Assessment of Corporate Governance Practice in Selected Ethiopian Insurance Companies

(A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration)

By

Bantelay Wondirad

Under the Supervision of

Eshetu Yadecha-phd.candidate (Main-Advisor)

And

Tesfaye Genbare (Co-Advisor)

MBA Program, Department Of Management, College Of Business and Economics, Jimma University, Jimma, Ethiopia

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DECLARATION

I declare that the research Report entitled “Assessment of Corporate Governance Practice in Ethiopian Insurance Companies’’ has been submitted to Jimma University, for examination with my approval of University advisor and Co-advisor” submitted to Research and Postgraduate Studies’ Office of Business and Economics College is original and it has not been submitted previously in part or full to any university.

Bantelay Wondirad

Date: 18-05-20

CERTIFICATION

We certify that the Research Report entitled "Assessment of Corporate Governance Practice in Ethiopian Insurance Companies" was done by Mr. Bantelay Wondirad for the partial fulfillment of Masters Degree under our Supervision.

Eshetu Yadecha (phd. candidate)	Tesfaye Genbare
________________________	________________________
(Main Advisor)	(Co-Advisor)

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LIST OF ACRONYMS

NBE: National Bank of Ethiopia

S.C: Share Company

SPSS: Software Packages for Social Science

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ABSTRACT

The main purpose of this study is to examine corporate governance practices in Ethiopian insurance companies. The study applied descriptive research design. The data was collected from employees of Ethiopian insurance companies via questionnaires. The study used quantitative methods of data analysis. To address the research objective the study applied convenience sampling technique. The result of the study showed that in terms of Board characteristics (educational qualification, board size, and board composition and board meetings) there is a greater internal corporate governance practice in Ethiopian insurance companies. Similarly, significant numbers of respondents approved Ethiopian insurance companies have highest internal corporate governance practice in nomination and audit committee issues. Nevertheless, there need to be exert efforts to diminish the bold disagreement issues on the follow upping of audit findings, independency of audit committee, behavior and trustfulness of the nomination committee members. By and large, the study concludes that there is a significant internal corporate governance practice in Ethiopian insurance companies. Finally, among others the study recommended that the Nomination Committee should adhere and works strictly in light of applicable laws, regulations, the National Bank directives and the insurer's own articles and memorandum of association, policies and procedures.

Key Words: Corporate governance, Practice, and Ethiopian insurance companies.

CHAPTER ONE

INTRODUCTION

1.1.Background of the Study

The role of corporate governance in today's business environment is extremely large because it has a direct effect on the problems associated with the profitability of the company. Keasey et al. (2005) defined corporate governance as the set of mechanisms to control the company to make decisions that maximize the value of the interests of all stakeholders. According to Jeswald (2004) corporate governance is the system of rules and institutions that determines the control and direction of the corporation and that defines relations among the corporation's primary participants.

Consequently, effective corporate governance structures encourage companies to create value, innovation, development, promote accountability and minimize risks, enhance performance, maximizes stakeholders interest, foster economic health of corporations and society in general (ASX, 2007; Nwachukwu, 2007; Okoi et al, 2014). On the other hand, weakness of corporate governance is perhaps the most important factor blamed for the corporate failure consequences as it usually leads to waste, mismanagement and higher levels of corruptions (Saudagaran, 2003 and Nabil and Ziad, 2014). Thus, the need for good corporate governance practice is to create fair operation, transparent process and responsible management (Claessens et al., 2002).

Momoh, and Ukpong (2013) argued that the collapse of Enron in 2001 in US, WorldCom, Global Crossing, and Rank Xerox was due to poor corporate governance. Supporting this, Najjar (2012) suggested that right governance mechanisms will help the decision-making process. According to Dore (2007) suitable administrative system is required alongside a proper and successful corporate governance structure. Further, Fadan (2013) portrayed that good corporate governance is relevant to insurance companies. Similarly, Cornett, Gou, Akhter (2006) reflected that financial system is highly influenced by corporate governance practices so that sound corporate governance system is essential for a healthy operation and performance of the financial system.

At present, there are about 17 insurance companies including the stated owned Ethiopia insurance corporation, operating in the Ethiopia after acquiring licenses from the National Bank of Ethiopia to offer insurance services as per the Insurance Business Proclamation No. 86/ 1994. Implementing good corporate governance practices in the financial system in general and insurance company in particular, National Bank of Ethiopia issues insurance corporate governance directives No.SIB/42/2015 to supervise insurance business with ultimate objective of realizing long term shareholders' value, as well as customers' and other stakeholders interest.

Among others, under this directive corporate governance comprises board size, board composition, board meeting, audit commute, nomination committee, discloser and transparency. Today, in Ethiopian insurance industry need to access financial resources and realize competitive advantage concentrate on good governance of corporation than ever. Furthermore, the new Ethiopian economic reform, Homegrown Economic Reform rests mainly on three pillars, namely macroeconomic, structural and sectoral reforms. However, the success of the reform is constrained by structural and institutional bottlenecks. Corporate governance is one of the current area issue to be considered in the structural and institutional reforms of Homegrown Economic programs because improving corporate governance of public and private institutions in an integrated ways can leads to operational efficiency.

Therefore, this research examine corporate governance practice in case of Ethiopian insurance companies

1.2. Statement of the Problem

Nowadays the importance of corporate governance is highly emphasized and considered as corner stone in modern economy. In developing and transition economies a healthy and competitive business sector is fundamental for sustained and shared growth. One of the key successes factors of public and private sector to become healthy is good corporate governance because it is a source of competitive advantage, economic and social progress. Successful corporate governance is viewed as a basic component of supportable financial development and advancement (WB Group, 2000)

Grant (2012) explained the contribution of insurance to society and economic growth in the areas of loss mitigation, financial stability, domestic savings mobilization and financial intermediaries via fostering efficient allocation of capital. In line with this, Homegrown economic reform program of Ethiopia indicated that the responsibility of the financial institutions to mobilize the required resource at the maximum potential to finance huge projects both in the public and private sector. So that as a financial institution, insurance companies in Ethiopia need to improve the financial services and internal process practices to enhance their profitability and support the country's development endeavors.

Different studies were undertaken on the corporate governance practices in Ethiopian financial sector. Abebe (2015) examined corporate governance practices in banking institutions centering on Construction and Business Bank. Abraham and Raju (2015) studied the impact of corporate governance mechanisms on the performance of Ethiopian insurance. Another study by Minga (2013) focused on corporate governance and ownership structure of large business sector Ethiopia. Asmamaw (2016) studied the relationship between corporate governance and Ethiopian insurance industry using internal and external corporate governance mechanisms. Gardachew (2015) investigated effect of corporate governance on financial performance of insurance industry in Ethiopia.

Previous researches provided controversial result on contribution of corporate governance on performance of organizations. For instance, Sanda, et al. (2005), Kimosop (2011), Kingsley and Wereko (2012) and Taiwo (2018) indicated that board characteristic, board size; board meeting frequency, board composition, board skill, size of audit committee and audit committee independence are important for organizational performance. Despite to that, Gardachew (2015) and Abraham and Raju (2015) revealed that board size, audit committee, board meeting, board independence and board diversity have slight contribution for the performance of insurance companies.

After critical review of these studies there are gaps of research with respect of corporate governance practices, particularly in the context of Ethiopia insurance companies. First, these researches did not include internal mechanisms corporate governance mechanism such as board member educational qualification and independency of nomination committee which is the most important internal corporate governance mechanisms in Ethiopian insurance companies. Besides, as far as the researcher knowledge concerned empirical evidences related to corporate governance practices in the context of Ethiopian insurance still untouched.

Therefore, this study bridge the gap by conducting study on the practices of corporate governance in light of Ethiopian selected insurance companies by incorporating unnoticed internal corporate governance mechanism dimensions. Moreover, the need to know the corporate governance practices of Ethiopian insurance companies is the burning issue on today's Ethiopian Economy and concern in Ethiopian Homegrown economic reform policy.

1.3. Research Question

The study addresses the following research questions:-

I. How the Board characteristics are related to corporate governance in Ethiopian insurance companies?

II. How does audit committee adheres to good corporate governance in Ethiopian insurance companies?

III. How nomination committee of Ethiopian insurance companies does follows the process of corporate governance?

IV. Do the Ethiopian insurance companies present a timely disclosure and transparent information?

1.4.Objective of the Study

1.4.1. General Objective

The main objective of the study is to examine corporate governance practices of Ethiopian insurance companies.

1.4.2. Specific Objectives

The specific objective of the study includes;

I. To envisage the Board characteristics issues related to corporate governance in Ethiopian insurance companies.

II. To indicate whether or not the audit committee adheres to good corporate governance in Ethiopian insurance companies.

III. To describe the whether or not the nomination committee process keeps the salient principles of insurance corporate governance

IV. To assess the disclosure and transparency of information in Ethiopian insurance companies.

1.5. Significance of the study

Corporate governance is a very critical issue in both private and public sector because it establishes the long-term survival of organization so this study is useful in a number of ways. In particular, the study assists corporate managements and policy makers in both private and public sector to understand the corporate governance practices in Ethiopian insurance companies. It also assists in formulating policies to improve the coverage, quality of the financial services and internal practices to enhance their profitability and thereby to support Homegrown economic reform successes. The study helps staffs of Ethiopian insurance companies in understanding the importance of corporate governance elements in order to improve their respective company’s image then it translates into increase in firm financial performance. Finally, this study contributes to the body of knowledge and become a source of information on the financial institution in general and insurance companies in particular related to corporate governance practices

1.6. Scope of the Study

Basically, the study focuses on the assessment of corporate governance practices of Ethiopian insurance companies. The essence of corporate governance is vast in its nature however this study is concentrated on issues related with Board characteristics, audit committee, nomination committee, disclosure and transparency so that it will not include other areas of corporate governance mechanisms.

Methodologically, among the insurance companies of Ethiopia, this survey consider Head office staffs of four insurance companies of Ethiopia which have 25 years of establishment namely: Ethiopian insurance companies such as Ethiopian Insurance Corporation, Awash Insurance Company S.C., Africa Insurance Company S.C and National Insurance Company of Ethiopia S.C.

