

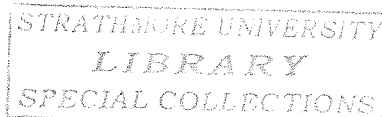
Corporate governance practices of Kenyan insurance broking firms:

A study of the impact of some Board characteristics on

financial performance

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Corporate governance
practices of Kenyan

Lazaro Akunga Kimang'a



A thesis in partial fulfillment of the requirements for the Degree of

Master of Commerce at Strathmore University

School of Management and Commerce

Strathmore University

Nairobi, Kenya



June, 2011

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.



Lazaro Akunga Kimang'a

APPROVAL

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ABSTRACT

Governance applies to all sectors of the corporate and institutional world. This study looks specifically at some governance practices of Kenyan insurance broking firms and their relation to performance. In particular, the study examines the impact of board characteristics of Kenyan insurance broking firms on company financial performance. Kenyan insurance broking firms are small cap companies. Many studies have examined governance practices of large companies, particularly those quoted on the stock exchange as well as those in the banking sector. There is evidence that well governed firms perform better.

This study had three main objectives. First, to assess the degree to which insurance broking firms in Kenya have adopted and implemented international governance guidelines both in theory and practice. Secondly, to determine whether Kenyan insurance broking firms with some corporate shareholders have performed better than broking firms owned by individuals. Thirdly, to assess the impact of adopting and implementing global board governance guidelines, in particular those related to the board of directors, in the insurance broking sector in Kenya, on firm performance. In this latter regard, the study sought to determine the impact/importance of several key board characteristics in respect of board size, board composition, the Chairman-CEO duality role and the existence of an audit committee on performance in the Kenyan insurance broking sector. Findings revealed that the general level of implementation of international governance guidelines in the Kenyan insurance broking sector was not strong. Furthermore, there was no significant statistical evidence that Kenyan insurance broking firms with corporate shareholders have performed better financially than broking firms without such linkages. As for the third objective, data did not provide adequate statistical evidence to reach conclusions about the relationship between corporate governance practices and firm performance. These findings support findings of earlier studies elsewhere. The study revealed an overall weakness in many Kenyan insurance broking firms in embracing governance guidelines and therefore further studies needed to be undertaken to reveal more about governance issues in the Kenyan insurance broking sector.

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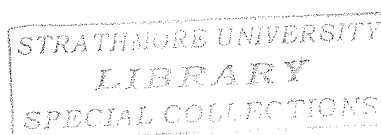
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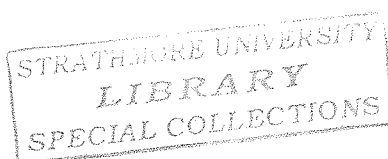


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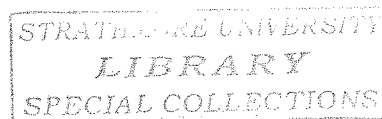


ACRONYMS

AIBK	–	Association of Insurance Brokers of Kenya
CMA	–	Capital Markets Authority
ICPAK	–	Institute of Certified Public Accountants of Kenya
ICCG	–	International Corporate Governance Guidelines
IFRS	–	International Financial Reporting Standards
IIK	–	Insurance Institute of Kenya
ICGN	–	International Corporate Governance Network
IRA	–	Insurance Regulatory Authority
OECD	–	Organization for Economic Co-operation and Development
PSICG	–	Private Sector Initiative for Corporate Governance
PwC	–	PricewaterhouseCoopers

DEFINITIONS

Comprehensive income	–	An International Financial Standards (IFRS) term used to refer to overall profit after tax.
Corporate governance	–	The process and structure used to monitor and oversee the affairs of a company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing long-term shareholder value while taking into account the interest of other stakeholders.
Large cap company	--	A company with a relatively large market capitalization (number of shares x value per share), and the classification may change over time.
Median	–	The middle of a distribution, that is, half the scores are above the median and half are below the median.
Mean	–	The sum of all the list of numbers divided by the number of items on the list.
Mode	–	The value that occurs the most frequently in a data set or a probability distribution.
Per capita	---	A Latin term meaning “for each head”, that is, per individual or per person.



Small cap company

A company with a relatively small market capitalization (number of shares x value per share), and the classification may change over time.

Standard deviation

A measure which indicates the level of variation from the mean, that is, a high standard deviation shows that the data are widely dispersed from the mean while a low standard deviation shows that the data are close to the mean.

Standard error of the mean

Arises due to using the sample mean as a method of estimating the population mean and refers to the standard deviation of those sample means over all possible samples (of a given size) drawn from the population.

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I owe special thanks to Prof. David Sperling for his role as my University Supervisor; without his invaluable critique, suggestions and guidance, this thesis would not have been possible. I am also deeply indebted to Dr. Ruth Kiraka, Dean of the School of Graduate Studies, for her guidance and input in research methodology which enhanced my research approach. Many thanks to go to Mr. David Wangombe, Dean of the School of Management and Commerce, for his useful suggestions. I extend my appreciation also to Dr. James McFie, the Director of Research, for his worthwhile contribution to this study and to all the lecturers as well as the University Library staff who gave me assistance.

It would be impossible not to mention, in appreciation, my dear wife, Dr. Alice Akunga, and our adoring sons, Lawrence Akunga, Robert Akunga and Allan Akunga, together with my parents, Hezron and Elizabeth Kimang'a, for their support. Further, my appreciation goes to my siblings together with all the other individuals who supported me.

Last but not least, I thank my data collection and processing assistants for their input in the research. My appreciation also to all the respondents for agreeing to take the time to fill up the questionnaire; without their co-operation and participation this research would not have been possible.

DEDICATION

This thesis is dedicated to my loving and supportive family for their encouragement during the long period I was doing the research and to my loving parents. May God bless you all abundantly.

CHAPTER ONE: INTRODUCTION

1.1 Background information

Insurance broking is an intermediary service carried out by an insurance broker. Traditionally, the insurance broker's main role was to ensure that insurance policies were underwritten by people of integrity with adequate financial means. Over time, the role of insurance broking has evolved, and this service, which used to be in the hands of individual brokers, is now conducted by large companies governed by boards of directors. There are over a hundred insurance broking firms (also known as insurance brokers) in Kenya; although they look like small cap companies, they are growing.

In recent years, particularly following the corporate scandals of the late 1990's, corporate governance has increasingly come to be perceived important. Some of the largest bankruptcies in the US such as Texaco (1987), Financial Corporation of America (1988), Enron (2001), WorldCom (2002), Tyco (2002), Delta Airlines (2005), Lehman Brothers (2008), General Motors (2009), etc, were filed between 19887 and 2009. The need for strong governance is evidenced by the various reforms and standards developed not only at the country level but also at the international level, such as by the Organization for Economic Co-operation and Development (OECD).

The level to which growing insurance broking sector has recognized the need for good governance following recent major corporate collapses is unclear. There has been little research about governance in the insurance broking sector in Kenya. This research investigates aspects of governance and the performance of firms in the Kenyan insurance broking sector. The research was motivated by the introduction of the cash-and-carry rule imposed by the Insurance Act, 2006 (Amendment), which requires brokers to make up-front

payment for insurance covers aimed at curbing failure by brokers to remit premiums collected from policy holders and also by the recommendation of the Insurance Regulatory Authority (IRA) of the need to address poor governance practices in the insurance industry in Kenya (Insurance Regulatory Authority Strategic Plan, 2008 - 2012). Brokers have often been accused by policy holders of failing to remit claims money received from insurers, thus negatively impacting the trust and confidence of stakeholders such as the government, insureds and other industry players. While poor governance remains a major issue within the insurance industry, there are other issues which also need to be addressed by IRA in its role of regulating, supervising and developing the insurance industry; such other issues are also closely related to governance and include the need for sound business practices in the industry, protection of policyholders, consumer confidence, market stability and sustainability of underwriting operations.

