OWNERSHIP AND FINANCIAL PERFORMANCE RELATIONSHIP IN THE INSURANCE INDUSTRY IN KENYA

BY

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A Project Report Submitted to the School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in International Business Administration

UNITED STATES INTERNATIONAL UNIVERSITY
NAIROBI

SPRING 2003
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than United States International University in Nairobi for academic credit.

Signed: __________________________ Date 23/6/2003
Faith W. Kanjumba

This project has been submitted for examination with the approval as the appointed supervisor.

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Deputy Vice Chancellor, Academic Affairs
The purpose of the study was to establish whether there exists a relationship between ownership and financial performance of the insurance companies in the Kenyan market.

The main objectives were first to establish the different ownership arrangements in existence in the insurance industry in Kenya, second to explore the extent owners/shareholders are involved in decision-making regarding financial matters in the companies, third to establish if there is a relationship between ownership and financial performance in the insurance industry and lastly to explore other factors that may also affect the performance of the insurance companies in Kenya.

A structured questionnaire was used to collect primary data to help establish the various ownership arrangements in existence in the insurance industry; together with the extent the owners are involved in decision-making concerning financial matters. Impact of the control factors on the financial performance of the insurance companies was also captured. Secondary data that gave financial performance of the companies was sourced from the annual reports from the office of the Commissioner of Insurance for a ten-year period (1992 – 2001). Analysis of the data was done using MS Excel and Statistical Package for Social Scientists (SPSS) and was presented in tables and charts.

The study established a weak but positive relationship between ownership and financial performance. This indicated that there are other factors that play a bigger role in influencing the financial performance of insurance companies in Kenya. On a likert scale of 1 to 5, the following factors going by their means were identified as the strongest impediments to good financial performance in the insurance industry; Crime, Theft and Fraud (4.29), Corruption (4.00), Unpredictability of the Judiciary (3.92) and Competition (3.42). The least significant obstacles were given as Financing (2.17) and Regulation to starting new business/ new operations (2.92). There were also significant differences in management style and decision-making function amongst the various identified ownership categories.
There is a need for further research on the role of corporate governance on the relationship between ownership and financial performance. The role of the external environment (in which the insurance companies operate in) on the companies’ financial performance also needs to be established.
ACKNOWLEDGEMENT

I would like to thank all the people who helped me in one way or the other in this research. It is impossible to acknowledge them individually. It is however necessary to mention a few of them.

I am most grateful to my supervisor Dr. George Achoki for his encouragement, direction, providing the necessary material for the task and for going the extra mile. I wish also to thank Mr. Philip Machoka, adjunct lecturer at USIU for his assistance in the use of SPSS package. I cannot forget the staff of the Kanjumba Consultants Ltd., Commissioner of Insurance, UAP Provincial management who gave me a lot of their time; and all the people in the insurance fraternity who agreed to take part in this research.

Finally I am deeply grateful to my family; my husband Mwaniki, my children; Macharia, Ngure and Wanjiku, I know it has not been easy, and the other members of the family for their support, encouragement and prayers.

God's Blessing to You All
Dedicated to Mwaniki Kanjumba, Macharia, Ngure and Wanjiku
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1.0 CHAPTER ONE - INTRODUCTION

1.1 Background Information

This paper looks at the insurance companies only in Kenya, but it is good to appreciate that there are other players in the industry. Some of these are insurance brokers and agents who act as intermediaries between the insured and the insurer. Others are loss adjusters and assessors who are charged with the task of determining whether a loss occurred and its magnitude. Insurance surveyors, risk managers and claims settling agents also exist (Insurance Annual Report, 1992).

The insurance industry in Kenya dates back to the colonial times when it was a British colony in the 19th century. Most of the insurance activity in Kenya was confined to foreigners who insured through their mother countries. The main forms of organizations in which foreign companies carried out their operations as insurance industry progressed were as; agents, these were trading houses appointed as agents by insurance companies, then branches as demand for insurance increased and finally subsidiaries and local incorporation during post-independence period (Insurance Institute of Kenya [IJK], 2000).

Most foreign insurance companies however continued operating as branches in Kenya till 1978 when the then Minister of Finance, Hon. Mwai Kibaki, in his budget speech directed that local branches of foreign insurance companies should be locally incorporated. This was a revolutionary period for the insurance industry in Kenya in that local participation was enhanced and this gave birth to many local insurance companies with most of them being 100% Kenya owned. This landmark directive represents the true birth of the insurance industry today, which is predominantly local (IJK, 2000).

As regards public participation, very few insurance companies have gone public, with only two being quoted in the NSE. In 1984 the Jubilee Insurance Company took the bold step of converting into a public company and was consequently listed on the Nairobi Stock Exchange (NSE). Pan African Insurance Company is the other public insurance company (IJK, 2000).
Direct government participation has also been limited. The Kenya government at independence did not do what other newly independent African countries did, nationalize the insurance industry, rather it took limited interest by establishing the Kenya National Assurance Company (KNAC) and later the Kenya Reinsurance Corporation (KRC). The KNAC was incorporated under the Companies Act in December 11, 1964 to coincide with Kenya’s first independence anniversary. Most of its business was drawn in the government institutions and related bodies. Trouble started in 1987, when some organizations which had entrusted the management of their pension funds, started shifting the business elsewhere citing low surrender values on their investment. The company was finally wound up on 21st November 1996 (IIK, 2000).

The KRC was established in 1970, with the primary objective for its formation being to conserve foreign exchange by reducing the flow of reinsurance premiums outside the country. It enjoyed the right of getting compulsorily a share by way of reinsurance of all general business written in the country, i.e. 25% mandatory cessions. There are efforts towards privatization of the KRC as part of the government’s efforts to liberalization. This might mark the end of the Kenya government’s direct participation in the Insurance industry with only the office of the Commissioner of Insurance being in charge of regulation (IIK, 2000).

The 1990’s have seen the wind of liberalization affecting all sectors of the Kenyan economy, as competition becomes stiff. There has been natural death of some insurance companies, mergers, acquisitions and privatization. The encouraging feature being the increased local participation in the insurance industry, which, with the foreign based companies, also in the market gives a sophisticated complexion. However the distinction has been that most new local companies have adopted a very liberal approach to underwriting which sometimes could be risky while most of the foreign especially British companies are perceived as conservative in underwriting (IIK, 2000).
Kenya’s economy has witnessed a downward trend in real Gross Domestic Product (GDP) growth from 1995 through 2001. Whilst the GDP grew by 4.8% in 1995, it contracted to a negative 0.3% in 2000, and had a marginal increase of 1.2% in 2001. This decline has been reflected in almost all sectors of the economy (Capital Markets Authority [CMA], 2001). This did not augur well with the performance of many sectors of the Kenyan economy, the financial sector included where we find the insurance industry. The effect has been adoption of strategic plans concerning ownership in the insurance industry, like mergers, acquisitions, closures and divestitures.

According to Kimura (2002) the insurance industry is set to shrink further with the number of industry players set to come down to between 20 and 25. His feeling is that there are already signals and feelings that the industry is 'over banked'. He said the way out for some firms would be mergers and acquisitions. The don, also chief executive officer of the College of Insurance stated that insurance firms have to share out a meagre KShs.16 billion in general business, leaving a mean of KShs.280 million worth of premiums for each, as the top five rake in 35 per cent of business. In 1999, total operating profit for general business was KShs.1.2 billion. And a number of firms are known to have failed to satisfy the statutory solvency margin.

The Kenyan government has been working hard to attract foreign investment in all sectors of the economy. This can be achieved through various strategies; joint ventures or wholly owned subsidiaries. Most host countries are mired in a vicious cycle of under-development: low-levels of productivity lead to low wages, which lead to low levels of savings, which lead to low levels of investments, which perpetuate low levels of productivity. Foreign Direct Investment (FDI) can break this cycle by complementing local savings and by supplying more effective management, marketing, and technology to improve productivity (Gillis, Perkins, Roemer, and Snodgrass 1996; Cardoso and Dorbusch 1989).

In order, for the government to attract FDI, the national economy indicators have to be attractive enough to the investor whose basic objective in any investment is better returns. According to The Annual Budget Plan Central Bank of Kenya (CBK) 2002/2003, these economic indicators are population, percentage population growth, growth of Gross
Domestic Product (GDP) at constant market, GDP at market prices, GDP per capita (current) and GDP per capita (constant). High national levels of real GDP per capita, GDP growth and current revenues are normally signs of an overall stable macroeconomic environment, and they therefore enhance the creditworthiness of bond issues in such a country. The volume of FDI as a percentage of GDP serves as an indicator of the attractiveness of the local economy to investment from abroad (Bubnova 2000).

Makoba (1993), sought to explore the effect of state policy and practices on different facilities in Africa. He looked at public control and public enterprise performance in Sub-Saharan African. He used financial profitability and capacity utilization as useful indicators of public companies performance. His findings were that in absence of political interference combined with managerial competence and operational autonomy, foreign management facilitates the high levels of financial profitability observed among foreign managed enterprises in both Tanzania and Zambia. The findings suggest that state policy and practices are most important constraints in public company performance in Tanzania and Zambia and probably Africa in general.

Government regulations and rules also play an important role in determination of companies ownership and performance like we saw above the directive on local participation in the insurance industry of 1978. According to the Economic Survey (2002) the paid up capital requirement section of the Insurance Act, was amended in 2001. The company offering life and general business had their minimum paid up capital raised from Kshs. 100 million to 150 million while for those offering general business alone was raised from Kshs. 50 million to Kshs. 100 million. This raise in solvency margins makes it very difficult for some insurance companies to operate hence the change in ownership arrangement either through mergers, acquisitions or even joint ventures with foreigners.

