

***Effect of Corporate Governance on Financial Performance on
Selected Insurance Company in Ethiopia.***

***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 Science in Accounting And Finance (M.Sc.)***

By:

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**JIMMA UNIVERSITY
COLLEGE OF BUSINESS & ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
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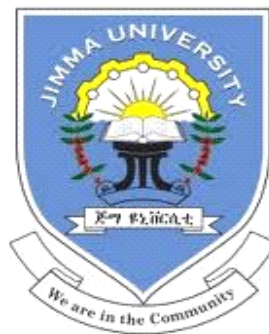
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Abstract

Corporate governance provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring performance are determined. The purpose of this study was to investigate the relationship between corporate governance mechanisms and financial performance of Insurance Company's in Ethiopia. From the total of 17 Insurance which are operating in the country, eight Insurance Companies have been selected for the study by way of a purposive sampling. The study use ROA as dependent variables and Whereas, independent variables like (board size, board meeting frequency, board gender diversity, board experience in finance sector, board educational qualification and audit committee size,) have been used . To achieve this objective descriptive and explanatory type of research design with a mixed approach, more of quantitative, was employed .Primary data was collected using structured questionnaires completed by the CEOs as they were in a better position to comment on corporate governance affairs. Secondary data was collected from the NBE. The study utilized panel data analysis methodology in drawing conclusions about the study. The findings of the study shows that board size , board gender diversity and audit committee size had negative and significant impact on the performance of Insurance Company's in Ethiopia . On the other hand, board meeting frequency, board experience in finance sector and board educational qualification had a positive and significant effect on Insurance Company's.

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List of Acronyms

AOUCOM: Audit committee size

BGD: Board gender diversity

BMF: Board meeting Frequency

BSIZE: Board size

CLRM: classical linear regression model

ICGN: International Corporate Governance Network

NBE: National Bank of Ethiopian

OECD: Organization for Economic Cooperation and Development

OLS: Ordinary list square

VIF :variance of Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Corporate governance has been defined as the system by which organizations are directed and controlled (*the UK Corporate Governance Code, 2012*). Good corporate governance maximizes the profitability and long term value of the firm for shareholders. It is also defined by Organization for Economic Cooperation and Development (OECD, 2004) as a set of relationships between a company's directors, its shareholders and other stakeholders. As per OECD, corporate governance also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring performance are determined. Jensen (1993) also defines Corporate Governance as the top-level control structure, consisting of the decision rights possessed by the board of directors and the Chief Executive Officer (CEO), the procedures for changing them, the size and membership of the board, and the compensation and equity holdings of managers and the board. However, this definition is prone to criticism due to the fact that it doesn't recognize other most important players of CG such as finance providers, suppliers and most importantly the public at large (*Fekadu 2015*).

In corporate organization the conflict of interest arises among stakeholder. According to Imam and Malik (2007) these conflicts of interest often arise from two main reasons. First, different participants have different objectives and preferences. Second, the participants have imperfect information as to each other's actions, knowledge, and preferences. Corporate governance is the methods employed, at the firm level, to solve corporate governance problems (Basuony et al., 2014). Since it is viewed as a necessary element of market discipline, strong corporate governance is highly demanded by investors and other financial market participants (Ramsay, 2001). Regulators have enacted corporate governance reforms into law in many countries, such as the USA through (Sarbanes-Oxley Act, 2002) which states that in order to safeguard their long-term successes, organizations implement corporate governance to ensure that they are directed and controlled in a professional, responsible, and

transparent manner. In other countries, such as the UK, the corporate governance codes, known as the Combined Code of Corporate Governance of 2003, are principles of best practice with some indirect element of legislature operating through the respective stock exchange listing rules. For the Finance sector, Basel I, II, and recently Basel III are widely adopted by developing and emerging market economies to enhance their corporate governance codes. so robust system of corporate governance is considered an important tool for mitigating the conflict of interests between stakeholders and management (Pandya, 2011).The relationship between corporate governance and organizational performance lies in the multi-dimensional nature of good governance. The definition of „corporate governance“ is not provided under the Ethiopian company law. For the purpose of this study, it is thus important to adopt a working definition for corporate governance as a system of rules and institutions that determine the control and direction of a company and that define relations among the company’s primary participants including board of directors, managers, shareholders and other stakeholders (Hussein Ahmed Tura, 2012). This combines the narrow and broad definitions and it considers corporate governance as a system of rules and institutions which determine the control and direction of a company. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies.

1.2 Corporate Governance in Ethiopia

There are a number of companies that are being formed by sale of shares to the wider public unlike most share companies in the past which were formed among founders. The emergence of publicly held share companies in Ethiopia gives rise to a multitude of issues on corporate governance. Typically, ownership separates from the control of dispersed shareholders and goes into the hands of few managers, which in turn creates the principal-agent relationship. In such situations, agents (managers) may misappropriate the principals’ (shareholders’) investments as they have more information and knowledge than the shareholders. Where there exist few block holders in share companies, minority shareholders could be exploited in the hands of such block holders.

Meheret (2011) discusses the legal regime applicable to governance of share companies in Ethiopia. He explores the theoretical background and legal framework of corporate governance and examines the rules of governance in light of available standards. The agency problems that could occur between dispersed shareholders and managers and/or block holders of share companies in Ethiopia, therefore, necessitate good corporate governance laws and institutions. Good corporate governance makes the company more profitable. The management or decisions made by the corporate highly affect the performance since the company operates accordingly.

The corporate governance is highly increasing and becoming more complex in today's financial industry with complex business situation. Generally, Insurance Company's an important position in the economic equation of any country such that its (good or poor) performance invariably affects the economy of the country. Poor corporate governance may contribute to Insurance bank failures, which can increase public costs significantly and consequences due to their potential impact on any applicable system. Poor corporate governance can also lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger liquidity crisis (Uwuigbeolu 2011)

Insurance are more disposed to corporate governance risks than other firms due to the following reasons: heterogeneity of exposures, complexity of their business, high level dependence on technology and the judgment driven nature of their business that increases the scope of managerial entrenchment. On the same token, the magnitude of shift of risks, private benefits and absolute misuse of power is more pronounced in Insurance company's than any other kinds of firms. Just as it is for any other forms of firms, the value of the Insurance s' shareholders can ensue from increased risk-taking behavior by the management at the expense of debt claimholders and the government. Hence there is need to put in place a good corporate governance mechanism that will protect the interest of all the stakeholders in this important sector (Joshua 2015) also An expose by Prowse (1997) shows that research on corporate governance applied to financial intermediaries especially Insurances, is indeed scarce.

the corporate governance of Insurance in developing economies has been almost ignored by researchers. The idea was also shared by Caprio and Levine (2001). Macey and O'ara (2002) shared the same opinion and noted that even in developed economies; the corporate governance of Insurance Company's has only recently been discussed in the literature. To the best of the researcher's knowledge based on the literatures reviewed, only few studies were found in the context of Ethiopian Insurance Company's. Due to neglect of Insurance sector by other studies and with radical changes in Ethiopian Insurance Company's sector in the last few years, initiate prime study on Insurance Company's governance. Based up on above facts, this study sought to investigate the relationship between corporate governance mechanisms and Insurance Company's financial performance to give information to the users.

1.3 Overviews of Ethiopia Insurance Industry.

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

Following the overthrow of the imperial regime by the Marxist Military government, private insurance companies were nationalized in 1975. A sole public insurance company was established under the name Ethiopia Insurance Corporation (EIC), which had a monopoly in the insurance industry for 19 years. Following the regime change in 1991, there was a shift to a market economy and a new insurance proclamation Licensing and Supervision of Insurance, No. 86/1994, was issued in 1994. The law allowed private sector participation in the insurance business (Mihretu,

2010). Considering the regulation and proclamation the sector have been broadly stable and growing in terms of expanding its services and increase its premium, total asset, total liabilities as well as capital in relative to previous years. However the sector still contributed less than 1% to country's GDP. (*Mitiku 2015*)

The practice of insurance service in Ethiopia its modern sense is a recent phenomenon which is said only to have been started in the early 1920s. Pursuant to Proclamation No. 83/1994 and Proclamation on the Licensing and Supervision of Banking and Insurance, The new economic policy has contributed to the rise of private sector market share in the banking and insurance business. During the defunct regime, the state owned Ethiopian Insurance Corporation has been in a position to control the insurance business by monopoly. There are 17 insurance companies in Ethiopia.