Based on various previous studies investigating the effect of board size and composition on company financial performance which have been cited in this study, mixed reactions and diverse conclusions have been revealed. From the previous studies cited herein respectively, there are contrasting views regarding optimal board size; according to some views, the higher the number of directors on the board, the lower the performance while other views disagree with this notion. There are also views that a greater proportion of outside directors on boards has the potential to enhance financial performance while there are contrasting views that greater representation of outside directors has a negative impact on financial performance. Other studies cited in this study have also shown that there are contrasting views in respect of the impact of Chairman-CEO duality role and audit committee existence on company performance. Much seems to depend on existing circumstances.

The rest of this chapter discusses the statement of the problem, the purpose of the study, research objectives, research questions, the scope of the study, and justification of the study.

1.2 Statement of the problem

According to Mallin (2007), there has been a distinct lack of research into aspects of corporate governance in small companies, with a few exceptions, including Collier (1997) on audit committees in small listed companies and Mallin and Ow-Yong (1998a, 1998b) on governance in alternative investment markets (AIM) and in small companies in the main market. Furthermore, this excludes non-listed small companies as the studies were with regard to listed small companies.

Kenya has a relatively small insurance industry with growth potential but developing slowly. This study on corporate governance in Kenya reflects on unique governance issues not prevalent in more researched developed economies. The characteristics of insurance broking businesses are expected to have unique agency problems associated with corporate governance and financial performance primarily relating to principal-agent relationship. Broking firms also present challenges in terms of monitoring transparency of operations to meet international standards of corporate governance.

As aforementioned, this study sought to examine corporate governance practices in insurance broking firms (being small cap companies) and the effect of key board characteristics on performance in the Kenyan context.

1.3 Purposes of the study

The purpose of the study was to examine the impact of adoption and implementation of specific characteristics of global corporate governance guidelines with regard to board size, board composition, Chairman-CEO duality role and the existence of an audit committee have had on company financial performance of the Kenyan insurance broking firms.

1.4 Research objectives

The key objectives of this study were:

1. To assess the extent to which insurance broking firms in Kenya have adopted and implemented international governance guidelines in theory and practice.
2. To determine whether Kenyan insurance broking firms owned by shareholder companies (corporate shareholders) have performed better financially than broking firms without such ownership structure.
3. To assess what impact the adoption and implementation of global board governance guidelines in the insurance broking sector in Kenya has had on firm performance.

1.5 Research questions

The research questions of the study were:

1. To what degree have insurance broking firms in Kenya adopted and implemented international governance guidelines?
2. To what extent have the Kenyan insurance broking firms with corporate ownership performed relative to broking firms without such ownership linkages?
3. What impact has the adoption and implementation of global board governance guidelines had in the Kenyan insurance broking sector, in particular, with regard to:

- i) the size of the boards of insurance broking firms in Kenya and its impact on company financial performance (resource theory)?
- ii) the proportion of non-executive directors on the boards of insurance broking firms in Kenya and its impact on company financial performance (agency theory)?
- iii) the separation of chairmanship and CEO roles and its impact on company financial performance in the Kenyan insurance broking sector (agency theory vs stewardship theory)?
- iv) the existence of an audit committee and its impact on company financial performance in the Kenyan insurance broking sector (agency theory)?

In this study, resource dependency theory and agency theory of corporate governance have been used to develop research questions in examining the effect of key board characteristics, that is, board size, board composition, Chairman-CEO duality role, and audit committee existence, have had on firm financial performance in the insurance broking sector.

1.6 Scope of the study

The study focused on insurance brokers domiciled in Kenya who were members of the Association of Insurance Brokers of Kenya (AIBK) with a current operating license and had been in operation for at least five years. The brokers had to have audited financial statements for at least five consecutive years covering the period 2004 – 2008 available for this purpose. There were fifty Kenyan insurance broking in the sample population after randomly eliminating five from those that met these criteria.

The criteria for selecting the brokers for the study were considered appropriate as it was a condition to be a member of the Association of Insurance Brokers of Kenya and also to have operated for at least five years (2004 – 2008) with a current operating license as proof that the

Insurance Regulatory Authority (IRA) was satisfied that the requirements under the insurance Act had been met.

1.7 Justification of the study

The findings of this study gave answers to the problem of the study and, as such, would be valuable. The findings were expected to be useful and relevant to many organizations and persons interested in the insurance broking sector. Regulatory bodies such as the Insurance Regulatory Authority (IRA) and the Capital Markets Authority (CMA) could use the information for governance and policy formulation purposes. The Authorities could further use the results to review and enforce regulatory requirements. The results of this study would be useful to professional and industry bodies such as the Insurance Institute of Kenya (IIK) and the Association of Insurance Brokers of Kenya (AIBK). Training and research institutions such as universities and colleges could also use the conclusions, and recommendations for further research would be a worthwhile contribution to the body of knowledge. Finally, individual and corporate investors could use the results to understand how the board characteristics impact on firm financial performance while the Private Sector Corporate Governance Trust of Kenya could make use of the results in enhancing corporate governance in the private sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to aspects of governance and insurance broking relevant to this study. The main areas covered include theories in general underlying the development of corporate governance, the role of insurance broking, governance in insurance broking sector, governance impact on company performance, board of directors governance and performance, and agency, resource dependency and stewardship theories and board characteristics.

2.2 Governance theories in general

Mallin (2007) summarizes the theories affecting corporate governance development as follows:

- i) Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. In the context of corporation, the owners are the principal and the directors are the agent.
- ii) Transaction cost economics theory views the firm itself as governance structure. The choice of an appropriate governance structure can help align the interests of directors and shareholders.
- iii) Stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. Where there is an emphasis on stakeholders, then the governance structure of the company may provide for some direct representation of the stakeholder groups.
- iv) Stewardship theory views directors as stewards of the company's assets and will be predisposed to act in the best interest of the shareholders.

- v) Class hegemony theory maintains that directors view themselves as elite at the top of the company and will recruit/promote to new director appointments taking into account how well new appointments might fit into those elite.
- vi) Managerial hegemony theory contends that management of a company, with its knowledge of day-to-day operations, may effectively dominate the directors and hence weaken the influence of directors.

The development of corporate governance is a global occurrence and, as such, it is a complex area including legal, cultural, ownership, and other structural differences. Some theories may be more appropriate and relevant to some countries than others or more relevant at different times depending on the stage of development a country is at. In this regard, an important aspect is whether a company itself operates within a shareholder framework, focusing primarily on the enhancement of shareholder value as its main objective, or whether it takes a broader stakeholder approach, focusing on the interests of diverse groups including employees, customers, creditors and the community in which it operates (Mallin, 2007).

2.3 Role of insurance broking

The main traditional role of an insurance broker was to provide advice on the selection of insurers, and to execute instructions and provide risk survey service. The role of the broker has evolved over time. It now includes, for example, assisting in the identification, evaluation, control and transfer of risk (Maynard and Grainge, 1995). Due to the nature of their role, insurance brokers are expected at all times to conduct business with utmost good faith and integrity. They are also expected to organize and control the internal affairs of their insurance broking business in a reputable manner (Insurance Brokers (Registration) Act 1977, UK).

Insurance broking plays a major role in the insurance industry and insurance contributes to economic growth of the country: insurance is part and parcel of the country's gross domestic product, and insurance products enables individuals and organizations to undertake activities with higher risks and higher returns leading to higher economic growth. Utmost faith and integrity are key to the level of profitability of insurance companies and ultimately these impact on the level of gross domestic product (GDP) and gross net product (GNP) for the country. Furthermore, the insurance industry contributes to the investment activities/climate of the country. According to the Association of Kenya Insurers (Insurance Industry Report, 2009), at annual gross premium income of Kshs 64 billion (USD 860 million), the insurance industry's contribution was 2.8% of the country's GDP; non-life and life premiums contributed 1.9% and 0.9% respectively.