The ownership of a company influences the direction it takes in terms of investment and management policies. The investment and management policies in turn influence the earning powers of a company. A company that is able to carry out the appropriate
investment and implement the desired management policies will be able to generate higher revenue for its investors than expected (Fadahunsi, 1996). Such companies will have a high corporate performance. Consequently, we can conclude that ownership may have some bearing with the corporate performance.

1.2 Problem Statement

There are no documented studies on the ownership and performance of insurance companies in Kenya, but similar studies have been carried out comparing public and private companies’ performance in Kenya. Ogeto, (1994) carried out a study on the financial performance of public enterprises and privately owned firms and came to the conclusion that most public companies perform poorly. Otieno, (1998) also carried out a similar study on newly privatized enterprises and found that privatization improves performance of a firm.

Other studies have been carried out worldwide concerning ownership and performance relationship, for example, Xu and Wang (1997) examined ownership-performance relationship for a sample of Chinese publicly listed companies. They documented a positive and significant correlation between ownership concentration and profitability as well as the importance of large institutional shareholders in corporate governance and inefficiency of state ownership.

Focus on a particular industry, like this study embarks on doing gives a clear picture of how the various ownership arrangements may impact on the performance of the industry. The industry also presents broader ownership arrangements, apart from just public and private. It has foreign, local, quoted companies to name but a few. This focus on a particular industry will encourage other similar studies in other industries in the various sectors of the Kenyan economy.
1.3 Objectives of the Study

General Objective Of The Study

The main objective of this study was to establish if there exists a relationship between ownership and performance of insurance companies in Kenya.

Specific Objectives

The specific objectives of this study were:

1) To establish the different ownership arrangements in existence in the insurance industry in Kenya.

2) Explore influence owners/shareholders may have in running the companies and especially in decision-making regarding financial matters.

3) To establish if there is a relationship between ownership and financial performance in the insurance industry.

4) Explore other factors that may also affect the performance of the insurance companies in Kenya.

1.4 Importance Of The Study

1.4.1 Decision Makers in the Insurance Industry

The findings will be of use to the decision makers in the insurance industry since it will establish the relationship between ownership and the company’s performance. It has been pointed earlier that the industry in under performing despite the national economic performance. Performance of the companies that have continued to do better than others may be attributable to their ownership
arrangement. This may then suggest the best ownership arrangement for the existing investors in the industry.

1.4.2 Potential Investors

Potential investors will have a solid ground to base their decision in entering the insurance industry. The companies providing a positive relationship between ownership and performance will attract potential investors.

1.4.3 Government

The study will help the government in the promotion of the industry as an attractive market for the foreign investors. If it is thus established that foreign investment in the industry has a positive impact in the performance of the insurance companies then it will be easier to sell the idea to the foreign investor. Other factors that affect performance, for example, regulations and rules will also help the government see clearly how such impact on the various ownership arrangements and how the companies evolve to accommodate them.

1.4.4 Researchers

The study will also benefit other researchers in the insurance industry who wish to explore deeper into the question of ownership versus performance. Other researchers in the country will be encouraged to concentrate on particular industries in the Kenyan economy and can also quote this study in their research.

1.5 Scope Of The Study

Target population was all the insurance companies in Kenya, and they are forty in number. The companies were categorized into two main groups those that have foreign ownership and those with local ownership. All the forty companies are based in Nairobi,
i.e. they have their headquarters there but established branch network all over the country especially in the major cities and towns.

The performance of all insurance companies was studied for the past ten years, from 1992 to 2001. This covers a most turbulent time in terms of economic upheavals in the Kenyan history. This should suggest the best ownership arrangement that is capable of withstanding the most trying times of an industry. The 1990s also saw a lot of regulations being introduced by the government to help streamline the running of the industry (IIFK, 2000).

The performance measures used were the profitability ratios namely; Return on Sales (ROS), Return on Equity (ROE), and Return on Investment (ROI) and the liquidity ratio (Acid-Test). The study banked on the good record keeping of the office of the Commissioner of Insurance, and the individual insurances companies. All insurance companies are required by law to make periodic reports to the Commissioner of Insurance. The office of the Commissioner of Insurance was established in 1989.

To avoid distortion of the findings, other factors that are likely to affect the performance of the insurance industry were looked at. These were new rules and regulations introduced by the government within that period, tax matters, the impact of the economic factors on the industries, change in management style and organization structures etc.

1.6 Definition Of Terms

There are several terminologies that need further explanations, these are: -

Profitability ratios –

These are ratios that are used to measure the return an investment fetches at for a specific period mostly one year. It gives a clear picture of how profitable a venture is to an investor (Wood, 2000).
According to Meigs A., Meigs R., Bettner, and Whittington (2000) these comprise the following:

1) Return On Investment (ROI) – measure of management’s efficiency in using available resources as it gives an indication to the owners the profit earned for them relative to the amount of funds they have invested in the business.

\[
\text{Net Operating Income} \quad = \quad \frac{\text{Net operating Income}}{\text{Average Amount Invested}} \times \frac{\text{Sales}}{\text{Net operating Assets}}
\]

2) Return On Equity (ROE) – Looks at return earned by management on the stockholders’ investment i.e. upon owner’s equity.

\[
\frac{\text{Net Income}}{\text{Average Total Stockholders’ Equity}}
\]

3) Return On Sales (ROS) - This is an indicator of the operating success of a company. It shows the return earned on the net sales. It is a measure of the profitability of the sales.

\[
\frac{\text{Net Income}}{\text{Net Sales}}
\]

Liquidity ratio: -

This is a test of the short-term debt paying ability of a company.

Acid-Test ratio – It is a measure of short-term debt paying ability without having to rely on inventory or pre-paid expenses. The ideal ratio is 1:1.

\[
\frac{\text{Current Assets} \quad - \quad \text{(Inventory} \quad + \quad \text{Prepaid Expenses)}}{\text{Current Liabilities}}
\]
Performance Measures

Financial performance measures are performance indicators that convincingly represent the financial status of a company. They should try and represent the long-term prospects of the company (Reid and Gower, 1999).

Ownership Arrangement

This refers to the various types of ownership or investors in the industry. The company could be publicly (government or quoted in the NSE) or privately owned. When private it can be foreign, locally owned or a mixture of both (as mentioned earlier there are no wholly foreign owned insurance companies). Companies that have some foreign investment may be either through joint ventures or subsidiaries of foreign companies. Those that are locally owned may have some insider ownership (management or employee) or outsider ownership (outside investor) (Houlden, 1997).

Endogeneity

This is derived in from the term endogenous, which is commonly used in testing hypothesized causal models. Each endogenous variable is caused or explained by the variables that precede it. On the other hand exogenous variables are left unexplained, in a hypothesized model. Analysis of the impact of ownership on firm performance often relies on the implicit assumption that ownership structure is exogenous, i.e., not affected by performance itself. This assumption, however, can be questioned in many ways. The most evident case is managerial ownership, which is often affected by firm performance (managers receive compensation in the form of equity). For ownership structures that emerge during transition period, endogeneity problem may be especially severe (Kutnetsov and Muravyev, 2001).
LIST OF ACRONYMS/ABBREVIATIONS

CBK – Central Bank of Kenya
CEO – Chief Executive Officer or the Managing Director
CMA – Capital Markets Authority
ESOP – Employee Stock Ownership Plans
EVA – Economic Value Added
FDI – Foreign Direct Investment
FIB – Foreign Investment Board
GDP – Growth Domestic Product
KNAC – Kenya National Assurance Company
KRC – Kenya Reinsurance Company
NCEO – National Center of Employee Ownership
NSE – Nairobi Stock Exchange
ROE – Return on Equity
ROI – Return on Investment
ROS – Return on Sales
1.7 Chapter Summary

The introduction chapter gives the background of the insurance industry in Kenya, specifically looking at the various ownership arrangements in existence and their origin. The purpose of the study is stated i.e. seeking whether a relationship exists between ownership of the insurance companies and their performance. All the existing companies in the ten-year period (1992-2001) were considered. Specific objectives are also presented i.e. the establishment of the type impact various ownership arrangements have on the performance of the insurance companies and control variables that can also explain performance are considered. Lastly the performance measures to be used are presented in the definition of terms used section. The findings of the study will be of importance to the insurance industry, government, potential investors and researchers in various ways.

The next chapter reviews the literature related to ownership and performance relationship from previous studies. The subsequent chapter is on research methodology used in the study, which are basically the methods and procedures used to carry out the study.
2.0 CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

This chapter looks at various studies conducted locally and worldwide on the subject. First, various ownership arrangements are presented together with the impact they have had on the financial performance of the industries or sectors studied. Possible explanations of the outcomes are then presented. Lastly, literature is reviewed on factors that need to be controlled for because they can also affect financial performance of an insurance company.

2.2 Ownership Types And Impact On Performance

2.2.1 Public and Private Ownership

A paper by Willer (1997) is among those studies, which are closely related to the subject of this paper. His study is based on a sample of 140 largest joint-stock companies and shows that large shareholders are able to put more pressure on management. This finding could be extended to substantiate that the presence of large shareholders improves firm performance.