List of Insurance companies operating in Ethiopia are as follow

1. Africa Insurance Company S.c
2. Awash Insurance Company S.c
3. Global Insurance Company S.c
4. Lion Insurance Company S.c
5. NIB Insurance Company S.c
6. Nile Insurance Company S.c
7. Ethiopia Insurance Corporation
8. Nyala Insurance Company S.c
9. The United Insurance Company S.c
10. Abay Insurance Company S.c
11. Berhan Insurance Company S.c
12. National Insurance Company of Ethiopia S.c
13. Oromiya Insurance Company S.c
14. Ethio-life Insurance Company S.c
15. Tsehay Insurance Company S.c
16. Lucy Insurance Company S.c
17. Buna Insurance Company S.c

1.3 .1 The Requirements to Carry on Insurance Business in Ethiopia

Art 656 of the Commercial Code provides that the law shall determine the conditions under which physical persons or business organizations may carry on insurance business. Therefore, we have to refer to other parts of the commercial code and other laws to find out as to who may undertake insurance business and the conditions under which it may be undertaken.

Accordingly, Art 513 of the code provides that banks and insurance companies cannot be established as private limited companies, i.e., a private limited company cannot engage in banking, insurance or any other business of similar nature. Similarly, Art 6(1) of the Licensing and Supervision of Insurance Business Pro No 86/1994 provides that no person may engage in insurance business of any type unless it applies to and acquires a license from the National Bank of Ethiopia for the particular class or classes of insurance. Furthermore, Art 4(1) and Art 2(3) of the same proclamation provide that such person has to be a share company as defined under Art 304 of the commercial code.

1.4. Statement of the problem

Development of financial sector is necessary for the progress of the economy. It is difficult to attain economic development without efficiently working of financial sector. Insurances are the integral part of the financial sector, and have a dominant position in developing economic financial systems, and are important engines of economic growth (*Levine, 1997*). The concept of corporate governance of Insurances and very large firms have been a priority on the policy agenda in developed countries for over a decade and is warming itself as a priority in African continent (*Uwuigbe, 2012*). Agency theory and many other corporate governance mechanisms suggest that good corporate governance improves firm performance (*Garcia-Marco & Fernandez, 2008*). However, global events concerning poor performance and eventual collapse of high profile companies such as Enron, Due to the importance of corporate governance, the Basel II committee on banking and Insurance underscored the need for Financial Institution to embrace uniform corporate governance practices for the sake of fostering stability and performance in this important sector.

More specifically, corporate governance issues have been raised in the regulation of all financial institutions. The motivation for strengthening corporate governance in the financial sector is well-established. Unlike other industries, the financial sector plays an important intermediary role that relies heavily on public trust and confidence. Being highly visible entities, any lapse or failure in the governance of financial institutions, whether real or perceived, would attract adverse public reaction and could severely affect their reputation and public confidence. As public interest entities, actions by financial institutions have far reaching implications for a wide range of stakeholders (*Ibrahim 2014*).

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

However, the researches sought to investigate the relationship between of corporate governance mechanisms and financial performance on Insurance companies in Ethiopia by including other corporate governance mechanism variables not studied by prior researcher with recent data to provide more reliable information for the users.

Specifically in Ethiopia still few studies have been conducted on corporate governance and financial performance many studies were in banking industry no earlier study has focused on insurance industry in Ethiopia.

For Example Minga (2008) explores the legal and other external institutional frameworks of corporate governance in Ethiopia and concluded that the overall standard of corporate governance was disappointing in the country.

Fekadu (2010) also analyzed the ownership structure of corporations in the country and determined that the separation between ownership and control (or shareholders and management of the corporations) is growing in Ethiopia. However, there are weaknesses in the Commercial Code to protect minority shareholder rights.

Ahemad (2012) studied on Ethiopia company law and found that the Ethiopia company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies.

Kidane (2016) find that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks, Kelifa (2012) finds that board size and existence of audit committee in the board had statistically significant negative effect on bank performance in terms of both ROE and ROA; whereas bank size had statistically significant positive effect on bank performance in terms of both ROE and ROA, Ferede (2012) concluded that large size board and audit committee negatively influences financial performance board members educational qualification positively associated with financial performance; industry specific experience of director positively related with return on asset but it has a negative effect on net interest margin; and the percentage of female directors and board members business management experience does not have a significant effect.

When we see Under Insurance industry These studies attempted to explain the effect of corporate governance on the financial performance before (study around insurance corporate governance on insurance industry) Gardachew (2015) he study about the

role of board of directors on stringently regulated insurance industry in Ethiopia and would contribute its part in explaining the role of corporate governance mechanisms in the absence of capital markets in closed Ethiopian Financial sector.

Asamnew (2016) Attempted to investigate the effect of internal corporate governance mechanisms specifically board characteristics debt policy and dividend policy on overall corporate performance in a new setting (Ethiopia) in which financial markets are not well developed and shareholders are not well protected.

In this study The researcher will use seventeen years data to examine the effect of corporate governance on financial performance with long time of period

In which case internal corporate governance mechanisms especially the board of directors, debt policy, dividend policy, and management costs are more important as the only available control mechanism for corporate governance aspect.

Therefore this study will mainly examine the association between internal corporate governance and Insurers financial performance and Seeks to see effect of corporate governance mechanism on financial performance of Insurance that operates in Ethiopia to fill this left knowledge gap and Resent information .

1.5. General Objectives

The general objective of this study is to analyze the Effect of Corporate Governance on the Financial Performance of Insurance companies in Ethiopia.

1.5.1 Specific Objectives

The specific objectives are

- Investigate the relationship between board size and Insurance company performance
- Examine the association between board frequency of meeting and Insurance company performance
- Examine the association between board gender diversity and Insurer performance

- To find out the influence board experience in Insurance company on financial performance of Insurance company
- Ascertain the influence of the directors' educational qualification on Insurance performance
- To examine the association between audit committee size and Insurance performance

1.6 Hypotheses of the Study

Ho1: There is a statistically significant relationship between board size and Insurance financial performance

Ho2: Frequency of board meeting is positively associated with Insurance financial performance

Ho3: There is significant and negative relationship between gender diversity on insurance performance

Ho4: There is a significant positive association between board members experience in the Insurance financial performance

Ho5: There is significant and negative relationship between educational qualification on insurance performance

Ho6: Size of audit committee in a board has a significant positive relationship with the financial performance of Insurance Company

1.7 Significance of the Study

- The result of this study was contribute valuable knowledge to the stakeholders and Insurances firms by identifying relevant corporate governance mechanisms and how these governance mechanisms related to financial performance. The study will be on regulatory framework on areas that support governance to make certain insurance companies are financially sound and can play a critical role in corporate financial system as they gain competitive advantage.

1.8 Scope and limitation of study

There are a number of corporate governance variable that probably influence the performance of Insurance but the current study focused internal corporate governance to see the variables this includes: board size, board meeting frequency, gender diversity, board experience in finance sector and board audit size. In addition, the study will coverer selected insurance industry which consists of government and private insurance companies.

The study period is for 17 (seventeen) years, ranging from 2000 to 2016. One of the limitations was that this study relied on accounting based return, return on asset (ROA), to measure insurance financial performance because of lack of secondary market to use market based returns.

In addition to that the samples will not selected by employing random sampling technique. Simply they are selected based on availability of data from 2000-2016.

1.9. Organization of the study

On this paper the researcher was conduct the final research paper inclusive of statement of the problem general and specific objective of the study, significance and scope and limitation of study under chapter one part of the study. Chapter two presents theoretical and empirical review of the literature related to the issue of corporate governance and financial performance of insurance companies in Ethiopia Chapter three provides research design and methodology that would be in use in the analysis Chapter four contains results and discussion; and Chapter five gives summary, conclusion and recommendations. A “Reference” of related literature was referred while writing the proposal and final paper and appendices are included after chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1. Defining corporate Governance.

Corporate governance has been defined in different ways by different researcher and authors. According Brigham and Daves ,2004 Corporate governance can be defined as the set of laws, rules and procedures that influence a company's operations and the decisions made by it managers They further state that most corporate governance provisions come in two forms, sticks and carrots. The primary stick is the threat of removal if managers do not maximize the value of the resources entrusted to them while the carrot is compensation that acts as an incentive for managers to maximize intrinsic stock value. Shleifer and Vishny define corporate governance as the ways in which suppliers of finance to corporations make sure of getting a return on their investment. Gillan and Starks take a broad perspective on corporate governance and define it as the system of laws, rules, and factors that control operations in a company. The Organization for Economic Cooperation and Development (OECD 2001) offer a more comprehensive definition of corporate governance as a set of relationships between management of a corporation, its board, its shareholders and other stakeholders, while also providing the structure through which corporate objectives are set, and the means of attaining those objectives and monitoring performance are determined. According to Kim &Rasiah, Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim &Rasiah, 2010). From these definitions, it may be stated that corporate governance frameworks establish systems of accountability and responsibility between the company and its major constituencies by defining the nature of relationship (Habbash, M.2010)

2.1.2. Theories of Corporate Governance

In this section, some of the corporate governance theories are reviewed for understanding how they relate to corporate governance. In this study, the discussion of corporate governance theories included agency theory, stakeholder theory, stewardship theory, and resource dependency theory (Lawal,B.2012)

2.1.2.1 . Agency Theory

According to Habbash (2010) agency theory is the most popular and has received greater attention from academics and practitioners. The agency theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010). The agents are appointed to manage the day to day operations of the corporation. The separation of ownership and controlling rights results conflicts of interest between agent and principal. To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers.