2.4 Governance in the insurance broking sector

Previous studies in the South African and UK insurance broking sectors have shown that there are certain unique challenges and problems in the insurance broking sector. These include the challenges occasioned by low capital and entry barriers and the problem of rate undercutting and inadequate internal control mechanisms.

A survey on strategic and emerging issues in the South African insurance broking sector (PricewaterhouseCoopers, 2005) concluded that pricing models in the broking sector need to be more transparent and brokers need to price the cost of service delivery more effectively and that inadequate internal control mechanisms are a major cause of fraud at broking firms.

Management strategies adopted by the insurance broking sector reflect issues which must be taken into account in governance of the sector. A research conducted by King, Smallman and van Weeger (1997) observed that the insurance broking industry is

a slow growth industry and some brokers acquire business by undercutting other brokers and that the insurance broking industry has very low capital requirements and equally low entry barriers, hence the high number of brokers in the industry and the sector is also slow in adopting appropriate means of enhancing efficiency.

2.5 Governance impact on company performance

According to Mallin (2007), the main theories influencing the development of corporate governance are shown in Figure 2.1 below:

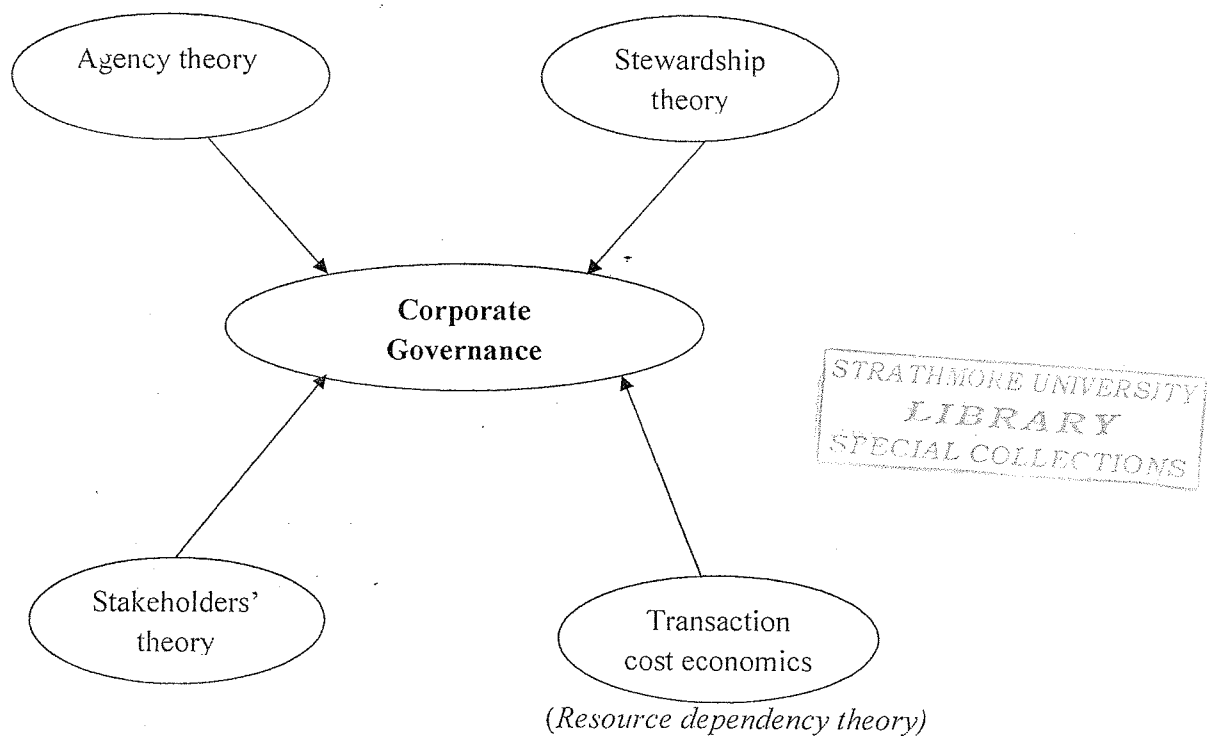


Figure 2.1: The main theories influencing the development of corporate governance.
(Source: Mallin, 2007).

Three governance theories, in particular, agency, resource dependency and stewardship, have been used in this study to discuss the effect of board characteristics on performance.

According to Colley, Doyle, Logan and Stellinius (2004), the effectiveness of corporate governance has a profound effect on the company's performance. Accordingly, companies that have prospered and remain prosperous are those that have effective ways of governing their affairs and, similarly, companies that have performed poorly have problems that can be tracked to boards of directors not effectively addressing the issues confronting their business. The governance model of a successful company (Colley et al, 2004) shows that:

- An effective board of directors carries out its responsibilities with integrity and competence to achieve its purpose.
- An effective board structure is necessary for governance.
- Systems must be in place to ensure that the organization's obligations are met with integrity and in compliance with applicable laws and regulations as well as to ensure full and timely disclosure of the performance of the organization to its stakeholders.
- A board that fails to guarantee that a sound governance model is in place and executed conscientiously and effectively leads the organization to failure.

This governance model raises the question as to whether boards in the insurance broking sector are effective.

According to Cornelius and Kogan (2003), even where an adequate legal and institutional infrastructure is in place, trust is the necessary glue that holds together any type of long-term business relationships. Success is not merely complying with legalities of corporate governance.

According to Wixley and Everingham (2005), although there is a greater need for good and transparent governance in large organizations, there is no doubt that good governance is also important in small companies and organizations as poor corporate governance is seldom seen as a reason for the failure of a small business. According to Smith and Watts (1992), in a business environment characterized by increased competition and higher threats from the market, the effectiveness of internal governance systems in protecting shareholders' interests has become more relevant than ever before.

Nicholson and Kiel (2007), in a case-based test of theories, hypothesized that links between the board of directors and firm performance can be predicted by the three dominant theories in corporate governance research, namely agency theory, stewardship theory and resource dependence theory. They found that, while each theory explained a particular case, no single theory explained the general pattern of results. They concluded their study by calling for a more process-oriented approach to both theory and empirical analysis if the way boards add value is to be understood.

A study by Xu and Wang (1999) investigated whether ownership structure significantly affects the performance of publicly listed companies in China within the framework of corporate governance. A typical listed stock company in China has a heavily concentrated mixed ownership structure with three predominant groups of shareholders, that is, the state, legal persons (institutions), and individuals, each holding about 30% of the stock. Empirical analysis shows that the mix and concentration of stock ownership do indeed significantly affect a company's performance. First, there is a significant positive correlation between ownership concentration and profitability. Secondly, a firm's profitability correlates positively with the proportion of legal person shares, but it is either negatively

correlated or uncorrelated with the proportions of state shares and tradable shares held by individuals. Thirdly, labor productivity tends to decline as the proportion of state shares increases. These results suggest the importance of large institutional shareholders in corporate governance, the inefficiency of state ownership, and potential problems in an overly dispersed ownership structure.

Results of a study by Dalton, Daily, Ellstrand and Johnson (1998) showed that neither the board composition nor board leadership structure can be consistently linked to corporate financial performance. This view was supported by Weisbach and Hermalin's (2000) whose survey of economic literature on boards of directors showed no significant relationship between board composition and corporate performance, although board size relates negatively to corporate performance.

According to Reddy et al (2008), studies on governance have mainly examined the governance practices of large corporations. Further, according to Daily, Dalton and Cannella (2003) and Rajagopalan and Zhang (2008), corporate governance research has typically focused on developed economies.