1.7. Organization of the Study

This study consists of five major chapters. The first chapter is the introductory section and it comprises of sub-headings such as problem statement, research question, research objective, relevance of the study, scope of the study and Limitations of the study. The second chapter contains review of related literatures including conceptual framework for analysis. The third chapter comprises of sub-headings such as research approach, research design, population, sample size and sampling technique, data collection procedure and data analysis. Thereafter, chapter four focuses on the results of the analysis and discusses the findings. Finally, summary of major findings, conclusions, and some recommendations is presented in the chapter five.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

2.1.1. Definition and Concepts of Corporate Governance

Corporate governance considers structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy owners and stakeholders‟ interest and to comply with the legal and regulatory requirements. Similarly, Keasey et al. (2005) defined corporate governance as the set of mechanisms both institutional and market based that induce the self-interested controllers of a company to make decisions that maximize the value of the company through which the interests of all stakeholders are satisfied.

According to Jeswald W.Salacuse (2004) corporate governance is the system of rules and institutions that determines the control and direction of the corporation and that defines relations among the corporation's primary participants. The definition of 'corporate governance' also indicated in NBE insurance corporate governance directives No SIB/42/2015, it is the process and structure used to direct and manage the business and affairs of an insurer towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value, as well as and other shareholders' interest.

As a consequence good quality governance is important in every area like the general community, the corporate environment and the political environment (Okoi et al, 2014).. Weak corporate governance structure affects the performance of the firm and also major cause of failure of many well performing companies. The reflection of poor governance has bouncing to a further as long as good protecting mechanisms existed (Nabil and Ziad, 2014).

An effective system of corporate governance in insurance firms will impose both standards of conduct for managers and appropriate procedures for internal controls in order to maximize opportunities for pooling funds from many insured entities so as to settle for losses which can eventually occur to these companies. The insured entities are therefore shielded from risk for a fee (premium), with the premium is dependent on the frequency and severity of the event occurring. However, to become insurable, the insured must meet certain characteristic (Claessens et al., 2002).

To that end, good corporate governance manages the relationship between insurance policyholders and insured companies, along with board supervision to prevent abuse of power along with self-serving conduct, as well as imprudent and high risk behavior of insurance firm managers, and to resolve conflict of interest between the principal and the agents (Grant, 2012)

2.1.2. Theory of corporate governance

There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on the firm performance. There are several theoretical perspectives on corporate governance available to scholars in exploring the issues of corporate governance. According to Mallin (2010) the main theories are agency theory, resource dependency theory, stakeholder's theory and stewardship theory.

2.1.2.1. Agency Theory

Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers (Abdullah & Valentine, 2009). Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. Corporate governance has focused upon the separation of ownership which results in principal-agent problems arising from the dispersed ownership in the modern corporation. It is regarded as a mechanism where board of directors is a crucial monitoring device to minimize the problems brought about by the principal-agent relationship. In this context, agents are the managers, principals are the owners, and the boards of directors act as the monitoring mechanism (Mallin, 2010).

The disadvantage of the framework is that agent may not work for paramount interest of principal. Agents may misuse their powers for monetary and non-monetary benefits. Agent may not take precautionary risk measures or agent and principals may have different attitude towards risk. It explains the behavior of persons in firms in their own self-interest, if it is not govern to minimize this behavior.(Abid, Khan, Zeeshan , & Ahmed, 2014) Agency problem arises because contracts are written and enforced by considering costs. There are agency costs to demoralize agents from benefiting at the expense of principals. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents of divergent interests (Fama & Jensen, 1983).

Advocates of the agency theory are of the opinion that a firm's top management becomes more powerful when the firm's stock is widely held and the board of directors is composed of people who know little of the firm. The theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management(Mulili& Wong, 2010). According to Wheelen and Hunger (2002)problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation.

In order to maximize the shareholders' value, agents are controlled by principal-made rules hence, a more individualistic view is applied in this theory (Clarke, 2004), Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be minimal as any firm's performance does not really affect the firm performance. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure. (Abdullah & Valentine, 2009)

2.1.2 2. Stakeholder Theory

Stakeholder theory holds that a company owes a responsibility to a wider group of stakeholders, other than just shareholders. A stakeholder is defined as any person/group, which can affect/be affected by the actions of a business. It includes employees, customers, suppliers, creditors and even the wider community and competitors. Many corporations endeavor to maximize shareholder wealth whilst at the same time emphasizing on range of other stakeholders. One rationale for effectively privileging shareholders over other stakeholders is that they are the recipients of the residual free cash flow. This means that the shareholders have a vested interest in trying to ensure that resources are used to maximum effect, which in turn should be to the benefit of society as a whole (Mallin, 2010). The theory is a prominent CG theory because of the accountability of the firm to a wider audience than simply its shareholders. The theory suggests that the performance of corporate cannot be measured only in term of gain to its shareholders (Jensen, 2001)

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. John and Senbet (1998) have also provided a comprehensive review of the Stakeholders theory of corporate governance. The main issue they raised in the theory is the presence of many parties with competing interests in the operations of the firm. They also emphasized the role of non-market mechanisms such as the size of the board and committee structure as important to firm performance. Jensen (2001) offered a critique of the Stakeholders theory for assuming a single-valued objective by identifying share and bondholders as the only interest group of a corporate entity necessitating further exploration. An extension of the theory, the enlightened stakeholder theory, was proposed.

2.1.2.3 Stewardship Theory

Unlike agency theory, stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners. The steward's behavior is pro-organizational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, et al, 1997). According to Small man (2004) where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. He also states that, stewards balance tensions between different beneficiaries and other interest groups.

Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through firm performance. A steward, who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth (Davis, et al, 1997). Moreover, stewardship theory suggests unifying the role of the Chief Executive Officer and the chairman, so as to reduce agency costs and to have greater role as stewards in the organization. Thus, the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control (Alhaji and Yusuf, 2012).

2.1.2.4 Resource Dependency Theory

The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive(Alhaji&Yusof, 2012). resource dependency theory recognizes that the administrative body of any firm is the linchpin, among the firm and the resources that are required to accomplish the goals (Tricker, 2012).Whilst, the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm.

Hillman, et al (2000)contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Organizations require resources and these leads to the development of exchange relationships or network governance between organizations. Further, the uneven distribution of needed resources results in interdependence in organizational relationships (Alhaji and Yusuf, 2012). According to the resource dependency rule, the directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty. This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways.

The implications of this theory are that corporate Boards will reflect the environment of the firm and those corporate directors will be chosen to maximize the provision of important resources to the firm. Each director may bring different linkages and resources to a board. Board composition will thus theorize to reflect a matching of the dependencies facing an organization to the resource acquisition potential of its board members (Hillman, Canella, & Paetzold, 2000) from the above discussion unlike the agency theory the resource dependency theory ignores the other board activities like strategizing and providing advice.

Having considered corporate governance theoretical perspectives; the outcomes suggest that corporate governance is concerned with the role of stakeholders, and its impact on the collective welfare of society. OECD views the role of corporate governance as twofold: first, it covers the manner in which shareholders, managers, employees, creditors, customers and other stakeholders interact with one another in shaping corporate strategies; and second, it relates to public policy, and an adequate legal regulatory framework, which are essential for the development of good systems of governance (OECD, 2009). Corporate governance increases investors' confidence and goodwill. It also ensures transparency, accountability, responsibility and fairness.

Insurance is a contractual relationship between two parties, insured (buyer) and insurer (seller), whereby the insurer undertakes to indemnify the insured in the event of a loss covered in exchange for payment of premium, subject to the contract terms and conditions (Atkins and Bates, 2009; Boland et al., 2009; Thoyts, 2010). Blunden and Thirlwell (2010) describe insurance as a contract of fortuity which depends on occurrence of something that is not foreseen, and over which the insured ostensibly has no control. The insurance industry is an important sector of the economy, as it facilitates shifting the cost of the risk away from the insured (who runs it) to an external party (the insurer) in exchange for payment of premium (Ericson et al., 2003; Ericson and Doyle, 2004).

Primarily, insurance is a risk transfer mechanism, thereby facilitating transfer of risks from insured (i.e. individual, firms or state) to insurance companies or institutions (Fadun, 2013). Consequently, insurance facilitates transfer of economic risks to an insurer, while the actual risk remains with an insured (Coyle, 2002; Gordon, 2003). This is possible because an insurer has a more diversified portfolio of exposures which help to decrease unexpected losses.

Governance issues in developing economies include constraints imposed by governments on the evolution of markets and the role of competition in product and capital markets (McGee, 2009). Okpara (2011) identifies challenges and issues in Nigeria militating against effective implementation of corporate governance to the levels that might be accepted in developed economies. These include: constraints arising from concentrated shareholdings usually held by founders or family members, weak regulatory framework, ineffective or lack of enforcement, weak monitoring, lack of transparency and disclosure, shallow and inefficient capital markets and ineffective boards of directors (Okpara, 2011).

2.1.3. Corporate Governance Principles

Corporate governance systems are the procedures employed by companies to solve corporate governance problems; however, the use of these mechanisms depends on the corporate governance system. According to (Fan, Lau & Wu, 2002) mechanisms for corporate governance can be divided into two parts: internal and external mechanisms. In this section internal corporate mechanism describes as follows.

2.1.3.1. Internal Corporate Governance Mechanisms

Internal mechanisms include oversight of management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of control and policy development. These objectives include smooth operations, clearly defined reporting lines and performance measurement systems.

Board of Directors: is the first level of supervision over the activities of the bank and its management. The board is ultimately responsible for the activities and results of the bank, for the maintenance of stability and financial soundness. The powers and rules of the board are specified in the law and the statute of a bank. The mode of operation should be specified in the rules of procedure of the board.

Size of board of directors: the two most important functions of the board of directors are those of advising and monitoring. It should enhance the image of the firm and sustain a good relationship between the stakeholders and firm management to encourage the organization culture. This shows that these board functions could develop the performance of a firm. Lawal (2012) explained that small board size was favored to promote critical, genuine and intellectual deliberation and involvement among members, which presumably might lead to effective corporate decision-making, monitoring and improved performance.

Board Meeting: it is a way of exchanging information between board members and the company representatives in order to perform their basic activities of leadership and supervision. Subsequently, effective board meetings provide useful information in a timely manner which is critical for any board's effectiveness. Nevertheless, the frequency of meeting to be held by the board depends on the size and volatility nature of the businesses. Firms with small size and stable environment are expected to have less number of meetings than large and risky businesses (Colley, et al., 2005).