According to agency theory refers to a set of propositions in governing a modern corporation which is typically characterized by large number of shareholders who allow agents to control and manage their collective capital for future returns. The agent, typically, may not always own shares but may possess relevant professional skills and competence in managing the corporation. The theory offers many useful ways to examine the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved particularly when the managers do not own the corporation's resources. Agency theory identifies the role of the monitoring mechanism of corporate governance to decrease agency costs and the conflict of interest between managers and owners. It is clear that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. Agency theory having its roots in economic theory was expounded by (Alchian and Demsetz 1972) and further developed by Jensen and Meckling (1976).

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

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

2.1.2.2. Stakeholders Theory

According to Clarkson (1994) stakeholder's theory defined as firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. This view was supported by Blair (1995) who proposed that the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders.

According to (Mangunyi,2011) stakeholders can include shareholders, suppliers, customers, Governments, lenders employees, local charities, and various interest groups Stakeholder theory balances between the interests of firm stakeholders and their satisfaction. The advocates of stakeholder theory require firm managers to design and implement proper methodologies to identify the nature of the relationship

between the managers and interested parties to achieve their goals. The economic value for any firm is created by parties who voluntarily come together, coordinate, cooperate, and then improve and enhance everyone's c According to Freeman et al. (2004), stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. According to stakeholder theory the purpose of the firm is to serve and coordinate the interests of its various stakeholders such as shareholders, employees, creditors, customers, suppliers, government, and the community.

According to (Habbash,2010), stakeholder refers to any one whose goals have direct or indirect connections with the firm and influenced by a firm or who exert influence on the firms goal achievement. These include management, employees, clients, suppliers, government, political parties and local community. According to this theory, the stakeholders in corporate governance can create a favorable external environment which is conducive to the realization of corporate social responsibility. Moreover, the stakeholders in corporate governance will enable the company to consider more about the customers, the community and social organizations and can create a stable environment for long term development.

2.1.2.3 Stewardship theory

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, Schoorman& Donaldson 1997). When the position of the CEO and Chairman is held by a single person, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control (Davis, Schoorman& Donaldson 1997). Therefore stewardship theory takes a more relaxed view of the separation of the role

of chairman and CEO, and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

2.1.2.4 Resource dependency theory

Resource dependency theory was developed by (Pfeffer,1972)which posited that companies depend on one another for getting the required resources; there by links are created (Ovidiu-Niculae, Lucian, & Cristiana, 2012). According to this theory, there are motivations and incentives for a company to create linkages with outside parties, as this help to reduce the environmental uncertainties the company faces. The companies will consider the advantages of linking and engaging in open dialogue by taking into account the costs and direct benefits associated with their decisions due to their commitment to dialogue. Also, companies that have a good relationship with the key stakeholders can create value for the companies and reduce their risks. Accordingly, companies with strong relationship with stakeholders face less uncertainty (Rehbein, Logsdon, & Buren, 2013).

The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. Recently, both economists and management scholars tend to assign to boards the dual role of monitors and advisers of management. However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2010). Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making (Marinova et al.,2010). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2010).

2.1.3 Corporate Governance and Insurance

Over the years a number of organizations have been involved in preparing various guidelines and principles of corporate governance. Due to the financial scandals and corporate collapses, there is generally the desire for transparency and accountability which will increase investors' confidence (Mallin2004).

In the early stages of development, the insurance sector is often seen purely as a commercial enterprise. The primary insured parties are industrial firms and entrepreneurs. At this stage, relatively light regulation and oversight of the insurance companies is all that is needed. However the situation changes once compulsory classes of insurance are introduced. When motor third party liability insurance is required for all automobile drivers and major liability classes of business have been introduced, the public at large starts to rely on insurers for significant sums of money in the event of an accident or tort. At this stage high standards of governance of insurance become

necessary. The stakes rise further when life insurance and pensions become common and the public invests its long-term savings, including retirement incomes funds. At this latest stage, the government has an obligation to ensure that insurers and pension providers follow high standards of corporate governance, and risk management in (particularLester&Reichart,2009).

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

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

2.2 Empirical Literature

2.2.1 Corporate governance mechanisms and firms financial performance

Agency theory and many other corporate governance mechanisms suggest that good corporate governance improves firm performance (Garcia-Marco & Fernandez, 2008). However, global events concerning poor performance and eventual collapse of high profile companies such as Enron, World.com, Bank of Commerce and Credit International, among others have awakened need to strengthen corporate governance in both developed and developing countries (Sanda, et al. 2005). Due to the importance of corporate governance, the Basel II committee on banking underscored the need for commercial banks to embrace uniform corporate governance practices for the sake of fostering stability and performance in this important sector. Bank failures are known to generate negative externalities in a country for two reasons: they destroy specific capital leading to further contagion losses in the system. On the same token, bank closures reduce economic welfare in a country because they create loss of relationship between banks with their clients and specific knowledge of management and risk preferences required to improve

performance (Myron et al. 1999). The costs of bank closures are also quite enormous because they may spread throughout the entire banking system hence amplifying negative effects on unrelated intermediaries. Based on these findings, Linyiru, (2006), argues that even though there is awareness and existence of corporate governance mechanisms in the banking sector, there is need to strengthen these practices owing to the special nature of banks. Recent findings in studies on the relationship between corporate governance and performance in banking firms in different parts of the world are inconclusive or even contradictory. Love and Rachinsky, (2007) find a negative relationship between corporate governance and bank performance. However, Mangu“nyi, (2011) finds that there is no significant difference between banks ownership structure, financial performance and corporate governance practices commercial banks in Kenya .Among the Ethiopians studies KidaneKerebihDesta (2016) find that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks,Kelifa (2012)finds thatboard size and existence of audit committee in the board had statistically significant negative effect on bank performance in terms of both ROE and ROA; whereas bank size had statistically significant positive effect on bank performance in terms of both ROE and ROA, Ferede (2012) concluded that large size board and audit committee negatively influences financial performance; board members educational qualification positively associated with financial performance; industry specific experience of director positively related with return on asset but it has a negative effect on net interest margin; and the percentage of female directors and board members business management experience does not

have a significant effect . The corporate governance elements considered in this research include Board size, Board, Board meetings frequency, Liquidity ratio, Size of Board Audit committee and Board Experience in the Finance Sector

2.2.1.1 Board size

Board size affects the extent of supervision, controlling, monitoring, and decision making in a firm. The scholars have not concurred on one optimal size for the board of directors. Vintila&Gherghina, 2012 concluded that there is an inverse relationship between a company value and board size. However, determining an ideal size of the board has being an ongoing and controversial debate in corporate governance literature (Lawal, 2012). Whether large or small board help improve firm performance it is debatable issue and researchers found mixed result about the relation between board size and firm performance.

The size of the board is measured by the number of board members as has been done by many authors such as Hermalin and Weisbach (1999, 2002), (Ferede, 2012), (Akpan, 2015) and (Jensen &Meckling, 1976). In their various studies, the size of the board has been seen to have an inverse relationship with firm performance. Jensen M. (1993) argues that a larger board leads to less effective monitoring due to coordination and process problems inherent in large board size. Larger boards can be less participative, less cohesive, and less able to reach consensus. Small board size was favored to promote critical, genuine and intellectual deliberation and involvement among members which presumably might led to effective corporate decision making, monitoring and improved performance (Lawal, 2012). Moreover, Akpan (2015) found that board

size and equity are also found to be negative and significant with company performance. Ferede (2012) also found that the numbers of board of directors' are negatively related with Ethiopian commercial banks' financial performance. His result indicates that small boards are more effective in monitoring and controlling banks management and it help to reduce agency costs. Thus, it is expected that the size of the board would have a direct correlation with performance.

In contrast, a number of scholars have contended that larger boards have their benefits and when board size increases firm performance also goes up as more board members provide greater monitoring, advice and make available better linkages to the external environment (Chenuos, Mohamed, &Bitok, 2014). Moreover, Klein (2002) suggested that larger boards able to promote effective monitoring due to their ability to distribute the work load over a greater number of observers. Moreover, Results from (Akpan&Amran, 2014) study showed that board size has positive significant influence on company performance.

They also found that Educational qualification affects the oversight and monitoring role of boards of directors. Akpan (2015) found board education is positively significant impact on the firm performance. Moreover, Ferede (2012) found that the presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. Thus, board members educational qualification has a significant positive effect on Ethiopian banks financial performance.