Kapelyushnikov (2000) sums up the results of three surveys by Russian Economic Barometer conducted in 1995, 1997 and 1999. He reported a non-linear relationship between ownership concentration and performance: the best performing firms had moderate ownership concentration measured by the stake of their largest shareholders. He also stressed the importance of distinguishing between the identities of large shareholders in order to draw credible inferences on the role of ownership concentration. In his study, the worst performance turned out to be typical of firms with the highest ownership concentration. The largest shareholders in such firms are non-financial outsiders (mainly individual shareholders affiliated with managers) or the state. The author suggested that the principal function of non-financial outsiders is to protect a firm (i.e., its managers) from financial outsiders.
Ogeto, (1994) carried out a research study, on both public enterprises and privately owned firms, whereby he analyzed 28 companies from each sector. His findings were that public companies were not making as much profits as compared to private companies. This confirmed the claim that many public companies in Kenya are performing badly. He found that managers’ autonomy was compromised by undue government intervention; they are not held accountable for the performance and are not given incentives to improve. The way they are also selected and rewarded encourages qualities more appropriate to a central bureaucracy than a competitive enterprise.

Using a cross-section of 706 Czech firms over the period 1992-1997, Claessens and Djankov (1999) found that more concentrated ownership is associated with higher profitability and labor productivity. These findings are weakly robust to the inclusion of control variables for the type of ownership, or to the correction for the endogeneity of ownership concentration.

Frydman, Gray, Hessel and Rapaczynski (1997) found a positive impact of private ownership on revenue generating, cost restructuring, expanding employment and on overcoming the severe shock of "marketization" in transition economies. They also discuss performance differences among various types of private ownership, and several of their findings in this area run contrary to widely held beliefs concerning the effects of managerial ownership and the role of privatization funds and foreign investors.

Otieno, K.O. (1998), extended his study into newly privatized companies, whereby he analyzed 26 such companies by computing; ROA, ROE, ROS, sales per employee, net income per employee, capital expenditure to sales and to number of employees. His findings were that there was improved performance of the firms after privatization. They became more profitable and efficient. He suggested faster move by the government to privatize state owned enterprises.
2.2.2 Outsider Ownership

Earle (1998) examined the impact of ownership structure on the performance of Russian firms soon after the conclusion of voucher privatization in 1994. The author used labor productivity as measure of company performance and employs two-stage instrumental variables estimation to correct regression results for endogeneity of ownership. He reported a positive impact of outside ownership and ownership by managers on firm productivity.

Buck, Filatotchev, Wright, and Zhukov (1999) used a survey data from Russia, Belarus, and the Ukraine and found that the influence of employee (and managerial) ownership seemed to be fairly benign. Their findings also showed that outside ownership is associated with more active asset retrenchment strategies in crisis situations.

Brown and Earle (2000) used an extensive panel dataset from 1993-1998, covering 82% of industrial employment in 1993. They found that the best performers are municipally owned firms, which were followed by firms with mixed (state and private) ownership, regionally and federally owned firms, joint ventures and 100% private firms. Among private ownership types, firms with greater insider stake and shares sold at voucher auctions had performed significantly worse, while firms withholding company shares, foreign shares and golden shares had performed better.

2.2.3 Insider Ownership

2.2.3.1 Management

Most insurance companies formed before independence in Kenya were once subsidiaries of some foreign insurance companies. Due to the uncertainty in the national economic environment most have undergone divestiture. This has seen the adoption of various strategic ownership arrangements, which could have had an impact on the performance of such companies especially when they revert to local ownership.
According to Kaiser (1996), a divestiture refers to a sale by a firm of an entire division or subsidiary to another party. The firm doing the sell off is referred to as the parent firm, and it is assumed that the division being sold off is wholly owned.

There are several major potential sources of gain from divestitures. These include tax and/or regulatory advantages, simplification of a complex and cumbersome conglomerate or bureaucratic structure, creation of "pure plays" for both managers (to focus on a single line of business) and for investors (who can now target investment in a more clearly defined asset, risk class, capital structure or payout structure), or reduction of agency costs. This last source of gain concerns the ability to monitor more closely and more easily the performance of each management group and to better connect the individual manager's compensation to his or her own performance. Another potential source of gain concerns improvement in the contracting structure of each business unit.

According to Robbie and Wright (1997), after a divestment the most common ownership arrangement is Management Buyouts (MBOs) and Investment Buyouts (IBOs). These have given rise to insider ownership by managers and outsider ownership by local investors. Robbie and Wright (1997), further explain that MBOs, involve the acquisition of an enterprise, primarily part of a larger group, typically by the senior management employed in it with funding provided partly by themselves but mainly through a mix of venture capital and debt. IBOs are referred to as bought deals or financial purchases, involving the acquisition of the whole company or division of a larger group in a transaction led by venture capitalists. The venture capitalists will either retain existing management to run the company or bring in new management to do so, or employ a combination of external and internal management. Incumbent management may or may not receive an equity stake. Where they do, such stake is likely to be modest compared to what they may expect to receive in a comparable large MBO.
2.2.3.2 Employee

Over the years, the National Center for Employee Ownership (NCEO) in the US has reported on new research on employee ownership and corporate performance. The research comes to a very definite conclusion: the combination of ownership and participative management is a powerful competitive tool. Neither ownership nor participation alone, however, accomplishes very much (The National Center for Employee Ownership [NCEO], 2002).

The findings apply mostly to Employee Stock Ownership Plans (ESOP) companies that are closely held. Research indicates that public companies generally do not view employee ownership as much more than another corporate benefit. For this and other reasons explored below, the relationship between employee ownership and corporate performance in public companies is ambiguous (NCEO, 2002).

In the largest and most significant study to date of the performance of ESOPs in closely held companies, Kruse, D. and Blasi, J. (2000) found that ESOPs increase sales, employment, and sales/employee by about 2.3% to 2.4% per year over what would have been expected absent an ESOP. ESOP companies are also somewhat more likely to still be in business several years later. This is despite (or perhaps because of) the fact that ESOP companies are substantially more likely than comparable companies to offer other retirement benefit plans along with their ESOP.

It can be deduced from the above findings that employee ownership companies do better because they substitute stock for wages or benefits. Kardas, Keogh, and Scharf (1998) showed that, in fact, employees are significantly better compensated in ESOP companies than are employees in comparable non-ESOP companies.
2.3 Ownership Influence and Control

Van de Walle (1989) summarizes the common weakness of public enterprises as follows, unclear, multiple or contradictory objectives, bureaucratic, meddling, overly centralized decision making, inadequate capitalization, managerial ineptitude, excessive personal costs and high labor turnover. In such situations performance is likely to be poor. The same author argues that most managers lack autonomy in decision-making.

Management owned companies seem to perform better than employee owned ones because the moral hazard problem is solved since the managers are the decision makers on a day-to-day basis. They tend to take the interest of the company at heart and are very careful in their decision making especially where the value of shareholders’ wealth is concerned. But the gains of an MBO are short term. According to Houlden (1997), research has shown that after a three-year period of an MBO, performance begins to decline. This is attributed to lack of investment. More long-term benefits need new investment. In addition, the longer-term success of MBOs often depended on the type of ownership path taken later on: flotation, trade sale to another company, or remaining independent. Flotation option seemed to achieve the best profit margins and growth followed by trade sale to another company and lastly remaining independent showed the lowest profit margins than industry average. The above observation can also be explained by the two findings below concerning risk taking by management, since management assumes the controlling role in risk taking.

In a paper, Zhang (1998) also showed that in the presence of a controlling shareholder within a firm, the under-diversified controlling shareholder is more averse to risky projects than would be the atomistic shareholders whose portfolios are more diversified. Using a sample of 302 depository institutions, Chen, Steiner and Whyte (1998) found that as the concentration of ownership increases, the level of risk taking decreases.

Swamy (1994) argued that parastatal sectors strengthened the monopolistic and oligopolistic structure of Kenyan industry. He says that monopolies are usually parastatal
firms granted such power through legislation or administration decree. Parastatals are often protected by higher tariffs, effective (although not officially gazetted) prohibition on competing imports and ad hoc exemptions on import duties on capital and intermediate goods.

Bartel and Harrison (2000) in trying to answer the question of whether public sector inefficiency is due primarily to agency-type problems ("ownership") or the environment in which public enterprises operate, noted that it is important to be able to identify the determinants of improved performance with privatization. For example, if public sector enterprises perform poorly because they are located in sectors with very little internal and external competition or because of access of soft loans, then public sector plants can be induced to behave like the private sector in a competitive, subsidy-free environment. This is where ownership versus environment becomes important.

The presence of one or a few large shareholders influence in the running of a company is well demonstrated by Gertner, Scharfstein and Stein (1994) when they show the importance of a principal-agent when it comes to financing. An internal capital market where corporate headquarters owns the business units to which it allocates capital leads to more monitoring compared to the situation of external financing where the bank does not own the firms it lends.

Bartel and Harrison (2000) observed that by placing the firm’s equity in private hands, the government does not necessarily relinquish control over hiring decisions. This type of control is referred to as “control rights”. Privatization alone need not lead to any increases in efficiency (i.e. a reduction of excess workers). In fact, privatization could be associated with falling efficiency if politicians retain control rights. This would be the case of a regulated firm, where cash flow is privatized but control rights remain with the government. This is what happened to the only insurance company that was part owned by the Kenya government i.e. KNAC which was closed in 1996.
Bartel and Harrison (2000) in their paper disentangled the sources of public sector inefficiency using 1981-1995 panel of data of all public and private enterprises in Indonesia. They concluded that public sector enterprises are inefficient due to monitoring problems and the environment in which they operate, as measured by soft loans budget constraints or barriers to competition.