A study done by Becht, Finkinson and Mayer (2005) indicated that different types of corporate governance rules are required for firms in different industries/sectors and stages of their development. Additionally, according to Mallin (2007), whatever its size of business, a firm can benefit from having a good governance structure and that first, firms with effective governance structures will tend to have a more focused view of the business, be willing to take into account and benefit from the views of "outsiders", and be in a better position to evolve and grow into the future and, secondly, non-family investors will only be attracted to the firm only if there is protection of their rights, both in the context of the country's legal

framework and also in the corporate governance of the individual companies in which they invest, and thus leading to increasing pressure both for legal reforms to protect shareholders' rights and for corporate governance reforms within the individual companies. Upgrading corporate board structure, in terms of both size and composition, has been one of the core themes in all corporate governance initiatives undertaken by international fora (OECD, 2004). According to Bhagat and Bolton (2008), good corporate governance practices improve firm performance.

2.6 Agency, resource dependency and stewardship theories and board characteristics

According to Nicholson and Kiel (2007), the relationship between the board of directors and firm performance is more "varied and complex" than can be covered by any single governance theory. In this regard, according to Hillman and Dalziel (2003), boards of directors have two main functions, that is, providing resources (in line with resource dependency theory) and monitoring management (in line with agency theory). The stewardship and agency theories contrast each other in monitoring management of a firm.

These three theories, namely agency, resource dependency and stewardship theories are discussed under board characteristics here below comprising board size, board composition, chairman-CEO duality role and existence of audit committee.

2.6.1 Board size

The aspect of size of boards of directors has drawn great attention following recent business failures of large organizations. Some empirical studies have concluded that increased board size can have a positive impact on performance. According to Van den Berghe and Levrau (2004), increasing the number of directors provides an

increased pool of expertise and thus larger boards are likely to have more knowledge and skills than smaller boards. Forbes and Milleken (1999) argue that larger boards may have an impact in reducing the domination of the CEO. Others argue that there is a negative relationship between firm performance and board size. According to Yermack (1996), small boards of directors are more effective than large boards as the benefits of increased size can be outweighed by the costs with regard to poorer communication and decision-making of such larger groups. Bennedsen et al (2008) argue that the relationship between board size and performance may be linked to various characteristics such as size, age and industry affiliation of the firm.

According to the resource dependency theory, one would expect a board of directors with high levels of links to the external environment to improve a company's access to such resources as finances, inputs, human capital, etc, thus improving governance and firm performance (Jackling et al, 2009). According to Nicholson and Kiel (2007), management literature views the board as a potentially important resource for companies and supports a resource dependency theory of governance. Resource dependency theory views the board as an essential link between the firm and the external resources that a firm needs to maximize its performance (Pfeffer and Salancik, 1978).

International corporate governance guidelines have clearly emphasized the size of boards. However, it is unclear to what extent the literature on this, which comes largely from developed countries, is applicable to the Kenyan context. In a study by Jackling et al (2009), a large proportion of family owned firms has resulted in the

role of outside directors being minimized as family firms tend to restrict executive management positions to family members, thus limiting the effect of pool of expertise in improving firm performance contrary to resource dependency theory which advocates for increased pool of expertise for enhancement of firm performance.

2.6.2 Board composition

The question of whether outside directors have an impact on firm performance has been a subject of great interest. International corporate governance guidelines recommend that companies need to have a balance between inside and outside directors (OECD, 1999).

Based on the agency theory of corporate governance, it is viewed that a greater proportion of outside directors on boards act to monitor independently where there is conflict of interest between the owners and management of the firm. According to Fama and Jensen (1983), agency theory is based on the premise that there is an inherent conflict between the interests of the firm's owners and its management. The agency theory therefore calls for adequate monitoring mechanisms aimed at protecting shareholders from management's self-interests. A high proportion of outside directors on the board is therefore viewed as having a potentially positive impact on performance and this is supported by Shleifer and Vishny (1997). This view, supporting greater representation of outside directors, is associated with the notion of the separation of ownership and control of agency theory. According to OECD (1999), boards should have a majority of outside directors and, ideally, independent directors.

According to Baysinger and Butler (1985), companies perform better when boards include majority of outside (independent) directors. Rosentein and Wyatt (1990) concur that the appointment of outside directors results in an increase in shareholder wealth.

There are, however, some dissenters whose findings lead to their disagreement:

- i) Agrawal and Knoeber (1996) argue that greater representation of outside directors have a negative impact on firm performance.
- ii) Dalton et al (1998) support the view that there is no significant association between board composition and firm performance.

Stewardship theory contends that superior corporate governance will be linked to a majority of inside directors as they work to maximize profit for shareholders by ensuring effective and efficient decision making (Nicholas and Kiel, 2003), while agency theory maintains that a greater proportion of outside directors are associated with high company performance.

2.6.3 Board chairmanship and CEO roles

Previous studies have found that the structure adopted by the board with regard to board chairmanship and the role of the CEO can have an impact on company performance. Non-separation of the chairman and CEO roles has been associated with the governance failures in large corporations such as Enron, worldcom, Tyco, etc and this has led to governance reforms worldwide pressurizing companies to split these two roles. According to Adams, Almeida and Ferreira (2005), the ability of a CEO to influence decisions can have an impact on firm performance.

Based on the agency theory, the view of Lorsch et al (1989) and Millstein (1992) is that the separation of the chairman and CEO roles leads to greater scrutiny of managerial behaviour and operations and thus reflects better governance. The agency theory thus advocates for separation of these two roles. According to OECD (1999), the position of chairman and CEO should be held by different persons.

The stewardship theory is quite distinct from the agency theory and creates quite different circumstances. According to Donaldson and Davis (1991), supporters of the stewardship theory argue that authorities' decision-making under the leadership of a single individual performing the roles of chairman and CEO leads to better company performance. The supporters of stewardship theory argue that duality is a positive force leading to better corporate performance as a result of an enhanced leadership structure.

Supporting evidence for the impact of duality on performance is mixed in view of the contrasting governance theories. To some extent, the differences in results are also associated with the measures of financial performance. In a study by Adams et al (2005), it was found that the CEO as the sole manager was negatively correlated with return on assets (ROA).

2.6.4 Audit Committee

The impact of the work of the audit committee on company financial performance has become an area of significant interest and research. Some findings imply that an audit committee, being a subcommittee of the board with a majority of outside independent directors, might lead to somewhat similar performance effects (Turley and Zaman, 2001).

Wild (1996), in his test of the degree to which the formation of an audit committee enhances earnings quality, concluded that the evidence obtained was characteristic of effective audit committees that substantially enhance the quality of reported earnings. However, Reddy et al (2008) in their research on corporate governance practices of small cap companies in New Zealand found that there was no evidence to support the view that the establishment of an audit committee enhances firm financial performance. According to Zaman (2004), there is no automatic relationship between the adoption of audit committee structures or characteristics and the achievement of particular governance effects.

Due to the nature of the role played by an audit committee, the existence of this committee is an indication of a particular kind and degree of monitoring and control mechanism in a firm. The agency theory maintains that adequate monitoring or control mechanisms need to be established to protect shareholders from management's conflict of interest (Fama and Jensen, 1983).

2.7 International corporate governance and the insurance broking sector

While companies are subjected to local cultures and practices, it is possible to identify and promote some general guiding principles of governance. The Organization for Economic Cooperation and Development (OECD), which faced difficulties in harmonizing practices across its 29-country members, took the initiative of formulating a global set of governance principles and guidelines (Monks et al, 2004).

The OECD guidelines are not meant to be regulatory or enforceable but rather are meant to be used as reference for companies that seek to improve their corporate governance practices (OECD, 1999). The OECD guidelines were developed in consultation with key stakeholders including the International Corporate Governance Network (ICGN), a body formed by investors in 1995 to enhance the development of global corporate governance. In addition to the general OECD guidelines, specific OECD governance guidelines are in place for insurers, reinsurers and insurance brokers. The OECD guidelines for insurers' governance aim at strengthening investor and customer confidence in the insurance industry. At the same time, they provide governments and the insurance industry with a roadmap to achieve this purpose thereby better protect the interests of the investors and customers (OECD, 2005).