2.2.1.2 Board meetings frequency

Meeting frequency refers to how much time Board meet on a year. For board to effectively perform its oversight function and monitor management performance, the board must hold a regular meeting. Measuring the intensity and effectiveness of corporate monitoring and discharging is the frequency of board meetings (Jensen M. 1993). Empirical findings on the effect of frequent board meetings and corporate performance show mixed results. Some studies concluded more meeting frequency has a negative impact on the performance. Vefeast (1999) reported a statistical significance and negative relationship between frequency board meetings and corporate performance. He also finds that operating performance significantly improves following a year of abnormal board activity. Meeting Frequency has a significant negative impact on ROA and an increasing in meeting frequency will reduce the ROA. (Ms.S.Danoshana&Ms.T.Ravivathani, 2013). Moreover, Akpan (2015) found that board meetings negatively and significantly relate with company performance. Another study conducted on public listed companies in Malaysia using five years data 2003 to 2007 of 328 companies, shows that the higher the number of meetings the worse the firm performance (Amran, 2011).

Whereas, Karamanou et al (2005) found a positive association between frequency board meeting and management earnings forecasts, using a sample of 157 firms in Zimbabwe from 2001-2003; Mangena&Tauringana (2008) report a positive relationship between board meeting frequency and corporate performance. Similarly in a study of the sample of 169 listed corporations from 2002-2007 in South African, a statistical significant and positive association between the

frequency of board meeting and corporate performance exist (Ntim&Osei, June 2011). This implies that the board of directors in South Africa that meet more frequently tend to generate higher financial performance. Moreover, Ntim&Osei (2011) found a statistically significant and positive association between the frequency of corporate board meetings and corporate performance, implying that South Africa boards that meet more frequently tend to generate higher financial performance.

2.2.1.3 Board Gender Diversity

In recent years, there has been an increasing interest in investigating the impact of gender diversity on the firm's performance, which is whether the addition of a woman to the board affects performance, and a number of research projects have attempted to provide evidence for or against this argument. Those who hold the view in favor of gender diversity in enhancing firms' performance argue with the anecdotal evidence that women may have a competence and network which may be absent with male board members, and this directly contributes to

product, process, organizational and market development, and subsequently improves firm's performance (Huse, 2007). But there is a common caveat with diversity; it should not be made for tokenism. The above assumption has got a support from empirical findings. For instance, the study made on 2500 Danish firms identified that women working in top management positions have a positive effect on the firm's performance (Smith, et al., 2005). A recent study, which was conducted in the UK companies listed in the FTSE, also identified a positive result in the firms' performance for existence of gender diversity in the boardroom. This study revealed that operational and share price performance was significantly higher for firms with 20% or more women on boards than those below that (Bhogaita, 2010). Moreover, a more recent study which was conducted in listed firms in China, also verified the positive relationship (Liu, et al., 2014). Furthermore, a survey conducted for Heidrick & Struggles Consultancy by Groysberg & Bell (2010) identified that the majority of women surveyed directors (51%) remark for the participation of at least three women

directors in the boardroom to bring boardroom efficacy. Therefore, the hypothesis that supports gender diversity can be developed as follows;

2.2.1.4 Board Experience in the Finance Sector

Board experience in the sector refers to board member who had any finance related work experience. Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998 as cited by Saat et al 2011). Their paper claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. Moreover, Ferede (2012) found that a positive association is found between industry specific experience and return on asset and return on equity in Ethiopian Banking Industry.

2.2.1.5 Educational Qualification of Directors

Educational Qualification refers to Board Competency of individual board members. Qualifications of individual board members are important for decision making. Board members with higher qualifications benefit the firms through a mix of competencies and capabilities which helps in creating diverse perspectives to decision making. Presence of more qualified members would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems. It is measured by the proportion of board members who had at least college degree to the total number of board members. Higher the number of educated directors in organizational contexts is positively related to receptivity to innovation, creativity, and better strategic decision making. Director's educational qualifications are central to effectively interpret and utilize the information generated by the management. Educational qualification is important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of

directors. It affects the oversight and monitoring role of boards of directors (Gantenbein and Volonte, 2011). The human capital provided by its board of directors is very important given the corporate board is one of the

2.2.1.6 Size of Board Audit committee

An audit committee is an operating committee of the board of directors charged with oversight of financial reporting and disclosure. Committee members are drawn from members of the company's board of directors, with a Chairperson selected from among the committee members. Its role includes choice and monitoring of accounting principles and policies, overseeing appointment, dismissal of external auditors, monitoring internal control process, discussing risk management policies and practice with management and overseeing the performance of internal audit function

Internationally, the audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors fulfill its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system, risk management system and internal and external audit functions. Its role is to provide advice and recommendations to the board within the scope of its terms of reference / charter.

Empirical findings on the effect of size of audit committee and corporate performance show mixed results. Ms.S.Danoshana et al (2013) found that increasing Audit Committee Size will result high financial performance, because detailed discussion on the financial statement of the companies will lead to get more ideas regarding the reports and it will guide to increase the firm's performance. However, in Ethiopia banking industry, Ferede (2012) found that large number of audit committee has a negative and significant effect on financial performance. He added that Limiting audit committee size to reasonable number improves audit committee effectiveness.

2.2.1.7 Research Gaps

Corporate Governance is important in all organizations regardless of their industry, size or level of growth. Good Corporate Governance has a positive economic impact on the Institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. Besides it also spurs entrepreneurial innovation enabling the organization to better seize the economic opportunities that come its way. The main Corporate Governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating

the chairperson and chief executive roles ensuring that the board has an effective mix of independent and non-independent directors and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board. Good Corporate aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Thus, the main tasks of Corporate Governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and Corporate Governance systems are not similar to that of Ethiopia. In Ethiopia, study done on corporate governance themes are very few in number for instance (Minga,2008) explores the legal and other external institutional frameworks of corporate governance in Ethiopia and concluded that the overall standard of corporate governance was disappointing in the country.

(Fekadu 2010) also analyzed the ownership structure of corporations in the country and determined that the separation between ownership and control (or shareholders and management of the corporations) is growing in Ethiopia, however, there are weaknesses in the Commercial Code to protect minority shareholder rights. In addition, (Ahemad 2012) studied Ethiopia company law and found that the Ethiopia company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. More specifically research report submitted on Ethiopia banking sectors for example unpublished master thesis (Ferede,2012) Studied to investigate the corporate governance mechanism and their impact on performance of commercial banks in Ethiopia. Generally, earlier studies have made immense contributions to the corporate governance and financial performance; they were inclined towards the developed countries. However, developing countries received little attention in various literatures on this issue, at the same time majority of these studies were in banking industry. Consequently, a design feature that works well in one country/industry may not work in another. As Bird (2005) noted this may be referred to as the No-One-Size-Fits-All (the NOSFA) principle, i.e., the best policy and administrative design for each country/industry has to be determined carefully in light of the conditions and objectives of that country/industry. Specifically in Ethiopia, though few studies have been conducted on corporate governance mechanism and financial performance, to the best of researcher's knowledge, no prior study has focused on insurance industry in Ethiopia thus current study tried to fill this left research gap.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This section provides information on the type of research design that as used for the study. It gives the population and sample for the study. Furthermore it discusses the data collection, analysis and presentation techniques were used in study.

3.1 Research design

This study adopted an explanatory type of research design with a mixed approach more of quantitative will in use research design. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Marczyk 2005).

So that the study was explanatory research design and in use to examine the relationship of the stated variables. Mixed methods research provides better. Therefore by using a mixed approach it is able to capitalize the strength of quantitative and qualitative approach and remove any biases that exist in any single research method (Creswell, 2003).

A panel data study design which combines the attributes of cross sectional and time series data was used. The advantage of panel data analysis is that more reliable estimates of the parameters in the model can be obtained (Gujarati, 2004).

3.2 Sources of Data & Data Collection Techniques

In order to achieve the objective of the study the researcher was used both primary and secondary data source.

- The secondary data is be collected from the audited financial statements of sample Insurances
- The primary data will be collected through the use of questionnaires.

Table 3.1 list of sample selected Insurance companies

	Name of Insurance	Year of establishment
1	Ethiopia Insurance Corporation	1/1/1976
2	Awash Insurance Company S.C	1/12/1994
3	Global Insurance S.c	11/1/1997
4	Nile Insurance Company S.C	11/4/1995
5	Nice Insurance Company S.C	23/09/1994
6	Africa Insurance Compan S.C	1/12/1994
7	Nyala Insurance Company S.C	6/1/1995
8	United Insurance S.C	1/4/1997

Source:< www.nbe.gov.et > surfed at December 29 2016

3.3 Target Population & Sampling Methods

Currently seventeen insurance companies are working in Ethiopia the target populations of the study was all insurance companies registered Under National Bank of Ethiopia The sampling was in use as to include all Insurance Company's established and serving with in the specified period of time from 2000 to 2016.

Sample size was determined by the availability of information on the variables under the study The size for sample was eight Insurance Company's operating over the period of seventeen years and the rest of Insurance Company's were not having a chance to be included.

