FACTORS AFFECTING NON FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA: A CASE OF AAR INSURANCE COMPANY IN NAIROBI

BY

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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in partial fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SUMMER 2017
STUDENT’S DECLARATION

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

Signed_________________________________________ Date__________________________

David Mumo (ID No: 620562)

This research project has been presented for examination with my approval as the appointed supervisor.

Signed_________________________________________ Date__________________________

Dr. Paul Katuse

Signed_________________________________________ Date__________________________

Dean, Chandaria School of Business
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ABSTRACT
The general purpose of the study was to investigate the factors influencing the performance of insurance companies in Kenya. The study was guided by below research questions; how does a firm’s size affect performance of insurance companies in Kenya? How does a firm’s structure affect performance of insurance companies in Kenya? How does leadership affect performance of insurance companies in Kenya? The primary population of study selected for this research was limited to AAR Insurance Company of Kenya Limited.

The descriptive research design was selected for this study as it is concerned with finding out who, what, where, when or how much and also tries to measure the types of activities; how often, when, where and by whom. Stratified random sampling was used to generate the sample size. In stratified random sampling, the population is divided into two or more strata, when the population is heterogeneous with regard to the characteristics or variables under study. The data collection method was based on a structured approach due to the target population and their nature of work. The examination information was broken down using Microsoft excel and Statistical Package for Social Sciences (SPSS) program and presented using tables and figures to give a clear picture of the research findings at a glance. To ensure ease in analysis, the questionnaires was coded accordingly to each variable of the study and entered into the SPSS program. The quantitative tools employed were descriptive statistics which included measures of central tendencies. These tools of analysis used to determine views of commonality and deviations from commonality. Correlation was another useful statistic tool that described the degree of relationship between the variables used. The output after analysis were presented using frequency tables, graphic presentations and inferential statistics outputs.

The study revealed that AAR had not reported high loss ratios, and the organization did not rely on investment income to act as a cushion for its underwriting results. Firm size is an important determinant of an insurance company’s performance, and the control of managers pursuing self-interested goals has the ability to alter profit maximization as the firm’s objective function. The study indicated that large firms enjoy economies of scale and their average cost of production is low ensuring efficient operational activities, that they face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification.
The study showed that organizational structure affects the performance of insurance companies through innovation and organizational learning. AAR has a high trust environment that produces accurate results in the least amount of time and its organizational structures create vertical and horizontal structures that facilitate communication. The study revealed that AAR’s organizational structure is not complex and facilitates as well as encourages employee creativity, and the organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures.

The study revealed that leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees, and it is critical in encouraging employees towards a common goal. Leadership in AAR focuses on the development of employees and their needs, and it determines the organizational values, culture, change tolerance and employee motivation. AAR’s leadership is seen as a potent source of the development and sustenance of the organization’s competitive advantage.

The study also concludes that large firms are more stable and mature, therefore generate greater sales because of their great production capacity. AAR’s organizational structure is not complex and facilitates as well as encourages employee creativity, and the organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures. AAR leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance.

The study recommends AAR management to increase the organization’s assets because the study has revealed that firm size is significant to insurance company performance. Increase of the organization’s assets will improve the company’s competitive power, which will facilitate its competitive edge in highly competitive markets.
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First, I would like to thank God for giving me the capability to proceed with this research project. I would also like to express my gratitude to my professor and supervisor, Dr, Katuse for providing the much needed guidance, patience, dedication and availability for me to proceed with this research. I would like to express my gratitude to my Fiancé, parents for their support, encouragement and mentorship throughout my education. I extend my gratitude to USIU and my lecturers for contributing greatly to the knowledge I acquired from the institution during my undergraduate and graduate studies. Further, I give special appreciation to my workmates for supporting my studies by building flexible schedules that allowed me meet my obligations as a USIU student.
DEDICATION

This project is dedicated to my loving Fiancé out in Australia, family and friends for the inspiration and encouragement rendered to me throughout this journey.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The past decade has seen a dramatic rise in the number of insolvent insurers. The perceived causes of these insolvencies vary. Some of the insolvencies were precipitated by rapidly rising or declining interest rates, mispricing of insurance policies, natural catastrophes, and changes in legal interpretations of liability and the filing of false claims, poor credit policies among others. The churning of policies by unscrupulous sales agents, insolvencies among the re-insurers backing the policies issued, non-compliance with insurance regulation, and malfeasance on the part of officers and directors of insurance companies affected as well (Baldoni, 2008).

As a result of globalization, deregulation and terrorist attacks, the insurance industry has gone through a tremendous transformation over the past decade (Sanchez, 2006). There are many factors to examine when looking at insurance companies. More than anything, both consumers and investors should concern themselves with the insurer's financial strength and ability to meet ongoing obligations to policyholders. Poor fundamentals not only indicate a poor investment opportunity, but also hinder growth. Nothing is worse than insurance customers discovering that their insurance company might not have the financial stability to pay out if it is faced with a large proportion of claims (Babbel & Klock, 1994).

Insurance companies sell protection to policyholders against many types of risks: property damage or loss, health and casualty, financial losses, etc. In return for this risk protection, insurance companies receive a premium from the policyholder that is used to cover expenses and the expected risk. For longer-term risk protections, part of the premiums is invested to get higher yields. Although the protection buyer mitigates the individual risk to the large and better diversified portfolio of the insurer, the risk is not completely reduced because the insurer may default his obligations. Insurers need to have sufficient equity or buffer capital to meet their obligations in adverse conditions when their losses on the diversified portfolio exceed the expected losses. Potter (1998) contends that this may affect the ability of the insurer to meet its obligations to policyholders and debtholders.
While insurance companies hold billions of shillings belonging to the general public, including buyers of their products, retirement benefit schemes and funds managers, information on these companies is scanty. For large consumers of insurance products, this group usually relies on the expertise of qualified risk management consultants to offer advice on where to place their insurance covers (Kumba, 2011). But it is the retail consumer of insurance who is left to grope in the dark, constantly dazzled by overzealous insurance agents, all trying to outdo each other in selling one product or the other. With a shortage of qualified insurance sales people to sell products, the general public is left without any basis on which to make an informed expenditure or investment decision on which company to place their cover with (Kumba, 2011).

Based on available credit rating methods, profit combined with other ratios and computations can provide useful indicators to anyone looking for a stable and financially sound insurance company (Kumba, 2011). Other financial ratios, include current ratio which simply shows how fast an insurance company can settle a claim. These ratios are critical in determining the financial strength and ability of any insurance company to settle claims and stay in business. For those wishing to determine if their insurance company is failing, risk management experts advice that one needs to calculate the Debt/Equity ratio, which is total liabilities divided by shareholders equity. This ratio is also known as risk gearing and shows the extent to which a company is financed by borrowed funds. Other ratios include acid test ratios, which is liquid assets divided by current assets and the current ratio. All the above ratios can determine whether it is safe to place a cover with the insurance company, Kumba (2011), and whether the insurer is in a sound financial position to settle claims; factors which are of great importance to the investors, employees and policy holders.

Firm performance can be measured in different ways and by applying different methods; however, one of the most widely applied methods refers to financial analyses that use profitability ratios as key measures of firm’s overall efficiency and performance. Although a great number of theories tried to explain the reasons why some firms are more profitable than others, and numerous studies investigated different variables that may influence firm performance, the issue of firm business success continues to be an inexhaustible subject that draws attention of many practitioners and researchers.
Financial performance is a measure of an organization’s earnings, profits, appreciations in value as evidenced by the rise in the entity’s share price. In insurance, performance is normally expressed in net premiums earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity. These measures can be classified as profit performance measures and investment performance measures. Profit performance includes the profits measured in monetary terms. Simply, it is the difference between the revenues and expenses. These two factors, revenue and expenditure are in turn influenced by firm-specific characteristics, industry features and macroeconomic variables. Investment performance can take two different forms. One the return on assets employed in the business other than cash, and two, the return on the investment operations of the surplus of cash at various levels earned on operations (Chen and Wong, 2004; and Asimakopoulos, Samitas, and Papadogonas, 2009).

At the micro level, profit is the essential pre-requisite for the survival, growth and competitiveness of insurance firms and the cheapest source of funds. Without profits insurers cannot attract outside capital to meet their set objectives in this ever changing and competitive globalized environment. Profit does not only improve upon insurers’ solvency state but it also plays an essential role in persuading policyholders and shareholders to supply funds to insurance firms. Thus, one of the objectives of management of insurance companies is to attain profit as an underlying requirement for conducting any insurance business (Chen and Wong, 2004; and Harrington and Wilson, 1989).

General insurer’s profitability is influenced by both internal and external factors. Whereas internal factors focus on an insurer’s specific characteristics, the external factors concern both industry features and macroeconomic variables. The firm-specific factors include; leverage which is measured by the ratio of total debt to equity (debt/equity ratio). This ratio shows the degree to which a business is utilizing borrowed money. It reflects insurance companies' ability to manage their economic exposure to unexpected losses. This ratio represents the potential impact on capital and surplus of deficiencies in reserves due to financial claims (Adams & Buckle, 2000).
Another determinant of financial performance is the level of liquidity. Liquidity refers to the degree to which debt obligations coming due in the next twelve months can be paid from cash or assets that will be turned into cash. Insurance liquidity is the ability of the insurer to fulfill their immediate commitments to policyholders without having to increase profits on underwriting and investment activities and/or liquidate financial assets. The cash and bank balances are to be kept sufficient to meet the immediate liabilities towards claims due for payment but not yet settled (Chaharbaghi & Lynch, 1999).

The size of the firm is another factor that determines an insurance company's financial performance. The size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. Size can be determined by net premium which is the premium earned by an insurance company after deducting the reinsurance ceded. The premium base of insurers dictates the quantum of policy liabilities to be borne by them (Ahmed, Ahmed, & Ahmed, 2010; Teece, 2009).

Another factor is the age of a company. Older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can therefore enjoy superior performance. Older firms may also benefit from reputation effects, which allows them to earn a higher margin on sales. On the other hand, older firms are prone to inertia, and the bureaucratic ossification that goes along with age; they might have developed routines, which are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed (Shiu, 2004; Demirgüç-Kunt & Maksimovic, 1998).

The other factor determining financial performance is underwriting risk which reflects the adequacy, or otherwise, of insurers' underwriting performance. Sound underwriting guidelines are pivotal to an insurer's financial performance. The underwriting risk depends on the risk appetite of the insurers. The ratio of benefits incurred to net premium is a measure of underwriting risk (Adams & Buckle, 2000).

Equity capital which is the capital raised from owners in the company, is the residual claimant or interest of the most junior class of investors in assets, after all liabilities are
paid; if liability exceeds assets, negative equity exists. In an accounting context, shareholders' equity (or stockholders' equity, shareholders' funds, shareholders' capital) represents the remaining interest in the assets of a company, spread among individual shareholders of common or preferred stock; a negative shareholders' equity is often referred to as a positive shareholders' deficit. More capital influx will enable the firm to expand and open new branches, which in turn may lead to growth and possibly would be accompanied by economies of scale and hence improved financial performance (Lee, 2008; Hansen, 1999).

The Insurance Regulatory Authority (IRA) is a State Corporation whose mandate is to regulate, supervise and promote the development of the insurance industry in Kenya. The key players regulated by IRA are Insurance Companies, Re-Insurance Companies, Insurance Brokers, Insurance Agents, Motor Assessors, Insurance Investigators, Insurance Surveyors, Loss Adjustors, Claim Settling Agents and Risk Managers. The Authority has been working with various stakeholders locally, regionally and internationally to put in place policies that will enhance the regulatory environment for the insurance sector growth and enhance insurance access in the country.

The statute regulating the industry is the Insurance Act; Laws of Kenya, Chapter 487 which was enacted in 1985. The office of the Commissioner of insurance was established under these provisions to strengthen the government regulation on insurance. The Commissioner of insurance was created as a department under the ministry of finance. In order to enhance the supervisory capacity of the regulator, the government delinked the department from the ministry to give it some autonomy. The insurance (amendment) Act number 11 of 2006 established the Insurance Regulatory Authority (IRA) with the commissioner of insurance as the managing director and the chief executive officer to take the role of regulating, supervising and developing the insurance industry. This body replaced the functions of the commissioner of insurance. The role of the authority is to ensure effective administration, supervision, regulation and control of insurance and reinsurance business in Kenya (Insurance amendment Act, 2006).