In Kenya, besides the Capital Markets Act (2002) which gives corporate governance guidelines to be complied with by companies quoted publicly on the Nairobi Stock Exchange, a national code of best practice for corporate governance to guide corporate governance was formally adopted on 8 October 1999. The code of best practice for corporate governance was adopted by leading organizations in Kenya with a specific interest in corporate governance including the Nairobi Stock Exchange (NSE), the Capital Markets Authority (CMA), the Institute of Certified Public Accountants of Kenya (ICPAK) and the Kenya Chapter of the Association of Chartered Certified Accountants (ACCA) with participants drawn from many leading corporate organizations (Private Sector Corporate Governance Trust, 1999). The Private Sector Initiative for Corporate Governance (PSICG) in Kenya developed a sample code of best practice for corporate governance with the aim of assisting

companies develop their own governance codes. The guidelines are neither prescriptive nor mandatory but their purpose is to assist every corporate entity in Kenya examine and enhance their own corporate governance practices. The salient aspects of the sample code guidelines are derived from internationally accepted guidelines but without specific guideline for the insurance industry by PSICG.

CHAPTER THREE: THEORETICAL AND CONCEPTUAL RESEARCH FRAMEWORK

3.1 Theoretical framework

This study focuses on resource dependency, agency and stewardship theories and was aimed at linking key board characteristics and corporate performance as follows:

- i) Resource dependence theory maintains that the board is an essential link between the firm and the external resource that a firm needs so as to maximize its performance. The resource dependence theory thus supports larger board size.
- ii) Agency theory contends that there is an inherent conflict between the interests of a firm's owners and its management and supports the view that boards should have a majority of non-executive directors and that the positions of chairman and CEO should be held by different persons. The agency theory thus supports the existence of audit committee and internal control mechanisms to protect shareholders from management's conflict of interest.
- iii) Stewardship theory maintains that managers are essentially trustworthy individuals and therefore good stewards of the resources entrusted to them. The theory supports the view that boards should have a majority of executive directors to ensure more effective and efficient decision making as they work to maximize profit for shareholders. Besides, CEO duality (CEO doubling as chairman) is a positive perspective leading to better corporate performance as there is clear leadership for the company.

3.2 Performance indicators

According to Agoraki et al (2009), performance may be measured in terms of cost and profit efficiency. The main indicators used to measure performance include return on assets (ROA), return on equity (ROE), gross profit margin (GPM), net profit margin (NPM), expense ratio (ER) and employee per capita income (EPCI).

Return on assets (ROA) measures the capacity of the company to generate a return on its resources. This is computed by dividing profit after tax by total assets ($ROA = \text{profit after tax} / \text{total assets}$). According to Gitman (2003), return on assets is a good measure of performance to justify the use of company resources.

According to Watson and Head (2007) return on equity (ROE) measures the return attributable to shareholders. Return on equity is an important indicator to investors and is computed by dividing profit after tax by shareholders' funds, comprising share capital and resources ($ROE = \text{profit after tax} / \text{shareholders' funds}$).

Gross profit margin (also known as gross margin or gross profit rate), is an important performance indicator and measures the return a company generates relative to the revenue and the level of the company's operating costs. Gross profit margin is computed by dividing net profit before tax by revenue ($\text{gross profit margin} = \text{profit before tax} / \text{revenue}$). Where net profit margin is also used as a measure of performance, it is computed by dividing profit after tax by revenue ($\text{net profit margin} = \text{profit after tax} / \text{revenue}$). The expense ratio measures the company's ability to control costs and is computed by dividing total operating expenses by revenue ($\text{expense ratio} = \text{total operating expenses} / \text{revenues}$).

Employee per capita income is a measure of efficiency for employees of a firm and is thus a measure of performance. It is computed by dividing revenue by the number of employees (employee per capita income = revenue / number of employees). Likewise, director per capita comprehensive income is a measure to reflect the net profit after tax to director ratio may be obtained for comparison purpose. There are other performance indicators and they primarily use market share prices but these are not applicable to the Kenyan insurance broking sector as the insurance broking firms are privately owned.

The study has established the extent to which the governance practices in the Kenyan insurance broking sector have impacted on company performance, and governance theories have been used to provide explanations accordingly.

3.3 Conceptual research framework

Governance theories determine board characteristic/attributes, such as board size, board composition, CEO duality, audit committees and internal control mechanisms. The board characteristics are in turn related to firm performance as measured by return on assets (ROA), return on equity (ROE), gross profit margin (GPM), expense ratio (ER) or employee per capital income (EPCI). This is reflected in the role of Boards in providing resources and monitoring management. Best governance practices are reflected in good board characteristic.

The conceptual research framework for this study illustrating these relationships is shown in figure 3.2 below:

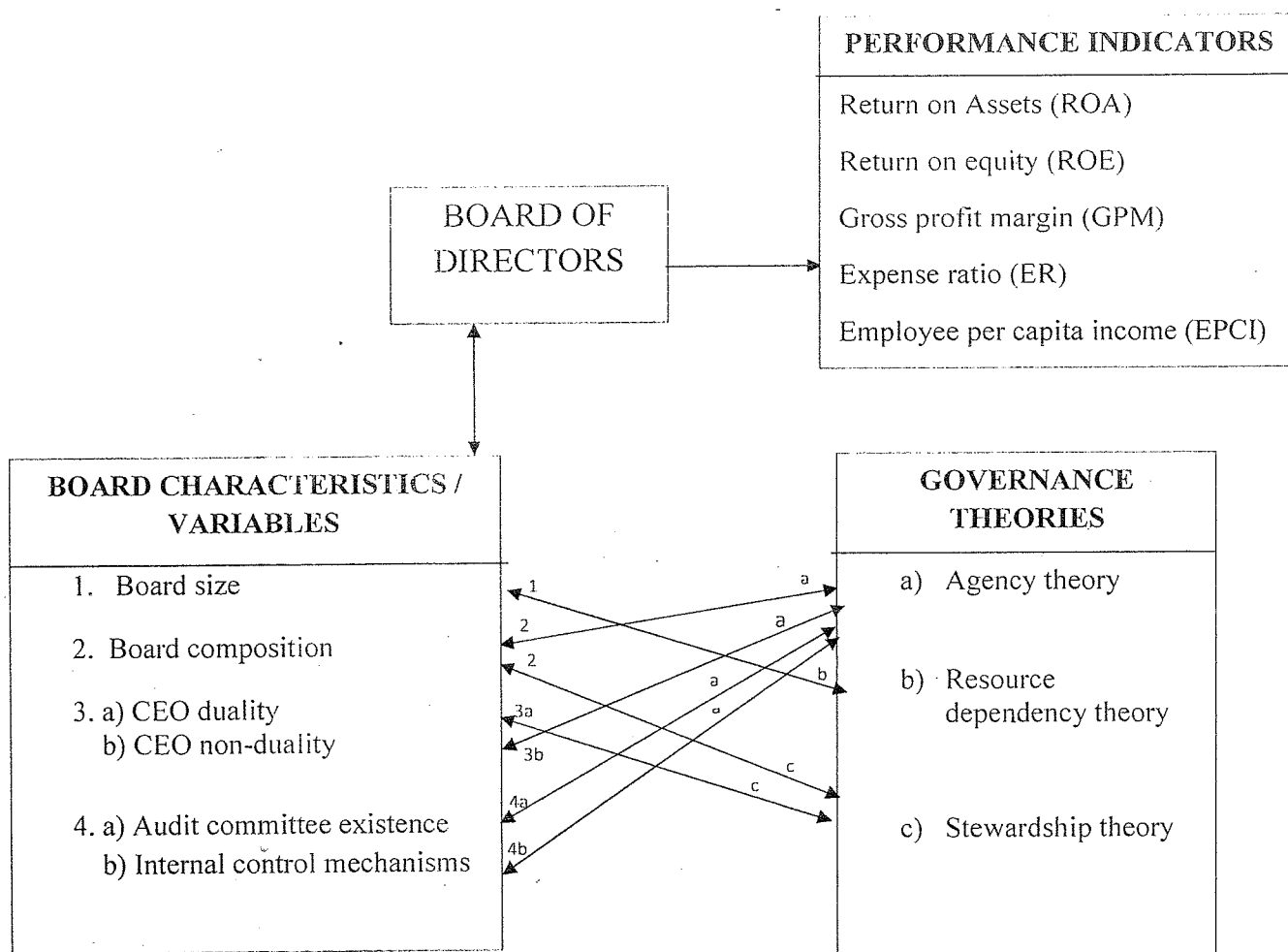


Figure 3.2: Conceptual research framework

Key:

- 1 – b: Resource dependence theory supports the view that larger boards lead to better performance.
- 2 – a: Agency theory supports the view that boards should have a majority of non-executive directors for better performance.
- 2 – c: Stewardship theory supports the view that boards should have a majority of executive directors for better performance.
- 3a – c: Stewardship theory supports the view that CEO duality (CEO doubling as chairman) leads to better corporate performance.
- 3b – a: Agency theory supports the view that the position of chairman and CEO should be held by different persons for better performance.