3.4 Method of Data Analysis & Presentation

The method of analysis used in the study is descriptive statistics correlation and linear regression methods. The descriptive statistics used to quantitatively describe the important features of the variables using mean, maximum, minimum and standard deviations. The correlation analysis was used to identify the relationship between the independent, dependent and control variables using correlation analysis. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables.

Therefore, multiple linear regression of panel data analysis also used to test the hypothesis and to explain the relationship between corporate governance variables and financial performance measures by controlling the influence of the selected variables. Stata software used for analysis and the results was presented through tables percentage and diagram. The general form of the panel data model can be specified more closely as below

3.5 Description of Variables and Measurements

In this study, the variables selected based on alternative theories and previous empirical studies related to corporate governance and firm performance. In accordance with the theory and empirical studies, the independent, dependent and control variables of the study have been identified in order to investigate the relationship of corporate governance mechanisms and financial performance of Ethiopia Insurance Companies.

3.5.1. Dependent Variable

The variables mostly financial performance measures either with accounting-based return, market based return or both. Even though market-based returns are widely acceptable for performance measure by most researchers, they are excluded from this study. This is because of the unavailability of data. For example, to use Tobin's Q we need current market price of stock. Such data is not available in Ethiopia as the country has no stock market. In absence of market based data most researches used ROA and ROE as a proxy to performance. In this study the researcher chooses ROA

over ROE as a proxy to Insurances performance because of the following reasons. Because ROE weighs net income only against owners' equity, it doesn't say much about how well a company uses its financing from borrowing and bonds. Such company may deliver an impressive ROE without actually being more effective at using the shareholders' equity to grow the company. ROA, because its denominator includes both debt and equity, can help us to see how well a company uses both these forms of financing. Since Insurance industry financial structure is more of debt than equity using ROA (return on both equity and debt) is judicious base to measure performance. In this study accounting-based measure, ROA is used. ROA is measured by the ratio of after tax net income to total assets of the sample Insurances.

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

3.5.2. Independent Variables

The independent variables which are going to be used for this study are variables that are used as a determinant of corporate governance of Financial Institutions . Board size, Board meetings frequency, Board Gender Diversity, Board Experience in the Finance Sector Board Educational Back Ground Board Audit committee.

3.5.2.1 Board Size

Board size can be defined as the number of directors sitting on the board. According to the agency theory limiting board size to a particular level is generally believed to be improving financial performance.

3.5.2.2 Meeting frequency of Board

Meeting frequency refers to how much time Board meet on a year. For board to effectively perform its oversight function and monitor management performance, the board must hold a regular meeting.

3.5.2.3 Board Gender Diversity

It is one of the proxies used for the corporate governance and it was measured as the percentage of number of female directors divided by the total number of board

members. Board gender diversity is considered to improve company performance since it provides new insights and perspectives (Bathula, 2008; Erhardt et al., 2003). Female board members will bring diverse viewpoints to the boardroom that is not possible with all male directors. The researcher expects that there is a significant positive association between board gender diversity and the Insurances financial performance.

3.5.2.4 Board experience in the sector

Board experience in the sector refers to board member who had any finance related work experience.

3.5.2.5. Educational Qualifications of Directors:

Educational qualification is important determinant of board effectiveness. According to Rose (2007) as long as board members have a university degree/or equivalent skills, board members have sufficient human capital in order to understand and analyze information that is provided by management. Educational qualifications of individual board members are very important for board decision making (Amran 2011; Yasser; 2011). The monitoring role expected to be effectively implemented if the board members are qualified and experienced. The researcher expects that there is a significant positive association between directors' educational qualifications and the Insurances financial performance.

3.5.2.6. Size of Board Audit committee

An audit committee is an operating committee of the board of directors charged with oversight of financial reporting and disclosure mixed results. Ms.S.Danoshana et al (2013) found that increasing Audit Committee Size will result high financial performance, because detailed discussion on the financial statement of the companies will lead to get more ideas regarding the reports and it will guide to increase the firm's performance.

3.6 Specifications of empirical research model

To investigate the relationship of corporate governance mechanisms and financial performance of sample Insurances companies in Ethiopia the following general empirical research model is developed.

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

Where

Y_{it} represents the dependent variable in the model

X_{it} Contains the set of explanatory variable in the model

The i and t denote the cross-sectional and time-series dimension respectively Also α_i is taken to be constant over time t and specific to the individual cross sectional unit i . If α_i is taken to be the same across units, then Ordinary Least Square (OLS) provides a consistent and efficient estimate of α_i and β . In the light of the above model and on the base of selected explanatory variable the current study will used econometric model as shown below.

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 Ccopit + \beta_3 EQD_{it} + \beta_4 GD_{it} + \beta_5 FM_{it} + \beta_6 ODS_{it} + \beta_7 ISE_{it} + \varepsilon_{it}$$

Where:

i denote insures ranging from 1 to 8 (cross-sectional measurement).

t denote years ranging from 2000 to 2017 (time-series measurement).

ROA_{it} Return on asset for i th insurer and time period t

- BS_{it} Board size for i th insurer and time period t
- BFM_{it} Frequency of board meeting for i th insurer and time period t
- $B EQD_{it}$ Board member educational qualification for i th insurer and time period t
- BGD_{it} board gender diversity for i th insurer and time period t
- DS_{it} Board member other business managements experience i th insurer and time period t
- ISE_{it} Board members industry specific experience for i th insurer and time period t

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter presents the Economic Model Discussions, descriptive statistics, correlation analysis and multiple panel linear regression analysis of the study variables. It has four sections. The first section is the Economic Model Discussions it include Model Fit, data Arrangement. The second section is the descriptive statistics which summarizes the main features of the study variable such as mean, maximum, minimum and standard deviation. The third section is the correlation analysis which shows the degree of association between the study variables. The fourth sections of the chapter, regression results report the random effect OLS estimation output of the regression model.

4.1. Economic Model Discussions

4.1.1 Model Fit

Panel (or longitudinal) data are cross-sectional and time-series. There are multiple entities, each of which has repeated measurements at different time periods.

4.1.2 Data Arrangement

This section discussed the summary statistics of each variables of the study. The variables include the dependent and independent. The dependent variables used in this study in order to measure the sample Insurance Companies financial performance is return on asset, whereas the explanatory variables are: Board size, Board meetings frequency, Board Gender Diversity , Board Experience in the Finance Sector ,Board member educational qualification Size of Board Audit committee.

A panel data set contains n entities or subjects (e.g., firms and states), each of which includes T observations measured at 1 through t time period. Thus, the total number of observations is nT . Ideally, panel data are measured at regular time intervals (e.g., year, quarter, and month).

Otherwise, panel data should be analyzed with caution. A short panel data set has many entities but few time periods (small T), while a long panel has many time periods (large T) but few entities (Cameron and Trivedi 2009: 230).

Panel data have a cross-section (entity or subject) variable and a time-series variable. In Stata, this arrangement is called the long form (as opposed to the wide form). While the long form has both group (individual level) and time variables, the wide form includes either group or time variable.

A panel of data will embody information across both time and space. Importantly, a panel keeps the same individuals or objects (henceforth we will call these ‘entities’) and measures some quantity about them over time.

Econometrically, the setup we may have is as described in the following equation

$$y_{it} = \alpha + \beta x_{it} + u_{it}$$

where y_{it} is the dependent variable, α is the intercept term, β is a $k \times 1$ vector of parameters to be estimated on the explanatory variables, and x_{it} is a $1 \times k$ vector of observations on the explanatory variables.

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

The simplest way to deal with such data would be to estimate a pooled regression, which would involve estimating a single equation on all the data together, so that the dataset for y is stacked up into a single column containing all the cross-sectional and time-series observations, and similarly all of the observations on each explanatory variable would be stacked up into single columns in the x matrix. Then this equation would be estimated in the usual fashion using OLS. While this is indeed a simple way to proceed, and requires the estimation of as few parameters as possible, it has some severe limitations. Most importantly, pooling the data in this way implicitly assumes that the average values of the variables and the relationships between them are constant over time and across all of the cross-sectional units in the sample. We could, of course, estimate separate time-series regressions for each of objects or entities, but this is likely to be a sub optimal way to proceed since this approach would not take into account any common structure present in the series of interest. Alternatively, we could estimate separate cross-sectional regressions for each of the time periods, but again this may not be wise if there is some common variation in the series over time.

If we are fortunate enough to have a panel of data at our disposal, there are important advantages to making full use of this rich structure: First, and perhaps most importantly, we can address a broader range of issues and tackle more complex problems with panel data than would be possible with pure time-series or pure cross-sectional data alone. Second, it is often of interest to examine how variables, or the relationships between them, change dynamically (over time). To do this using pure time-series data would often require a long run of data simply to get a sufficient number of observations to be able to conduct any meaningful hypothesis tests. But by combining cross-sectional and time series data, one can increase the number of degrees of freedom, and thus the power of the test, by employing information on the dynamic behavior of a large number of entities at the same time. The additional variation introduced by combining the data in this way can also help to mitigate problems of multi collinearity that may arise if time series are modeled individually. Third, as will become apparent below, by structuring the model in an appropriate way, we can remove the impact of certain forms of omitted variables bias in regression results.