The authority is also mandated to license all persons involved in or connected with insurance business including insurance and re-insurance companies, insurance and re-insurance intermediaries, loss adjusters and assessors, risk surveyors and valuers. To
protect the interest of insurance policy holders and insurance beneficiaries in any contract of insurance. To promote the development of the insurance sector and to advise the government on the national policy to be followed in order to ensure adequate insurance protection and security for national assets and national properties among other functions (insurance act Cap 487). There is also a self-regulation of the insurance by the Association of Kenya Insurers (AKI). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education.

In 2016, insurance premiums registered a growth of 12.3% largely driven by growth in the life sector. This was an accelerated growth compared to 9.9% growth witnessed in the previous year. The life sector grew by 19.3% compared to an 8.5% growth in the non-life segment. The non-life segment contributed 62.5% (KES 121.67 billion) while long-term insurance business contributed 37.5% (KES 73.06 billion) of the total premium written by insurers during the period under review.

The loss ratio under general insurance for the period under review was 62.3% up from 61.5% in 2015. The general insurance business underwriters incurred claims amounting to KES 53.70 billion in 2016, an increase of 9.3% compared to KES 49.13 billion incurred during the previous year. Underwriting expenses comprise of expenses of management and commissions (business acquisition costs). The net spending on commissions for the acquisition of business in 2016 amounted to KES 12.32 billion, representing a growth of 11.3% from KES 11.06 billion reported in the previous year. Management expenses grew marginally by 6.8% from KES 35.71 billion by the end 2015 to KES 38.13 billion a year later. Commissions and management expense ratios under general insurance business were 7.8% and 30.3% respectively resulting in a combined ratio of 100.5% in 2016. Similarly profit after tax in 2016 grew negatively -31.37% compared to 2015, 5.25 billion in 2016 against 7.66 billion in 2015, this is despite a positive growth in gross written premium of 8.5% within the same period, 121.6 billion in 2016 against 112.1 billion in 2015.

AAR started its operations in 1984 with its primary business being medical evacuations of accident casualties both by road and by air. Membership increased along with numbers of customers, hence creating more opportunities to provide comprehensive health.
Response to emerging market opportunities, our flexibility, and innovation and readiness to respond to customer needs has made AAR a leader in medical Insurance in East Africa. This growth led to formation of an independent company AAR Insurance Kenya Limited, which offers a wide range of medical and non-medical insurance products. Today AAR Insurance has a presence across the region through its intensive branch and broker network. AAR Insurance is also a licensed financial service provider and a member of the Association of Kenyan Insurers. It has distinguished itself as dynamic thought leaders by providing flexible and simple insurance solutions to empower Africa’s people; the cornerstone of a strong economy. AAR Insurance has been operating as an independent company for the last four years. Other companies under the larger group of companies are AAR Insurance Tanzania Limited, AAR Healthcare Uganda Limited, AAR Credit Services Limited and AAR Beckman Trust.

1.2 Statement of the Problem
It has been noted that without the insurance sector, the economy and the wealth creation associated with it can be adversely affected (International Accounting Standards Board, 2007). The insurance industry forms an integral part of the country’s financial sector and its benefits cannot be over-emphasized. If this crucial sector was to collapse, the consequence on the economy would be devastating, knocking off billions of shillings from the Gross Domestic Product (GDP) index. However, the insurance sector in Kenya and other countries while providing critical interventions and creating wealth through investments, has had a fair share of company collapses (Kumba, 2011; Greene, 2000 and Hagel, Brown & Davison, 2010).

Over the last one decade, a number of insurance companies have closed shop and eventually liquidated. They include Invesco Assurance Company which was placed under receivership in 2008, Standard Assurance in 2009 and Blue shield placed under statutory management in 2011. The others include:- Kenya National Assurance Company, United Insurance Company, Lake Star Assurance Company, Access Insurance Company and Stallion Insurance, Mudaki and Wanjere (2012). In the year 2013, Concord Insurance Company became the ninth insurance company to collapse.
Most of these companies have gone under with billions of shillings, in cash, belonging to policy holders, pension schemes and life funds. Additionally a number of General Insurance companies have in the recent past issued profit warnings. They include; Liberty Kenya limited in 2015 with its earnings ending December 2015 expected to have been at least 25 percent lower than 2014. Other companies include Britam Holdings and UAP Insurance with profit warnings issued within the same period. Most recently Sanlam Kenya and CIC Insurance have issued profit warnings for the period ending December 2016. This brings out the question of whether insurance companies are financially sound and whether they are disclosing enough information to enable investors make informed decisions. Obviously financial health is critical for any business organization. This study therefore sought to fill the research gap by investigating the factors affecting performance of insurance companies in Kenya.

1.3 General Objective
The study aimed to investigate factors that affected the performance of insurance companies in Kenya.

1.4 Specific Objectives
The study sought to answer the following research objectives:
1.4.1 To find out how firm size affects performance of insurance companies in Kenya
1.4.2 To establish how firm structure affects performance of insurance companies in Kenya
1.4.3 To investigate how leadership affects performance of insurance companies in Kenya

1.5 Significance of the Study
1.5.1 Researchers and Academicians
The findings of this research may be beneficial to researchers, academicians and insurance professionals as it adds to the existing body of knowledge in the field of insurance and acts as a spring board for further research in the same area and other related areas, in the financial sector. The findings of the research may act as a reference to middle level as well as senior level managers on key internal parameters to constantly observe when determining the financial health of general insurance companies in Kenya and adequately address the problem of undesirable performance with the general insurance industry companies in Kenya.
1.5.2 Policy Makers (Government and Insurance Regulators)
This study may be useful to policy makers for example; executives of individual insurance companies in Kenya may be able to use the findings to assist them in formulating policies to better financial growth and stability. The Insurance Regulatory Authority (IRA) may borrow from the findings so as to come up with structures, and policies to assist the industry grow and enhance contribution to the Gross Domestic Product (GDP). The findings may also assist the East Africa (EA) Region countries who currently are relying on the Kenyan experience and knowledge to grow their markets.

1.5.3 Insurance Companies in Kenya and the Management
The findings of the research may act as a reference to middle level as well as senior level managers on key internal parameters to constantly observe when determining the financial health of general insurance companies in Kenya and adequately address the problem of undesirable performance with the general insurance industry companies in Kenya.

1.6 Scope of the Study
Over the last one decade, a number of insurance companies have closed shop and eventually liquidated. They include Invesco Assurance Company which was placed under receivership in 2008, Standard Assurance in 2009 and Blue shield placed under statutory management in 2011. The others include:- Kenya National Assurance Company, United Insurance Company, Lake Star Assurance Company, Access Insurance Company and Stallion Insurance, Mudaki and Wanjere (2012). In the year 2013, Concord Insurance Company became the ninth insurance company to collapse.

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1.7 Definition of Terms

1.7.1 Competitive Advantage
Competitive advantage this is defined as the strategic advantage one business entity has over its rival entities within its competitive industry (Thomas & Wheelan, 2011).

1.7.2 Cost Strategy
This strategy is an assimilated set of action undertaken by a firm to produce goods or services acceptable to customers at the lowest cost. The strategy is aimed at allowing the firms to generate competitive advantage through offering lowest cost in the industry (Ireland et al., 2011).

1.7.3 Insurance
The process through which individuals known as insurers accept the financial risk of another individual insured for consideration in the form of premiums paid. Within any given economy, the insurance industry is an essential agent for sustainable economic growth and development (Haufler, 2013).

1.7.4 Performance
A firm’s performance is measured by the firms’ profitability, market penetration into new markets as well as attractiveness of its products and service to the customers (Ireland et al., 2011).

1.7.5 Strategic Management
Strategic management is concerned with deciding on a strategy and planning how the strategy is to be put into effect through strategic analysis, strategic choice, strategic implementation and control (Johnson & Scholes, 2002).
1.7.6 Strategy
Strategy is a pattern or plan that integrates an organization's major goal, policies and action sequences into a cohesive whole (Porter, 1998).

1.8 Chapter Summary
This chapter introduces the problem and the purpose of the study. It covers several areas such as the background of the study where the context of the study is defined by providing key discussions of key theoretical approaches and findings reported in earlier related studies. The statement of the problem describes the need for the research project in terms of the knowledge gap to be filled. Importance of the study, which describes the value, accrued from conducting the research and the scope of the study where data was collected from for analysis. Chapter two presents the literature review of the study, chapter three presents the methodology used in the study, chapter four presents the results and findings of the study, and chapter five presents the discussions, conclusions, and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
Literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and metrological contributions to particular topic. Literature reviews are secondary sources, and as such do not report any new or original experimental work. This chapter will therefore discuss the reviews and the summaries of the previous study regarding the scope of the research. The chapter deals with the concept of insurance, organizational performance and provides investigations on factors affecting the performance in insurance companies and also other financial institutions.

2.2 Firm Size and Performance of Insurance Companies
2.2.1 The Insurance Sector
The insurance sector plays a key role in economic development since it is an infrastructure pillar of the financial services sector and the economy as a whole (Olima, 2010). The economic importance of the insurance sector has been increasing in most developing countries. Insurance companies form a growing part of the domestic financial sector. They have also become significant players in the international capital markets. Gordon (2013) adds that insurance reduces the economic waste occasioned by destruction of property by works such as fire, floods, storms and other natural calamities. Insurance is a mobilizer of savings for the financial and investment sectors of the economy.

The main players in the Kenyan insurance industry are insurance companies, reinsurance companies, intermediaries such as insurance brokers and insurance agents, risk managers or loss adjusters and other service providers. The activities of insurance companies include underwriting insurance policies (including determining the acceptability of risks, the coverage terms, and the premium), billing and collecting premiums, and investigating and settling claims made under policies (Insurance Regulatory Authority, 2010).

The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The insurance industry in Kenya is regulated by the Insurance Regulatory Authority (IRA), a
semi-autonomous regulator, set up in 2008. Insurance Regulatory Authority is expected to improve regulation and stability of the industry by formulating and enforcing insurance standards, particularly in relation to compulsory lines such as compulsory third-party motor liability insurance. It monitors and enforces claims settlement, ownership of insurance companies limiting it to 25% for an individual shareholder and increasing the minimum capital requirements (Association of Kenya Insurers, 2010). Insurance density (premium per capita) and insurance penetration (premium in percentage of GDP) which are important growth indicators are quite low in Kenya compared to other countries (African Insurance Market Outlook, 2010). Life insurance penetration in Kenya varied lowly from 0.83% of the GDP in 2007, 0.87% of the GDP in 2008 to 0.94% of the GDP in 2009 and 1.05% of the GDP in 2010 (Olende, 2010). The industry’s contribution to the country’s GDP is still low although there has been notable growth for the last 9 years. The gross written premium by the industry was KShs. 108.54 billion compared to Kshs. 91.60 billion in 2011, representing a growth of 18.49% (AKI Report, 2013).

Kenyan insurance companies generally reported high loss ratios. Between 2010 and 2013, the loss ratios for the industry as a whole ranged between 56% and 60%. Insurers have traditionally relied on investment income to act as a cushion for their underwriting results. (2006-2013, PwC). It was also a problem to the intermediaries themselves as distrust by the market led to lower sales, lower commissions and lower uptake of insurance sales as a career of choice. A population that is not receptive to insurance in turn suffered the following problems; inadequate cover against exposure to hazards; insufficient investments/savings for future; Social imbalance occasioned upon the inevitable demise of breadwinners.

2.2.2 The Concept of Profitability
Greene and Segal (2004) argued that the performance of insurance companies in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity. These measures could be classified as profit performance measures and investment performance measures. However, most researchers in the field of insurance and their profitability stated that the key indicator of a firm’s profitability is Return on Assets (ROA) defined as the before tax profits divided by total assets. Philip Hardwick and Mike Adams (1999), Hafiz Malik
(2011) are among others, who have suggested that although there are different ways to measure profitability it is better to use ROA.