Looking at the ownership versus financial performance of companies, one can never ignore the agency problems (the fact that different stakeholders in a company have different interest). This brings about the question of corporate governance although this paper does not dwell much on this. It has made an attempt at it by looking into the shareholding representation in the board of directors and then explored lightly into the influence or role of shareholders in decision-making (financial). This is fertile ground for further research in the future.

Corporate governance can be thought of as the way in which managers are made responsible to boards of directors and they in turn to shareholders, Dimsdale and Prevezer, (1994). Aoki, M and Kim, H. (1995) also describe corporate governance as a set of institutional arrangements governing the relationships among several groups of stakeholders (investors, both shareholders and creditors, managers and employees) in order to realize economic gains from such a coalition. These institutional arrangements serve to bridge the divergent interests that arise between investors and managers and therefore ensure that directors and management act in the interest of all stakeholders and in particular the shareholders to whom they owe duty.

2.4 Control Factors that can affect Financial Performance.

These are the variables that need to be taken into consideration since they have an impact on the financial performance of a company especially in the insurance industry.
2.4.1 Regulations for starting new business/new operations

Government supervision and regulation may often go beyond the mere checking that solvency conditions are meet. In many countries the government will specify the contents of the insurance contract and thus virtually define claims distribution (Borch, 1992, p. 372).

2.4.2 Financing and Policy instability

Solvency margins (Insurance Act, Amendment, 2001) spelt out by the government do have an effect on the performance of the insurance companies who are already operating under very difficult conditions since our economy has been declining in the last few years (Economic Survey, 2002). This has an effect on the performance of the companies.

Major assets are valued according to the relevant regulations. This effectively places a limit on the holding of assets whose value is subject to considerable fluctuations in particular on equities, long-term and irredeemable government securities, preference shares and property (Benjamin, 1992).

Borch, (1992), stated that claims distribution together with premiums will determine how attractive the insurance company will be as an investment, i.e. how much equity capital it can obtain from a competitive capital market. The equity capital again determines the quality of the insurance contract and the conflict between different regulatory objectives is obvious. Good quality insurance cannot be cheap unless it is provided by a government guarantee.

2.4.3 Tax regulations and/or high taxes

Taxes do have a direct effect on the performance of a company in that they affect the income. In 1974, a bill was passed affecting the retirement annuity contracts, which reduced savings on tax to a large section of the business community, naturally affecting
the long term life business investment and quite a number of foreign insurance companies ceased to underwrite life business (IIK, 2000).

Conklin and Lecraw (1997), assert that one way used by the government to regulate the macro economy is tax rates in order to collect revenue for public services. This way a government attempts to regulate the microeconomic environment such that private enterprise, in making its own private profit maximizing decisions, at the same time is led to maximize the value of its investment to the country. Too much of this regulation can be counterproductive if its not commensurate with the public services offered by the government especially investments in the infrastructure (if it is still in the hands of the government) as in Kenya.

Tax relief for insurance premium holders given last year’s (2002) budget will continue, announced Cabinet Minister Anyang’ Nyong’o (Min of Planning and National Development. This will act as an incentive for people to obtain life insurance (Business, Daily Nation, 2003).

2.4.4 Infrastructure

Poor infrastructure has contributed to the high incidences of motor vehicles accidents, resulting in high claims that eat into the investments made by the insurance companies. This has had a negative effect on the performance of the companies with many shunning insuring public vehicles (IIK, 2000).

Conklin and Lecraw (1997), state that in addition to the common rationales for government ownership (need to control crucial sectors of the economy), the higher level of government ownership in developing countries has often been rationalized by the perceived inability of the private sector to amass sufficient funds to undertake the large investments that are needed in basic infrastructure. These are particularly in various public utilities, transportation systems and telecommunication networks. This has led to
poor services that have impacted negatively on the various businesses especially in Kenya.

Many countries have regarded their telecommunications systems as a crucial element of modern infrastructure. As with other infrastructure, the efficiency and availability of telecommunication services impact the development of the entire economy. Business systems are linked to an ever-increasing extent with operations in other cities and in other countries. Direct communication with customers, warehouses, and other branches of the same company is becoming increasingly important. With new telecommunication technologies, cost of selling and warehousing can be reduced, time can be saved, and product modifications can be made easier.

2.4.5 Inflation

Current premiums reflect some anticipated inflation. Presently incurred claims which may not be settled for 2 or 3 years will be related to values of property or personal liability or employer’s liability at the time of settlement, which will have grown by 2 or 3 years inflation above the values which could apply if settlement could be made immediately. Those premium cannot, especially on a short term basis be invested at rates of return that fully compensate for inflation even though at times of high interest rates may tend to be relatively high and help offset the effects of inflation. In all fairness, no investment available to insurers fully offer certain and adequate protection against inflation (Benjamin, 1992).

2.4.6 Unpredictability of the judiciary

Judicial trends in claims settlement have been mentioned as one of the factors to be taken into consideration in estimating outstanding claims reserves. Several factors distort the distribution of payments over time and these should ideally be separated in order to determine the true underlying trends in settlement (Benjamin, 1992, p. 242).
Pfeffermann, Kisunko and Sumilinski (1999) observed that a few factors emerge as being of particular importance to private investment decisions, real exchange rate, the rule of law, predictability of the judicial system and the extent to which financing is available to enterprises.

2.4.7 Crime, Theft and Fraud and Corruption

Over time insurance companies have been faced with huge third party claims arising from traffic accidents. The situation has been aggravated by the fact that the courts have been awarding staggering amounts of money in damages to third party injury claims. Recently the medical fraternity has joined the league with recent research reporting that about 55% of life offices in Kenya have had cases where some medical practitioners falsify reports resulting in exaggerated awards and in other cases inflating medical bills (IIK, 2000).

2.5 Chapter Summary

This chapter reviews various studies carried on the subject of ownership and performance of different companies both locally and worldwide. The findings have been arranged in the various types of ownership arrangement explored and in the format classified in this paper for clarity. Reasons behind the various findings on the kind of relationship observed on ownership and financial performance are also presented in the literature review. Other extraneous/control variables that need to be considered since they have an impact on a firm’s performance are explained.

The next chapter focuses on the research methodology used, which is a description of the methods and procedures employed in the study.
3.0 CHAPTER THREE - METHODOLOGY

3.1 Introduction

The focus of this chapter is the presentation of research methodology. This comprises research design, population sample, data collection and data analysis and the chapter summary. Under the sampling section, the sample frame, size and sampling technique are presented.

3.2 Research Design

To help achieve the general objective of the study the correlational method was used. Secondary data was collected for all the insurance companies in existence in the period (1992-2001). This data is readily available from the Commissioner of Insurance office. Annual performance of the insurance companies was computed and the trend established for the companies that were grouped into various ownership categories described later.

A structured questionnaire was used to collect primary data to help establish the various ownership arrangements in existence in the insurance industry in Kenya; together with the extent the owners are involved in decision making concerning financial matters. Impact of the control factors on the financial performance of the insurance companies is also captured.

The reason or importance of choosing the correlational analysis was that it helped examine how the two variables; ownership and financial performance relate and determine the strength and directions of the association between them. This formed a basis for further statistical analysis e.g., regression analysis.
3.2 Population and Sampling Design

3.2.1 Population

The target population was all the insurance companies in existence in Kenya during the period of 1992 - 2001. In the year 2001 they were forty, but the number varies due to closures and new entrants over the years. Reinsurance companies were excluded, since they do not sell insurance contracts directly to the people, they reinsure business already underwritten by other insurance companies.

Insurance companies are those charged to sell insurance contracts. In general one needs a license to sell insurance contracts, and in most countries these sellers have to operate under government supervision or regulation. The main objective of this supervision is to make certain that the insurers are solvent i.e. that they have sufficient financial resources to pay claims, even if things should take an unfavorable turn (Borch, 1992).

The Insurance Act of Kenya broadly groups the various types of cover in two:

- The General Insurance Business, with the following classes of business; Fire, Domestic Package; All risks; Cash in transit; Plate glass; Fidelity guarantee; Public liability; Products liability; Professional Indemnity; Private motor; Commercial motor; Personal accident; Workmen's compensation; Employer's liability; Marine; engineering; Bonds.

- Long-term Insurance Business; with the following classes; Term assurance; Whole life assurance; Endowment assurance; Superannuation business.

The number of insurance companies involved in any of the two businesses varies over the years, since they divest and diversify into a particular business depending on various factors. In 1992, long-term insurers were nil, general insurers were 15 and composite (both long-term and general) insurers were 21, a total of 37 companies. In 1993, long-term insurer was 1, general insurers were 17, and composite insurers were 22, a total of 40 companies.
All the companies have headquarters in Nairobi, with branch networks in the major cities and towns of the country. This made it easy to access them for the purposes of this study. Primary data was collected from the Chief Executive Officers (CEOs) of the companies or the Financial Controllers, since they are the chief decision makers in financial matters.

3.2.2 Sampling Design

3.2.2.1 Sampling Frame

The sampling frame was the list of the insurance companies in operation for every given year from 1992 – 2001 the period of this study. This list was obtained from the office of the Commissioner of Insurance. Insurance companies are required by law to post reports to this office, so it is a very reliable source.