4.2 Results of Regression Analysis

This section covers the empirical regression model used in this study and the result of the regression analysis. The panel data is used to run the regression to investigate relationship between corporate governance and financial performance in Insurance companies in Ethiopia measured by return on asset. In doing this, the empirical model was developed in chapter three to guide the analyses are provided as follow

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

4.2.1 Testing assumptions of classical linear regression model (CLRM)

In this part of the research paper, the linearity of the parameter is assumed since the model applies linear ordinary least square (OLS). The objective of the model is to predict the strength and direction of association among the dependent and

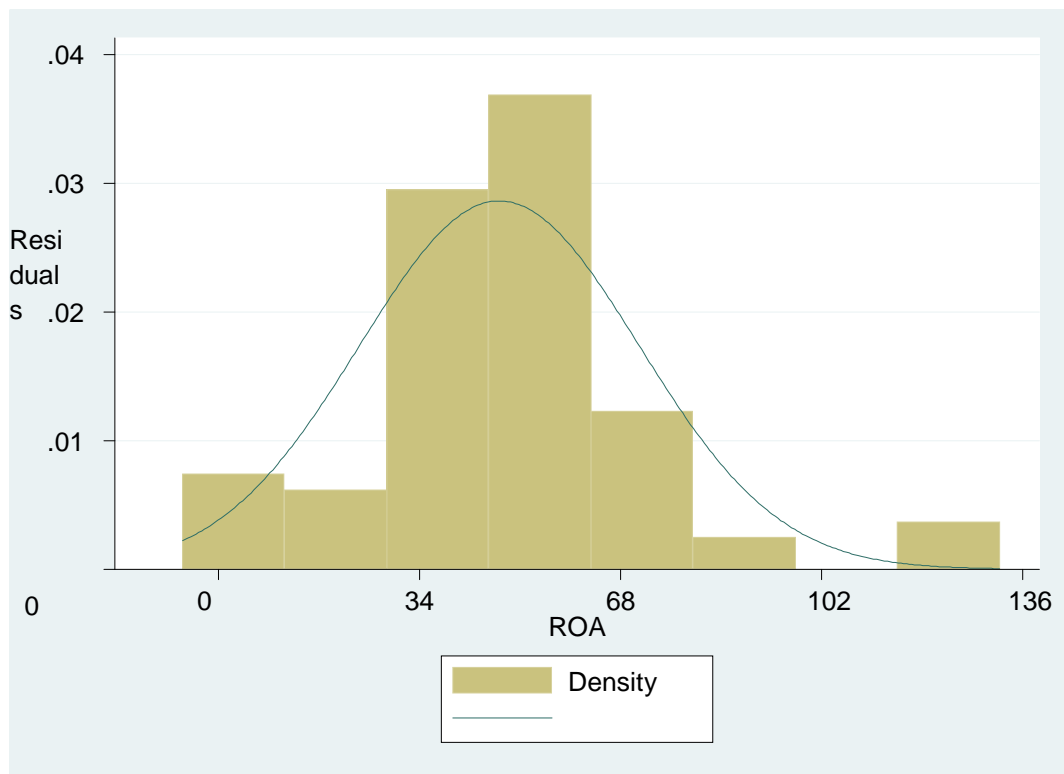
independent variables. Thus, in order to maintain the validity and robustness of the regression result of the research in CLRM, it is better to satisfy basic assumption CLRM. When these assumptions are satisfied, it is considered as all available information is used in the model. However, if these assumptions are violated, there will be data that left out of the model (Brooks, 2008).

Accordingly, before applying the model for testing the significance of the slopes and analyzing the regressed result, normality, multicollinearity, autocorrelation and heteroscedasticity tests are made for identifying misspecification of data if any so as to fulfill research quality.

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

The first assumption required is that the average value of the errors is zero. In fact, if a constant term is included in the regression equation, this assumption will never be violated. Therefore, since the constant term (i.e. α) was included in the regression equation, the average value of the error term in this study is expected to be zero.

4.2.1.1 Normality Test



Graph 4.2.1.1 Kernel Density Estimate Test of normality

Based on the Kernel Plot, if the two plots (the non - smooth normal distribution curve and smooth and bell shaped curve) are insignificantly different, it is concluded that the error term is normally distributed. According to Brooks (2008), if the residuals are normally distributed, the histogram should be bell-shaped and the JarqueBera statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be greater than 0.05 to support the null hypothesis of presence of normal distribution at the 5 percent level. 0 34 38 102 136 Density 0, .01 ,02 .03 .04residuals.

The below 4.1.diagram witnesses that normality assumption holds Also, it implies that the inferences made about the population parameters from the sample parameters tend to be valid.

4.2.1.2 Heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance

Variables: ROA

chi2 (1) = 0.20

Prop > chi2 = 0.6563

Test among the OLS assumptions, one of the diagnostic tests which conducted in this study is heteroscedasticity test. This theoretically expressed as by Brooks (2008, p.133) $\text{var}(u_i) = \sigma^2 < \infty$; it has been assumed that the variance of the errors is constant σ^2 . In the classical linear regression model, one of the basic assumptions is Homoscedasticity assumption that states as the probability distribution of the disturbance term remains same for all observations. That is the variance of each u_i is the same for all values of the explanatory variable. If the errors do not have a constant variance, they are said to be heteroscedasticity. Accordingly, in order to detect the heteroscedasticity problems, Breusch-Pagan test was utilized in this study. This test states that if the p-value is significant at 95 confidence interval, the data has heteroscedasticity problem, whereas if the value is insignificant

(greater than 0.05), the data has no heteroscedasticity problem. The BP/CW test value 0.6563 (ROA) is greater than the p-value of 0.05(5%). Since, the probability value fail to reject the null hypothesis of homoscedasticity presence at 5% significant level and the regression model has no heteroscedasticity problem. Therefore, it is possible to conclude that the variance of error term is constant or there is no evidence of heteroscedasticity in the regression model of ROA of the study.

4.2.1.3 Autocorrelation

Test The other important diagnostic test which is performed in this research is autocorrelation test. This assumption of OLS is theoretically expressed by the numbers of scholar like Brooks (2008). According to Reyna, O. (2007), serial correlation tests apply to macro panels with long time series (over 20-30 years). Not a problem in micro panels (with very few years). Therefore, since panel data for this study used few years, as a result there is no autocorrelation.

4.2.1.4 Multi collinearity

The VIF Technique

Table 4.2.1.4 VIF test of multi collinearity

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

Source: STATA 12 result

Multi collinearity in the regression model suggests substantial correlations among independent variables. This phenomenon introduces a problem because the estimates of the sample parameters become inefficient and entail large standard errors, which makes the coefficient values and signs unreliable. In addition, multiple independent variables with high correlation add no additional information to the model. It also conceals the real impact of each variable on the dependent variable (Anderson et al.2008) The other most widely used and best technique to test the presence of multi collinearity problem is the Variance Inflation Factor, (VIF). The null hypothesis (serious multi collinearity problem does not exist) is accepted if each VIF and Mean VIF values of the independent variables are less than 10 (Lawrence, 2006). In relation to this type of problem, the Mean VIF tells by how much is the true variance inflated because of multi collinearity. As shown above table there is no multi collinearity effect since all values of the variable and mean is less than 10.

4.3 Descriptive statistics of the study variables

This section discussed the summery statistics of each variables of the study. The variables include the dependent, independent and control variables. The dependent variables used in this study in order to measure the sample Insurance companies financial performance is return on asset, whereas the explanatory variables are: Board size, Board meetings frequency, liquidity ratio, Size of Board Audit committee, Board Experience in the Finance Sector.descriptive statistics for all variables are presented below in table.4.3

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

Table 4.3 Descriptive statics

The table 4.3 above shows the mean, standard deviation, minimum and maximum values for the dependent and independent variables. The total observation for the each dependent and explanatory variable was 136. As above table shows, the maximum value of return on asset is 0.57304 and the minimum return is -0.08879 the maximum profit Insurance companies earned was 57cents of net income from a single birr of investment and the minimum profit earned is -0.08879 cents. That means, the most profitable Insurance of the sample Insurance companies earned 0.57304 cents of net income from a single birr of asset investment. The mean of ROA equals -0.08879 with a minimum of -0.08879 cents on each birr of asset investment and also most the remaining Insurance s from the sample earned an average of 0.00676 cents from each birr investment by the Insurances companies board size for the sample Insurances companies is about 9.00 (90 percent of the maximum number 12 person which settled by NBE) and a minimum of 5.00 directors (50 percent of the maximum number 12 person which settled by NBE). The standard deviation indicates that for the sample Insurances companies board size varies by 0.122 from the average value of 7.01 (70%). The standard deviation of 1.42457 suggests that there is medium dispersion in the board size of the sample Insurances.