2.2.3 Effects of Firm Size on Performance

Firm size is one of the most influential characteristics in organizational studies. Chen and Hambrick (1995), and Mintzberg (1979) provide a summary and overview of the importance of firm size. Firm size has also been shown to be related to industry-sunk costs, concentration, vertical integration and overall industry profitability (Dean et al., 1998). Larger life insurance companies are more likely to have more layers of management, greater number of departments, increased specialization of skills and functions, greater centralization and greater bureaucracy than smaller life insurance companies (Daft, 1995).

A study by Ahmed et al. (2011) investigates the impact of firm level characteristics on performance of the life insurance sector of Pakistan over the period of seven years. For this purpose, size, profitability, age, risk, growth and tangibility are selected as explanatory variables while ROA is taken as dependent variable. The results of Ordinary Least Square (OLS) regression analysis revealed that leverage, size and risk are most important determinant of performance of life insurance sector whereas ROA has statistically more of insignificant relationship with, tangibility of assets. However, Hafiz Malik (2011) found that there exists a positive and significant relationship between tangibility of assets and profitability of insurance companies and argued that the highest the level of fixed assets formation, the older and larger the insurance company is. In contrast to this, Yuqi Li (2007) in United Kingdom (UK) found no significant relationship between tangibility of assets and profitability of insurance companies.

Yegon, Mouni and Wanjau (2014) citing Kamar, Rajan and Zingales (2001) suggested that what determines a firm size is the ownership of physical assets which are critical resources. The neoclassical theory of firm size supported by Lucas (1978) also looked at the firm size in terms of per capita capital in form of investment return and research and development. Pervan and Višić (2012) emphasized on the conceptual framework that advocates a negative relationship between firm size and profitability which is noted in the alternative theories of the firm. The theory, as stated, suggests that large firms come under the control of managers pursuing self-interested goals and therefore profit
maximization as the firm’s objective function which may be replaced by managerial utility maximization function. Akbas and Karaduman (2012) citing Athanasoglou, Brissimis and Delis (2008) claimed that size could impact the profitability negatively, for firms that become extremely large due to bureaucratic and other reasons. The nature of the relationship between firm size and economic performance has received considerable attention in the literature but has provoked vigorous debate as existing literatures provide conflicting results (Symeou, 2012). Some industries, organizations and sectors link large firms to better performance in line with the neoclassical theory of firm size while some research findings support the conceptual framework that advocates a negative relationship between firm size and profitability.

Pavelkova and Knápková (2009) posit that when a firm becomes larger, it enjoys economics of scale and its average cost of production is lower and operational activities are more efficient. Yang and Chen (2009) opines that large firms face less difficulty in getting access to credit facilities from financial institutions for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification. Akbas and Karaduman (2012) while citing Hardwick (1997) stated that larger firms have some advantages such as greater possibility of taking advantage of scale of economies which can enable more efficient production, a greater bargaining power over both suppliers and distributors or clients, exploiting experience curve effects and setting prices above the competitive level. While citing Weiner and Mahoney (1981), Ravenscraft and Scherer (1987), Akbas and Karaduman (2012) also argued that larger firms are more stable and mature and they can generate greater sales because of the greater production capacity and finally, those firms have the chance of capital cost savings with the economies of scale. The understanding of the relationship between firm size and performance was advanced by Symeou (2012) when he examined whether firms enjoying higher growth potential are better performers, arguing that small economy size could contain firm growth potential and by extension firm performance. Controlling for the effects of competition, firm governance structure, and institutional risk, inter alia, the findings suggest that firm growth potential is not necessarily a limiting factor as both firms in small and large economies can operate efficiently.
The effect of firm size on profitability of virtually all the branches of Bank of Ceylon (BOC) and Commercial Bank of Ceylon Ltd (CBC) with 10 years accounting period was studied by Velnampy and Nimalathasan (2010). The correlation analysis conducted on the secondary data indicates that there is a positive relationship between Firm size and Profitability in Commercial Bank of Ceylon Ltd, while there is no relationship between firm size and profitability in Bank of Ceylon.

An examination of the impact of firm specific factors on company financial performance of 974 firms in the Czech Republic over the period 2005 to 2008, using data in the Albertina database was conducted by Chandrapala and Knápková (2013). Their research found that the firm size, sales growth and capital turnover are having significant positive impact on financial performance of firms, while debt ratio and inventory reflect significant negative impact on financial performance of firms.

The majority of the studies measuring the influence of firm size on profitability have found results with positive direction between firm size and profitability. In line with this, a positive relationship between firm size and profitability was found by Vijayakumar and Tamizhselvan (2010). The authors used different measures of size (sales and total assets) and profitability (profit margin and profit on total assets) while applying model on a sample of 15 companies operating in South India in their study, which was based on a simple semi-logarithmic specification of the model. The part that firm size plays in profitability was examined by Lee (2009) who used fixed effect dynamic panel data model and performed analysis on a sample of more than 7000 US publicly-held firms. According to him absolute firm size plays a remarkable role in explaining profitability. Ozgulbas et al. (2006) have studied the effects of firm size on performance over the firms operating in Istanbul Stock Exchange between the years of 2000 to 2005.

As a result of their study, they have found that big scale firms have a higher performance as compared to small scale firms. In a similar fashion, Jonsson (2007) has studied the relation between profitability and size of the firms operating in Iceland. Results of the analysis showed that bigger firms have higher profitability as compared to smaller firms. Size-profit relationship for the firms functioning in the financial services sector was tested by Amaton and Burson (2007). They tested both linear and cubic form of the relationship. Even though a negative influence of firm size on profitability was revealed with the linear
specification in firm size, evidence of a cubic relationship was detected between return on assets and firm size. Becker et al. (2010) have studied the effects of firm size on profitability in the firms operating in manufacturing sector in USA using the data of years 1987 to 2002.

Results of the study showed that negative and statistically significant relations exist between the total assets, total sales and number of employees of the firms and their profitability. Velnampy (2005) pointed a study on investment appraisal and profitability of toddy bottling project in Sri Lanka which found that the management of the project failed to attain the budgetary results, even though the Net Present Value (NPV), Internal Rate of Return (IRR) and benefit cost ratio showed the project as commendable. Velnampy (2006) studied the financial position of the companies and the relationship between financial position and profitability with the sample of 25 public quoted companies in Sri Lanka through the use of Altman Original Bankruptcy Forecasting Model. According to his verdicts, out of 25 companies only 4 companies were in the danger of going bankrupt in the near future.

Moreover, he also found that in deciding the financial position of the quoted companies, earning/total assets ratio, market value of total equity/book value of debt ratio and sales/total assets in times were the most significant ratios. Banchuenvijit (2012) studied factors affecting performances of the firms operating in Vietnam. A positive relation has been found between total sales and profitability of the firms but on the contrary, a negative relation has been found between profitability and total assets. Additionally, the author has found statistically non-significant results between number of employees and profitability. Velnampy and Nimalathasan (2010) studied the relationship between firm size and profitability of all the branches of Bank of Ceylon and Commercial Bank in Sri Lanka over the period of 10 years from 1997 to 2006.

They observed that there was a positive relationship between firm size and profitability in Commercial Bank, but there was no relationship between firm size and profitability in Bank of Ceylon. Velnampy (2013) discovered that there was no correlation between corporate governance and firms’ performance measures. The sample of 28 manufacturing companies using the data representing the period of 2007 to 2011 revealed that the determinants of corporate governance were not correlated to the performance measures of
the organization. Based on these literatures it is crystal clear that the studies on the effects of firm size on profitability have generated varied results ranging from those supporting a positive relationship among the variables used in the study to those opposing it. There is no common agreement on how the firm size is related to firm profitability. Hence, the results are inconclusive and require more empirical work. In this way, the current study has been instigated to investigate the effects of firm size on profitability of the listed manufacturing firms in Sri Lanka.

2.3 Organizational Structure and Performance of Insurance Companies

In order to understand the broad term ‘organizational structure’ we will use the work of different researchers; it will help us to enhance our knowledge and understanding. Bloisi et al. (2007) defines organizational structure as a grouping of people and tasks into different units to boost coordination of communication, decisions, and actions. Realizing the close connection between the processes taking place inside an organization makes it is easier to understand the intricate task of directing an efficient organization.

Sablynski (2003) defined organizational structure as how job task formally divided, grouped and coordinated. According to Dalton (1980), organizational structure may be considered the anatomy of the organization, providing a foundation within which organizations function. Dalton (1980) categorized the organizational structure into traditional hierarchical organization and high performance organization. Traditional hierarchical organization is any long, complex administrative structure with job specialization and complex rules based on the principle of hierarchical authority, job specialization and formal rules (Machinsky, 1990).

2.3.1 Effect of Organizational Structure on Performance

Hao and colleagues (2007) studied about the relationship between organizational structure and performance, especially through organizational learning and innovation, based on evidence from Austria and China. The findings have shown that in a hi-technology or knowledge intensive industry, organizational structures affect organizational performance mainly through innovation and organizational learning. But in traditional industry, such as labor- or capital-intensive industry, organizational structure impacts organizational performance mainly through innovation.
In 2009, Seykora showed that the edge organization operating in a high trust environment produces the most accurate results in the least amount of time. Additionally accuracy performance in the rigid hierarchy was more resilient than the flexible edge structure to change in trust level. Kasrai and Alirahimi (2009), in an investigation which conducted in retirement organization in Iran, showed that there is a significant and negative relationship between complexity and effectiveness of communication. Also this result is similar to the relationship between centralization and effectiveness of communication. Zhang and others (2010) studied the possible mediating role of knowledge management in the relationship between organizational culture, structure, strategy and organizational effectiveness.

The results suggest that knowledge management fully mediates the impact of organizational culture on organizational effectiveness and partially mediates the impact of organizational structure and strategy on organizational effectiveness. According to Vineburgh (2010) higher levels of empowerment, higher levels of support for innovation, and lower levels of interpersonal conflict were associated with higher levels of organizational trust. Lewis (2011) conducted a study in order to examine the effects a bureaucratic organization on communication capacity of management information system. The results identified traditional organizational structures create vertical and horizontal boundaries impeding communication.

The findings determined the critical aspects to improve communication through the reduction of boundaries was direct leadership support for a centralized management information system team with clear responsibility, accountability and authority to facilitate organizational communication. Veisi (2012) in an investigation which conducted in Bank found out that the positive relationship is between organic structure and participatory culture. Also there is significant relationship between mechanical structure and bureaucratic culture. Powley and Nissen (2012) examined the effect of trust levels and organizational design on performance. The results have shown that trust and organizational design have strong interactions and that hierarchical organizations experience performance levels well below flexible organizational structures. Aghajani and others (2013) found the significant relationship between organizational structure and employee creativity in Saveh Pars Company. Also the results have shown the significant relationship between the level of formalization, complexity, centralization and creativity.
of employee. Shaemi Barzoki and colleagues (2013) determined organization’s structure dimensions effect on organizational trust. They found that formalization, standardization, hierarchy of authority, centralization and professionalism dimensions had affected organizational trust and complexity, specialization, and employee ratio and management ratio dimensions didn’t affect organizational trust in this company.

2.3.2 Organizational Structure and Control
Organizational control is a cycle that includes the three stages of target setting, measuring or monitoring and feedback. Control in organizational bureaucracy can consist of rules, standards, and internal procedures. Centralization refers to the hierarchical level that has authority to make decisions. If decisions are delegated to lower levels, the organization is decentralized, and if decision making power authority is set aside at the top level, it is centralized. Germain (2008) considered the outcome of structure on the performance mediating supply chain management and found that formal structure has a positive effect on performance in stable environment and a negative effect is achieved in dynamic atmosphere. He also opined that developing and enforcing performance control and behavioral prescriptions improves decisions and increases predictability of performance.

Ajagbe (2007) affirms that an organization can design its structure when it decides how it want its members to act, what attitudes it want to promote, and what it desires its members to attain, and support the development of cultural values and norms to get these desired behaviors, attitudes and goals. Ajagbe et al. (2011) found "no relationship between employee performance and span of control, but higher levels of job satisfaction were evident in decentralized organizations because the span of control portion of organizational structure defines the amount of employees an authority figure is responsible for". The span of control is expressed in one of two ways: a wide span of control where managers supervise many employees as well as a narrow span of control where managers supervise few employees. Quangyen & Yezhuang (2013) says organizational structure decreases employee ambiguity and helps explain and predict behavior.