4a – a: Agency theory supports the view that existence of audit committee leads to better performance.

4b – a: Agency theory supports the view that existence of internal control mechanisms leads to better performance.



CHAPTER FOUR: METHODOLOGY

4.1 Introduction

This chapter covers the research design, population and sampling, data collection methods, and data analysis for the study. Details of the type of research, target and sample population data collection methods and the analysis of the data collected are given separately in the following sections.

4.2 Description of research design

In this study, a descriptive research in the form of a survey was carried out so as to determine the state of affairs as it existed at the time. In descriptive research, also known as *ex post facto research*, the main characteristic is that the researcher has no control over variables and can only report what has happened or what is happening (Kothari, 2004). A survey research design was selected for this study as the most suitable method for gathering detailed information about the circumstances and present status of governance in the insurance broking sector. The study was also exploratory as it sought to establish whether there was any evidence to support relationships between governance practices and financial performance in the Kenyan insurance broking sector.

The study used both quantitative and qualitative approaches in collecting and analyzing the data which was obtained. The quantitative approach, a scientific method of evaluation, yields observations or measurements that are numerical for various purposes, and was thus used in the study on measurements expressed in terms of quantity. On the other hand, the study used the qualitative approach in analyzing non-numeric data that can be classified into non-numerical categories. This approach was chosen due to the nature of the study and yields information that has a strong potential for revealing complexity and providing descriptions thereof, and has

therefore been applied to statements relating to or involving quality rather than quantity. To the extent that quantities and qualitative approaches compliment each other, both approaches have been used in this study.

4.3 Population and sampling

The target population comprised all the insurance brokers in Kenya which were over 100 (Appendix C contains a list of 140 broking firms but some were no longer operational and some had not operated for five years or there were no full sets of the required financial statements for them) while the sample population comprised all the insurance broking firms with current operating licenses for the year 2008, which had issued financial statements for five consecutive years for the period 2004 - 2008. After striving to obtain financial statements (from the Insurance Regulatory Authority and brokers' offices) for all the licensed brokers which were also members of the Association of Insurance Brokers of Kenya with good standing, the number of brokers that met all the sampling requirements for the purpose of this study were 60, out of 50 were sampled and of these 43 (86%) responded.

The method used for selecting the sample (which is smaller than the population but large enough to represent the salient characteristics of the population) was random sampling. This was achieved by using pre-assigned numbers for the 60 firms which met the sampling requirements so as to pick 10 randomly to be excluded from the study thus leaving a random sample size of 50. This was used rather than purposive (or deliberate) sampling which allows utilization of cases that have the characteristics of the required information with regard to the objectives of the study (Mugenda and Mugenda, 1999). All the insurance brokers in Kenya with a 2008 operating license were targeted to ensure that they were included in the target population as they fit well into the purpose of the study. The Insurance Regulatory Authority (IRA), being the sole legal body empowered to regulate and control the insurance industry provided a list of all

the insurance broking firms with a valid 2008 operating license and having full financial statements for the period 2004 – 2008. The objective was to ensure that only those operational brokers who had financial details covering five years from 2004 to 2008 were included in the sample.

In this study, the respondents were the chief executive officers (CEOs) or members of senior management of the insurance broking firms in the sample population. Only senior officers of the broking firms in the sample were thus involved.

4.4 Data collection methods and procedures

Data was collected using a structured self-administered questionnaire (SAQ). Keeping in mind the need to collect original data, a questionnaire was designed in order to gather information on the relevant aspects of governance. The questionnaire (Appendix B) was sent by post with an appropriate covering letter (Appendix A) requesting a response within 7 days using a duly stamped return envelope enclosed for the purpose. Post office addresses registered with the IRA were used for the purpose and a follow up was done after the expiry of 7 days through telephone and mail or personal visits. Where necessary, for instance in cases of some firms in Mombasa, the researcher used research assistants to collect the questionnaires.

The other data collected was the audited financial statements of the sampled firms that were obtained from the company offices or from the Insurance Regulatory Authority. The self-administered questionnaire and financial statements were thus the main sources of data. The high response rate at 86% (43 out of 50 companies) was primarily due to personal network and follow up by the researcher he had been and was working within the insurance industry. However, there were cases of delays in responses due to lack of co-operation from senior management of some of the companies.

4.5 Data analysis

Data has been analyzed using quantitative and qualitative approaches. Qualitative data has been collected from open-ended questions in the questionnaire. The data has been classified into purposive and usable categories, coded and analyzed. Quantitative data has been analyzed using the Statistical Package for the Social Sciences (SPSS for windows) and parametric correlation/test results are presented. Non-parametric tests have also been used for the purposes of comparing the results with those produced using the parametric tests.

Accordingly, there are two types of test analysis, that is, parametric and non-parametric tests. Parametric data has an underlying normal distribution and variance and uses the mean as the central measure. In determining association between two variables, Pearson correlation has been used as a parametric test. In the case of non-parametric tests, Spearman correlation has been used. Parametric tests have been used for reporting purposes due to their ability to draw more conclusions than non-parametric data tests.

4.5.1 Product-moment correlations

Product-moment correlations are parametric measures which have been used for all the key research objectives in this study. They assume normality, homogenous variance and independence. The p-values of Pearson product-moment correlations have been used to make conclusions. The p-values are given as part of the SPSS output labelled "sig (2-tail)". The main interest was whether the p-value is above or below 0.05 (5%). If the value is above 0.05 then there is no evidence of association at the level of 95% confidence level. However, if the value is less than 0.05, then there is a significant relationship (ie there is evidence of association). The p-values are between +1 and -1 inclusive.

The T-test has also been used in this study in comparing two independent groups in respect of the difference in means. In the T-test, results are reported in the form:

$t(df) = t\text{-value}, p\text{-value}$

where df refers to the degree of freedom (being the total number in the sample less two). Like in the Pearson product-moment correlation, the p-value is critical in making conclusions about associations. (For illustration purposes, the T-test result may be given as:

$t(30) = -0.35, p\text{-value} = 0.0729$

In this illustrative case, it can be concluded that statistically there is no significant difference between the two groups, that is, the means of two groups (totalling 32 in number) did not differ significantly from each other.)

In the SPSS output, while the p-value is labelled “sig (2-tail)”, the (+ or -) t-value is labelled “t”.

In this study, the respondents who indicated that they had implemented international corporate governance guidelines were only 3 out of 43. This sample size result was statistically too small with a low degree of freedom.

4.5.2 Rank correlations

As indicated earlier in this study, non-parametric tests have also been carried out solely for checking the what extent to which the results are similar or different from those obtained using parametric tests. Rank correlations are non-parametric measures of statistical dependence between two variables and have thus been used in this study for comparison purposes. Non-parametric tests (also called rank order tests) use ranking rather than the original scores.