Composition of the board of directors: The board of directors plays an important role in corporate governance practices because it is responsible for planning and monitoring a company's objectives. Therefore, an effective board director with an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company. According to Al-Matari et al. (2012) composition of the board has a direct effect on the company's activities.

Audit committee: is a subcomponent of the main board which is responsible for overseeing the company's financial reporting process. The existence of these experts in the firm will create a transparent and credible environment between management, external auditors and the board members.

Board and Senior Management Supervision: A bank's board of directors and senior management are ultimately responsible for the performance of the bank. As such, supervisors typically check to ensure that a bank is being properly governed and bring to management's attention any problems that they detect through their supervisory efforts. They should consider issuing guidance to banks on sound corporate governance and the pro-active practices that need to be in place. Mallin (2007) stated that an audit committee is an important corporate governance mechanism in firms to protect the interests of shareholders and oversee financial reporting.

2.1.3.2.. External control mechanisms

It is controlled by those outside an organization and serves the objectives of entities such as regulators, governments, trade unions and financial institutions. These objectives include adequate debt management and legal compliance.

2.1.4. Corporate Governance in the Ethiopian Insurance Sector

Similar with the banking sector, insurance companies shall be governed by the board of directors and are subjected to the general regulations of the national bank of Ethiopia. According to directives No SIB/42/2015 has relevant provisions on corporate governance to insurance companies where duties and responsibilities, board size and composition, meeting, nomination committee, audit commute, exit report description of Authority and discloser and translational issues are clearly stipulated. Hence, the brief summary of the directives is discussed as follows.

According to this directives article (5) the insurance company shall have at least nine directors. The board may preferably comprise of directors who as a group provide a mixture of gender and core competencies such as insurance, finance, accounting, legal, business administration, auditing, information technology and investment management. Besides, the board of an insurer shall comprise of non-influential shareholders.

Without prejudice to provisions in the Commercial Code of Ethiopia, the ordinary general meeting of shareholders of an insurer shall to strive in a good faith that only competent and reliable persons who can enrich good corporate governance and add value to the insurer are elected or appointed as a board. To decide upon the appointment and service fee of an external auditor as proposed by the board and this power shall not be delegated to any other organ or body in the insurer's structure This external auditor ensure that the board is held accountable and responsible for the inefficient and ineffective governance;

The Nomination Committee established at least by five shareholders and shall not have a seat on the board of the insurer. 6 A Nomination Committee shall be established one year prior to the end of the term of outgoing board and its duty shall expire upon election and approval of the new incoming board by the National Bank. . The ordinary general meeting of shareholders may fix a fee to Nomination Committee members; provided that such fees shall not exceed at any time that of the boards' remuneration.

A Nomination Committee shall be responsible for nominating candidates for board membership and ensure that all board nominations and appointments pass through the insurer's defined processes. further it gives an opportunity to every shareholder to nominate a candidate for board membership through the best available convenient means of communication well ahead of the date of the ordinary general meeting of shareholders which shall not be less than three months; and

Appointment of directors shall be subject to approval by the National Bank in accordance with the requirements stipulated under Requirements for Persons with Significant Influence in an insurer Directives No. SIB/32/2012. An insurer shall submit application to the National Bank for approval of directors within 20 working days from the date of their appointment. The National Bank shall decide on the application for approval within 15 working days from the date of receipt of all documents as required.

An insurer shall give training, at least once in a year, to directors 0 basis in areas of financial analysis, corporate governance, regulations, directives, risk management and internal control. An insurer shall file certificate of training of each member of the board to the National Bank for validation of its compliance.

Board meeting shall be held at least once in a month on the date and at the venue fixed in accordance with the rules for manner of conducting board meetings. The board shall appoint a secretary. The board shall fix regular meeting days and venue. In all regular meetings (excluding urgent meetings), the chairperson or the secretary of the board shall serve formal notice of meeting to each director, together with agenda items, at least three days earlier than the meeting day. A director shall attend in person at least 75% of the board meetings of an insurer within a financial year. The board shall ensure that all minutes of its meetings are properly recorded, sequentially numbered and safely kept along with other relevant documents. Board remuneration shall be paid to a director in proportion to his attendance of board meetings during the year.

The board shall establish and document a formal description of matters specifically reserved for its decision as provided in the insurer's articles and memorandum of association to ensure that the direction and control of the insurer is firmly retained in its hands. The description of matters includes: a. acquisitions and disposals of equity investment, fixed assets and technology of material nature as may be defined by board of directors; authority level for core functions of the insurer; and corporate policies on all matters,.

Without prejudice to the duties and responsibilities stated in other applicable laws, regulations, National Bank directives, articles and memorandum of association as well as resolution of shareholders of an insurer, The board of the insurer shall at least be responsible for developing and submitting to the ordinary general meeting of shareholders for approval transparent rules and procedures for nomination of potential candidates for the board membership taking due consideration to industry standards and the relevant directives of the National Bank;

Appointing directors in case one or more of the directors leave the board before completing their term, in accordance with Commercial Code of Ethiopia, within 30 working days from the date of resignation and presenting the case to the next ordinary general meeting of shareholders for its action; proposing external auditors and their service fee to the general meeting of shareholders; selecting and appointing chief executive officer and senior executive officers, who are qualified and competent with integrity, to administer the affairs of the insurer effectively and efficiently, or removing the same where they fail to be fit and proper;

Ensuring that the operation of the insurer is run prudently, and ir accordance with relevant laws, regulations, policies, and procedures; approving equity investment decisions or agreements related to acquisition and disposal of fixed assets and technology which have material nature, as may be defined by board of directors, concluded by the chief executive officer ;

Ensuring that the National Bank's examination report is considered as confidential by the directors and/or an employee of the insurer and timely actions are taken to address the regulatory and supervisory concerns and instructions of the National Bank. Moreover, it assess the effectiveness of the board, its sub-committees, and individual directors in carrying out their responsibilities and reporting the outcomes to the annual ordinary general meeting of shareholders and the National Bank.

Preventing conflict of interest in the insurer by putting in place sound policies and implementing them, where conflict of interest refers to a circumstance where one of a person's activities or interests are advanced at the expense of the insurer;

Establishing clear policies for shareholder's relations with the insurer and at least annually reviewing practices, aimed at clearly communicating the goals, strategies and achievements of the insurer to the shareholders; reviewing and approving strategies, policies, systems, annual business plans & budgets;

Monitoring performance in implementing issues indicated under sub-article 10.4.16 of this article by setting key performance indicators as stipulated in Annex I of these directives which is part hereof ;reviewing and approving clear lines of responsibilities, delegating authorities, segregating duties and accountabilities for board of directors and senior management members; reviewing and approving code of conduct for the board and senior management which at a minimum covers items listed under Annex II of these directives; ensuring the establishment of code of conduct for the employees of the insurer; approving human development strategy and succession plan for chief executive officer and senior executive officers and effectively monitoring their implementation; Ensuring that the insurer puts in place comprehensive risk management program;

Ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions (covering at least financial, operational, legal, technology and management audit) is put in place; Ensuring that appropriate management information system is established to produce accurate, complete, relevant and timely information on the performance of the insurer;

The board shall establish and document a formal description of matters specifically reserved for its decision as provided in the insurer's articles and memorandum of association to ensure that the direction and control of the insurer is firmly retained in its hands. 10.5.2. The description of matters referred to under sub-article 10.5.lof this article shall at a minimum include the following matters: a. acquisitions and disposals of equity investment, fixed assets and technology of material nature as may be defined by board of directors; b. authority level for core functions of the insurer; and c. corporate policies on all matters, at a minimum as listed in Annex IV of these directives.

At the end of its office term, the outgoing board shall prepare a comprehensive exit report and submit to the National Bank and board secretary of the insurer at the latest fifteen calendar days before conducting general meeting of shareholders. The exit report shall at a minimum cover the board's performance during its office term, challenges, issues requiring the attention of the National Bank and/or the incoming new board and the way forward. '

The insurer shall not pay board remuneration for final service year to outgoing board members if the board fails to comply with the requirement set under 10.6.1 herein above.

Responsibilities of Chief Executive Officer Without prejudice to the duties and responsibilities stated in any applicable laws, regulations, the National Bank directives, and articles and memorandum of association of the insurer, a chief executive officer shall at least be responsible for:

- Developing corporate strategies, policies, business plans and budgets which are subject to approval by the board before implementation; developing, approving and implementing procedure manuals, guidelines and controls to address compliance with laws and regulations applicable to the insurer's business environment and risk profile; ensuring documents indicate all concerned staff; preparing organizational structure that clearly and appropriately assigns duties, responsibilities and authorities, and ensures segregation of duties which shall be subject to board approval.
- Allocating authorities, duties and responsibilities in well-defined job specification and description; developing management information system that adequately addresses the insurer's business environment and risk profile, getting approval from the board and implementing it; providing the board with timely, relevant, accurate and complete reports on the plan performance; implementing an effective internal control system and risk management program of the insurer; and implementing timely corrective action on deficiencies and issues that have been raised or reported

by the National Bank, external and internal auditors and risk and compliance managers.

Regarding to disclosure and transitional provisions in Ethiopian insurance companies the Board and senior management of an insurer shall be transparent to any shareholder, policyholder and any other relevant stakeholders without breaching the law of the country and National Bank directives.

Without prejudice to provisions in other laws and the National Bank directives, an insurer shall at a minimum disclose the following. Submit any related party claims, insurer's fixed assets and technology transactions of material nature, as defined by the board, to the National Bank within fifteen working days from the date of the transaction specifying the name, type of transaction and amount involved.

Report the status of the transactions stated under to the National Bank, at least once in a month; through attestation by the board that such transactions have been carried out at an arm's-length in compliance with the regulatory requirements, the insurer's own policies and procedures.