Long et al. (2012) explained that organizational effectiveness and its relation to structure can be determined by the fit between information processing requirements so that people can have neither too little nor too much inappropriate information. However, the flow of
information is important to an organization’s accomplishment. He also suggested that the organization’s structure should be designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure. Csaszer (2008) agreed on the idea that organizational structure shapes performance in an organization. He further stated that in a poorly designed structure, good performers will acquire the shape of the structure. Walton (1986) attached structure to effectiveness. The author concluded that the restructuring of management is designed to improve on both the efficiency and effectiveness of the management of the organization.

Lyonski et al. (1995) emphasized on the extent of formalization of rules and procedures, centralization of decision-making and structural differentiation in their analysis of environmental uncertainty and organizational structure from a product management point of view. One of the mainly outstanding scholars in the field of bureaucratic structure is the German sociologist Max Weber (1947). However, the well-defined hierarchical structure assumes that the lowest common superior is the one to turn to. The main traits illustrate Weber's explanation of a bureaucratic structure in an organization. Andersson & Zbirenko (2014) discovered that structure, communication and leadership affect productivity and efficiency. Structure explains how productive the operational processes are in the organization.

Communication affects how things are done very fast and how willing and happy personnel are in the organization. Leadership affects every personnel and how they strive for accomplishing their goals. Nahm et al. (2003) analyzed a framework for understanding relationships among key sub-dimensions that defuse the firm's structure and reporting relationships, time-based manufacturing practices, and plant performance. They came up with a research framework that observes relationships among different structural dimensions (i.e. level of horizontal integration, number of layers in the hierarchy, nature of formalization, locus of decision-making and level of communication), time-based manufacturing practices, and plant performance. Findings indicated that the number of layers in the hierarchy, the nature of formalization and the level of horizontal integration have direct, significant and positive effects on the level of communication and locus of decision-making.
Review from previous research (Csaszer, 2008; Nahm et al., 2003) has shown that effective organizational structure facilitates proper working relationships among various sub-units in the organization. This may definitely improve company efficiency within the organizational units. The findings reveal that organizational structure has an impact on organizational performance. It also indicated that there is a relationship between specialization of work process and labor productivity which implies that organizational structure affects the behavior of employees in the organization. Based on this research, it can further be concluded that performance of an organization largely depends on the structure of the organization. When a clear structure exists people perform better, tasks are divided and productivity is increased. Indeed, having a suitable organizational structure in place, one that recognizes and addresses various human and business realities of the company in question is a prerequisite for long term success. It is therefore recommended that management should critically analyze the effectiveness and efficiency of the organization by ensuring proper structures are put in place.

2.4 Leadership and Performance of Insurance Companies

Leadership style is a key determinant of the success or failure of any organization. A leader is a person who influences, directs, and motivates others to perform specific tasks and also inspire his subordinates for efficient performance towards the accomplishment of the stated corporate objectives. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people. According to Ngambi et al. (2010; 2011), leadership is a process of influencing others’ commitment towards realizing their full potential in achieving a value added, shared vision, with passion and integrity. The nature of this influence is such that the members of the team cooperate voluntarily with each other in order to achieve the objectives which the leader has set for each member, as well as for the group.

The relationships between the leader and employee, as well as the quality of employees’ performance, are significantly influenced by the leadership style adopted by the leader (Jeremy et al., 2011). Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization (Obiwuru et al., 2011). Leadership is a critical management skill, involving the ability to encourage a group of people towards common goal (Jeremy et al., 2011). Leadership focuses on the development of followers and their needs (Obiwuru et
Managers exercising transformational leadership style focus on the development of value system of employees, their motivational level and moralities with the development of their skills (Ismail et al., 2009). It basically helps followers achieve their goals as they work in the organizational setting; it encourages followers to be expressive and adaptive to new and improved practices and changes in the environment (Azka et al., 2011). According to Michael (2011) leadership has a direct cause and effect relationship upon organizations and their success. Leaders determine values, culture, change tolerance and employee motivation. They shape institutional strategies including their execution and effectiveness.

Leadership is life blood of any organization and its importance cannot be underestimated. Many authors have studied this phenomenon, but there is no conscious definition of what leadership is, no dominant paradigm for studying it, and little agreement regarding the best strategies for developing and exercising it (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007). Omolayole (2006) views leadership as that kind of direction, which a person can give to a group of people under him in such a way that these will influence the behavior of another individual, or group. Ngodo (2008) perceives leadership to be a reciprocal process of social influence, in which leaders and subordinates influence each other in order to achieve organizational goals. Leadership style is viewed as the combination of traits, characteristics, skills and behaviours that leaders use when interacting with their subordinates (Marturano & Gosling, 2008, Jeremy et al., 2011). Flippo & Musinger (1999) see leadership as a pattern of managerial behavior designed to integrate personal or organizational interest and effect, in pursuit of some objectives. Fiedler (1969) postulates that leadership style refers to a kind of relationship whereby someone uses his ways and methods to make many people work together for a common task.

### 2.4.1 Leadership Styles

In modern leadership theories, five leadership styles have been presented, including (i) charismatic leadership, (ii) transactional leadership, (iii) transformational leadership, (iv) visionary leadership, and (v) culture-based leadership (Yukl, 1994; Bass, 1990; Sashkin, 1996; Sergiovanni, 1987). Tannenbanum and Schmidt (1958) also identify four different types of leaders which have been most widely accepted and used. These leadership styles, which centre around Mc Gregor’s Theory ‘X and Y’ assumptions, are democratic,
autocratic, dictatorial, and laissez faire leadership styles. Below is a brief examination of some common leadership style dimensions listed above and their potential impact on a group as well as their relative usefulness.

2.4.1.1 Charismatic Leadership
By far the most successful trait-driven leadership style is charismatic. Charismatic leaders have a vision, as well as a personality that motivates followers to execute that vision. As a result, this leadership type has traditionally been one of the most valued. Charismatic leadership provides fertile ground for creativity and innovation, and is often highly motivational. With charismatic leaders at the helm, the organization’s members simply want to follow. It sounds like a best case scenario. There is however, one significant problem that potentially undercuts the value of charismatic leaders: they can leave. Once gone, an organization can appear rudderless and without direction. The floundering can last for years, because charismatic leaders rarely develop replacements. Their leadership is based upon strength of personality. As a result, charismatic leadership usually eliminates other competing, strong personalities. The result of weeding out the competition is a legion of happy followers, but few future leaders (Michael, 2010).

2.4.1.2 Transactional Leadership
The wheeler-dealers of leadership styles, transactional leaders are always willing to give you something in return for following them. It can be any number of things including a good performance review, a raise, a promotion, new responsibilities or a desired change in duties. The problem with transactional leaders is expectations. Transactional leadership style is defined as the exchange of rewards and targets between employees and management (Howell & Avolio, 1993). Transactional leaders fulfill employee needs of rewards when targets are met (Bass, 1990; Howell & Avolio, 1993; Humphreys, 2002). Pounder (2002) defines this style as the transaction of needs fulfillment from both sides of the organization and employees.

2.4.1.3 Transformational Leadership
Transformational leadership style focuses on the development of followers and their needs. Managers exercising transformational leadership style focus on the development of value system of employees, their motivational level and moralities with the development of their skills (Ismail et al., 2009). Transformational leadership acts as a bridge between
leaders and followers to develop clear understanding of follower’s interests, values and motivational level. It basically helps follower’s achieve their goals working in the organizational setting; it encourages followers to be expressive and adaptive to new and improved practices and changes in the environment (Bass, 1994).

2.4.1.4 Autocratic Leadership
Autocratic leaders are classic “do as I say” types. Typically, these leaders are inexperienced with leadership thrust upon them in the form of a new position or assignment that involves people management. Autocratic leaders retain for themselves the decision-making rights. They can damage an organization irreparably as they force their ‘followers’ to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like. There is no shared vision and little motivation beyond coercion. Commitment, creativity and innovation are typically eliminated by autocratic leadership. In fact, most followers of autocratic leaders can be described as biding their time, waiting for the inevitable failure this leadership produces and the removal of the leader that follows (Michael, 2010).

2.4.1.5 Bureaucratic Leadership
Bureaucratic leaders create, and rely on, policy to meet organizational goals. Policies drive execution, strategy, objectives and outcomes. Bureaucratic leaders are most comfortable relying on a stated policy in order to convince followers to get on board. In doing so they send a very direct message that policy dictates direction. Bureaucratic leaders are usually strongly committed to procedures and processes instead of people, and as a result they may appear aloof and highly change adverse. The specific problem or problems associated with using policies to lead are not always obvious until the damage is done. The danger here is that leadership’s greatest benefits, motivating and developing people, are ignored by bureaucratic leaders (Michael, 2010).

2.4.1.6 Democratic Leadership
Tannenbanum and Schmidt, (1958) describe democratic leadership as one where decision-making is decentralized and shared by subordinates. The potential for poor decision-making and weak execution is, however, significant here. The biggest problem with democratic leadership is its underlying assumption that everyone has an equal stake in an outcome as well as shared levels of expertise with regard to decisions. That is rarely
the case. While democratic leadership sounds good in theory, it often is bogged down in its own slow process, and workable results usually require an enormous amount of effort.

2.4.2 Effects of Leadership Style and Organizational Performance
Relationship between leadership style and organizational performance has been discussed often. Most research showed that leadership style has a significant relation with organizational performance, and different leadership styles may have a positive correlation or negative correlation with the organizational performance, depending on the variables used by researchers (Fu-Jin et al., 2010). McGrath and MacMillan (2000) report that there is significant relationship between leadership styles and organizational performance.

Effective leadership style is seen as a potent source of management development and sustained competitive advantage, leadership style helps organization to achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring that employees have the resources needed to get the job done (FuJin et al., 2010). Sun (2002) compares leadership style with the leadership performance in schools and enterprises, and found that leadership style had a significantly positive correlation with the organizational performance in both schools and enterprises. Broadly speaking, leadership performance is identical with organizational performance. Business management attributes their successes to leadership efficiency, that is, the leadership style of administrative supervisors has a considerable effect on the organizational performance (Sun, 2002). FuJin et al. (2010) opine that when executives use their leadership style to demonstrate concern, care and respect for employees, it would increase interest of employees in their work and enable them to put up better performance, thereby affecting their job satisfaction positively. Howell and Frost (1989) cited in Fu-Jin et al., 2010) also confirm that there is a positive relation between leadership style and organizational performance.

2.5 Chapter Summary
The performance of any firm not only plays the role to increase the market value of that specific firm but also leads towards the growth of the whole industry which ultimately leads towards the overall prosperity of the economy. Assessing the determinants of performance of insurers has gained the importance in the corporate finance literature
because as intermediaries, these companies not only provide the mechanism of risk transfer, but also helps to channelize the funds in an appropriate way to support the business activities in the economy. However, it has received little attention particularly in developing economies (Ahmed et al., 2011).

The next chapter covers the research methodology. It focuses on details regarding how the researcher obtained primary data to support the study. It covers the choice of research design, population definition, sampling procedures, the data collection tools that were employed by the study as well as how data was analyzed and findings presented.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the research methodology that was used in the study. It describes the research design, the population, sampling design and sample. It also presents the data collection methods and the procedures that were used to collect the data. Instruments validity and reliability and the data analysis methods are also covered.

3.2 Research Design
Research design is the conceptual structure within which the research is conducted, it constitutes the blue print for the collection, measurement and analysis of data (Kothari, 2004). Research design is also defined as the determination and statement of the general research approach or strategy adopted of the particular project; it is the heart of planning. If the design adheres to the research objective, it ensures that the client's need was served (Cooper & Schindler, 2008). According to (Kothari, 2004), the formidable problem that follows the task of defining the research problem is the preparation of the design of the research project popularly known as the “research design”. Decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute research design. The descriptive research plan was valid to this study as it is was concerned with finding out who, what, where, when or how much (Cooper & Schindler, 2008). It also tries to measure the types of activities, how often, when, where and by whom.