The non-parametric tests in this study have used rank correlations known as Spearman's rank correlation coefficient (ie Spearman's rho). Like in parametric test the p-values have

been used and are labelled “sig (2-tail)” in the SPSS output. Where the p-value is more than 0.05, it is concluded that there is no significant relationship between the variables and if the p-value is less than 0.05, then there is evidence that the two groups differed significantly from each other, at the 95% confidence level. However, if the p-value is less than 0.01, then there is evidence that the two groups differed very significantly from each other, at the 99% confidence level.

For the avoidance of any doubt, it is clarified that parametric tests have been used for reporting purposes in this study due to being relatively more robust than non-parametric tests.

4.5.3 Performance analysis

This study, under research objective 2, sought to determine whether Kenyan insurance broking firms owned by shareholder companies (corporate shareholders) have performed better financially than broking firms without such ownership structure. To determine whether a broking firm is owned by corporate shareholders, the responses to question 1 of the questionnaire were analyzed and categorized accordingly. The performance of the firms using data collected under section 2.5 of the questionnaire was then analyzed using accounting for measuring the return on total assets of the firms; return on equity (ROE) for measuring the return in relation to shareholders’ funds; return on gross profit margin (GPM) for measuring the return in relation to the revenue and the operating costs; expense ratio (ER) for measuring the ability to control costs in relation to revenue; and employee per capita income (EPCI) for measuring the revenue in relation to the number of employees of the broking firms.

The results obtained from performance analysis are summarized in table 5.2(4).

CHAPTER FIVE: DATA PRESENTATION AND ANALYSIS

5.1 Introduction

This chapter presents and analyses the data collected from insurance broking firms using a structured self-administered questionnaire. The data is presented in table form and some aspects of the discussion of the result are presented in the relevant sections. The main findings of the research are elaborated in the next chapter where discussions, conclusions and recommendations are covered.

5.2 Data presentation and analysis

In the questionnaire, there were statements that required the respondents to indicate whether they Strongly Disagree (SD), Disagree (D), Neither Disagree nor Agreed (N), Agreed (A), or Strongly Agreed (SA) with them. These items were given the scores indicated against them in Table 5.2(1) given below. Scores 1 to 3 indicate weakness, 4 indicates inadequate strength and score 5 indicates effectiveness (or strength). The higher the score the better the situation was considered to be.

Table 5.2(1): Scoring structure

Descriptive Term	Score
Strongly Disagree (SD)	1
Disagree (D)	2
Neither Agree nor Disagree (N)	3
Agree (A)	4
Strongly Agree (SA)	5

The results obtained from the study, showing the extent to which the statement given applied to the respondents firms, are shown in Table 5.2(2) below between respondents who had indicated that they had not adopted and implemented international corporate governance guidelines ("No" category) and those who had indicated that they had adopted and implemented international corporate governance guidelines (shown under "YES" category).

Table 5.2(2): Data presentation on responses

			Strongly Disagree	Disagree	Neutral/Not sure	Agree	Strongly Agree	Total
		Category	%	%	%	%	%	No.
	2.1.1 Board Structure							
a)	Board has a balanced mix of directors	NO	20.0%	12.5%	12.5%	40.0%	15.0%	40
		YES			33.3%	66.7%		3
b)	Role of Chairperson and CEO are separated	NO	17.5%	10.0%	15.0%	32.5%	25.0%	40
		YES			33.3%	33.3%	33.3%	3
c)	Board has established and appointed committees	NO	17.5%	30.0%	17.5%	25.0%	10.0%	40
		YES			100.0%			3
d)	Board has written regulations for appointments	NO	7.5%	20.0%	17.5%	37.5%	17.5%	40
		YES			66.7%	33.3%		3
e)	Board has specified in writing office terms for directors	NO	7.5%	20.0%	22.5%	35.0%	15.0%	40
		YES			66.7%	33.3%		3
f)	Board has written standards to be met by individuals	NO	7.5%	12.5%	45.0%	15.0%	20.0%	40
		YES			66.7%	33.3%		3
g)	Board holds regular board meetings	NO	5.0%	10.0%	22.5%	35.0%	27.5%	40
		YES			33.3%	66.7%		3
	2.1.2.1 Board Terms of Reference							
a)	Board has defined its functions in writing	NO	15.0%	7.5%	17.5%	42.5%	17.5%	40
		YES		33.3%		66.7%		3
b)	Board has in writing the company's mission and vision	NO	2.5%	10.0%	17.5%	40.0%	30.0%	40
		YES				100.0%		3
c)	Board devotes time and thoughts to objectives and available options	NO	5.0%	2.5%	20.0%	55.0%	17.5%	40
		YES				100.0%		3
d)	Board has defined and communicated management requirements	NO	7.5%	2.5%	20.0%	40.0%	30.0%	40
		YES			33.3%	33.3%	33.3%	3
e)	Majority of board's time is not used to daily management	NO	12.5%	15.0%	20.0%	32.5%	20.0%	40
		YES			33.3%	66.7%		3
f)	Board ensures availability of sufficient resources	NO	7.5%	10.0%	15.0%	35.0%	32.5%	40
		YES				66.7%	33.3%	3
g)	Proposals are analyzed and debated vigorously before approving	NO	12.5%	10.0%	15.0%	30.0%	32.5%	40
		YES				66.7%	33.3%	3

			Strongly Disagree	Disagree	Neutral/Not sure	Agree	Strongly Agree	Total
		Category	%	%	%	%	%	No.
	2.1.2.2 Board meetings							
a)	Every board member has a calendar of meetings	NO	17.5%	10.0%	20.0%	37.5%	15.0%	40
		YES		33.3%	33.3%	33.3%		3
		NO	12.5%	2.5%	17.5%	37.5%	30.0%	40
b)	Board meetings environment encourage discussion	YES		33.3%	33.3%	33.3%		3
		NO	12.5%	2.5%	22.5%	30.0%	32.5%	40
c)	Board time is used effectively	YES				66.7%	33.3%	3
		NO	12.5%	2.5%	22.5%	30.0%	32.5%	40
d)	Board members receive timely and accurate minutes and board papers	YES		33.3%		33.3%		3
		NO	15.0%	2.5%	17.5%	42.5%	22.5%	40
e)	All board members are fully informed of relevant matters	YES		33.3%		33.3%	33.3%	3
		NO	12.5%	2.5%	15.0%	40.0%	30.0%	40
f)	Absenteeism from board meetings is rare	YES				100.0%		3
		NO	12.5%	2.5%	22.5%	37.5%	25.0%	40
g)	Board meetings are facilitated but not overly influenced by chairperson	YES		33.3%		33.3%	33.3%	3
		NO	12.5%	2.5%	22.5%	37.5%	25.0%	40
	2.1.2.3 Board Processes							
a)	Board is involved in the selection of directors	NO	12.5%	2.5%	15.0%	45.0%	25.0%	40
		YES			33.3%	66.7%		3
b)	Selection process considers skills deficiencies in the current board	NO	10.0%	10.0%	32.5%	30.0%	17.5%	40
		YES				66.7%	33.3%	3
c)	New board members are oriented with appropriate process	NO	10.0%	17.5%	35.0%	20.0%	17.5%	40
		YES		33.3%	33.3%		33.3%	3
d)	Board members understand their relationship with management	NO	12.5%	17.5%	40.0%	15.0%	15.0%	40
		YES	33.3%			66.7%		3
e)	Board members evaluated their performance annually	NO	7.5%	10.0%	22.5%	42.5%	17.5%	40
		YES				66.7%	33.3%	3
f)	Board members are encouraged to be keen in handling issues	NO	12.5%	22.5%	25.0%	25.0%	15.0%	40
		YES	33.3%		66.7%			3
g)	Directors understand the extent of their liability	NO	10.0%	5.0%	27.5%	40.0%	17.5%	40
		YES				66.7%	33.3%	3