Post on its website: the board members, including their qualification, experience and board sub-committees; and basic organizational structure, including line business structure. Exhibit at every one of its place of business, including its branches and sub- branches, in a conspicuous place throughout the year, a copy of its latest audited statement of financial position, a comprehensive income and expense report and cash flow analysis in respect of all of its operations during the period. Cause such balance sheet position and statement of comprehensive income and expense accounts together with auditors' report to be published in a newspaper of wider circulation and upload on its website. The exhibition and publishing of financial statements pursuant to sub-articles 12.2.4 and 12.2.5 of this article shall44ke place within one month after the annual shareholders

Provisions related to board elections, if the shareholders wish so, may not apply until end of office term of board of directors elected before the effective date of these directives or in fiscal year 2015/16.An insurer shall develop plan of action on its compliance with provisions related to development, approval and implementations of policies, strategies, codes of conduct, guidelines, procedures and similar documents stipulated in these directives and submit to the National Bank within 60 calendar days from the effective date of these directives. The period covered in the plan of action for development, approval and implementation of policies, strategies, codes of conduct, guidelines, procedures and similar systems and controls, however, shall not exceed 12 months from the effective date of these directives..

2.2. Empirical Review

2.2.1. Other Countries Experience

Another related study conducted by Sanda, et al. (2005) in area of corporate governance mechanisms and the financial performance of organizations in Nigeria. The authors looked at board size; board composition and top management experience related to financial performance of organizations in Nigeria. Their results regarding board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards (with more than ten members) are not very efficient.

Barako et al. (2006) studied the relationship between corporate governance attributes and voluntary disclosure in Kenyan listed companies. The authors examined the extent to which board composition (defined as the percentage of external board members) and the existence of board audit committees affect company disclosure (defined as the release of financial and non-financial information through annual reports above mandatory requirements). Their results in regard to board composition reveal a negative relationship between the existence of external board members and voluntary disclosure, which implies that external board members do not matter much when it comes to convincing companies to reveal information.

Ngumi (2008) study on corporate governance practices in housing finance company in Kenya and established that there exists a clear separation of the role and responsibilities of the chairman and the managing director to ensure balance of power of authority and provide for checks and balances such that no one individual has unfitted powers of decision making.

Kimosop (2011) noted there significant relationship between board size, on-executive directorships, insider shareholding and board meeting frequency with both Return on Asset and Return on Equity. His study dwelled on the Insurance companies that are listed in Kenya. Makhokha (2014) reviewed the following variables in his study; board composition, board size, risk committee and power and how they affect performance business performances.

Kingsley and Wereko (2012) investigate the relationship between corporate governance and the financial performance: Evidence from the Insurance Sector of Ghana. The findings showed that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting were positively associated with the financial performance of insurance companies in Ghana.

Solomon (2013) identified the challenges and opportunities associated with corporate governance and insurance company growth in Nigeria, and explore the relationship which exists between corporate governance and insurance company growth in Nigeria. The study is an empirical design using the responses of survey, structured questionnaires, of 112 respondents. The findings reveal that good corporate governance promotes safe and sound insurance practice; effective supervision promotes good corporate governance; and the new code of good corporate governance for the Nigerian insurance industry enhances insurance companies' growth in Nigeria.

Awano (2015) examined the practice of corporate governance towards organizational performance in the insurance industry. The study findings conclude that, Jubilee Insurance Company Limited practice the salient principles of Corporate Governance to a large extent and this was witnessed by having strong Board of Directors, duly committed of its role in safeguarding shareholders' assets and ensuring a suitable return on investment. In response to the relationship between corporate governance and organizational performance in Jubilee Insurance Company Limited. The study found that the result is statistically significant. This means that there was a relationship between corporate governance and organizational performance in Jubilee Insurance Company Limited.

Yensu et al. (2017) explored the relationship between internal corporate governance structures and the performance of insurance companies in Ghana. Adopting a descriptive study approach, a random sampling technique was used to select a sample size of 200, comprising 150 customers and 50 staff from the five insurance companies within the Kumasi Metropolis for them to respond to structured questionnaires. The study found out that corporate governance is essential in every corporate body, ensuring smooth operations of the firms and also ensures transparency of the day to day activities of the firms in order to build up confidence in stakeholders of the firms. However, firms tend to be affected mainly by the interference of government decision and the abrupt change in direction of the firms when there is a change in government.

Taiwo (2018) investigated various corporate governance mechanisms adopted in Nigerian insurance industry such as board characteristics, audit committee, board independence, board size, growth and profitability. This research has been performed using a sample of 50 companies quoted on the Nigeria Stock Exchange from 2012 to 2017. Multiple regression model was used to analyze the data obtained for the purpose of the study. The results of the multiple regression analysis were statistically significant at 0.05 levels. The findings of the study confirmed that corporate governance enhances firms' growth in Nigeria.

David and Daddy (2018) examined corporate governance and Nigeria insurance industry. The study employed secondary data from the Mutual Benefits, FBN Life, and Zentih Life Insurance Annual Financial Reports from 2005 to 2015.The hypotheses were tested using multiple regressions with the aid of E-view version 9 to establish the relationship between corporate governance (proxy by board size, leverage and Audit Committee) and Nigerian Insurance Industry (Proxy by Profit Before Tax). Findings established that Board Size and Audit Committee have significant impact on profit before tax of insurance companies in Nigeria, while leverage does not have significant impact on profit before tax of insurance companies in Nigeria.

2.2.2. Studies on Ethiopian Insurance Companies

Minga (2013) look at the corporate governance and ownership structure of Ethiopia. The study comes up with five findings. First, Ethiopia's large business sector can be classified into three groups of enterprises. They are State Owned Enterprises (SOEs), political party owned companies and family owned and controlled private limited companies (Plcs). Second, the ruling party exercises control over the resources of both the SOEs and the party owned enterprises. Third, there is an association between few family-owned businesses and the ruling party. Fourth, when the large business sector is examined using the definitions for public interest entities, all three forms of enterprises can be classified as public interest companies. Fifth, the absence of separation of powers in the institutional settings of the country and weak corporate laws are serious voids for complying with international corporate governance standards.

Gardachew (2015) investigated corporate governance and financial performance of insurance industry in Ethiopia. The study found that board size, board independence and board diversity have negative and insignificant effect on the performance of insurance companies while size and independence of audit committee and frequency of board meetings have positive but insignificant effect on the performance of insurance companies in Ethiopia. Thus it could be concluded that all corporate governance mechanisms have insignificant effect on the performance of insurance companies measured by return on asset. This vividly affirms that the role of board of directors in closely regulated financial sector is dismal and insignificant for they have limited discretionary power to exercise as board of directors.

Hussein (2015) examined Ethiopia's company law with specific reference to the powers, composition and remuneration of board of directors in light of internationally recognized best practices and principles of corporate governance. It argues that there is a need to distinguish between corporate governance and corporate management in Ethiopian company law, and that the board should be suitably composed of non-executive and truly independent members who should be professionally competent. Furthermore, directors' remuneration should be incentive-oriented based on company and individual best performance, subject to the caveat against excessive amounts of remuneration that go beyond the achievement of this purpose.

Abreham and Raju (2015) examined the impact of corporate governance mechanisms on the performance of Ethiopian insurance Companies using a panel data model for the period covering from 2009 to 2013. The findings from the study indicated that board meeting and board compensation had statistically significant positive impact on return on equity (ROE) of the Ethiopian insurance Industry. But the results failed to show any significant impact of board size, audit committee, and gender diversity on the proxy of companies' performance. Moreover, the Size of the companies had a significant positive impact on ROE, but the Age of the firms did not reveal any significant impact on ROE.

Abebe (2015) evaluate the extent to which corporate governance practices are applied in the Construction and Business Bank. Internal corporate governance mechanism was the critical focus of the study. The data collected through questionnaire were analyzed using descriptive analysis techniques and the qualitative data were analyzed using explanation. The finding result portrayed that the culture of corporate governance in the CBB still has a setback and needs improvements. The finding of the study also disclosed that the board and the management of the bank are not effective in discharging their roles and responsibilities. In addition weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance within the bank.

Biruk (2016) focused on corporate governance practices landscapes by taking into account different dimensions of corporate governance that affect the climate of doing healthy corporate business. The finding revealed that corporate governance system is not effective due to lack of structured corporate governance framework, up-to-date regulatory framework, national codes and principles as to corporate governance, unavailability of qualified professionals, dearth of corporate governance policy framework, problem of transparency and disclosure, distorted governance structure, lack of adequate protection of minorities rights, weak enforcements from the regulatory body at compliance with applicable laws and conflicts of interest. With respect to future landscape though its emerging subject and at grassroots level there are a number of good beginning on government authorities', corporate sectors and different stakeholders.

Asmamaw (2016) studied corporate governance mechanisms and firm performance: the case of Ethiopian insurance industry using two theories of corporate governance, which are agency theory and stewardship theory. The results show that proportion of outside directors, board size, debt ratio, and ownership have a significant negative effect on performance of insurance companies. However, boards meeting frequency, firm size and firm age, are identified to have a significant positive impact on firm performance. Dividend policy have no effect on firm performance while the effect of CEO-Chairman Duality remains untested since it is not practiced in any one of the insurance companies.

2.3. Research gap

A number of studies have examined corporate governance practices in insurance companies around the world by considering endogenous and exogenous corporate governance mechanisms. Despite the availability of several of studies across different parts of the world, corporate governance has been debated due to seriousness of the issue from time to time, difference with the nature of the company characteristics and variation country's working environment.

In Ethiopia financial sector, different studies were conducted in the area of corporate governance. Among them, Abebe (2015) evaluate the extent to which corporate governance practices in banking institutions centering on Construction and Business Bank.Abreham and Raju (2015) examined the impact of corporate governance mechanisms on the performance of Ethiopian insurance Companies using by taking board meeting, board compensation, board size, audit committee, Age of the firms and gender diversity.

Biruk(2016) focused on corporate governance practices landscapes by taking into account different dimensions of corporate governance that affect the climate of doing healthy corporate business. Also, Minga (2013) examined corporate governance and ownership structure of Ethiopia of, Ethiopia's large business sector using theories of capital structure literature.

Asmamaw (2016) studied the relationship between corporate governance mechanisms and firm performance: the case of Ethiopian insurance industry considering outside directors, board size, debt ratio, and ownership, boards meeting frequency, firm size and firm age Dividend policy and Chairman Duality. Gardachew (2015) investigated effect of corporate governance on financial performance of insurance industry in Ethiopia taking board size, board independence, board diversity and audit committee and board meetings.

