another critical finding was the positive and significant impact of educational qualifications on financial performance. The results suggest that well-educated board members make more informed decisions and contribute more effectively to corporate governance. Insurance companies should ensure that their board members possess at least a university degree in relevant fields such as finance, business administration, economics, or law. Additionally, ongoing training programs should be introduced to keep board members updated on the latest trends in financial management, regulatory changes, and best governance practices. A well-educated board enhances oversight, strategic decision-making and overall firm performance.

While the study did not find a significant relationship between board gender diversity and financial performance, this does not imply that gender diversity is unimportant. Instead, companies should go beyond merely increasing female representation and focus on appointing qualified and experienced women to leadership positions. Female directors should be empowered to play active roles in governance, decision-making, and strategic planning. Companies should also invest in leadership development programs for women in the insurance sector to prepare them for board roles. Ensuring that gender diversity contributes meaningfully to governance will enhance overall board effectiveness.

Regarding audit committees, the study found that the size of the audit committee does not have a significant impact on financial performance. This suggests that simply increasing the number of committee members does not necessarily lead to better governance outcomes. Instead,

companies should focus on improving the competency, expertise, and engagement of audit committee members. Appointing professionals with strong backgrounds in finance, risk management, and regulatory compliance will enhance the effectiveness of audit committees. Furthermore, regular training and performance evaluations should be conducted to ensure that audit committees are functioning at their highest potential.

Given the critical role of corporate governance in financial performance, regulatory bodies such as the National Bank of Ethiopia should implement governance policies that promote best practices in board composition, meeting frequency, and director qualifications. Periodic assessments of governance practices should be conducted to ensure compliance with established guidelines. Companies should also be encouraged to adopt governance frameworks that align with international best practices to enhance financial stability and long-term growth. Strong regulatory oversight, combined with internal governance improvements, will contribute to a more resilient and competitive insurance sector.

Lastly, future research should explore additional governance variables such as CEO duality, board independence, and ownership structure to gain a more comprehensive understanding of their impact on financial performance. Additionally, qualitative research could provide deeper insights into the decision-making processes, leadership dynamics, and internal governance mechanisms within insurance firms. A broader perspective on corporate governance will help refine best practices and improve the overall effectiveness of governance structures in the Ethiopian insurance industry.

By implementing these recommendations, Ethiopian insurance companies can strengthen their corporate governance frameworks, improve financial performance, and enhance their competitiveness in the industry. Effective governance is a key driver of financial success, and companies should focus on ensuring that their boards are composed of experienced, well-educated, and actively engaged directors. Through regulatory support, continuous learning, and commitment to governance excellence, the insurance sector can achieve long-term sustainability and resilience in an evolving financial landscape.

#### **5.4 Recommendation for Future Research**

The relationship between corporate governance instruments and insurers' financial performance can also be added explained and the consequence shall be more vigorous by cumulative the sample size and number of years of assessments. Furthermore, the researcher comments for

prospective researchers to undertake the study by counting more corporate governance variables concentrating on board of executives and managerial features as well as other scholars can study on meeting frequency adjustment for diverse insurance companies level and as Ethiopia is on the verge of privatizing the financial industry for foreign financial institutions, in addition, the introduction of the capital market it will be more fascinating and provide a good insight into the field of corporate governance so that future academicians shall focus on such hot themes. Following this report, insurance firms have a very small proportion of experienced board members. However, the success of insurance firms is favourably and considerably impacted by the board of directors' expertise in the financial industry. In order to improve their financial performance, the study advises Ethiopian insurance firms to choose more competent boards in finance-related fields. This research showed that the financial performance of Ethiopian insurance companies is negatively and statistically insignificantly correlated with the size of the audit committee within years.

Therefore, the author of this research supports the need that three board directors to change the insurance corporate governance guidelines in light of Ethiopia's present situation.

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**Appendix 1**  
**Addis Ababa University**  
**Collage of Business & Economics**  
**Department of Accounting and Finance**  
**Master of Science in Accounting and Finance Program**

Dear respondents, the purpose of this questionnaire is to conduct a study on the effect of corporate governance on financial performance of Insurance Companies in Ethiopia for partial fulfilment of the requirement for MSC in Accounting and Finance. Your response supposed to have a paramount contribution for the success of the study and I would like to request your genuine responses for each questionnaire. I would like also to assure you that the information provided here will be used only for academic purposes and thus will be treated with maximum confidentiality.

**Jemal Ahmed**

**Phone: +251911272855**

**Email: [jemalahmedyan@gmail.com](mailto:jemalahmedyan@gmail.com)**

**Thank you in advance for your cooperation!!!**

1. Your gender:

a) Male-----

b) Female\_\_\_\_\_

2. Your highest level of education:

a) Diploma\_\_\_\_\_

b) Degree\_\_\_\_\_

c) Masters \_\_\_\_\_

d) PhD \_\_\_\_\_

3. How many years of work experience in the Insurance industry

a) Below 10 years \_\_\_\_\_

b) 11-20 \_\_\_\_\_

- c) 21-30 \_\_\_\_\_
- d) 31-40 \_\_\_\_\_
- e) Above 40years \_\_\_\_\_

4. Your position in the Insurance industry

- a) CEO \_\_\_\_\_
- b) Middle level manager \_\_\_\_\_
- c) Supervisor \_\_\_\_\_
- d) Any other (Specify) \_\_\_\_\_

**Part 2. Composition of the board**

1. Size of the board

- a) Less than 5 member's \_\_\_\_\_
- b) 5 to 10 member's \_\_\_\_\_
- c) 11 to 15 members \_\_\_\_\_
- d) More than 15 members \_\_\_\_\_

Comment (s) (if any)

\_\_\_\_\_

2. Academic qualification and experience of each board member (tick as appropriate)

- a) Entrepreneurship \_\_\_\_\_
- b) Accounting and Financial management \_\_\_\_\_
- c) Legal \_\_\_\_\_
- d) Banking expert's \_\_\_\_\_
- e) Human resource management \_\_\_\_\_

f) Others \_\_\_\_\_

3. If your bank has an audit committee, what is the number of the audit committee members?

a) One \_\_\_\_\_

b) Two \_\_\_\_\_

c) Three \_\_\_\_\_

d) Four \_\_\_\_\_

f) Any other \_\_\_\_\_

f) Any other \_\_\_\_\_

4. How many of the board of directors have experience in finance sector experience?

a) One \_\_\_\_\_

b) Two \_\_\_\_\_

c) Three \_\_\_\_\_

d) Four \_\_\_\_\_

e) All \_\_\_\_\_

f) Any other \_\_\_\_\_

5. How many times in a year does the Board meet?

a) Once a year .....

b) Semi-annually .....

C) Quarterly -----

d) Monthly -----

e) Other Specify\_\_\_\_\_

8. Are there any board members who had earlier working experience on banking area or Financial Institutions like insurance, microfinance now in your company?

YES  NO

In what ways do these members contribute better than other directors?

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

9. Do you think boards that meet more frequently tend to generate higher financial performance?

Yes  No

Please justify it?

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