The descriptive research design addresses the questions posed by exploratory research thus offering solutions to different business issues (Shajahan, 2008). Descriptive studies attempts to identify and explain variables that exist in a given situation and to describe the relationship that exists between these variables in order to provide a picture of a particular phenomenon (Cooper & Schindler, 2008). Descriptive research is considered appropriate because subjects are normally observed in their natural set up and can result in accurate and reliable information (Britt, 2006). This study adopted the survey approach which is defined as a method of collecting data from people about who they are, how they think-motivations and beliefs and what they do- behavior (Malhotra & Birks, 2007). A survey
in form of standardized questions in a questionnaire was to collect data. This study was guided by the independent (Factors of Influence) and dependent variable (Insurance Company Performance).

3.3 Population and Sampling Design
3.3.1 Target Population
Population is the entire group of individuals, events or objects that have common desirable observable characteristics (Mugenda & Mugenda 2003). Population is the group the researcher wants to generalize on or learn about (Tull & Hawkins 2008). Population is the total elements on which inferences can be made (Cooper & Schindler, 2008). The primary population of study selected for this research was limited to AAR Insurance Company of Kenya Limited based on its top ranking in terms of premiums and profits in Medical Insurance. Out of a total population of 220 employees, only 73 were used and were composed of senior level, operational, and line managers as they were the ones well informed of the company performance in general. The population was ideal as they are equally engaged in the process of strategy formulation and implementation to ensure success. The study assumed that the selected respondents would complete the questionnaire objectively and accurately based on the research objectives.

3.3.2 Sampling Design
Sampling design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kumar, 2008). Kumar further explains that sample design may as well lay down the number of items to be included in the sample i.e. the size of the sample. Sample design is determined before data is collected. Sampling provides a better alternative on when it would be impracticable to conduct a survey of the whole population, budget constraints preventing the survey of the entire population and time constraints preventing the survey of the entire population (Saunders, Lewis, & Thornhill, 2012).
3.3.2.1 Sampling Frame
A sample frame refers to a list of elements from where the sample is actually drawn and is closely connected to the population (Cooper & Schindler, 2008). Turner (2003) defines a sampling frame as the set of source from which the sample is chosen. The definition also includes the purpose of sampling frames, which is to offer a way for selecting the actual members of the target population that to be interviewed within the study. A sampling frame can additionally be outlined because the complete list of all the cases within the population from that a likelihood sample is drawn from (Saunders, Lewis, & Thornhill, 2012). The sampling frame of the study consisted of the official list of AAR employees and was acquired from the organization’s human resource department.

3.3.2.2 Sampling Technique
A sampling technique is the practice of picking elements from the population that will signify the population of study (Collins & Hussey, 2006). A sampling technique is the name or other identification of the specific process by which the entities of the sample have been selected (Wolcott, 1997). Stratified random sampling was used to generate the sample size. In stratified random sampling, the population is divided into two or more strata, when the population is heterogeneous with regard to the characteristics or variables under study (Black, 2011). In this case, the strata are the companies. The purpose of stratified sampling is to reduce sampling errors which occur when the sample generated is not representative of the population being studied (Black, 2011). Simple random sampling was used to select the desired number of respondents from each stratum. The main advantage of stratified random sampling is that the technique overrules the possibility of underrepresentation, over-representation of exclusion of any essential group from the sample. Stratified sampling also provides estimates with high precision (Hanneman & Kposowa, 2012).

3.3.2.3 Sample Size
To derive the sample size for the study, Yamane’s (1967) formula was used:

\[ n = \frac{N \times \text{standard deviation}}{\left[ 1 + (N - 1) \times \text{standard deviation}^2 \right]} \]

Sample size is the set of elements where data is collected from (Cooper & Schindler, 2008). A decent specimen size ought to give data that is nitty gritty and thorough. A
sample size is a limited part of a factual populace whose properties are to be examined to pick up data about the whole populace under review (Jankowicz, 2002). Jackson, Thorpe and Smith, (2008) argue that researchers rarely survey the entire population for two reasons: high cost and dynamism of the population.

3.4 Data Collection Methods
Data collection is the process of acquiring subjects and gathering information needed for a study; methods of collection will vary depending on the study design (Saunders, 2003). Data collection is critical to clinical research, and often is a prominent factor in determining the cost and success of a research project (Wilcox, Gallagher, Boden-Albala & Bakken, 2012). How data is collected has a sizeable impact on how data is managed, and ultimately how the research is performed (Wilcox et al. 2012).

Bowling (2005) states that one of the main primary data collection instruments in social, health and research is the survey questionnaire. Modes of data collection by questionnaire differ in several ways, including the method of contacting respondents, the medium of delivering the questionnaire to respondents, and the administration of the questions. These are likely to have different effects on the quality of the data collected (Bowling, 2005). A questionnaire is a document designed with the purpose of seeking specific information from the respondents (Sanson, 2011). Cooper & Schindler (2008) explain that a questionnaire is an instrument delivered by to the participant via personal or non-personal means that is completed by the participant.

The data collection method would be based on a structured approach due to the target population and their nature of work. A formal letter of introduction was used to introduce the researcher as well as highlight the set time frames to complete the questionnaire was attached to the questionnaires. In addition, the introductory letter also included the purpose of the questionnaire, benefits that were flown from it, information sought, how the information would be used, confidentiality/anonymity and contact details for queries and complaints (Sanson, 2011).

The questionnaires contained closed ended questions. Cooper and Schindler (2008) explain that questions may be structured in questionnaires therefore presenting participants with a fixed set of choices; often called closed questions. On the other hand
questions can also be unstructured therefore not limiting the responses but still providing a frame of reference for participants’ answers; often called open ended questions.

3.5 Research Procedures
The research procedures section describes how the researcher gathered the relevant data for this study. The research procedure provides a detailed description of the steps taken in the conduct of research. The researcher carried out a pilot study before the questionnaire was employed in the final and actual data collection process. The importance of piloting was to detect ambiguity, evaluate the type of answers given to determine whether they help the researcher to achieve the laid down objectives (Robson 2007). Saunders et al. (2009) noted that pilot studies help the researcher in identifying questions that can make the respondents uncomfortable and uneasy. Such questions can then be removed, paraphrased or replaced in the final survey instrument design.

Again, the pilot study is important in identifying ethical issues that may arise during the actual data collection process. As such pilot studies are critical instruments for ensuring the validity and reliability of the research process and findings (Saunders et al., 2009). Pilot studies allow the researcher to study the research setting and seek advice on how the data collection instrument can be improved upon (Robson, 2007). The researcher administered a pretest sample to the respondents in the pilot study. According to Mugenda and Mugenda (2003) a pre-test sample should be between 1% and 10% depending on the sample size. The findings from the pilot study were used to refine the questionnaire for final administration. A sample of 15 respondents was used in the pilot study.

3.6 Data Analysis Methods
Data analysis is an exploration method for the goal, efficient and subjective portrayal of the show substance of a correspondence (Cooper &Schindler, 2008). As per Collins and Hussey (2006), distinct insights includes a procedure of changing a mass of crude information into tables, graphs, with recurrence dispersion and rates, which are an imperative piece of understanding information. The examination information was broken down utilizing the Microsoft excel and Statistical Package for Social Sciences (SPSS) program and presented using tables and charts to give a clear picture of the research findings at a glance. To ensure ease in analysis, the questionnaires were coded.
accordingly to each variable of the study and entered into the SPSS program. The quantitative tool employed was descriptive statistics, which included measures of central tendencies. These tools of analysis were used to determine views of commonality and deviations from commonality. Correlation was another useful statistic tool that described the degree of relationship between the variables used. The output after analysis was prepared using frequency tables, graphic presentations and inferential statistics outputs.

3.7 Chapter Summary
This chapter discussed the methodology and research design that were adopted in the research process highlighting the target population and the procedure used to select the sample. Further, the research instruments that were used to collect data have been specified. Finally, the research procedures used as well as the methods used in data analysis was also explained in this chapter.

Chapter four presents and explains the data collected rather than draw interpretations or conclusions. The findings are presented and analyzed based on the research questions, specific objectives or hypothesis. The chapter also includes tables, charts or graphs to represent quantitative data when appropriate as well as use of brief description in words of what is shown on the tables or figures.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results and findings for the study. The chapter presents the results for response rate, general information, firm size and performance of insurance companies, organizational structure and performance of insurance companies, and leadership and performance of insurance companies. The results are presented in the form of tables and figures.

4.2 Response Rate and General Information

4.2.1 Response Rate
The researcher distributed 73 questionnaires to the population and managed to receive 68. After data cleaning, 55 questionnaires were found to be completely filled and were used for analysis. This gave the study a response rate of 75.3% which was above the required threshold.

![Figure 4.1 Response Rate](image)

4.2.2 Gender
The researcher sought to determine the gender divide of the respondents and Figure 4.2 shows that 60% were male, while 40% were female. This indicates that majority of the employees at AAR were male, this could be explained by the nature of the work related in the organization.
4.2.3 Age Bracket
The researcher sought to determine the age bracket of the respondents and Figure 4.3 indicates that 83.6% were aged between 26-40 years, 16.4% were aged between 41-55 years, and none were below the age of 25 years nor were they above the age of 56 years. These results show that majority of the employees at AAR were aged between 26-40 years, and this could be explained by the national demographic age bracket that has a lot of young adults.

4.2.4 Marital Status
The researcher sought to determine the marital status of the respondents and Figure 4.4 indicates that 61.8% were married, 38.2% were single and none was widowed or divorced. These results show that majority of the employees at AAR were married, and
this could be explained by the national demographic age bracket that has a lot of young adults.

![Figure 4.4 Marital Status](image)

**Figure 4.4 Marital Status**

### 4.2.5 Years with Organization

The researcher sought to determine the number of years the respondents had been with the organization and Figure 4.5 shows that 47.3% had been with the organization for 2-5 years, 21.8% had been with the organization for 6-10 years, 18.2% had been with the organization for 11 years and above, and 12.7% had been with the organization for less than a year. These results show that majority of the employees had been in AAR for 5 years and above, which means that they were the best cadre of respondents for the study.

![Figure 4.5 Years with Organization](image)

**Figure 4.5 Years with Organization**
4.2.6 Management Position
The researcher sought to determine the management position of the respondents and Figure 4.6 indicates that 56.4% were line managers, 29.1% were operational managers, and 14.5% were senior managers. These results show that all management levels were well represented in the study.

Figure 4.6 Management Position

4.3 Firm Size and Performance of Insurance Companies
4.3.1 Rating of Firm Size and Performance of Insurance Companies
The respondents were asked to rate statements that best represented their views about firm size and performance of insurance companies using the scale: 1=Strongly Disagree, 2. Disagree 3. Not Sure, 4. Agree, 5. Strongly Agree. The results in Table 4.1 have a standard deviation of <1.5 which means that the responses were almost similar, and the mean of >2.5 indicates that the population closely related to the statements provided.

Table 4.1 shows that the organization has generally not reported high loss ratios since 63.7% of the respondents disagreed, while 29% agreed, and 7.3% were not sure, the results had a mean of 2.58 and a standard deviation of 1.243. The organization does not rely on investment income to act as a cushion for its underwriting results since 47.3% of the respondents disagreed, while 40% agreed, and 12.7% were not sure, the results had a mean of 2.82 and a standard deviation of 1.321. Firm size is an important determinant of an insurance company’s performance since 63.6% of the respondents agreed, while 31%
disagreed, and 5.5% were not sure, the results had a mean of 3.40 and a standard deviation of 1.164.