The previous researches have many gaps of knowledge with respect of corporate governance practices, particularly in the context of Ethiopia insurance companies. First, the empirical evidence in Ethiopian insurance company also indicates that the existence of controversial conclusions that results from different studies made so far.

Previous researches centering Ethiopian insurance companies were uncovered all internal corporate governance mechanisms such as board member educational qualification and independency of nomination committee which are the most important internal corporate governance mechanisms in Ethiopian insurance companies. Hence, this study will intend to fill the gap through assessment of corporate governance practices in Ethiopian insurance companies by incorporating these unnoticed internal corporate governance mechanism dimensions.

Moreover, as far as the researcher knowledge concerned to research related to corporate governance practices in the context of Ethiopian insurance demands untouched and seriousness of the issue is still continued. Therefore, the current study will bridge the gap by conducting study on the practices of corporate governance in light of benchmark for Ethiopian selected insurance companies.

2.4. Conceptual Framework

The reviewed literatures used different corporate governance mechanism dimensions to deal the corporate governance in insurance companies. Summarizing the results from numerous studies there are the mostly used internal corporate governance mechanism. These are board size, board composition, board diversity, board independency, audit committee, board meetings, and board compensation.

Besides, Fan et al., (2002) indicated the most common internal mechanisms for corporate governance; these include board of directors, Size of board of directors, board and senior management supervision, board meeting, composition of the board of directors and audit committee.

More importantly, in the document of Ethiopian Insurance Corporate Governance Directive No., SIB/42/2015 outlined significant internal corporate governance mechanism dimensions such as duties and responsibilities, board size, board composition, Board meeting, Board remuneration, nomination committee, audit committee, Board authority, discloser and translational issues. In line with this, It clearly show ways to manage and direct business and affairs of Ethiopian insurance companies towards enhancing corporate accountability and to achieve the long term interest of the stakeholders.

Therefore, in order to assess the corporate governance practices of Ethiopian selected insurance companies, this study conceptual framework captured the unconsidered dimensions and some of the most used internal corporate governance mechanism in line with Ethiopian Insurance Corporate Governance Directive No., SIB/42/2015 document. These are Board characteristics (educational qualification, board size, board composition and board meetings), audit committee, nomination committee, discloser and transparency issues are considered.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes in detailed about the execution of the study objectives such as research design, research approach, population and sampling technique, data sources and type, procedure of data collection, data processing and method of data analysis.

3.1. Research Design

This study adopted descriptive research design because it enables the researcher to collect data from large population and to look a bigger overview about the subject matter, corporate governance in Ethiopian insurance companies. Kothari (2004) explained that descriptive research is applied to describe accurately about the characteristics of a particular or groups, situation, issues and affairs based on truthful facts.

3.2. Research Approach

The study also applied quantitative data analysis techniques. The rationale for using this approach is to have a better understanding on the research problem using numeric values. According to Creswell (2009), quantitative research methods are methods in which numbers or descriptive statistical parameters are used to explain the findings or current conditions. He also indicated that quantitative research enables the researcher to draw conclusions for large numbers of population and conduct efficient data analysis.

3.3. Population and Sampling Techniques

3.3.1. Target Population

According to Mugenda and Mugenda (2003), a population is a well-defined or set of people, services, elements, and events or group of things that are being investigated. The study population will comprise insurance companies in Ethiopia which have 25 years of establishment so that the study will cover Ethiopian insurance companies such as Ethiopian Insurance Corporation, Awash Insurance Company S.C., Africa Insurance Company S.C and National Insurance Company of Ethiopia S.C.

Accordingly, the target populations of the study are employees at corporate level of above indicted Ethiopian insurances companies who hold senior job position and above. This because the researcher believed that those staff members have an advanced know how on corporate governance practices of their respective companies.

The population size of the study are 10 top managements, 25 team leader/division managers, 50 principal officers and 50 senior officers worked at each Head office of Ethiopian Insurance Corporation, Awash Insurance Company S.C., Africa Insurance Company S.C and National Insurance Company of Ethiopia S.C. Therefore, the target population of the research are 540 highly skilled staff members.

Therefore, based on the above target population, the sample size of the study is determined by using Yamane (1967) simplified formula as indicated as below.

$$\boxed{\mathbf{n = N / (1 + N e^2)}}$$

$$n = \frac{540}{1+540\,(0.05)^2}$$

n =229.7872 +5% (to offset non response rate)

n =241.2766≈ 241

Where; n= Sample size to be selected

N= Population

e= error

As a result, based on the formula this study requires a sample of 241 and distributed to employees of Ethiopian insurance companies under the study target scope.

3.3.2. Sampling Techniques of the Study

In terms of selecting the respondents out of the total population, the study used convenience sampling techniques. Convenience sampling technique was used to describe a sample in which elements have been selecting from the target population on the basis of their accessibility or convenience to the researcher and sometimes referred to as “accidental or opportunity samples” for the reason that elements may be drawn into the sample simply because they just happen to be situated, spatially or administratively, near to where the researcher/the data collector was conducting the data collection (Battaglia, 2008).

3.3. Data Sources and Types

In this study both primary and secondary sources of data were employed. Primary data was collected via questionnaires. To elaborate the issues in more detail the researcher used secondary data which obtained from various empirical findings.

3.4. Procedures of Data Collection

To assess the respondent’s views on corporate governance practices of Ethiopian insurance companies the study used questionnaire as the main data collection instrument. According to Kothari (2004) questionnaire has a specific concrete and predetermined questions to ensure that all respondents reply to the same set of questions.

The questionnaire is organized in line with the study objectives and it has two sections. The first section of the survey questionnaire portrays the general demographic information of the sampled respondents. The second part, the main questions have Likert scale rating format ranging from 1 to 5 where; strongly Agree (SA) = 5 and Strongly Disagree (SD) = 1. The use of Likert scale is to make easier for respondents to answer question in a simple way and also the questionnaire prepared in English language.

The study employed pilot survey to check the questionnaire is clear, understandable and straightforward answer the questions with no difficulty. Because of this, the researcher gained an opportunity to learn the various weaknesses of the questions and correct questionnaire accordingly before the field work.

According to Sekaran (2003), the purpose of the pre-test activity is to ensure that the questionnaires are meaningful, easily understood and to achieve face validity. He also pointed out the minimum number for a pilot study is 15-30. This is in line with the recommendation by Malhotra (2008) that the sample size for pre-test is normally small, ranging from 15-30 respondents.

Thus, a pilot survey was taken on minimum of 15 respondents under the study sample frame. After validation and having permission from the concerned managements the questionnaires distributed to senior and above staff members at Head office.

3.6. Data Processing and Analysis

3.6.1. Data processing

The researcher performed the data coding, entering, editing and cleaning activity in order to check the consistency of the data which are collected from the sampled respondents. Finally, statistical package for the social sciences (SPSS) version 23 applied for the purpose of processing and analysis of the results

3.6.2. Method of Data Analysis

To achieve the research objectives, quantitative methods of data analysis are used. Quantitative way of analysis applied for the data which are collected from employees of the targeted Ethiopian insurance companies through questionnaire. The researcher used descriptive statistics such as frequency, tables, graphs and percentage to describe the existing situation of corporate governance in Ethiopian insurance companies.

3.7. Validity and Reliability of the Instrument

3.7.1. Validity

According to Mugenda and Mugenda (2003) content validity is a measure of instrument and it provides adequate coverage of the investigative questions guiding the study. In his study, content validity applied by consulting the Advisor and insurance experts in order to improve the instruments via looking every question in the questionnaire and forward comments to ascertain that the questions answer research objectives.

3.7.2. Reliability

Internal consistence of the reliability of the instrument was checked by Cronbach's alpha. It is useful to assess the consistence of the results across items within a test. It represents number between 0 and 1. According to Zikmundet al. (2010) stipulated that scales of coefficient alpha greater than 0.7 is considered as an adequate to determine reliability.

The researcher distributed 15 questionnaires to the employees of Ethiopian insurance companies under; as a result, the researcher adjusted the weaknesses of the questions and corrects them before the questionnaire distributed. Finally, the overall reliability test (Cronbach's alpha) for the all items is 0.769. This implies that the items were reliable, clear and easily understandable by the respondents.

3.8. Ethical Consideration

Participation of respondents was strictly on voluntary basis. Participants were fully informed the purpose of the study and measures taken to ensure the freedom of each participants of the study. In addition, participants were notified that the information they provide kept confidential and not disclosed to anyone else without their consent.

CHAPTER FOUR

RESULT AND DISCUSSION

The aim of this study is to examine the corporate governance practices of Ethiopian insurance companies. The presentation and discussion of the findings are done using descriptive statistics.

4.1. Response Rate

During the survey a total of two hundred forty one (241) questionnaires were distributed to the respondents, out of this one hundred ninety three (193) giving 80% complete response rate were returned. So, the analysis is made based on 193 successfully responded questionnaires and done in line with the research objectives.

4.2. Demographic Characteristics of the Respondent's

This section showed the main demographic characteristics such as gender, age, education and work experience. The respondent's general information results are available in the Appendix section.

As indicated in appendix, 62.2% of respondents were male and 37.8% of respondents were female. This means that males are the majority of respondents of this study than female.

Regarding to age of the respondents, the majority 115(59.6%) of respondents fall into 25-35 years age group followed by 35-45 years of age group 32(16.6%) and 18-25 age group accounted for 10.3%. Also, representing 13.5% respondents were above 45 years age group.

From the total number of the respondents indicated in the appendix, 50.3% were senior officer, 26.9% were principal officer, 16.1% of the respondents were middle level management and 6.7% were top management.

Concerning to the level of education, the majority of the respondents were first degree holders 160(82.9%). The remaining 33(17.1%) of the respondents have obtained Masters. It showed that the respondents have in a good position to understand and answer the research questions.

As illustrated in appendix where 4.5% noted that they had worked in the insurance for 6-9 years, 27.3% for between 3 - 6 years, those who had worked in the insurance for between 1-3 years accounted for 9.3% and finally, 15.55% worked in insurance for 9 years and over.

4.3. Corporate Governance Practices of Ethiopian insurance companies

The corporate governance in insurance companies in Ethiopia looked at in four dimensions. These are Board characteristics (educational qualification, board size and composition, board meetings), discloser and transparency, audit committee and nomination committee issues are considered.