3.2.2.2 Sampling Technique

The sampling technique that was used was the convenient sampling method. The main features of this method are the fact that subjects are easily and conveniently available, and are also accessible. All the insurance companies were selected for the purposes of this study; this was due to the availability of the data from the Commissioner of Insurance i.e. the secondary data. The response rate of data collection using questionnaires is normally low, hence the need to include all the forty insurance companies and the fact that all have their headquarters in Nairobi.

3.2.2.3 Sampling Size

All the insurance companies in existence during the period 1992 – 2001 were selected. They were classified into two main categories: Local/domestic ownership and foreign ownership. This was further subdivided as follows: -
3.3 Data Collection Methods

Both primary and secondary data were used. Reports submitted by the insurance to the Commissioner of Insurance were the main source of secondary data. These are submitted periodically and therefore reliable. The office of the Commissioner of Insurance is charged with regulating and monitoring the insurance companies in Kenya. The other sources are the Annual Companies Reports to the necessary authorities.

A structured questionnaire was used to collect the primary data. It first collected data on the ownership of the insurance as per the first specific objective; this helped in the categorization of the insurance companies. Secondly questions on the decision making process of the companies were asked to help explore the role of the owners in decision making, since this points on the powers that steer the company and could have an impact on performance. Lastly the questionnaire sought to know the views of the various companies on the control variables. This information was obtained from the top management of the companies i.e. the CEO or the Financial Controller so as to ensure validity and integrity of the data, they also happen to be the decision maker in financial matters.

First a draft questionnaire was developed and pilot testing was carried out on 10% of the companies i.e. four companies. This helped perfect the design of the questionnaire before giving them out to the respondents. Changes in the questionnaire were made and then they were distributed. One week was given for pilot testing and redesigning of the questionnaire.
Distribution of the questionnaires took two weeks. A time limit of one week for filling them was given and calls were made before their collection. The researcher made a point of calling the secretaries to the top management over that one-week to remind them to push for the filling of the questionnaire. Before collection, several calls were made to find out whether the questionnaire has actually been filled. On delivery of a questionnaire, effort was made to make it clear why the study is necessary for the insurance industry hoping this would elicit cooperation and boost response rate.

3.4 Data Analysis Methods

Determination of the performance of the insurance companies was done from the secondary data gathered from the Insurance Annual Reports compiled by the office of the Commissioner of Insurance for the ten-year period (1992 – 2001). This was analyzed using MS Excel, for the different performance measures.

For the purposes of presentation of the data in an understandable manner, central tendency measures were used e.g. mean, mode and median, using tables and pie charts. This was used for the ten years running, for the two variables, ownership and performance (using the different measures). This helped establish the trend between the two variables.

The correlation technique was used to analyze the degree of relationship between the two variables; ownership and performance. The technique used is Spearman’s rho, which is a rank-order correlation coefficient, which measures association at the ordinal level. This a non-parametric version of Pearson’s correlation based on the ranks of the data. This gave the correlation coefficient, a number ranging from -1 and +1, which was interpreted to give the magnitude of the relationship, either positive or negative.

Regression analysis helped establish whether our independent variable predicts our dependent variable. The main independent variable was ownership, while the dependent variable was performance as observed using the different performance measures.
mentioned in Definition of Terms section earlier on. A simple regression analysis sufficed.

The main data analysis tools used were Microsoft Excel and SPSS. Microsoft Excel has fairly superior analytical tools for central tendencies and measures of dispersion. The 3-D presentation of graphs is also superior. SPSS (Statistical Package for Social Scientists) is a powerful statistical and forecasting tool. It was used both in correlation and regression analysis.

3.5 Research Limitations

The following limitations were observed in the collection of data:

- Non-response from some insurance companies, who state that its company policy to adopt an involvement stance towards any external research. It appears like many insurance companies are very conservative. The population was not large so non-response impacts negatively on the research. For example, there are only two public insurance companies, so non-response from both would mean leaving out a whole ownership arrangement from the research study.

- The fear of full disclosure of any information touching on financial matters and company’s shareholders/owners. Therefore some of the questions may not have been given the seriousness they deserved by some respondents.

3.6 Assumptions of the study

The four financial performance ratios are assumed to be crucial in influencing performance and for the purpose of this study it is also assumed that performance is determined by the four financial performance ratios.
3.6 Chapter Summary

In this chapter an introduction to the methodology was given. Giving the analytical methods used and their justification also explained the research design. Introduction of the population used and the sampling methods were also spelt out in this chapter. Finally the methods of data collection, analysis and the limitations of the research study were also presented.
4.0 CHAPTER FOUR – RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the research findings based on the data collected and analyzed. The findings are presented in form of charts and tables. They are classified as per the research objectives; first the ownership arrangements in existence in the insurance industry, second is the findings on the involvement of the owners in decision-making, then response on the control variables and lastly analysis on whether there exists a relationship between ownership and performance.

4.2 Ownership

4.2.1 Ownership Type

Table 4.1 – Response Rate and Ownership Types

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private &amp; Local</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>Private &amp; Foreign</td>
<td>5</td>
<td>12.5</td>
</tr>
<tr>
<td>Public &amp; Foreign</td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td>Under Liquidation</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Non-response</td>
<td>14</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>
Sixty percent of the companies responded, of which 44% are Private and Wholly Locally owned, 13% are Private but part Foreign and 3% are Public with a mix of Local and Foreign ownership. 35% of the insurance companies did not respond and 5% are under liquidation. This is representative enough for the study.

Table 4.2  Private Local Companies that Have Had Foreign Ownership

<table>
<thead>
<tr>
<th>Foreign Ownership Ever</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>10</td>
<td>56</td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>
Fifty six percent of the respondents that are presently Private and Wholly Locally owned have never had any foreign ownership while 44% have had some foreign ownership. It can be concluded that more than half of the companies that are private and locally owned have never had any foreign ownership, which means they were formed after independence.

4.2.2 Ownership Arrangement

Table 4.3 – Ownership Arrangement – Private and Local Companies

<table>
<thead>
<tr>
<th>Arrangement</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor</td>
<td>16</td>
<td>89</td>
</tr>
<tr>
<td>Investor &amp; Management</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>
Of the private and wholly locally owned insurance companies that responded, 89% are Investor owned (outsider) and 11% are both Investor and Management owned. This means that majority of the private local insurance companies are outsider owned with only a few having managers as shareholders.

Table 4.4 – Private with Part Foreign Ownership

<table>
<thead>
<tr>
<th>Arrangement</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Associate</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Not Given</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Majority of the companies that are private and part foreign owned seem to have the foreign owners play a big role in the running of the companies since 60% are subsidiaries of the foreign companies while 20% are associates. Twenty percent of the respondents did not indicate the type of arrangement they have.

**Table 4.5 – Public with some Foreign Ownership**

<table>
<thead>
<tr>
<th>Arrangement</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>100</td>
</tr>
</tbody>
</table>
The only respondent who is public and part foreign owned is an associate of a foreign company, that is, they do cooperate in certain agreed areas in the running of the company. There are only two public insurance companies, and only one responded.

4.3 Decision-Making and Ownership

Table 4.6 – Owners Participation – Private & Local Companies

<table>
<thead>
<tr>
<th>Participation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sometimes</td>
<td>13</td>
<td>72</td>
</tr>
<tr>
<td>Always</td>
<td>5</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>
Owners of insurance companies that are private but locally owned are only involved in policy-making at a minimal level since 72% of the respondents said that they sometimes involve them with a minority of 28% saying they always do. This means that the policy-making tool is left to management.

Table 4.7 – Owners Participation – Private & Part Foreign

<table>
<thead>
<tr>
<th>Participation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sometimes</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Always</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>
Sixty percent of the respondents that are private and part foreign owned do sometimes involve the owners in policy making, while 40% always do. This is almost the same response from private and locally owned companies, which means that most insurance companies do not always involve owners in the policy-making process. Although a higher percentage of private and part foreign said they always involve them at 40% as opposed to 28% of private and locally owned companies. It can then be deduced that private and local insurance companies do involve the owners much more in policy-making than private and part foreign companies.

The only respondent that is public and part foreign owned always involves the owners in the policy-making policy.
Table 4.8 – Major Financial Matters – Private & Local Companies

<table>
<thead>
<tr>
<th>Decision-Maker</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>14</td>
<td>78</td>
</tr>
<tr>
<td>Management</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Figure 4.8 – Financial Matters Decision-Maker—Private & Local Companies

Seventy-eight percent of the respondents that are private and locally owned have the board of directors as the decision-makers in major financial matters, while 22% have management as their decision-makers in major financial matters. This means that when it comes to decisions concerning major financial expenditures or investments, the owners are well presented since for most of these companies the board of directors comprises the owners.
Table 4.9 – Major Financial Matters – Private & Part Foreign Companies

<table>
<thead>
<tr>
<th>Decision-Maker</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Management</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.9 – Finance Decision-Maker – Private & Part Foreign Companies

Eighty percent of the respondents that are private and part foreign owned have the board of directors as the decision-makers in major financial matters, while 20% have management as the decision-makers in major financial matters. It seems like for both private and local and private and part foreign companies are at per on this matter, the board of directors is the decision-maker in major financial matters. The implication is that the owners are well represented in decision-making of major financial matters.

41
The only respondent that is public and part foreign owned has the shareholders as the decision-makers in major financial matters. Here the owners are fully represented in decision-making. This could be because the company has many small shareholders who the company feels obliged to consult before making major financial decisions so as to boost its image in the NSE and the general public.