Table 4.1 Rating of Firm Size and Performance of Insurance Companies

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>NS</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our organization has generally reported high loss ratios</td>
<td>16.4</td>
<td>47.3</td>
<td>7.3</td>
<td>20.0</td>
<td>9.1</td>
<td>2.58</td>
<td>1.243</td>
</tr>
<tr>
<td>Our organization relies on investment income to act as a cushion for our underwriting results</td>
<td>20.0</td>
<td>27.3</td>
<td>12.7</td>
<td>30.9</td>
<td>9.1</td>
<td>2.82</td>
<td>1.321</td>
</tr>
<tr>
<td>Firm size is an important determinant of an insurance company’s performance</td>
<td>5.5</td>
<td>25.5</td>
<td>5.5</td>
<td>50.9</td>
<td>12.7</td>
<td>3.40</td>
<td>1.164</td>
</tr>
<tr>
<td>The control of managers pursuing self-interested goals may alter profit maximization as the firm’s objective function</td>
<td>3.6</td>
<td>5.5</td>
<td>5.5</td>
<td>45.5</td>
<td>40.0</td>
<td>4.13</td>
<td>1.001</td>
</tr>
<tr>
<td>Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities</td>
<td>0.0</td>
<td>10.9</td>
<td>9.1</td>
<td>63.6</td>
<td>16.4</td>
<td>3.85</td>
<td>.826</td>
</tr>
<tr>
<td>Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification</td>
<td>0.0</td>
<td>21.8</td>
<td>5.5</td>
<td>50.9</td>
<td>21.8</td>
<td>3.73</td>
<td>1.044</td>
</tr>
<tr>
<td>Large firms are more stable and mature, therefore generate greater sales because of their great production capacity</td>
<td>5.5</td>
<td>9.1</td>
<td>7.3</td>
<td>67.3</td>
<td>10.9</td>
<td>3.69</td>
<td>.979</td>
</tr>
</tbody>
</table>

Table 4.1 indicates that the control of managers pursuing self-interested goals may alter profit maximization as the firm’s objective function since 85.5% of the respondents
agreed, while 9.1% disagreed, and 5.5% were not sure, the results had a mean of 4.13 and a standard deviation of 1.001. Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities since 80% of the respondents agreed, while 10.9% disagreed, and 9.1% were not sure, the results had a mean of 3.85 and a standard deviation of 0.826. Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification since 72.7% of the respondents agreed, while 21.8% disagreed, and 5.5% were not sure, the results had a mean of 3.73 and a standard deviation of 1.044. Large firms are more stable and mature, therefore generate greater sales because of their great production capacity since 78.2% of the respondents agreed, while 14.6% disagreed, and 7.3% were not sure, the results had a mean of 3.69 and a standard deviation of 0.979.

4.3.2 Correlation between Firm Size and Performance of Insurance Companies

The researcher computed firm size factors to form one variable that was tested using the correlation analysis to determine the significance of firm size on the performance of insurance companies and the results were as presented in Table 4.2. The findings in Table 4.2 indicates that there was a positive significant correlation between firm size and performance of insurance companies at (r=0.824, p<0.01).

Table 4.2 Correlation between Firm Size and Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Insurance Company Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Insurance Company Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Firm Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>.824**</td>
<td>.000</td>
<td>55</td>
<td>1</td>
<td>.824**</td>
<td>.000</td>
<td>55</td>
<td>Firm Size</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)
4.3.3 Regression Analysis for Firm Size and Performance of Insurance Companies

4.3.3.1 Model Summary for Firm Size and Performance of Insurance Companies

The researcher computed firm size factors to form one variable that was tested using the regression model summary to determine the existing relationship between firm size and performance of insurance companies, the results were as presented in Table 4.3.

Table 4.3 Model Summary for Firm Size and Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.824</td>
<td>.679</td>
<td>.673</td>
<td>.20778</td>
</tr>
</tbody>
</table>

a. Predictors (Constant): Firm Size

Table 4.3 shows the results of the regression model summary for firm size (independent variable), and insurance company performance (dependent variable). The adjusted R square value for the model indicates that 67.3% of the variance in the model for insurance company performance could be explained by firm size.

4.3.3.2 Analysis of Variance for Firm Size and Performance of Insurance Companies

The researcher computed firm size factors to form one variable that was tested using the analysis of variance (ANOVA) to determine the existing relationship between firm size and performance of insurance companies, the results were as presented in Table 4.4.

Table 4.4 Analysis of Variance for Firm Size and Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4.845</td>
<td>1</td>
<td>4.845</td>
<td>112.212</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2.288</td>
<td>53</td>
<td>.043</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7.133</td>
<td>54</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant): Firm Size
b. Dependent Variable: Insurance Company Performance

Table 4.4 analysis of variance (ANOVA) proves that there is a significant relationship between firm size and performance of insurance companies. This is because of the large
size of the computed \( F (112.212) \) indicates that there is difference in the mean distribution of the variables at 0.01 level of significance, the observed differences are thus significant.

### 4.3.3.3 Regression Coefficients for Firm Size and Performance of Insurance Companies

The researcher computed firm size factors to form one variable that was tested using the regression coefficients to determine the existing relationship between firm size and performance of insurance companies, the results were as presented in Table 4.5.

#### Table 4.5 Regression Coefficients of Firm Size & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.222</td>
<td>.157</td>
<td>14.189</td>
<td>.000</td>
</tr>
<tr>
<td>Firm Size</td>
<td>.472</td>
<td>.045</td>
<td>.824</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Insurance Company Performance

Insurance Company Performance = 2.222 + Firm Size 0.472

The regression coefficient in Table 4.5 indicates that firm size had a positive, and very significant influence on the performance of insurance companies since its precision level was <0.05 which was the study’s threshold. The coefficient of 0.472 also indicates that for every increase in firm size, there would be an increase of 47.2% in the performance of insurance companies if all factors are held constant.

### 4.4 Organizational Structure and Performance of Insurance Companies

#### 4.4.1 Rating of Organizational Structure and Performance of Insurance Companies

The respondents were asked to rate statements that best represented their views about organizational structure and performance of insurance companies using the scale: 1=Strongly Disagree, 2. Disagree 3. Not Sure, 4. Agree, 5. Strongly Agree. The results in Table 4.6 have a standard deviation of <1.5 which means that the responses were almost similar, and the mean of >3.5 indicates that the population closely related to the statements provided.
Table 4.6 Rating of Organizational Structure & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Description</th>
<th>SD %</th>
<th>D %</th>
<th>NS %</th>
<th>A %</th>
<th>SA %</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our organizational structure affects our performance through innovation and organizational learning</td>
<td>0.0</td>
<td>5.5</td>
<td>5.5</td>
<td>60.0</td>
<td>29.1</td>
<td>4.13</td>
<td>.747</td>
</tr>
<tr>
<td>Our organization has a high trust environment that produces accurate results in the least amount of time</td>
<td>0.0</td>
<td>5.5</td>
<td>23.6</td>
<td>56.4</td>
<td>14.5</td>
<td>3.80</td>
<td>.755</td>
</tr>
<tr>
<td>Our organizational structures create vertical and horizontal structures that facilitate communication</td>
<td>0.0</td>
<td>0.0</td>
<td>5.5</td>
<td>60.0</td>
<td>34.5</td>
<td>4.29</td>
<td>.567</td>
</tr>
<tr>
<td>Our organizational structure is not complex and facilitates as well as encourages employee creativity</td>
<td>0.0</td>
<td>0.0</td>
<td>9.1</td>
<td>56.4</td>
<td>34.5</td>
<td>4.25</td>
<td>.615</td>
</tr>
<tr>
<td>Our organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures</td>
<td>0.0</td>
<td>0.0</td>
<td>5.5</td>
<td>49.1</td>
<td>45.5</td>
<td>4.40</td>
<td>.596</td>
</tr>
<tr>
<td>Enforcing performance controls and behavioral prescriptions in our organization has improved decision-making and increased predictability of performance</td>
<td>0.0</td>
<td>0.0</td>
<td>7.3</td>
<td>60.3</td>
<td>32.7</td>
<td>4.25</td>
<td>.584</td>
</tr>
<tr>
<td>Organizational structure in our organization has decreased employee ambiguity and has helped explain and predict employee behavior</td>
<td>5.5</td>
<td>1.8</td>
<td>10.9</td>
<td>61.8</td>
<td>20.0</td>
<td>3.89</td>
<td>.936</td>
</tr>
<tr>
<td>Our organization’s structure has been designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure</td>
<td>5.5</td>
<td>0.0</td>
<td>5.5</td>
<td>49.1</td>
<td>40.0</td>
<td>4.18</td>
<td>.964</td>
</tr>
<tr>
<td>Our organizational structure facilitates proper working relationships among various sub-units within the organization</td>
<td>0.0</td>
<td>5.5</td>
<td>10.9</td>
<td>47.3</td>
<td>36.4</td>
<td>4.15</td>
<td>.826</td>
</tr>
</tbody>
</table>
Table 4.6 indicates that the organizational structure affects the performance through innovation and organizational learning since 89.1% of the respondents agreed, while 5.5% disagreed, and 5.5% were not sure, the results had a mean of 4.13 and a standard deviation of 0.747. The organization has a high trust environment that produces accurate results in the least amount of time since 70.9% of the respondents agreed, while 23.6% were not sure, and 5.5% disagreed, the results had a mean of 3.80 and a standard deviation of 0.755. The organizational structures create vertical and horizontal structures that facilitate communication since 94.5% of the respondents agreed, while 5.5% were not sure, the results had a mean of 4.29 and a standard deviation of 0.567. The organizational structure is not complex and facilitates as well as encourages employee creativity since 90.9% of the respondents agreed, while 9.1% were not sure, the results had a mean of 4.25 and a standard deviation of 0.615. The organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures since 94.5% of the respondents agreed, while 5.5% were not sure, the results had a mean of 4.40 and a standard deviation of 0.596.

Enforcing performance controls and behavioral prescriptions in the organization has improved decision-making and increased predictability of performance since 92.7% of the respondents agreed, while 7.3% were not sure, the results had a mean of 4.25 and a standard deviation of 0.584. The organizational structure in the organization has decreased employee ambiguity and has helped explain and predict employee behavior since 81.8% of the respondents agreed, while 10.9% were neutral, and 7.3% disagreed, the results had a mean of 3.89 and a standard deviation of 0.936. The organization’s structure has been designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure since 89.1% of the respondents agreed, while 5.5% disagreed, and 5.5% were not sure, the results had a mean of 4.18 and a standard deviation of 0.964. The organizational structure facilitates proper working relationships among various sub-units within the organization since 83.7% of the respondents agreed, while 10.9% were neutral, and 5.5% disagreed, the results had a mean of 4.15 and a standard deviation of 0.826.
4.4.2 Correlation between Organizational Structure & Performance of Insurance Companies

The researcher computed organizational structure factors to form one variable that was tested using the correlation analysis to determine the significance of organizational structure on the performance of insurance companies and the results were as presented in Table 4.7. The findings in Table 4.7 indicates that there was a positive significant correlation between organizational structure and performance of insurance companies at (r=0.590, p<0.01).

Table 4.7 Correlation between Organizational Structure & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Insurance Company Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Organizational Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.590**</td>
</tr>
<tr>
<td>Insurance Company Performance</td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>.590**</td>
<td>.000</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)

4.4.3 Regression Analysis for Organizational Structure & Performance of Insurance Companies

4.4.3.1 Model Summary for Organizational Structure & Performance of Insurance Companies

The researcher computed organizational structure factors to form one variable that was tested using the regression model summary to determine the existing relationship between organizational structure and performance of insurance companies, the results were as presented in Table 4.8. The table shows the results of the regression model summary for organizational structure (independent variable), and insurance company performance (dependent variable). The adjusted R square value for the model indicates that 33.6% of the variance in the model for insurance company performance could be explained by organizational structure.

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Table 4.8 Model Summary for Organizational Structure & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.590</td>
<td>.348</td>
<td>.336</td>
<td>.29618</td>
</tr>
</tbody>
</table>

a. Predictors (Constant): Organizational Structure

4.4.3.2 Analysis of Variance for Organizational Structure & Performance of Insurance Companies

The researcher computed organizational structure factors to form one variable that was tested using the analysis of variance (ANOVA) to determine the existing relationship between organizational structure and performance of insurance companies, the results were as presented in Table 4.9.

Table 4.9 Analysis of Variance for Organizational Structure & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>2.483</td>
<td>1</td>
<td>2.483</td>
<td>28.308</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4.649</td>
<td>53</td>
<td>.088</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.133</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant): Organizational Structure
b. Dependent Variable: Insurance Company Performance

Table 4.9 analysis of variance (ANOVA) proves that there is a significant relationship between organizational structure and performance of insurance companies. This is because of the large size of the computed F (28.308) indicates that there is difference in the mean distribution of the variables at 0.01 level of significance, the observed differences are thus significant.