4.3.1. Board Characteristics

The board size is determined by the number of persons sitting in the board. The number of the persons sitting in the board within each company presented in the table 4.1 below.

Table 4.1: Board Size

	Amount	Frequency	Percent
Valid	**5**	4	2.1
	7	3	1.6
	9	182	94.3
	other	4	2.1
	Total	**193**	**100.0**

Source: Own Survey Data, 2020

The result showed that the majority of 94.3% of the respondents replied that the number of the persons sitting in the board within Ethiopian insurance company is nine (9). It is notable that in terms of board sizes (who participate in corporate governance decisions that affect organizational performance) Ethiopian insurance companies adheres NBE insurance corporate governance directive.

Every insurance company is required to have a board of directors, which is a group of elected individuals that have the responsibility to represent the shareholders of the company. A board's role is to oversight of the company for the benefit of shareholders and the long-term health of a company. Particularly, the rotation policy contributes to fresh thinking and gives more directors a chance to new leadership

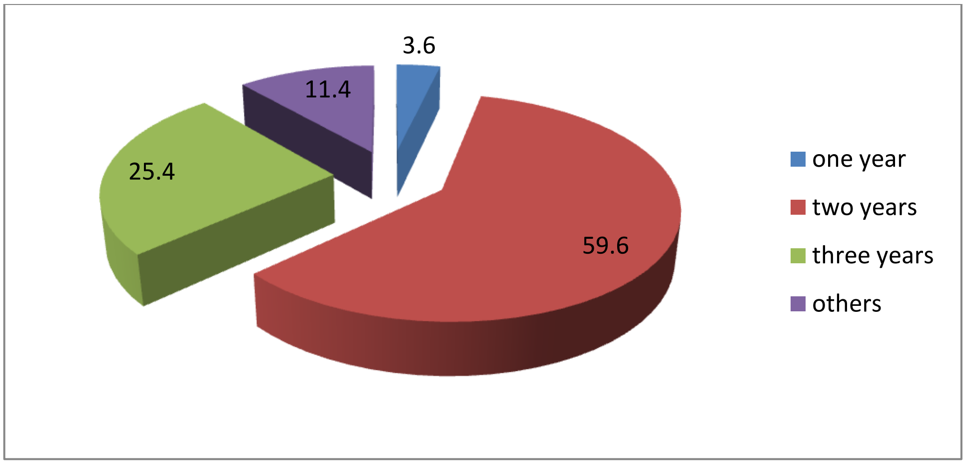

Figure 4.1: Board Rotation

In light of this , Figure 4.1indciated the majority of sampled employees 115(59.6%) replied that the board members rotated every two years while 25.4% reported that the board members rotated every three years followed by once a year (11.4%). This indicated that most of the respondents confirmed that the board members of insurance companies in Ethiopian rotated every two or three years.

A board of directors is charged with providing ultimate oversight over the activities and affairs of its organization and each director must discharge such duties with due care. In order to perform their basic activities of leadership and supervision adequate formal meeting is critical. Though the number of meetings a board holds in a year is outlined by NBE, the most important factor in encouraging board attendance is to ensure that meetings are productive and valuable to the organization.

Table 4.2: Board Meeting

		F	%age
How often do board members conduct meetings?	Every one month	157	81.3
	Every quarter	16	8.3
	Twice a year	-	-
	Every one year	-	-
	Other	20	10.4
	Total	**193**	**100**

Source: Own Survey Data, 2020

In line with, as depicted above table 4.4; the majority 157(81.3%) respondents replied that the number of board meetings held by Ethiopian insurance companies is every one month while 16(8.3%) meet every quarterly and 4(1.7%) any time. Henceforth, the frequency of meeting to be held by the board depends on the size and volatility nature of the businesses, the largest numbers of employees confirmed that the board members of insurance companies in Ethiopian meet monthly which is concedes with NBE insurance corporate governance directive.

The presence of persons with superior qualifications on corporate boards satisfy the opportunities of board diversity and need for better performance and also equip the board with the capability and skill essential for effective and efficient decision making. In addition, Well-educated and experienced Board of directors ensures that the shareholders' investment is not wasted and will guarantee the safe custody of their investments.

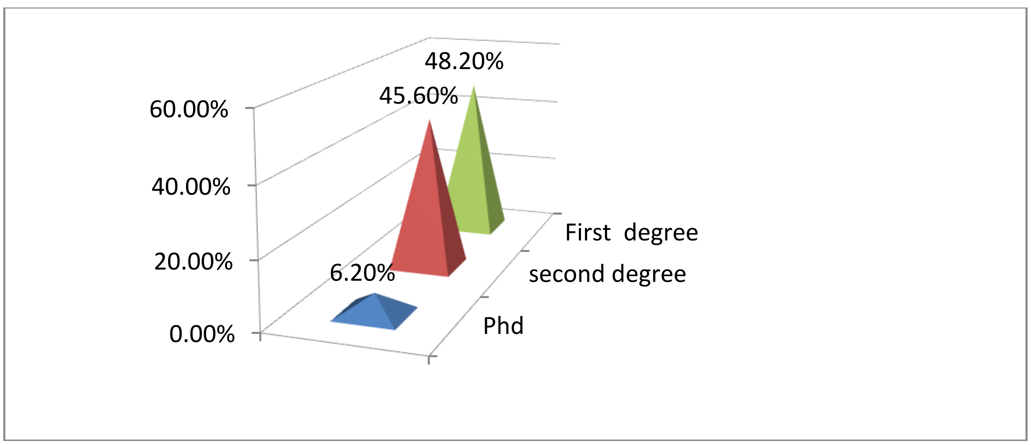

Figure 4.2: Board Educational Qualification

In terms of educational qualification of Board of directors, as illustrated in Table 5.2, 48.2% of board directors in Ethiopian insurance companies were university graduates while post 45.6% board members attained second degree. As well, about 6.2% of the respondents replied that PHD is the ceiling of qualification of board directors in Ethiopian insurance companies. This revealed that on collectively the board members of Ethiopian insurance companies have an optimal mix of expertise.

Supporting this, Gantenbein and Volonte (2011) disclosed that educational qualification is potentially important since the ability to seek and interpret appropriate information for the efficient operation of the corporation and effective guidance. And they suggested that the board of directors need to staff with well educated and experienced directors.

The National Bank of Ethiopia under Insurance Corporate Governance Directives No.SIB/42/2015 outline the preferably core competencies of board directors such as insurance, finance, accounting, legal, business administration, auditing, information technology and investment management. Because, having mixes of specific skills, knowledge and experience will fill particular gaps on the board and improve operation and performance of their duties.

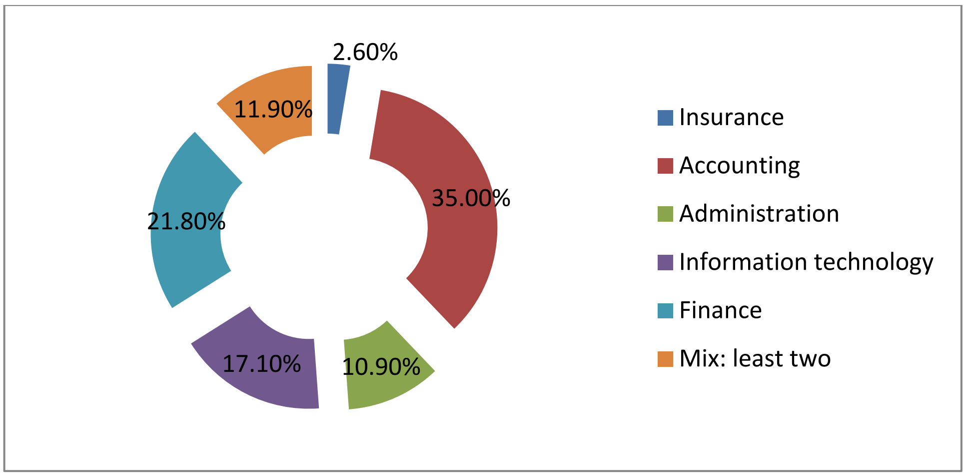

Figure 4.3 Board Directors Core Competency

Table 4.4, shows that most of the respondents (35%) replied that the core competencies of board directors were accounting while 21.8% said finance followed by information technology (17.1%) and insurance (2.6 %). Besides, the samples respondents approved that there is a mix of core competencies the board directors of Ethiopian insurance companies have a mix of core competencies.

Scholars such as Nicholson and Kiel (2004), Fairchild and Li (2005) and Adams and Ferreira, (2007) asserted that each board member to be fully equipped with management knowledge such as finance, accounting, marketing, information systems, legal issues and other related areas to the decision making process. Because they indicated that the quality of each board member will contribute to management decisions which is then translated into the firm's performance

4.3.2. Disclosure and Transparency in Ethiopian Insurance Companies

The respondents were also asked to give their impression towards the disclosure and transparence of information in Ethiopian insurance companies and their reponse is presented in the following table.

In the table 4.3 below, the opinion of employees disclosed that majority 159 (82.38%) of employees agreed the company disclosed its comprehensive financial and operating results on timely, 15(7.7%) disagreed, and 19(9.8%) respondents were indifferent. This revealed most of the respondents replied that the board and senior management of Ethiopian insurance companies are transparent in disclosing comprehensive financial and operating results to any shareholder, policyholder and any other stakeholders on timely.

Tab le 4.3: Disclosure and Transparency Items

Items	Level of Agreement										Total	
	SA		A		N		DA		SD			
	F	%	F	%	F	%	F	%	F	%	F	%
Timely disclosed of financial and operating results.	63	32.6	96	49.7	19	9.8	14	7.3	1	0.5	193	100
Information is prepared and disclosed based on International Accounting Standards.	64	33.2	80	41.5	27	14	15	7.8	7	3.6	193	100
The board members profile and organizational structure are posted on its website.	46	23.8	77	39.9	12	6.2	41	21.2	17	8.8	193	100
Annual report of the company published in a newspaper and upload on its website.	43	22.3	74	38.3	24	12.4	25	13	27	14	193	100

Source: Own Survey Data, 2020

A total of 144(74.61%) of the respondents were agreed that Ethiopian insurer companies prepared and released information in line with from international accounting standards. About 27(14%) of the respondents were neutral while 22 (11.7%) of the respondents disagreed. This implies that Ethiopian insurance companies are prepared information and disclosed in accordance with high standards of accounting and financial disclosure.