Table 4.10 – Consultation of the other stakeholders – Private & Local Companies

<table>
<thead>
<tr>
<th>Consultation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always</td>
<td>10</td>
<td>56</td>
</tr>
<tr>
<td>Sometimes</td>
<td>8</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.10 – Consultation of the other stakeholders – Private & Local Companies

| 44% | 56% |

Always Sometimes

Fifty-six percent of the respondents that are private and locally owned always consult other stakeholders in the company before making major financial decisions, while 44% said they only do sometimes. This depicts a more participatory environment when it comes to making major financial matters.
Sixty percent of the respondents that are private and part foreign owned always consult other stakeholders before making major financial decisions, while 40% involve them only sometimes. Compared to the local private insurance companies this group of companies seems to consult more other stakeholders in major financial decision-making.

The only respondent that is public and part foreign owned always consults other stakeholders before making major financial decisions. This is not surprising considering
the shareholders were said to be the decision makers in major financial matters in the previous question. This presents the participatory environment of all the other ownership arrangement categories.

Table 4.12 – Top-Bottom Management Style – Private & Local Companies

<table>
<thead>
<tr>
<th>Top-Bottom Style</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always</td>
<td>10</td>
<td>56</td>
</tr>
<tr>
<td>Sometimes</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>Never</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.12 – Top-Bottom Management style – Private & Local Companies

Fifty-five percent of the respondents that are private and locally owned always adopt a top-bottom management style, 39% said they sometimes do have a top-bottom management style and 6% never adopt such a style. This means minimal flow of communication and decision-making from the lower cadres of employees to the top management. The direction of this is almost always from top to the bottom.
Table 4.13 – Top-Bottom Management style – Private & Part Foreign Companies

<table>
<thead>
<tr>
<th>Top-Bottom Style</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sometimes</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Always</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.13 – Top-Bottom Management style – Private & Part Foreign Companies

This category of owners seem to have a better management style when it comes to flow of communication and decision-making in that a higher percentage sometimes allow some flow from the bottom to the top as opposed to the previous category. Eighty percent of the respondents that are private and part foreign owned sometimes adopt a top-bottom management style, while 20% declared they always do.
The only respondent that is public and part foreign owned always has a top-bottom management style. This means that top management never encourages flow of information from the lower ranks of employees to the top management.

Table 4.14 - Risk Management Decision-Maker – Private & Local Companies

<table>
<thead>
<tr>
<th>Decision-Maker</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>13</td>
<td>72</td>
</tr>
<tr>
<td>Management</td>
<td>5</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.14 – Risk Management Decision-Maker – Private & Local Companies

Seventy-two percent of the respondents that are private and locally owned have the board of directors as the stakeholder who is involved in major risk management decisions, 28% have management as the stakeholders who make major risk management decisions. This shows that the board of directors is the one that decides what major risks should be taken.
Table 4.15 – Major Risk Management – Private & Part Foreign Companies

<table>
<thead>
<tr>
<th>Decision-Maker</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Management</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Shareholders</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Figure 4.15 – Major Risk Management – Private & Part Foreign Companies

The board of directors and the management share an equal responsibility in the major risk management decision making for this category. Eighty percent of the respondents that are private and part foreign owned had the board of directors and management as the stakeholder involved in major risk management decisions on an equal basis, while 20% declared the shareholders as the stakeholder involved in major risk management.
decisions. Any reckless risk taking in this category can be equally blamed on the board of directors and management.

The only respondent that is public and part foreign owned has the board of directors as the stakeholder involved in major risk management decisions.

Table 4.16 – Risk Type – Private & Local Companies

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Taker</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>Risk Averse</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>Risk Neutral</td>
<td>5</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Figure 4.16 – Risk Type – Private & Local Companies
Thirty-nine percent of the respondents that are private and locally owned described themselves as Risk Takers, 33% as Risk Averse, while 28% said they are Risk Neutral. This implies that a majority of companies in this category are sensitive to risk, with a bigger majority more daring in risk taking.

Table 4.17 – Risk Type – Private & Part Foreign Companies

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Taker</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Risk Averse</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Risk Neutral</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Figure 4.17 – Risk Type – Private & Part Foreign Companies

Majority of the companies that are private and part foreign are sensitive to risk in that eighty percent of the respondents said that they are Risk Takers and Risk Averse on an equal basis while the rest 20% see themselves as Risk Neutral. This is a higher percentage than the previous category.

The only respondent that is public and part foreign owned declared that it’s Risk Neutral.
4.4 Ownership versus Performance

Performance ratios (ROS, ROE, ROI AND Acid Test) and averages are computed for each year by respondents and category. The identified categories of ownership are:

A – Private and Part Foreign
B – Private, Local and Management + Outside Investor (No Foreign ownership ever)
C – Private, Local and Management + Outside Investor (Have had Foreign ownership)
D – Private, Local and Outside Investor (No Foreign ownership ever)
E - Private, Local and Outside Investor (Have had Foreign ownership)
F – Public and Part Foreign

Operating ratios were calculated for five years (1997 – 2001) (Operating ratio - G is for General Business, and Operating ratio – L is for Life Business).

The formula for arriving at the measure known as performance for this study is
Performance (%) = ROS (%) * ROS (%) * ROS (%) * Acid-Test (%)

The figures below show the trend over the ten-year period for the different categories of ownership.

Figure 4.18 – Category A – Performance
Figure 4.18b – Category A – Performance

The general performance of the companies in this category is above zero; this is because all the four ratios reported high yields. There were some outliers especially in ROS, this could be as a result of data entry errors, but their effects seem to be countered by the other ratios. Acid-test ratios show that these companies maintain below the accepted 1:1, which is not good because it indicates inability to meet short-term obligations that may need cash fast. ROI is has been steady at between 8% and 10%, ROE just below 20% and ROS 30% on average which is not bad considering the state of the economic.

Figure 4.19 – Category B – Performance
Figure 4.19b – Category B – Performance

The general performance for this category is bad; in fact it is ranked the least of all the other categories. It is almost zero throughout, ROS, ROE and ROI are barely above the zero mark, while the Acid Test ratio indicates levels of very low quick assets except 1999 when it was 1:1.

Figure 4.20 – Category C – Performance

Local private insurance companies that are management and investor ownership and have had some foreign ownership in their lifetime seem to perform fairly well by the look of ROS, ROE and ROI. There has been a dip in return in 1993 and 1995, probably because of the state of economy then. Otherwise the returns are almost the same. The Acid Test ratio is not good with a low 40% in 2001, which is dangerously low considering it should be 1:1.

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Figure 4.20b – Category C – Performance

The performance is just above zero, with one outlier in 1992. It is ranked third.

Figure 4.21 – Category D – Performance

For category D, local private companies that are outsider owned and have never had foreign ownership since inception, the ratios, ROS, ROE, ROI are almost the same. The Acid Test ratios indicate ability to fulfill short-term obligations since it is almost always 1:1 throughout the ten-year period. This category also had the most respondents, therefore the figures are quite representative.
Figure 4.21b – Category D – Performance

The performance is just above zero, hence the fourth rank.

Figure 4.22 – Category E – Performance

This category of ownership, i.e. Local private insurance companies that are outsider owned and have had some foreign ownership during their lifetime are ranked second, due to the good posting on ROS, ROE, and ROI. It has been steady throughout the whole ten-year period. This category also had many respondents; therefore the figures are quite representative.
The performance is almost always above zero except for 1999. For the year 2002 and 2001 it shows a steady growth. The category was ranked second.

The Acid Test shows a steady rise from a low of 60% in 1995 to high of 140% in 2001. A ratio above 1:1 is not very good since it shows holding of current assets in cash form most of the times, which can be invested elsewhere for better returns. ROS, ROE, ROS has been steady but barely above the zero mark, hence the second lowest ranking.
The performance of this category has been generally bad over the years. This is the public company that is part foreign owned.

The above results help in ranking the categories in order of performance; the category with the best performance takes the weight six, while the least performance earns the category a one. Below is the ranking.

Category A – Weight 6, Category B – Weight 1, Category C – Weight 4, Category D – Weight 3, Category E – Weight 5, Category F – Weight 2. This ranking helped in working out the correlation and regression analysis.

4.4.1 Correlation and Regression Analysis

The figures in Appendix Two represent the correlation results. The category (ownership) variable represents ordinal values that are rank-ordered. The ranking was explained above depending on the performance. The distribution curve of the performance from Appendix Two shows that it is not normally distributed. It is skewed to the right, hence the use of a one-tailed significance level test at 0.01. The results of the Spearman rho correlation test show that the two variables; ownership and performance are positively correlated though weakly at 0.493, since the range of correlation coefficient is –1 to 1. The significance of this correlation coefficient is 0.07. It is low though not less than 0.05 (the benchmark of
the test). This implies that ownership and performance are positively correlated though weakly and these results are significant. There were 24 non-missing values used in the test.

Appendix Three gives the results of the regression analysis. The estimated model is

\[
\text{Performance} = -2.2 \times 10^{-3} + 9.67 \times 10^{-4} \text{Ownership}
\]

This indicates that there's a weak positive relationship between performance and ownership. For every unit change in performance measure, there's a \(9.67 \times 10^{-4}\) increase in the ownership ranking (movement).

\(R^2 = 20\%\), which indicates that ownership, does not play a significant role in explaining the performance in this study.