4.4.3.3 Regression Coefficients for Organizational Structure & Performance of Insurance Companies

The researcher computed organizational structure factors to form one variable that was tested using the regression coefficients to determine the existing relationship between organizational structure and performance of insurance companies, the results were as presented in Table 4.10.
Table 4.10 Regression Coefficients of Organizational Structure & Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.867</td>
<td>.376</td>
<td>.376</td>
<td>.090</td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>.479</td>
<td>.090</td>
<td>.590</td>
<td>5.321</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Insurance Company Performance

Insurance Company Performance = 2.222 + Organizational Structure 0.479

The regression coefficient in Table 4.10 indicates that organizational structure had a positive, and very significant influence on the performance of insurance companies since its precision level was <0.05 which was the study’s threshold. The coefficient of 0.479 also indicates that for every increase in organizational structure, there would be an increase of 47.9% in the performance of insurance companies if all factors are held constant.

4.5 Leadership and Performance of Insurance Companies

4.5.1 Rating of Leadership and Performance of Insurance Companies

The respondents were asked to rate statements that best represented their views about leadership and performance of insurance companies using the scale: 1=Strongly Disagree, 2. Disagree 3. Not Sure, 4. Agree, 5. Strongly Agree. The results in Table 4.11 have a standard deviation of <1.5 which means that the responses were almost similar, and the mean of >3.5 indicates that the population closely related to the statements provided.
Table 4.11 Rating of Leadership and Performance of Insurance Companies

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>NS</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>30.9</td>
<td>69.1</td>
<td>4.69</td>
<td>.466</td>
</tr>
<tr>
<td>Leadership in our organization is critical in encouraging employees towards a common goal</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>29.1</td>
<td>70.9</td>
<td>4.71</td>
<td>.458</td>
</tr>
<tr>
<td>Leadership in our organization focuses on the development of employees and their needs</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>72.7</td>
<td>27.3</td>
<td>4.27</td>
<td>.449</td>
</tr>
<tr>
<td>Leaders in our organization determines our organizational values, culture, change tolerance and employee motivation</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>60.0</td>
<td>40.0</td>
<td>4.40</td>
<td>.494</td>
</tr>
<tr>
<td>Leadership in our organization is seen as a potent source of the development and sustenance of our competitive advantage</td>
<td>0.0</td>
<td>0.0</td>
<td>3.6</td>
<td>63.6</td>
<td>32.7</td>
<td>4.29</td>
<td>.533</td>
</tr>
<tr>
<td>Leadership in our organization facilitates the achievement of our current objectives efficiently by linking job performance to valued rewards</td>
<td>0.0</td>
<td>0.0</td>
<td>5.5</td>
<td>47.3</td>
<td>47.3</td>
<td>4.42</td>
<td>.599</td>
</tr>
<tr>
<td>Leadership in our organization facilitates the achievement of our current objectives efficiently by ensuring that employees have the resources needed to get the job done</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>50.9</td>
<td>49.1</td>
<td>4.49</td>
<td>.505</td>
</tr>
<tr>
<td>Our leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance</td>
<td>0.0</td>
<td>0.0</td>
<td>5.5</td>
<td>47.3</td>
<td>47.3</td>
<td>4.42</td>
<td>.599</td>
</tr>
</tbody>
</table>

Table 4.11 shows that leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees since all respondents agreed, the results had a mean of 4.69 and a standard deviation of 0.466. Leadership in the organization is critical in encouraging employees towards a common goal since all respondents agreed, the results had a mean of 4.71 and a standard deviation of 0.458.
Leadership in the organization focuses on the development of employees and their needs since all the respondents agreed, the results had a mean of 4.27 and a standard deviation of 0.449. Leaders in the organization determines the organizational values, culture, change tolerance and employee motivation since all the respondents agreed, the results had a mean of 4.40 and a standard deviation of 0.494.

Leadership in the organization is seen as a potent source of the development and sustenance of the competitive advantage since 96.4% of the respondents agreed, while 3.6% were neutral, the results had a mean of 4.29 and a standard deviation of 0.533. Leadership in the organization facilitates the achievement of current objectives efficiently by linking job performance to valued rewards since 94.5% of the respondents agreed, while 5.5% were neutral, the results had a mean of 4.42 and a standard deviation of 0.599. Leadership in the organization facilitates the achievement of current objectives efficiently by ensuring that employees have the resources needed to get the job done since all the respondents agreed, the results had a mean of 4.49 and a standard deviation of 0.505. Leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance since 94.5% of the respondents agreed, while 5.5% were neutral, the results had a mean of 4.42 and a standard deviation of 0.599.

4.5.2 Correlation between Leadership and Performance of Insurance Companies

The researcher computed leadership factors to form one variable that was tested using the correlation analysis to determine the significance of leadership on the performance of insurance companies and the results were as presented in Table 4.12. The findings in Table 4.12 indicates that there was a positive significant correlation between leadership and performance of insurance companies at (r=0.377, p<0.01).
Table 4.12 Correlation between Leadership and Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Insurance Company Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Leadership</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Company Performance</td>
<td></td>
<td></td>
<td></td>
<td>.377**</td>
<td>.000</td>
<td>.000</td>
<td>55</td>
</tr>
<tr>
<td>Leadership</td>
<td>Pearson Correlation</td>
<td></td>
<td>.377**</td>
<td>.000</td>
<td></td>
<td>1</td>
<td>.377**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td>.377**</td>
<td>.000</td>
<td></td>
<td></td>
<td>.377**</td>
</tr>
<tr>
<td>N</td>
<td>55</td>
<td></td>
<td>55</td>
<td>55</td>
<td>55</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed)

4.5.3 Regression Analysis for Leadership and Performance of Insurance Companies

4.5.3.1 Model Summary for Leadership and Performance of Insurance Companies

The researcher computed leadership factors to form one variable that was tested using the regression model summary to determine the existing relationship between leadership and performance of insurance companies, the results were as presented in Table 4.13.

Table 4.13 Model Summary for Leadership and Performance of Insurance Companies

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.377</td>
<td>.142</td>
<td>.126</td>
<td>.33985</td>
</tr>
</tbody>
</table>

a. Predictors (Constant): Leadership

Table 4.13 shows the results of the regression model summary for leadership (independent variable), and insurance company performance (dependent variable). The adjusted R square value for the model indicates that 12.6% of the variance in the model for insurance company performance could be explained by leadership.
4.5.3.2 Analysis of Variance for Leadership and Performance of Insurance Companies

The researcher computed leadership factors to form one variable that was tested using the analysis of variance (ANOVA) to determine the existing relationship between leadership and performance of insurance companies, the results were as presented in Table 4.14.

**Table 4.14 Analysis of Variance for Leadership & Performance of Insurance Companies**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>1.011</td>
<td>1</td>
<td>1.011</td>
<td>8.757</td>
<td>.005</td>
</tr>
<tr>
<td>Residual</td>
<td>6.121</td>
<td>53</td>
<td>.115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.133</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant): Leadership
b. Dependent Variable: Insurance Company Performance

Table 4.14 analysis of variance (ANOVA) proves that there is a significant relationship between leadership and performance of insurance companies. This is because of the computed F (8.757) indicates that there is difference in the mean distribution of the variables at 0.01 level of significance, the observed differences are thus significant.

4.5.3.3 Regression Coefficients for Leadership & Performance of Insurance Companies

The researcher computed leadership factors to form one variable that was tested using the regression coefficients to determine the existing relationship between leadership and performance of insurance companies, the results were as presented in Table 4.15.

**Table 4.15 Regression Coefficients of Leadership & Performance of Insurance Companies**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.610</td>
<td>.760</td>
<td></td>
<td>.039</td>
</tr>
<tr>
<td>Leadership</td>
<td>.503</td>
<td>.170</td>
<td>.377</td>
<td>.005</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Insurance Company Performance

Insurance Company Performance = 1.610 + Leadership 0.503
The regression coefficient in Table 4.15 indicates that leadership had a positive, and very significant influence on the performance of insurance companies since its precision level was <0.05 which was the study’s threshold. The coefficient of 0.503 also indicates that for every increase in leadership, there would be an increase of 50.3% in the performance of insurance companies if all factors are held constant.

4.6 Chapter Summary
This chapter presents the study findings. Quantitative tools employed were descriptive statistics which included measures of central tendencies. These tools of analysis used to determine views of commonality and deviations from commonality. Correlation was another useful statistic tool that described the degree of relationship between the variables used. The output after analysis were presented using frequency tables, graphic presentations and inferential statistics outputs. The next chapter presents the discussions, conclusions, and recommendations for the study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction
This chapter concludes the study by presenting the summary of findings, discussions of the study as guided by the research questions, conclusions for the study as guided by the research questions, recommendations for improvement as guided by the research questions, and recommendations for further studies.

5.2 Summary of Findings
The general purpose of the study was to investigate the factors influencing the performance of insurance companies in Kenya. The study was guided by below research questions; how does a firm’s size affect performance of insurance companies in Kenya? How does a firm’s structure affect performance of insurance companies in Kenya? How does leadership affect performance of insurance companies in Kenya? The primary population of study selected for this research was limited to AAR Insurance Company of Kenya Limited.

The descriptive research design was selected for this study as it is concerned with finding out who, what, where, when or how much and also tries to measure the types of activities; how often, when, where and by whom. Stratified random sampling was used to generate the sample size. In stratified random sampling, the population is divided into two or more strata, when the population is heterogeneous with regard to the characteristics or variables under study. The data collection method was based on a structured approach due to the target population and their nature of work. The examination information was broken down using Microsoft excel and Statistical Package for Social Sciences (SPSS) program and presented using tables and figures to give a clear picture of the research findings at a glance. To ensure ease in analysis, the questionnaires was coded accordingly to each variable of the study and entered into the SPSS program. The quantitative tools employed were descriptive statistics which included measures of central tendencies. These tools of analysis used to determine views of commonality and deviations from commonality. Correlation was another useful statistic tool that described the degree of relationship
between the variables used. The output after analysis were presented using frequency tables, graphic presentations and inferential statistics outputs.

The study revealed that AAR had not reported high loss ratios, and the organization did not rely on investment income to act as a cushion for its underwriting results. Firm size is an important determinant of an insurance company’s performance, and the control of managers pursuing self-interested goals has the ability to alter profit maximization as the firm’s objective function. The study indicated that large firms enjoy economies of scale and their average cost of production is low ensuring efficient operational activities, that they face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification.

The study showed that organizational structure affects the performance of insurance companies through innovation and organizational learning. AAR has a high trust environment that produces accurate results in the least amount of time and its organizational structures create vertical and horizontal structures that facilitate communication. The study revealed that AAR’s organizational structure is not complex and facilitates as well as encourages employee creativity, and the organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures. Enforcing performance controls and behavioral prescriptions in the organization had improved decision-making and increased predictability of performance.

The study revealed that leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees, and it is critical in encouraging employees towards a common goal. Leadership in AAR focuses on the development of employees and their needs, and it determines the organizational values, culture, change tolerance and employee motivation. AAR’s leadership is seen as a potent source of the development and sustenance of the organization’s competitive advantage, and it facilitates the achievement of current objectives efficiently by linking job performance to valued rewards.
5.3 Discussions

5.3.1 Firm Size and Performance of Insurance Companies

The study revealed that AAR had not reported high loss ratios, and the organization did not rely on investment income to act as a cushion for its underwriting results. These results differ with PricewaterhouseCoopers (2006-2013) report that indicated that Kenyan insurance companies generally reported high loss ratios. Between 2010 and 2013, the loss ratios for the industry as a whole ranged between 56% and 60%.

The organization does not rely on investment income to act as a cushion for its underwriting results. These results differ with PricewaterhouseCoopers (2006-2013) report that indicated that insurers have traditionally relied on investment income to act as a cushion for their underwriting results.

Firm size is an important determinant of an insurance company’s performance. These results are in agreement with Ahmed et al.’s (2011) study that showed that he leverage, size and risk are most important determinant of performance of life insurance sector whereas ROA has statistically more of insignificant relationship with, tangibility of assets.

Control of managers pursuing self-interested goals may alter profit maximization as the firm’s objective function. These results are in tandem with Pervan and Višić (2012) who states that, large firms come under the control of managers pursuing self-interested goals and therefore profit maximization as the firm’s objective function which may be replaced by managerial utility maximization function.

Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities. These results are similar to those of Pavelkova and Knápková (2009) who posit that, when a firm becomes larger, it enjoys economics of scale and its average cost of production is lower and operational activities are more efficient.

Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification. These results are similar to those of Yang and Chen (2009) who opine that, large firms face less difficulty in getting
access to credit facilities from financial institutions for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification.

Large firms are more stable and mature, therefore generate greater sales because of their great production capacity. These results are similar to those of Akbas and Karaduman (2012) who argue that, larger firms are more stable and mature and they can generate greater sales because of the greater production capacity and finally, those firms have the chance of capital cost savings with the economies of scale.

5.3.2 Organizational Structure and Performance of Insurance Companies

The study showed that organizational structure affects the performance of insurance companies through innovation and organizational learning. AAR has a high trust environment that produces accurate results in the least amount of time and its organizational structures create vertical and horizontal structures that facilitate communication.

Organizational structure affects the performance through innovation and organizational learning. These results are in tandem with Hao and colleagues (2007) who state that, organizational structures affect organizational performance mainly through innovation and organizational learning.

The organization has a high trust environment that produces accurate results in the least amount of time. These results are similar to those of Seykora (2009) who showed that the edge organization operating in a high trust environment produces the most accurate results in the least amount of time.

The organizational structures create vertical and horizontal structures that facilitate communication. These results differ with Lewis (2011) who conducted a study to examine the effects a bureaucratic organization on communication capacity and identified traditional organizational structures create vertical and horizontal boundaries impeding communication.
The organizational structure is not complex and facilitates as well as encourages employee creativity. These results are similar to those of Aghajani et al. (2013) who found the significant relationship between organizational structure and employee creativity in Saveh Pars Company. Also the results showed the significant relationship between the level of formalization, complexity, centralization and creativity of employee.

The organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures. These results are similar to those of Germain (2008) who states that, organizational control is a cycle that includes the three stages of target setting, measuring or monitoring and feedback, and that, control in organizational bureaucracy can consist of rules, standards, and internal procedures.

Enforcing performance controls and behavioral prescriptions in the organization has improved decision-making and increased predictability of performance. These results are similar to those of Germain (2008) who opined that developing and enforcing performance control and behavioral prescriptions improves decisions and increases predictability of performance.

The organizational structure in the organization has decreased employee ambiguity and has helped explain and predict employee behavior. These results are similar to those of Quangyen & Yezhuang (2013) says organizational structure decreases employee ambiguity and helps explain and predict behavior.

The organization’s structure has been designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure. These results are in tandem with Long et al. (2012) who suggested that the organization’s structure should be designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure.

The organizational structure facilitates proper working relationships among various sub-units within the organization. These results are in agreement with Csaszer (2008) and Nahm et al. (2003) whose study results showed that effective organizational structure facilitates proper working relationships among various sub-units in the organization.
5.3.3 Leadership and Performance of Insurance Companies

The study revealed that leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees, and it is critical in encouraging employees towards a common goal. Leadership in AAR focuses on the development of employees and their needs, and it determines the organizational values, culture, change tolerance and employee motivation.

Leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees. These results are in agreement with Obiwuru et al. (2011) who state that, leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization.

Leadership in the organization is critical in encouraging employees towards a common goal. These results are similar to those of Jeremy et al. (2011) who states that, leadership is a critical management skill, involving the ability to encourage a group of people towards common goal.

Leadership in the organization focuses on the development of employees and their needs. These results are similar to those of Obiwuru et al. (2011) who notes that, leadership focuses on the development of followers and their needs.

Leaders in the organization determines the organizational values, culture, change tolerance and employee motivation. These results are in tandem with Michael (2011) who states that, leadership has a direct cause and effect relationship upon organizations and their success. Leaders determine values, culture, change tolerance and employee motivation.

Leadership in the organization is seen as a potent source of the development and sustenance of the competitive advantage. These results are similar to those of FuJin et al. (2010) who states that, effective leadership style is seen as a potent source of management development and sustained competitive advantage.
Leadership in the organization facilitates the achievement of current objectives efficiently by linking job performance to valued rewards. These results are similar to those of FuJin et al. (2010) who states that, leadership style helps organization to achieve their current objectives more efficiently by linking job performance to valued rewards.

Leadership in the organization facilitates the achievement of current objectives efficiently by ensuring that employees have the resources needed to get the job done. These results are similar to those of FuJin et al. (2010) who states that, leadership style helps organization to achieve their current objectives more efficiently by ensuring that employees have the resources needed to get the job done.

Leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance. These results are similar to those of FuJin et al. (2010) who opine that, when executives use their leadership style to demonstrate concern, care and respect for employees, it would increase interest of employees in their work and enable them to put up better performance, thereby affecting their job satisfaction positively.

5.4 Conclusions

5.4.1 Firm Size and Performance of Insurance Companies
The study concludes that AAR had not reported high loss ratios, and the organization did not rely on investment income to act as a cushion for its underwriting results. Firm size is an important determinant of an insurance company’s performance, and the control of managers pursuing self-interested goals has the ability to alter profit maximization as the firm’s objective function. The study concludes that large firms enjoy economies of scale and their average cost of production is low ensuring efficient operational activities, that they face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification. The study also concludes that large firms are more stable and mature, therefore generate greater sales because of their great production capacity.

5.4.2 Organizational Structure and Performance of Insurance Companies
The study concludes that the organizational structure affects the performance of insurance companies through innovation and organizational learning. AAR has a high trust
environment that produces accurate results in the least amount of time and its organizational structures create vertical and horizontal structures that facilitate communication. The study concludes that AAR’s organizational structure is not complex and facilitates as well as encourages employee creativity, and the organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures. Enforcing performance controls and behavioral prescriptions in the organization has improved decision-making and increased predictability of performance, and the organizational structure has decreased employee ambiguity and has helped explain and predict employee behavior.

5.4.3 Leadership and Performance of Insurance Companies
The study concludes that leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees, and it is critical in encouraging employees towards a common goal. Leadership in AAR focuses on the development of employees and their needs, and it determines the organizational values, culture, change tolerance and employee motivation. AAR’s leadership is seen as a potent source of the development and sustenance of the organization’s competitive advantage, and it facilitates the achievement of current objectives efficiently by linking job performance to valued rewards. The study concludes that leadership in the organization facilitates the achievement of current objectives efficiently by ensuring that employees have the resources needed to get the job done, and AAR leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance.

5.5 Recommendations
5.5.1 Recommendations for Improvement
5.5.1.1 Firm Size and Performance of Insurance Companies
The study recommends AAR management to increase the organization’s assets because the study has revealed that firm size is significant to insurance company performance. Increase of the organization’s assets will improve the company’s competitive power, which will facilitate its competitive edge in highly competitive markets. The study also recommends AAR management to improve its premiums earnings in order to increase its overall profits which would facilitate higher reserves for the organization that would enable it to function effectively due to high its liquidity.
5.5.1.2 Organizational Structure and Performance of Insurance Companies
The study recommends AAR management to ensure that the structure the organization adopts has the capability of paying attention to and meeting the current insurance demands of Kenyans. AAR’s management need to focus on ensuring that their structures and systems are convenient for its staff as well as its customers in order to enjoy a better competitive position.

5.5.1.3 Leadership and Performance of Insurance Companies
The study recommends AAR to ensure that their leadership style facilitates the improvement of the organization’s financial performance. This could be achieved through the firm increasing its authoritarian dimension level in leadership, and increasing its ability to adapt to new changes faster and easily with the help of transformational leadership systems.

5.5.2 Recommendations for Further Studies
This study focused on the factors influencing the performance of insurance companies in Kenya. It was limited to AAR and its focus was on the influence of firm size, organizational structure, and leadership. The results were thus limited to AAR. The study recommends that similar studies be conducted in other insurance firms to examine the overall level of influence. Further studies could also be conducted on other firms to determine the level of influence of these 3 factors (firm size, organizational structure, and leadership). Future scholars examining factors influencing AAR’s performance could also focus on other variables like strategy implementation or competitive forces.
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APPENDICES
APPENDIX I: QUESTIONNAIRE

Kindly answer the following questions. The researcher would like to assure you that the information gathered will be kept confidential and used strictly for the purpose of this research only. The usefulness of the information to the researcher will solely depend on your honesty.

Please tick [✓] where appropriate or fill the information as necessary

SECTION A: Demographic Information

1. What is your gender?
   Male [ ]    Female [ ]

2. What is your age?
   25 or under [ ]    26 – 40 [ ]    41 – 55 [ ]    56 or older [ ]

3. What is your marital status?
   Single [ ]    Married [ ]    Widowed [ ]    Divorced [ ]

4. For how long (in years) have you worked for the organization?
   1 Year and under [ ]    2 – 5 Years [ ]    6 – 10 [ ]    11 Years and above [ ]

5. What is your position in the organization?
   Senior Manager [ ]    Operational Manager [ ]    Line Manager [ ]
SECTION B: Firm Size and Performance of Insurance Companies

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements: 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree.

<table>
<thead>
<tr>
<th>Code</th>
<th>Firm Size and Performance of Insurance Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS1</td>
<td>Our organization has generally reported high loss ratios</td>
</tr>
<tr>
<td>FS2</td>
<td>Our organization relies on investment income to act as a cushion for our underwriting results</td>
</tr>
<tr>
<td>FS3</td>
<td>Firm size is an important determinant of an insurance company’s performance</td>
</tr>
<tr>
<td>FS4</td>
<td>The control of managers pursuing self-interested goals may alter profit maximization as the firm’s objective function</td>
</tr>
<tr>
<td>FS5</td>
<td>Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities</td>
</tr>
<tr>
<td>FS6</td>
<td>Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification</td>
</tr>
<tr>
<td>FS7</td>
<td>Large firms are more stable and mature, therefore generate greater sales because of their great production capacity</td>
</tr>
</tbody>
</table>
SECTION C: Organizational Structure and Performance of Insurance Companies

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements: 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree.

<table>
<thead>
<tr>
<th>Code</th>
<th>Organizational Structure and Performance of Insurance Companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>OS1</td>
<td>Our organizational structure affects our performance through innovation and organizational learning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OS2</td>
<td>Our organization has a high trust environment that produces accurate results in the least amount of time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OS3</td>
<td>Our organizational structures create vertical and horizontal structures that facilitate communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OS4</td>
<td>Our organizational structure is not complex and facilitates as well as encourages employee creativity</td>
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<tr>
<td>OS5</td>
<td>Our organizational controls include: target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures</td>
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<tr>
<td>OS6</td>
<td>Enforcing performance controls and behavioral prescriptions in our organization has improved decision-making and increased predictability of performance</td>
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<tr>
<td>OS7</td>
<td>Organizational structure in our organization has decreased employee ambiguity and has helped explain and predict employee behavior</td>
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<tr>
<td>OS8</td>
<td>Our organization’s structure has been designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure</td>
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<tr>
<td>OS9</td>
<td>Our organizational structure facilitates proper working relationships among various sub-units within the organization</td>
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</tbody>
</table>
SECTION D: Leadership and Performance of Insurance Companies

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements: 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree.

<table>
<thead>
<tr>
<th>Code</th>
<th>Leadership and Performance of Insurance Companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>L1</td>
<td>Leadership style in an organization is significant in enhancing or retarding the interest and commitment of employees</td>
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<tr>
<td>L2</td>
<td>Leadership in our organization is critical in encouraging employees towards a common goal</td>
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<td>L3</td>
<td>Leadership in our organization focuses on the development of employees and their needs</td>
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<td>L4</td>
<td>Leaders in our organization determines our organizational values, culture, change tolerance and employee motivation</td>
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<td>L5</td>
<td>Leadership in our organization is seen as a potent source of the development and sustenance of our competitive advantage</td>
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<td>L6</td>
<td>Leadership in our organization facilitates the achievement of our current objectives efficiently by linking job performance to valued rewards</td>
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<tr>
<td>L7</td>
<td>Leadership in our organization facilitates the achievement of our current objectives efficiently by ensuring that employees have the resources needed to get the job done</td>
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<tr>
<td>L8</td>
<td>Our leaders demonstrate concern, care and respect for employees, thus increasing employees’ interest in their work facilitating better performance</td>
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</tbody>
</table>

THANK YOU