Based on applicable laws and regulations, sound transparency in disclosing sufficient information on the basic organizational structure and board of director’s profile to the general public is also significant. Pertaining to this issue, as indicated in the table 4.3 representing 46(23.8%) of the respondents strongly agreed, 77(39.9%) of the respondents agreed, 12(6.2%) of the respondent were neutral, 41(21.1%) of the respondents disagreed and 17(8.8%) were strongly agreed. This suggests even if a substantial sampled respondent opposed, the majority of the respondents consented that the educational qualification and relevant work experience of board members as well as of organizational structure Ethiopian insurance companies are posted on their respective website.

As it is possible to observe from the above table 4.3, 117(60.62%) of the total respondents agreed that Ethiopian insurance companies published an up-to-date report on newspaper of wider circulation and upload on their respective website. Whereas a total of 52(27%) disagreed on this issue. Moreover, 24(12.4%) of the total respondents were neutral. This implies although considerable respondents were disagreed, respondents confirmed largely that Ethiopian insurance companies made available the newest annual reports to give information to shareholders and other interested people about a company's activities.

In line with this the study result of Abebe (2016) indicated that the management of CBB not provided sufficient and reliable information on timely basis. However, the financial information of the Bank are prepared in accordance with international Accounting Standards and the management of the bank presents financial reports to external auditor to insure the reliability of the financial records of the bank. Moreover, the study indicated that the board committee of the bank is structured very well which means the board committee acts in the best interests of the company with the purpose of assuring effectiveness and long-term well-being the bank.

Furthermore, the finding of Biruk (2016) revealed that among others, corporate governance system is not effective due to lack of structured corporate governance framework, up-to-date regulatory framework and problem of transparency and disclosure

4.3.4. Audit Committee in Ethiopian Insurance Companies

Audit committee is a sub component of the main board which is responsible for overseeing the company's financial reporting process. The existence of these experts in the firm will create credible environment among the stakeholders. Hence, the extent to which the respondent's agreement concerning audit committee is presented in the table below.

Table 4.4: Audit Committee Items

Items	Level of Agreement										Total	
	SA		A		N		DA		SD			
	F	%	F	%	F	%	F	%	F	%	F	%
Revising internal audit plan of the company's.	49	25.4	91	47.2	35	18.1	6	3.1	12	6.2	193	100
Follow upping audit findings.	44	22.8	78	40.4	14	7.3	56	29	1	0.5	193	100
Independence of audit committee.	41	21.2	54	28	29	15	63	32.6	6	3.1	193	100
Monitoring the reliability of publication of the financial accounts on an annual basis.	51	26.4	112	57	14	7.3	13	6.7	5	2.6	193	100
Preparing of report on internal audit functions.	35	18.1	80	41.5	58	30.1	14	7.3	6	3.1	193	100
Inspecting the functions of internal and external auditor.	43	22.3	88	45.6	57	29.6	5	2.6	0	0	193	100
Informing illegal practices to the board of the directors.	33	17.1	94	48.7	33	17.1	21	10.9	12	6.2	193	100

Source: Own Survey Data, 2020

The respondents were asked about the activities of audit committee related to internal audit plans, the analysis revealed that 140 sampled employees representing 72.54% were replied that the audit committee reviews the internal audit plan of the company's and 18(9.33%) were disagreed while 35 respondents representing 18.1% respondents were indifferent. This suggested that most of the sampled respondents replied that the audit committee at each of Ethiopian insurance companies accomplishes its objectives by bringing an organized review to improve the smooth activities of the internal audit plan of Ethiopian insurer companies.

As depicted in the table 4.4, the majority of respondents 122(63.21%) were agreed that the audit committee follows up the audit findings that are being rectified appropriately in a timely manner. Still a few number of respondents representing 57(29.5%) were disagreed that audit committee conduct a further examination on audit result in order to watch the success of earlier notice put right while 7.3% respondents were indifferent. This implies that most of the respondents assured that audit committee at Ethiopian insurance companies is doing well in follow upping where the previously audit findings resolved appropriately in a timely manner or not nevertheless a sizable respondents were unconvinced.

Table 4.4 presents the responses on the autonomy of audit committee, the respondents were required to rate each one on a scale of 1 to 5. In line with this, sampled respondents representing 95 (49.2%) approved the existence of independence of audit committee whereas 32.2% of the sampled employees opposed the existence of independence of audit committee and 29(15%) were neutral. This showed that though on average the respondents assured that the audit committee of Ethiopian insurance companies is independent from the Board of the insurer, a considerable numbers of respondents opposed this issue.

From the table 4.4, 161(83.4%) of the total respondents agreed that the audit committee examine the integrity of the financial accounts publication of annually while 18(9.3%) respondents were disagreed. But a total of 14(7.3%) of the respondents were neutral for this issue. This shows that the lion share of respondents agreed by audit committee monitor the reliability of financial accounts publication of Ethiopian insurance companies.

As indicated in the table 4.4, respondents were asked for the deeds of audit committee in preparing report on internal audit functions, the majority of the participants 111(59.59%) agreed that the audit committee produces report on internal audit functions. However, 20 (10.6%) of the respondents affirmed that the audit committee were reluctant to practice report on internal audit functions while 58(30.1%) of the respondents were undecided. This showed that most of respondents replied that the audit prepared of report on internal audit functions of Ethiopian insurance companies.

As illustrated on table 4.4 above, only 131 (68%) of the total respondents agreed with the statement “The audit committee checks the functions of internal and external auditor in compliance to the policies and rules company’s and NBE directives”. The remaining 57 (29.5%) and 5(2.6%) respondents were disagreed and neutral with this statement respectively. This deduces that mainly the audit committee at Ethiopian insurance companies dedicated sufficient time to verify the functions of the external auditors and the internal auditors in the best interests of the company.

4.3.5. Nomination Committee in Ethiopian Insurance Companies

The respondents were sought to disclose their level of agreement in related with Ethiopian insurance companies nomination committee

Table 4.5: Nomination Committee Items

Items	Level of Agreement										Total	
	SA		A		N		DA		SD			
	F	%	F	%	F	%	F	%	F	%	F	%
Existence of written nomination policy for board appointment.	40	20.7	87	45.1	47	24.4	13	6.7	6	3.1	193	100
Investigation of the background of prospective board members.	79	40.9	87	45.1	18	9.3	4	2.1	5	2.6	193	100
The committee gives chance to every shareholder to appoint board member candidate.	60	31.1	87	45.1	31	16.1	12	6.2	3	1.6	193	100
The nomination committee handles the election process as per NBE directives and procedures.	54	28	84	43.5	29	15	14	7.3	12	6.2	193	100
Faith and behavior of the nomination committee.	42	21.8	82	42.5	15	7.8	45	21.3	9	4.7	193	100
Independent of the nomination committee.	39	20.2	94	48.7	37	19.2	12	6.2	11	5.7	193	100
Composition of the nomination committee members.	50	25.9	103	53.4	30	15.5	5	2.6	5	2.6	193	100

Source: Own Survey Data, 2020

For the question about the existence written nomination policy for board appointment, the response shows that 127(65.8%) of the respondents were agreed and 19(9.8%) of the respondents were disagreed. The rest of the respondents 47(24.4%) were neutral with this issue. The overall response shows that written nomination policy for board appointment is being there in black and white in Ethiopian insurance companies. This helps to begin and to end the selection process in line with applicable laws, regulations and the National Bank directives.

A total of 166(86%) of the respondents agreed that the background of the prospective board members is inspected by the nomination committee, of which 40.9% were strongly agreed. Whereas 9(4.7%) of the total respondents were disagreed and 18(9.3%) of the respondents were neutral to the statement “examination of prospective board members”. This shows most of the respondents claimed that the nomination committee investigate the background information of the board members nominees.

Further, 147(76.2%) of the total respondents were agreed that the nomination committee use the best available convenient means of communication to appoint a candidate for board membership, whereas 15(7.8%) respondents were disagreed the statements. Only 31(16.1%) of the total respondents were indifferent. As the above data shows, the dissemination of information using appropriate channels of communication to each shareholder towards board membership candidate selection at Ethiopian insurance companies is outstanding.

Finally, analysis of the opinion of the respondents with respect to trustfulness and behavior of the nomination committee members, the result displayed that most of the respondents 124(64.3%) were agreed that each member of the nomination committee relied upon in good faith and member were reliable persons. Respondents representing 54(28.8%) were opposed the faithfulness and good behavior of the members. Moreover, 15(7.8%) of the respondents were neutral to this item. Accordingly, this discloses that in Ethiopian insurance companies the nomination committee members build on good faith and reasonable grounds despite noticeable respondents opposed.

When we see the respondents' opinion regarding "the independence of the nomination committee from the board of insurers", 39(20.2%) of the total respondents were strongly agreed and 94(48.7%) were disagreed. Alongside, 37(19.2%) of the respondents were neutral. Whereas 11(5.7%) were strongly disagreed with the statement and 12(6.2%) were disagreed. This shows that on average the sampled respondents at Ethiopian insurance companies approved the impartiality of the nomination committee so that it helps to reduce the influence of senior managements, board of directors and shareholders over the process of a director's appointment and recruitment process.

According to information gathered from respondents, the majority of respondents 153 (79.3%) were agreed that the members of the nominating committee comprise non-substantial shareholders, whilst 10(5.2%) respondents were disagreed the issue. From the total respondents 30(15.5%) were indifferent. This implies the greatest number of respondents assured that the nomination committee members in Ethiopian insurance companies are composed of non-influential shareholders; in particular, this helps the power of nomination committee members over the board of director's selection process.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter consists of three sections which include summary of the findings, conclusion and recommendations.

5.1. Summary of Research Findings

As a result of the analysis and interpretation, the following are the summary of the findings.

The result showed that the majority of 94.3% of the respondents replied that the number of the persons sitting in the board within Ethiopian insurance company is nine. The majority of sampled employees 59.6% replied that the board members rotated every two years followed by every three years. The largest numbers of employees confirmed that the board members of insurance companies in Ethiopian meet monthly which is concedes with NBE insurance corporate governance directive. In terms of educational qualification, most of board directors of Ethiopian insurance companies hold first degree followed by second degree. Finally, most of the respondents (35%) replied that the core competencies of board directors were accounting while 21.8% said finance followed by information technology (17.1%).