The t value at 2.347 of the category (ownership) shows that it's not a very important predictor of performance since it is a little above +2. The benchmark (for SPSS regression analysis) is t values well below -2 or above +2 regarding useful predictors.

The ANOVA results show that the regression sums of squares is less than the residual sum of squares which indicates that the model does not account for most of the variation in the dependent variable (performance). There's need to look for additional factors that can help account for a high proportion of the variation in the dependent variable.

The significant value of the F statistics is small at 0.028 (smaller than 0.05), though not very far from the benchmark. This implies that the independent variable (ownership) plays some part in explaining the variation in the dependent variable (performance).

4.5 Control Factors

The findings on the additional factors that need controlling for because they do have some effect on performance in this study are presented below in the tables and chart:
### Table 4.18 – Control Factors

<table>
<thead>
<tr>
<th>Question</th>
<th>1) No</th>
<th></th>
<th>2) Slight</th>
<th></th>
<th>3) Moderate</th>
<th></th>
<th>4) Strong</th>
<th></th>
<th>5) Very Strong</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Bus.</td>
<td>8</td>
<td>33%</td>
<td>5</td>
<td>21%</td>
<td>7</td>
<td>29%</td>
<td>4</td>
<td>17%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Financing</td>
<td>11</td>
<td>46%</td>
<td>4</td>
<td>17%</td>
<td>5</td>
<td>21%</td>
<td>2</td>
<td>8%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Govt. Regulation</td>
<td>7</td>
<td>29%</td>
<td>11</td>
<td>46%</td>
<td>4</td>
<td>17%</td>
<td>2</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Regulation</td>
<td>1</td>
<td>4%</td>
<td>6</td>
<td>25%</td>
<td>8</td>
<td>33%</td>
<td>6</td>
<td>25%</td>
<td>8</td>
<td>33%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2</td>
<td>8%</td>
<td>4</td>
<td>17%</td>
<td>8</td>
<td>33%</td>
<td>6</td>
<td>25%</td>
<td>4</td>
<td>17%</td>
</tr>
<tr>
<td>Inflation</td>
<td>1</td>
<td>4%</td>
<td>4</td>
<td>17%</td>
<td>8</td>
<td>33%</td>
<td>10</td>
<td>42%</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of Rein.</td>
<td>3</td>
<td>13%</td>
<td>6</td>
<td>25%</td>
<td>9</td>
<td>38%</td>
<td>4</td>
<td>17%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Competition</td>
<td>1</td>
<td>4%</td>
<td>3</td>
<td>13%</td>
<td>8</td>
<td>33%</td>
<td>9</td>
<td>38%</td>
<td>3</td>
<td>13%</td>
</tr>
<tr>
<td>Policy Instability</td>
<td>2</td>
<td>9%</td>
<td>4</td>
<td>17%</td>
<td>10</td>
<td>43%</td>
<td>6</td>
<td>26%</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Unpred. Judiciary</td>
<td>2</td>
<td>8%</td>
<td>2</td>
<td>8%</td>
<td>1</td>
<td>4%</td>
<td>10</td>
<td>42%</td>
<td>9</td>
<td>38%</td>
</tr>
<tr>
<td>Crime, Theft, Fraud</td>
<td></td>
<td></td>
<td>1</td>
<td>4%</td>
<td>3</td>
<td>13%</td>
<td>8</td>
<td>33%</td>
<td>12</td>
<td>50%</td>
</tr>
<tr>
<td>Corruption</td>
<td>1</td>
<td>4%</td>
<td>2</td>
<td>8%</td>
<td>4</td>
<td>17%</td>
<td>6</td>
<td>25%</td>
<td>11</td>
<td>46%</td>
</tr>
</tbody>
</table>

### Figure 4.24 - Control Factors

![Figure 4.24 - Control Factors](image_url)

**Factors**
- Very Strong
- Strong
- Moderate
- Slight
- No

58
Table 4.19 - Descriptives

Descriptive Statistics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>N</th>
<th>Range Statistic</th>
<th>Minimum Statistic</th>
<th>Maximum Statistic</th>
<th>Mean Statistic</th>
<th>Std. Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation on New Business</td>
<td>24</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2.29</td>
<td>1.12</td>
</tr>
<tr>
<td>Financing</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2.17</td>
<td>1.34</td>
</tr>
<tr>
<td>Govt. Regulations</td>
<td>24</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3.04</td>
<td>.91</td>
</tr>
<tr>
<td>Tax Regulations &amp; High Taxes</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3.17</td>
<td>1.09</td>
</tr>
<tr>
<td>Infrastructure</td>
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<td>4</td>
<td>1</td>
<td>5</td>
<td>3.25</td>
<td>1.19</td>
</tr>
<tr>
<td>Inflation</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3.25</td>
<td>.94</td>
</tr>
<tr>
<td>Cost of Reinsurance</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2.83</td>
<td>1.13</td>
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<tr>
<td>Competition</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3.42</td>
<td>1.02</td>
</tr>
<tr>
<td>Policy Instability</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Unpredictable Judiciary</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3.92</td>
<td>1.25</td>
</tr>
<tr>
<td>Crime, Theft &amp; Fraud</td>
<td>24</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>4.29</td>
<td>.86</td>
</tr>
<tr>
<td>Corruption</td>
<td>24</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>4.00</td>
<td>1.18</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>24</td>
<td></td>
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<td></td>
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</tbody>
</table>

The table above gives the results on the Likert scale analysis of the control variables. On a Likert scale of 1 to 5, the strongest factors that most respondents felt affected financial performance were Crime, Theft and Fraud (4.292), Corruption (4.00), Unpredictability of the Judiciary (3.917) and Competition (3.417). The least significant obstacles were given as Financing (2.167) and Regulation to starting new business/new operations (2.292).
5.0 CHAPTER FIVE – CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study, interpretation of the findings, conclusion drawn from the findings and finally recommendations for practice and further research on the research question.

5.2 Summary

The research study embarked on the establishing whether there exists a relationship between ownership and financial performance of insurance companies in Kenya. To help do this certain specific objectives were identified as a guide to the study. These were, first to establish the ownership arrangements in the industry, to help in the categorization of the companies. Second, was to explore decision-making of financial matters in the industry, so as to give some insight to the role played by the owners in running the companies. The third objective was to establish whether there exists a relationship between ownership and financial performance in the industry. The last objective was to establish control factors that need to be controlled for in order to enhance the findings.

Data used in the study was both secondary and primary. Secondary data coming from the annual reports of the Office of the Commissioner of Insurance, while primary data came from a structured questionnaire distributed to all the insurance companies. Descriptive analysis was used in all the objectives findings except the third of establishing a relationship where correlational and regression analysis were used.

The research study established that there exists a positive relationship between ownership and performance.
5.3 Discussions

Six major categories of ownership were established by the study. These are:

A – Private and Part Foreign
B – Private, Local and Management + Outside Investor (No Foreign ownership ever)
C – Private, Local and Management + Outside Investor (Have had Foreign ownership)
D – Private, Local and Outside Investor (No Foreign ownership ever)
E – Private, Local and Outside Investor (Have had Foreign ownership)
F – Public and Part Foreign

The foreign participation element recognized in categorization was brought in to help shed some light in the possible benefits accrued from it. From the findings it has been shown that the companies that have or have had foreign participation tend to perform better than the others. This could be because of the management style or corporate governance adopted. Companies that have or have had some foreign ownership tend to have a more participatory management style especially in decision-making than the other group. Forty percent of the companies with some foreign ownership involve owners in policy making always as opposed to the other at 28%.

The decision-making exercise of the companies shows that it may be playing a major role determining the financial performance of the companies. In making decisions on major financial matters, most companies said they leave it to the board of directors, 78% for the private and locally owned and 80% for the private and part foreign companies. When it comes to consulting other stakeholders in major financial matters decision-making, the companies with part foreign ownership tend to do so more than the others; sixty percent and always for private and part foreign and public and part foreign respectively while private and local are 56%.
From the findings there is a positive relationship between ownership and performance though not strong, which suggests that other factors do come into play. This could be the way the companies are run, especially the corporate governance question as brought out though not clearly by the previous discussion on the role owners play in running the companies.

The control variables show that there are other factors that play a significant role in determining the financial performance apart from ownership.

5.4 Conclusions

There exists a weak positive relationship between ownership and financial performance. Other factors that could also play a role in determining financial performance could emanate internally, the way the companies are run and role of the owners in the decision making and also externally from the environment the companies are operating in. This was suggested by the second and fourth specific objectives i.e. exploring role/influence of the owners in running the company and establishment of other factors that could also affect financial performance (the control variables)

5.5 Recommendations

There’s a need to carry out further research on the same question as this study, especially a more inclusive one. With 60% response rate for a population of forty companies, as in this study the results cannot be fully conclusive. Some categories recognized had very low representation. There are only two public insurance companies, only one agreed to participate, which implies that 50% of that category was left out. Some other categories had very little representation, which may distort the results. The private sector should be more responsive to research and stop viewing researchers as a nuisance. A link should be built between the private sector and the universities or institutes of learning. The results from research findings should be made to benefit the private sector and this may elicit cooperation in the research exercise.
Further research needs to be done on the ownership and financial performance relationship but this time exploring more on the role of corporate governance. The relationship between financial performance and other external factors can also be explored as was suggested by the control variables in this study.