The number of meeting held by board of directors Insurances companies for the last seventeen years has a mean of 38 minutes per year (mean= 3.8455882) with a minimum of 2 minutes and maximum of 7 minutes held per annum. The standard

deviation is 1.2524 from the mean of 3.8455882. The other explanatory variable is board gender diversity (No of females on the board). The board gender diversity sample Insurances companies has a mean of 3.6176471 with a minimum of 1 and maximum of 6 as measured by the composition of no females directors on the board. This shows that the sample Insurances companies the composition of (no females directors) on the board is low for the last 17 years. The standard deviation is 1.205 from the mean value. Board of directors' experience in the finance sector. The board experience in finance sector of sample Insurances companies has a mean of 0.9779412 with a minimum of 0 and maximum of 4 as measured by the proportion of directors who had experience in the sector. This shows that Ethiopian Insurances companies board of directors' experience in the finance sector is low for the last 17 years. The standard deviation is 1.1053 from the mean value. Board of directors' Educational qualification. The board Educational qualification of sample Insurances companies has a mean of 4.9338 with a minimum of 2.00 and maximum of 8 as measured by the proportion of directors who had Educational qualification. This shows that Ethiopian Insurances companies board Educational qualification is low for the last 17 years. The standard deviation is 1.33999 from the mean value. The audit committee of the sample Insurances companies has a mean value of 4.12529 with a minimum of null audit committee and a maximum of 3 audit committee members. The standard deviation is 1.1508 from the mean.

4.4 Correlation Analysis

	roa	bsz	bmf	bgd	bexp	bedu	audcom
roa	1.0000						
bsz	-0.1593	1.0000					
bmf	-0.1897	-0.0319	1.0000				
bgd	0.1898	0.2731	0.0243	1.0000			
bexp	0.0184	0.0723	-0.0443	-0.0842	1.0000		
bedu	0.0725	0.3769	-0.1165	0.5841	0.0714	1.0000	
audcom	0.0977	-0.0779	0.0083	-0.1783	0.1522	-0.1531	1.0000

Table 4.4 Correlation of ROA with independent variables

This part presents the results and discussions of the correlation analysis. To identify the relationship among the variables of corporate governance and financial performance correlation coefficients were used. the above table 4.4 the correlation matrix which shows the relationship of the return on asset with Board size, Board meetings frequency, board gender diversity (no of females in the board) , Board Experience in the Finance Sector, board educational qualification ,Size of Board Audit committee,. Based on the correlation matrix independent variables board gender diversity financial expertise of directors, board directors educational qualification and audit committee size, are positively correlated with ROA. However, Board size and Board meeting frequency, are negatively correlated with return on asset. The correlation analysis shows only the direction and degree of association between variables and it does not permit the researcher to make causal inferences regarding the relationship between the identified variables. Therefore, it is not possible to explain the relationship between corporate governance variables and performance measure by controlling the influence of some selected variables using correlation analysis. As a result the main analysis is left for regression analysis that overcomes the shortcomings of correlation analysis

4.5 Random versus fixed effect model

One issue that may arise from the use of panel data is whether the individual effect is considered to be fixed or random. It is necessary to determine whether the fixed effect (FE) or random effect (RE) model is appropriate. A common practice in finance is to make the choice between both approaches by running a Hausman test. To conduct a Hausman test the number of cross-section should be greater than the number of coefficients to be estimated. So, in this study the numbers of coefficients are lower than the number of cross-sections as a result it is possible to conduct a Hausman test. This test performed through STATA 12.0 version running hausman specification test at five (5%) percent levels enables to choose the researcher between fixed effects and random effects. Basically; the RE estimator assumes that the intercept of an individual unit is a random component that is drawn from a larger population with a constant mean value. The individual intercept is then expressed as a deviation from this

constant mean value. One major merit of the RE over the FE is that it is economical (parsimonious) in degrees of freedom. This is because one does not have to estimate N cross sectional intercepts but just only the mean value of the intercept and its variance. The RE technique is suitable in cases where the (random) intercept of each cross-sectional unit is uncorrelated with the regressors. So the random effect is selected in order to run the regression analysis

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$\begin{aligned} \text{chi2 (7)} &= (b-B)'[(V_b-V_B)^{-1}](b-B) \\ &= 5.77 \end{aligned}$$

$$\text{Prob}>\text{chi2} = 0.5669$$

(V_b-V_B is not positive definite)

All the above tests of basic classical linear regression model assumptions for OLS estimation prove that, the results obtained from the regression model in this study is consistent, free from bias and efficient since the assumption holds and the next step is analyzing and discussing the outputs of the regression.

The R-squared statistic measures the success of the regression in predicting the values of the dependent variable within the sample. In standard settings may be interpreted as the fraction of the variance of the dependent variable explained by the independent variable. The statistic will equal one if the regression fits perfectly, and zero if it fits no better than the simple mean of the dependent variable. Specifically, the adjusted R-squared is a modification of R-squared that adjusts for the number of explanatory variables in the model. As it is shown in the table 4.5 below, the adjusted R-squared of the ROA model is equal to .0.6535 which indicates that 65 % of the variation in ROA is explained by the regression variables. Hence, the explanatory variables included in this regression are good predictors of ROA.

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

Table 4.5 Random effect Regression result of ROA

R-sq: within = 0.5836

R 2 between = 0.9084

Adjusted R 2 overall = 0.6535

Wald chi2 (6) = 135.77

corr(u_i, X) = 0 (assumed)

Prob> chi2 = 0.0000

Source: STATA 12 version output from Ethiopian insurance company financial statements from 2000-2016

4.6. Corporate governance: Results and Discussion

4.6.1 Board size

As shown above, table 4.6 this study found a negative and statistically significant association between boards size (Bsize) and return on asset at 5 percent level of significance. It implies that the numbers of board of directors' are negatively related with insurance company'' financial performance. In other words, the higher the number of board members of insurance companies, the slower their financial performance achievement is and vice versa. The result indicates that reasonable boards are more effective in monitoring and controlling insurance management and it

help to reduce agency costs. The finding supports the argument of Jensen (1993) that an increase in board size leads to less effective monitoring due to coordination and process problems inherent in large board size. The result is also consistent with prior studies which argue that coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases (Sanda et al., 2005; Adusei, 2011; Yermack, 1996; Al-Manaseer et al., 2012). In addition Cheng Wu, Chiang Lin; I-Cheng & Feng Lai (2005) also found that board size is negatively and significantly related to firm performance and governance. Recalling the first hypothesis stating that board size has a significant relationship with the financial performance of insurance companies, the finding supports this and the hypothesis is failed rejected. Yermack's results support prior theoretical suggestions (e.g. Lipton and Lorsch, 1992, Jensen, 1993). By contrast using a sample of 35 US listed Banking firms from 1959 to 1995, Adams and Mehran (2005) report a statistically significant and positive relationship between board size and Tobin's Q.

4.6.2 Meeting Frequency

Return on Asset with Meeting Frequency (M.F), coefficient is 0.263504, test of p-value is $0.0000 < 0.05$. This result depicts that, Meeting Frequency has a significant positive impact on ROA and an increasing in meeting frequency will improve the financial performance of Ethiopian insurance companies. So meeting frequency has significant positive impact on the firm performance of insurance company's. The result is consistent with previous studies such as (Karamanou & Vefas, 2005); (Mangena & Tauringana, April 2008); and (Ntim & Osei, June 2011) in a way that the frequency of board meetings is a measure of board activities and effectiveness of its monitoring ability. In Ethiopia, since shareholders are only allowed to be a board member, high board meeting frequency may indicate significant involvement of shareholders on the management decision. High owner involvement on management decision in turn can promote firm performance as it may be difficult for the management to pass a decision that benefits him at the expense of the owners closely watching him. Frequent board meetings can result in higher qualities of management monitoring that in turn impact positively on corporate financial performance. Therefore, failed to reject null hypothesis H2, and means that, increasing Meeting

Frequency will result high financial performance that Board who meet frequently generate new idea and follow up the insurances.

4.6.3 Board Experience in the Finance Sector

Hypothesis Ha4 expected that Board Experience in the Finance Sector (Bexp) is positively and significantly associated with insurance companies' financial performance. As expected, a positive (Coefficient = 3.348288) and significant (p-value of 0.015) It means the higher the proportions of directors who had earlier working experience in the financial sector the higher the financial performance (as measured by return on asset) of sample insurance companies in Ethiopia and vice versa. Respondents were asked a subjective question (Q. appendix I) about directors' prior experience in the financial sector. The respondents in which the board consists directors who had prior experience in financial sector said "yes" and justified that board of directors who had an experience in the financial sector is highly important because they share the experience they had, challenges they faced and actions they took in their previous job. The qualitative result and regression result based on return on asset performance measures support the null hypothesis of Board Experience in the Finance Sector (Bexp) is positively and significantly associated with insurance company's financial performance.