Largely, respondents were indicated that management of Ethiopian insurance companies timely disclosed company's comprehensive financial and operating results. Most of the respondents agreed that Ethiopian insurer companies prepared and disclosed information in accordance with International Accounting Standards. The greatest number of employees confirmed that the educational qualification and relevant work experience of board members as well as the basic organizational structure Ethiopian insurance companies are posted on their respective official website while noticeable respondents (21.1%) were disagreed. A substantial number of respondents revealed that Ethiopian insurance companies post the latest annual reports in a newspaper of wider circulation and upload on its website although considerable respondents were disagreed (27%).

There is high level of agreement that the audit committee at Ethiopian insurance companies reviews the internal audit plan of the company's. Significant numbers of respondents were confirmed that the audit committee follows up the audit findings whether appropriately rectified in a timely manner nevertheless sizable respondents (29.5%) were unconvinced. On average, the audit committee of Ethiopian insurance companies is independent from the Board of the insurer, a considerable numbers of respondents (32.2%) opposed this issue. Representing 83.4% of the respondents agreed that the audit committee monitor the reliability of financial accounts publication of Ethiopian insurance companies. Most of respondents replied that the audit committee of Ethiopian insurance companies prepared report on internal audit functions. By and large, respondents approved that the audit committee at Ethiopian insurance companies give sufficient time to check the functions of both the external auditors and internal auditors in the best interests of the company.

From the finding, the majority of the respondents confirmed that Ethiopian insurance companies have a written nomination policy for board appointment and the nomination committee investigates the background information of the potential board members nominees. A total 147(76.2%) of the total respondents agreed that the Nomination Committee gives an opportunity to every shareholder to appoint a candidate for board membership through the best available convenient means of communication. Most of the respondents replied that each member of the nomination committee at Ethiopian insurance companies relied upon in good faith and member were reliable persons although noticeable respondents (28.8%) were opposed. The result showed that a total of 68.9% of the respondents disclosed that the nomination committee is independent from the board of the insurer. The greatest number of respondents assured that nomination committee members in Ethiopian insurance companies are composed of non-influential shareholders

5.2. Conclusion

Based on the major findings of the study, the following conclusions are drawn.

This study tried to examine the corporate governance practices of Ethiopian selected insurance companies. The first objective was to assess the Board characteristics issues (educational qualification, board size, composition, and board meetings). .The survey revealed insurers company in Ethiopia have at least nine board members, the board members rotated in two or three years, board members of meet monthly, board comprise of director's who as a group provide a mixture of professional and core competencies . Therefore, the study concluded that in terms of Board characteristics aspects there is a greater internal corporate governance practice in Ethiopian insurance companies.

Based on the findings, it is inferred that a greatest number of respondents confirmed that the nomination committee investigates the background information of the potential board members nominees, create convenient means of communication to every shareholder to appoint board membership, members of nomination committee build on good faith and reliable persons, independent from the board of the insurer and composed of non-influential shareholders. Thus, the study concluded that in terms of nomination committee issues there is highest internal corporate governance practice in Ethiopian insurance companies. However, further improvement is required to look up the behavior and trustfulness of the nomination committee members.

From the analysis, it observed that a substantial number of respondents approved that the audit committee at Ethiopian insurance companies reviews the internal audit plan of the company's, follows up the audit findings on timely manner, independent from the Board of the insurer, monitor the reliability of financial accounts publication, prepared report on internal audit functions and give sufficient time to check the functions of both the external auditors and internal auditors. Overall, it can be conclude that the audit committee in Ethiopian insurance companies adheres to good corporate governance practices. Nevertheless, there need to be exert efforts to diminish the bold disagreement issues on the follow upping of audit findings and independency of audit committee.

Lastly, the final objective was to examine the disclosure and transparency of information in Ethiopian insurance companies. The findings the study revealed that most of the respondents agreed that Ethiopian insurer companies prepared and timely disclosed the comprehensive financial results of based on International Accounting Standards, upload on website about the board members profile, basic organizational structure, and latest annual reports. Accordingly, it can be conclude that in terms of discloser and transparency issues Ethiopian insurance companies adheres to good corporate governance practices. However, additional improvement is required on uploading as well as up-to-dating the board members profile, company basic organizational structure and the latest annual reports on official website.

5.3. Recommendation

Based on the conclusions of the Study, the researcher recommends the following

A well-written company profile is an effective way to introduce the business to the potential customers and other stakeholders. Specifically, a clear indication on board member's profile (education qualification, work experience) and organizational structure boost the confidence of the employees, customers, shareholders and other stakeholders that their company are managing by a pool of professionals and expertise. Hence, the managements of Ethiopian insurer's companies need to fill the accurate information on their respective websites and periodically check updates wherever else.

The finding indicated considerable respondents were replied that Ethiopian insurance companies not upload the latest annual reports on their official website. Therefore, the management of Ethiopian insurance needs to proactively upload the latest annual report in their website this can be achieved via assigning designated employee with availing the necessary ergonomics or hiring potential personnel to handle and monitors websites and different Medias. Further, the management of the insurer's company needs to create responsibility and accountability to the existing marketing and corporate planning department to follow up actively and upload company's annual report in their website.

Based on the analyses, even if sizable respondents were unconvinced, most of the respondents confirmed that the audit committee follows up the audit findings whether appropriately rectified in a timely manner or not. In this aspect, there should be an appropriate frequency and efficient meetings between the audit committee and the concerned department to allow sufficient time to effectively monitor the progress at the right time and to give attention for in-depth discussion on actionable insights to plan and estimate their time better on unresolved areas as well as flexibility to add additional issues.

It is important that audit committee members not only possess formal independence but also have independence of thought, judgment and action. For this, the audit committee members should have an ability to evaluate financial statements and understanding of internal control over financial reporting are relevant. Besides, there should be a comprehensive and formal training program given to audit committee members to identify priory the cause and remedial measures for any conflict of interest arise from the executive managements.

Most of the respondents approved that the Nomination Committee members at Ethiopian insurance companies have good faith and reliable persons who can enrich good behavior however a noticeable respondents opposed. Thus, the Nomination Committee should adhere and works strictly in light of applicable laws, regulations, the National Bank directives and the insurer’s own articles and memorandum of association, policies and procedures.

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APPEDIX

Dear Respondents:

I am carrying out research on the Corporate Governance Practice in Ethiopian Insurance Companies. It helps to complete my Master of Degree in Business Administration at Jimma University. I kindly ask you to participate in responding the enclosed survey questionnaire. All the responses you provide are confidential and anonymous. Therefore, I thank you in advance for your valuable time and cooperation for filling the questionnaire successfully.

If you would like further information about this study, or have problem in completing this questionnaire please contact me via +251-911-76-81-13

Thank you in advance!

Instruction

- As for the guarantee of confidentiality you are not required to give your name.
- Please use cross mark (√) in the relevant boxes to indicate your response.

Part I: Demographic or personal information

1. Gender: ⬭ Male ⬭ Female

2. Age: ⬭ 18-25 ⬭ 26-35 ⬭ 36-45 ⬭ 46 and above

3. Current position:

⬭ Top management ⬭ Division/Team leader

⬭ Principal Officer ⬭ Senior Officer

4. Educational level

⬭ PHD ⬭ Master Degree

⬭ First Degree ⬭ Diploma

5. How long have you worked in this insurance company?

⬭ 1- 3 year ⬭ 3-6 years ⬭ 6-9 years ⬭ 9 years and above

Part II - Concerning to Corporate Governance Practices

Board Characteristics

6. What is the size of the board in your company?

⬭ 5 ⬭ 7 ⬭ 9 ⬭ Other

7. How often are board members rotated?

a) Every one year
b) Every two years
c) Every three years
d) Others

8. How often do board members conduct meetings?

a) Every one month
b) Every quarter
c) Twice a year
d) Every one year
e) Others

9. Do you think that the board members have sufficient meeting to give strategic guidance?

a) Yes

b) No

10. What kind of educational qualification does the Board members attained?

a) PHD
b) Master Degree
c) First Degree
d) Others

11. What is the composition of the Board members in terms of core competency?

a) Insurance
b) Accounting
c) Administration
d) Information technology
e) Finance
f) Legal, business
e) Auditing
h) Investment management

Remark: Please put a tick **(√)** sign to appropriate space of particular score, which is suitable to your agreement about the following statements.

Rating Scale: 1=Strongly disagree **2**=Disagree **3**=Neutral **4** =Agree **5** =Strongly Agree

Sr. No.	**Disclosure and Transparency**	**5**	**4**	**3**	**2**	**1**
12.	The comprehensive financial and operating results of the company are timely disclosed.					
13.	Channels for the dissemination of information on a timely basis to relevant users are provided.					
14	Information is prepared and disclosed in accordance with International Accounting Standards.					
15.	The board members, including their qualification, experience and basic organizational structure are posted on its website.					
16	The latest annual auditor's statement report of the company published in a newspaper of wider circulation and upload on its website.					
	Audit Committee					
17.	The audit committee monitors the integrity of publication of the financial accounts on an annual basis.					
18.	The audit committee is independent from the Board of the insurer.					
19.	The audit committee reviews the internal audit plan of the company's.					
20.	The audit committee produces report on internal audit functions.					
21.	The audit committee follows up the audit findings that are being rectified appropriately in a timely manner.					

22.	The audit committee checks the functions of internal and external auditor in compliance to the policies & rules company's and NBE directives.					
23	The audit committee communicates illegal or unethical practices to the board of the directors.					
	Nomination Committee					
24.	The company I worked has a written nomination policy for board appointment.					
25.	The Nomination Committee investigated the background of the potential board members					
26.	The Nomination Committee gives an opportunity to every shareholder to appoint a candidate for board membership through the best available convenient means of communication.					
27.	The Nomination Committee handles the election process in line with the National Bank directives and insurer's internal rules & procedures.					
28.	The Nomination Committee members have good faith and reliable persons who can enrich good behavior.					
29	The Nomination Committee is independent from the board of the insurer.					
30.	The Nomination Committee members are composed of non-influential shareholders.					