On the ownership question as regards this study the concentration of shareholding and degree of ownership of the shareholders may shed some light on the relationship between ownership and financial performance. Other industries with bigger representation should be studied.
REFERENCE


APPENDICES

APPENDIX 1 – Implementation Schedule & Research Budget

APPENDIX 2 – Correlation Analysis Results

APPENDIX 3 – Regression Analysis Results

APPENDIX 4 – Cover Letters I, II, III

APPENDIX 5 – Questionnaire
APPENDIX ONE

IMPLEMENTATION SCHEDULE

<table>
<thead>
<tr>
<th>TASK/ACTIVITY</th>
<th>START</th>
<th>FINISH</th>
<th>DURATION</th>
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<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>2.5 Months</td>
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RESEARCH BUDGET

<table>
<thead>
<tr>
<th>COST ITEMS</th>
<th>COST (KShs.)</th>
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<tbody>
<tr>
<td>1. Proposal Development</td>
<td></td>
</tr>
<tr>
<td>• Materials (@ Kshs. 1 per paper)</td>
<td>100</td>
</tr>
<tr>
<td>• Printing (@ Kshs. 30 per paper)</td>
<td>3,000</td>
</tr>
<tr>
<td>• Binding (@ Kshs. 30 per copy)</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Total 3,250</td>
</tr>
<tr>
<td>2. Data Collection</td>
<td></td>
</tr>
<tr>
<td>• Traveling (Mileage AA rates)</td>
<td>7,200</td>
</tr>
<tr>
<td>• Materials &amp; Printing</td>
<td>125</td>
</tr>
<tr>
<td>• Photocopying (@ Kshs. 2 per copy)</td>
<td>165</td>
</tr>
<tr>
<td>• Phone Calls (@ Kshs. 15 per call)</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Total 8,490</td>
</tr>
<tr>
<td>3. Data Analysis</td>
<td></td>
</tr>
<tr>
<td>• Traveling (Mileage – AA rates)</td>
<td>7,200</td>
</tr>
<tr>
<td>• Materials</td>
<td>150</td>
</tr>
<tr>
<td>• Phone Calls (@ Kshs. 15 per call)</td>
<td>80</td>
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<tr>
<td></td>
<td>Total 7,430</td>
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<tr>
<td>4. Report Writing</td>
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<td>• Material</td>
<td>540</td>
</tr>
<tr>
<td>• Printing (@ Kshs. 30 per paper)</td>
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<tr>
<td>• Binding (@ Kshs. 250 per copy)</td>
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<td>Total 31,890</td>
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<tr>
<td>TOTAL</td>
<td>51,060</td>
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**Appenix Two**

**Graph**

**Nonparametric Correlations**

**Correlations**

<table>
<thead>
<tr>
<th><strong>Spearman's rho</strong></th>
<th><strong>CATEGORY</strong></th>
<th><strong>Correlation Coefficient</strong></th>
<th><strong>Sig. (1-tailed)</strong></th>
<th><strong>N</strong></th>
<th><strong>Performance</strong></th>
<th><strong>Correlation Coefficient</strong></th>
<th><strong>Sig. (1-tailed)</strong></th>
<th><strong>N</strong></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>CATEGORY</td>
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<td>Performance</td>
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<td></td>
<td>1.000</td>
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<td></td>
<td></td>
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<td>1.000</td>
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</table>

**Note:** Correlation is significant at the .01 level (1-tailed).
APPENDIX THREE

Variables Entered/Removed\textsuperscript{b}

<table>
<thead>
<tr>
<th>Model</th>
<th>Variables Entered</th>
<th>Variables Removed</th>
<th>Method</th>
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<tr>
<td>1</td>
<td>CATEGOR</td>
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<td>Enter</td>
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\textsuperscript{a} All requested variables entered.  
\textsuperscript{b} Dependent Variable: Performance

Model Summary

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<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
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<tr>
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<td>0.447</td>
<td>0.200</td>
<td>0.164</td>
<td>------------------------------</td>
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</table>

\textsuperscript{a} Predictors: (Constant), CATEGOR

ANOVA\textsuperscript{b}

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<td>Regression</td>
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<td>Residual</td>
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<tr>
<td>Total</td>
<td>2.270E-04</td>
<td>23</td>
<td>8.252E-06</td>
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<td></td>
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</tbody>
</table>

\textsuperscript{a} Predictors: (Constant), CATEGOR  
\textsuperscript{b} Dependent Variable: Performance

Coefficients\textsuperscript{a}

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.249E-03</td>
<td>.002</td>
<td>-1.251</td>
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<tr>
<td></td>
<td>CATEGOR</td>
<td>9.668E-04</td>
<td>.447</td>
<td>2.347</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Performance
April 28, 2003

Dear Sir/Madam,

**RE: QUESTIONNAIRE**

I am a student at the United States International University (USIU), pursuing a Masters of Business Administration (MBA) degree course in Finance. I am at the moment doing my research project entitled: *Relationship between ownership and financial performance of insurance companies in Kenya* in partial fulfillment of the degree.

Your company has been selected for the initial stage of pilot testing of the questionnaire to be used in the study. I kindly request you to complete the attached questionnaire as accurately as possible. Your comments on the structure, clarity and any other matter on the subject are most welcome. Feel free to put them on the questionnaire.

Thank you, in advance and I assure you that the information provided will be treated strictly confidential and used for academic purpose of the study.

Yours faithfully,

Mrs. Faith W. Kanjumba
ID No. 608986
May 5, 2003

Dear Sir/Madam,

**RE: QUESTIONNAIRE**

I would like to take this opportunity to thank you for your involvement in the pilot testing last week for the research project and your prompt response. Please find attached the final questionnaire with some slight improvement gathered from the pilot test.

To make your work easy I have filled it as you did with only the additions left blank. These I have highlighted by putting a star (*) next to the question to ease your work. Please answer these few questions for the completion of the exercise.

Thank you for your cooperation.

Yours faithfully,

Mrs. Faith W. Kanjumba
ID No. 608986
(Tel. 4441693 or 0722-828886)
April 23, 2003

To Whom It May Concern

Dear Sir/ Madam

Mrs. Faith W. Kanjumba, ID. No. 608986 is a graduate student of United States International University (USIU) pursuing an MBA degree course. She is at the moment involved in carrying out research for her project: Relationship between ownership and financial performance of insurance companies in Kenya in partial fulfillment of the degree course.

Your kind assistance will be greatly appreciated.

Yours Faithfully,

Dr. George Achoki
(Supervisor)
QUESTIONNAIRE

TOPIC: Ownership And Financial Performance Relationship In The Kenyan Insurance Industry

RESEARCHER: Faith W. Kanjumba

This study aims to establish if there exists a relationship between ownership and financial performance of the insurance companies in Kenya. The data obtained will be treated as strictly confidential and will only be used for the purpose of the study. Your cooperation will be highly appreciated.

Kindly complete the questionnaire accurately by ticking the appropriate box.

OWNERSHIP

1) Name of Company: ________________________________

ii) Designation of Respondent: ____________________________

ii) How long has the company been in operation (Years) ______

2) Is the Company Private □ Public? □

ii) Is the ownership Foreign Linked □ Local? □

If Foreign Linked Go To Question 3 But if Wholly Locally Owned Go To Question 4

3) How is the Ownership Arrangement?
   Subsidiary of Parent Company □
   Joint Venture □
   Other (Please Specify) ______

4) How is the Ownership Arrangement?
   Management Owned □
   Employee Owned Through Stock Options □
   Outside Investor Owned (Another company or individual investors) □
   Other (Please Specify) ______

Has the company ever had any foreign ownership since inception? Yes □ No □
b) Total number of shareholders _______
   Number of shareholders in the board of directors _______
   Number of non-shareholders in the board of directors _______

DECISION MAKING IN FINANCIAL MATTERS

5) Do the owners of the company participate in the policy-making process?
   Always □ Sometimes □ Never □

6) Which group of stakeholders is involved in making major financial decisions?
   Board of Directors □ Shareholders □ Management □ Employees □
   Others (Please Specify) __________________________

7) Before making major financial decisions are other stakeholders consulted?
   Always □ Sometimes □ Never □

8) Do you have a top-bottom management style? *(That is direction of communication and
decision-making)*
   Always □ Sometimes □ Uncertain □ Never □

9) Which group of stakeholders is involved in major risk management decisions?
   Board of Directors □ Shareholders □ Management □ Employees □
   Others (Please Specify) __________________________

10) Would you describe your organization as?
    Risk Taker □ Risk Averse □ Risk Neutral □

FACTORS HAVING AN EFFECT ON THE FINANCIAL PERFORMANCE

To what degree do the following factors act as obstacles to a good financial performance for your company?

11) Regulations for starting new business/new operations?
    No obstacle □ Slight obstacle □ Moderate obstacle □ Strong obstacle □ Very Strong obstacle □

12) Financing (availability of capital)?
    No obstacle □ Slight obstacle □ Moderate obstacle □ Strong obstacle □ Very Strong obstacle □
1) Government regulations?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
2) Tax regulations and/or high taxes?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
5) Infrastructure (that is transportation, communication, energy and commercial)?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
16) Inflation?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
17) Cost of reinsurance?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
18) Competition?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
19) Policy Instability?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
20) Unpredictability of the judiciary?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
21) Crime, Theft and Fraud?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
22) Corruption?
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □
23) Other __________________? (Add another obstacle if it exists)
   - Slight obstacle □  Moderate obstacle □  Strong obstacle □  Very Strong obstacle □