4.6.4 Educational Qualification of Directors.

Board members educational qualification (Bedu) has a positive effect on Insures financial performance. Board members educational qualification explains the variations of the financial performance of Insurers with a coefficient of .0038723 and statistically significant at, 5 percent for return on asset. The result indicate that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of Insurers in Ethiopia and vice versa. In other words the higher the number of directors who had college degree or above sitting on the board the higher the financial performance of sample Insurers in Ethiopia and vice versa. This suggests that the presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. The premises of null hypothesis under this

study which says there is no significant positive relationship between educational Qualification of directors with business background and Insurers performances were rejected and the alternative hypothesis were accepted. This result supports the finding revealed by Amran (2011) and Yasser (2011). They argues that directors with higher education are better in managing the business operation and controlling agency problem than less educated counterparts this reduce agency cost. Educational qualification affects the oversight and monitoring role of boards of directors. The result support the view that educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of Insures and the effective control or guidance of management by boards of directors. The qualification of directors as measured by the percentage of directors who had college degree or higher significantly influences Insures performance in Ethiopia. Thus, educational qualifications of directors play a great role in board decision making. Both the regression result and the qualitative result indicate that educational qualification of directors is important factor to improve financial performance of the sampled Insurers in Ethiopia.

4.6.5 Gender diversity

The relationship between female presence in board gender (FD) and financial performance measures by ROA are insignificant since the premise of null hypothesis under this study which says there is significant and negative relationship between gender diversity on insurance performance were rejected .Therefore, this study does not support the view that gender diversity leads to superior Insurers financial performance.

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

The result is not surprising because other studies that examined the association between proportion of women on boards and firm performance also found insignificant result (for example see Rose, 2007; Habbash, 2010). But the result

simply indicates the presence of female directors will not improve Insurers operation and performance unless they are qualified and competent. Whether gender diversity help improve insurers operation and performance it depends on factors such as experience, education and assertiveness of female directors.

4.6.6 Audit committee size

Ho6: predicts size of audit committee in a board has a significant negative relationship with the financial performance of Insurance Company. As shown above, table 4.5, this study found a negative (coefficient = -6.439683) and statistically insignificant (p-value of 0.484 > 0.05) association between availability of variety number of board audit committees size and return on asset. It implies that the numbers of board committees“ have insignificant but positive effect on the financial performance of sample Ethiopian insurance company. In other words, the higher or the lower the number of variety board committees“ of Ethiopian insurance company does not have effect on financial performance achievement. The effect of availability of variety board audit committees on the financial performance of Ethiopian insurance company is negligible. Thus, the null hypothesis which states the number of board audit size committee which is available on the board does not have a significant effect on Ethiopian insurance company financial performance is accepted. The result is inconsistent with prior studies which argue that the positive and significant relationship was observed by (Hlanganipai Ngirande 2014) and (Godfrey Ndlovu 2014), (RajendranKajananthan2012), and (Bussoli 2013) The outcome of the analysis of both quantitative and qualitative data indicates that even if the regression result show insignificance, it has positive relation and the qualitative analysis also indicates that having reasonable number of board sub-committee is important factor to improve financial performance of sample insurance company in Ethiopia

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

The main objective of this chapter is to provide a summary, draw a conclusion and make necessary recommendations based on the qualitative and quantitative analysis presented in chapter four.

5.1 Summary of Findings

The study sought to investigate the relationship between corporate governance and performance of insurance company's in Ethiopia with a data set covering seventeen years period from 2000 to 2016. This study made use of both primary and secondary data in analyzing and interpreting the relationship between effect of corporate governance on financial performance of the eight sample insurances. The secondary data were obtained basically from audited financial statements of selected insurances from NBE. Correlation and regression analysis was also used to find out whether there is a relationship between the variables to be measured (i.e. effect of corporate governance on insurance company's financial performance) and also to find out whether the relationship is significant or not. The variables that were used as corporate governance mechanisms were size of the board, board meeting frequency, board gender diversity, board experience in finance sector board educational qualification and board audit committee as independent variables. Board size has negative and significant effect on the performance of Ethiopian insurance companies. It implies that the numbers of board of directors' are negatively related with insurance company's " financial performance in other words, the higher the number of board members of insurance companies, the lower their financial performance achievement is and vice versa.

Meeting Frequency has a significant positive impact on ROA and an increasing in meeting frequency will improve the financial performance of insurance companies. The result is consistent with previous studies such as (Karamanou & Vefas, 2005); (Mangena & Tauringana, April 2008); and (Ntim & Osei, June 2011) in a way that the

frequency of board meetings is a measure of board activities and effectiveness of its monitoring ability.

Board gender diversity (no of females) has insignificant positive association between percentage of females directors and Insurance financial performance sampled Insurance performance. From the regression result, Board Experience in the Finance sector positively and significantly influence return on asset. Moreover, from the qualitative analysis, respondent justified that board of directors who had an experience in the financial sector is highly important because they share the experience they had, challenges they faced and actions they took in their previous job.

Board members' educational qualification has positive and significant effect on Insures performance. This means that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of Insurance company in Ethiopia

Size of audit Committee has a negative and statistically insignificant relation with the financial performance of Insurance companies in Ethiopia.

5.2 Conclusions

Financial sector is playing main role towards the development of economic system of the country. Insurance sector progress is essential if we want economy on the path of success. This study is focused on financial performance of Insurance sector; Governance is the main problem for many corporations, so this study investigates the effect of corporate governance and financial performance on Insurers companies in Ethiopia using eight Insurers with a data set covering seventeen years period from the year 2000 to 2016. In order to achieve this objective, six hypotheses have been developed. To address research hypotheses and achieve the broad research objective, the study used mixed research approach. Random effect model was used to estimate the regression equation. In the study considering ROA measure of performance and size of the board, board meeting frequency, Board gender diversity (no of females) , board experience in finance sector and board audit committee as independent variables and Insurers companies

5.3 Recommendations

- In view of the findings that Insurance companies in Ethiopia have got relatively the same board size that impact on their performance negatively, the study recommends that the board size of insurance companies should be fixed on the their capital level group so that Insurance companies in the same capital level have similar board size.
- This research found that Meeting Frequency has a significant positive impact on ROA of Insurance companies. Therefore, board of directors should meet frequently by having a good agenda to generate superior financial performance and increase in the board meeting may be due to the deliberation of all corporate matters by the full board at list two times in month
- This research found that there are limited numbers of experienced board of directors in Insurers companies. But the experience of board of directors in the finance sector is positively and significantly affects the performance of Insurers companies. Therefore, the researcher recommends that Ethiopian Insurance companies should increase number of experienced board in finance related area to improve their financial performance.
- This research found Size of audit Committee last seventeen years has a negative and statistically insignificant relation with the financial performance of Insurers companies in Ethiopia Therefore, the researcher recommends the requirement under insurance corporate governance directives No SIB /42/2015 is three board directors in the audit committee should amend to five

5.4 Recommendation for future Research

The relationship between corporate governance mechanisms and Insurance financial performance can also be further explained and the result will be more robust by increasing the sample size and number of year of observation. Moreover, the researcher recommend for future researchers to conduct study by including more corporate governance variables focusing on Board of directors and CEO characteristics. And also other researcher can study on meeting frequency standardization for different insurance companies level .

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Appendix 1

The study Questionnaires

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

Thank you in advance for your cooperation!!!

1. Your gender:

a) Male-----

b) Female_____

2. Your highest level of education:

a) Diploma_____

b) Degree_____

c) Masters _____

d) PhD_____

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

a) Below 10 years _____

b) 11-20 _____

c) 21-30 _____

d) 31-40 _____

e) Above 40years _____

4. Your position in the Insurance industry

a) CEO _____

b) Middle level manager _____

c) Supervisor _____

d) Any other (Specify) _____

Part 2. Composition of the board

1. Size of the board

a) Less than 5 member's _____

b) 5 to 10 member's _____

c) 11 to 15 members _____

d) More than 15 members _____

Comment (s) (if any)

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

a) Entrepreneurship _____

b) Accounting and Financial management _____

c) Legal _____

d) Banking expert's _____

e) Human resource management _____

f) Others _____

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

a) One _____

b) Two _____

c) Three _____

- d) Four _____
- f) Any other _____

f) Any other _____

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

- a) One _____
- b) Two _____
- c) Three _____
- d) Four _____
- e) All _____
- f) Any other _____

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

- a) Once a year -----
- b) Semiannually -----
- c) Quarterly -----
- d) Monthly -----
- e) Other Specify _____

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

YES NO

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

.....

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

Yes No

Please justify it?

.....

**Part II: Please fill the number for each period for questions listed below.
 Fiscal Year in Gregorian calendar**

S.N	Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
1	Total number of directors sitting on the board																		
2	Number of board members who served in the same capacity in other or other financial institution earlier																		
4	Total number of audit committee members																		