			Strongly Disagree	Disagree	Neutral/Not sure	Agree	Strongly Agree	Total
		Category	%	%	%	%	%	No.
h)	A succession plan for senior members is in place & reviewed regularly	NO	5.0%	2.5%	17.5%	50.0%	25.0%	40
		YES	33.3%			33.3%	33.3%	3
i)	Incompetent directors are asked to resign	NO	17.5%	12.5%	40.0%	15.0%	15.0%	40
		YES		66.7%	33.3%			3
j)	A director with a questionable character is suspended	NO	22.5%	10.0%	30.0%	25.0%	12.5%	40
		YES			66.7%	33.3%		3
k)	Board members bind themselves upon appointment	NO	12.5%	15.0%	35.0%	22.5%	15.0%	40
		YES			66.7%	33.3%		3
	2.2 Internal Governance Mechanisms							
a)	Every board member is supplied with all requirements on appointment	NO	12.5%	5.0%	22.5%	32.5%	27.5%	40
		YES	33.3%		33.3%	33.3%		3
b)	The company has put in place controls	NO	5.0%	12.5%	27.5%	30.0%	25.0%	40
		YES			33.3%	33.3%	33.3%	3
c)	The company has operational manuals	NO	5.0%	7.5%	7.5%	62.5%	17.5%	40
		YES				66.7%	33.3%	3
d)	Reporting channels have been put in place for timeliness	NO	7.5%	10.0%	17.5%	42.5%	22.5%	40
		YES			33.3%	66.7%		3
e)	Reporting channels have been put in place for accuracy	NO	5.0%	17.5%	20.0%	32.5%	25.0%	40
		YES			33.3%	66.7%		3
f)	Reporting channels have been put in place for completeness	NO	5.0%	12.5%	27.5%	32.5%	22.5%	40
		YES		33.3%		66.7%		3
g)	Board members are encouraged to hold discussions with management	NO	5.0%	12.5%	25.0%	35.0%	22.5%	40
		YES				100.0%		3
h)	Reporting channels are put in place to ensure regular board advice	NO	10.0%	17.5%	15.0%	37.5%	20.0%	40
		YES		33.3%		33.3%	33.3%	3
i)	The Board monitors effectiveness of governance	NO	7.5%	20.0%	20.0%	30.0%	22.5%	40
		YES			33.3%	33.3%	33.3%	3

Research question one (in relation to Research Objective 1), sought to assess the degree to which insurance broking firms in Kenya have adopted and implemented the international governance guidelines in theory and practice.

Computation of the scores with regard to the respondents who indicated that they had not adopted and implemented international corporate governance guidelines (“NO”) and those who indicated that they had adopted and implemented the guidelines (“YES”) (Appendix C), the scores obtained were as follows:

Table 5.2(3): Scores

Governance Characteristics	Note	Those who had indicated “NO”		Those who had indicated “YES”	
		Score (Max 200)	% (Score/200)	Score (Max 15)	% (Score/15)
Board structure	1	131	65.5%	10	66.7%
Board terms of reference	2	146	73.0%	12	80.0%
Board meetings	3	144	72.0%	11	73.3%
Board processes	4	132	66.0%	10	66.7%
Internal governance mechanism	5	142	71.0%	11	73.3%
Average	6	139	69.5%	11	73.3%

Note: Maximum scores for “NO” and “YES” were 200 (being maximum total score of 5 for all the 40 “NO” respondents) and 15 (being maximum total score for all the 3 “YES” respondents) respectively. Note 1, 2, 3, 4, 5 and 6 in the above table are clearly shown in Appendix D which shows how the corresponding scores for “NO” and “YES” categories have been computed.

These scores are computed as shown in Appendix C (response details and scores). All the details and total scores are shown in the appendix. The total scores are also shown respectively.

The average scores for those insurance brokers that had indicated that they had not implemented the international corporate governance guidelines ("NO") and those that had indicated that they had implemented the guidelines ("YES") at 69.5% and 73.3% out of 43 responded (sample size:50) respectively, fell below the threshold score of 75% for the upper quartile score range. Score 5 which reflect a strong and effective level of implementation falls within score range of 80% - 100%. However, the aforementioned scores in percentage terms fell below the range for strong position.

From the data in Table 5.2(2) above, it can be observed that:

- i) According to 2.1.1(c), 35% of the respondent firms that had indicated that they had not implemented international governance guidelines have established and appointed committees with written terms of reference, composition and reporting requirements while according to 2.1.1(f) also only 35% indicated that they had a written requirement specifying the necessary suitability standards to be met by any person to be appointed a director.

According to 2.1.1(c), none of the three respondent firms that had indicated that they had implemented the guidelines have established and appointed committees with written terms of reference, composition and reporting requirements.

- ii) According to 2.1.2.3(b), 47.5% of the respondent firms that had indicated that they had not implemented international governance guidelines have a selection process that considers any deficiencies in skills of the existing board while 2.1.2.3(c) shows that 37.5% have an induction process for new directors; 2.1.2.3(d) shows that 30% have board members who understand the extent of their relationship with management and the separation of stewardship and management; 2.1.2.3(f) shows that 40% encourage board

members to be keen in handling corporate governance issues; 2.1.2.3(i) shows that 30% ask incompetent directors to resign; 2.1.2.3(j) shows that 37.5% suspend any director whose ethical or professional conduct is questionable; and 2.1.2.3(k) also shows that 37.5% require directors to bind themselves to uphold proper ethical conduct upon appointment and to resign where their actions are questionable.

According to 2.1.2.3(b), all the three respondent firms that had indicated that they had implemented international governance guidelines indicated that their selection process considers any deficiencies in skills of the existing board while 2.1.2.3(c) shows that only one of the respondents has an induction process for new directors; 2.1.2.3(d) shows that none of the three firms has board members who strongly understand the extent of their relationship with management and the separation of stewardship and management; 2.1.2.3(f) shows that also none of the firms encourages board members to be keen in handling corporate governance issues; and 2.1.2.3(i) shows that none of the three firms asks incompetent directors to resign; 2.1.2.3(j) shows that only one of the three firms suspends any director whose ethical or professional conduct is questionable and 2.1.2.3(k) also shows that only one of the three firms requires directors to bind themselves to uphold proper ethical conduct upon appointment and to resign where their actions are questionable.

From Table 5.2(3) above, it can be seen that there was no statistically significant difference in scores between the firms which indicated that they had not implemented international governance guidelines (“NO”) and those that indicated that they had implemented international governance guidelines (“YES”) with an overall average of 69.5% and 73.3% respectively.

A summary of data contained in Table 5.2(3) is given in Tables 5.2(4) below for the purpose of scores between those who had indicated that they had not implemented international governance guidelines (“NO”) and those who had indicated that they had implemented international governance guidelines (“YES”).

Table 5.2(4): Corporative scores

Governance characteristics	NO	YES
Board structure	66%	67%
Board terms of reference	73%	80%
Board meetings	72%	73%
Board processes	66%	67%
Internal governance mechanisms	71%	73%

The details relating to the computation of these scores which are also contained in Table 5.2(3) are contained in Appendix D.

With regard to performance, Table 5.2(5) below shows the T-test results relating to firms that indicated that they had adopted and implemented international corporate governance guidelines (ICGG) which were categorized as “YES” relative to those that indicated that they had not adopted such guidelines which were categorized as “NO”. The responses analyzed in this table are derived from the responses obtained under section 2.3 (Governance Guidelines) of the Questionnaire:

Table 5.2(5): Adoption and Implementation level of ICGG

	Adopted and implemented ICGG?	N	Mean	Std. Deviation	Std. Error Mean
Return on assets (ROA)	No	40	3.4060	9.86537	1.55985
	Yes	3	2.2615	2.60078	1.50156
Return on equity (ROE)	No	40	14.0543	61.90554	9.78813
	Yes	3	-14.0781	33.85144	19.54414
Gross profit margin (GPM)	No	40	6.7568	26.50032	4.19007
	Yes	3	7.4500	9.53392	5.50441
Expense ratio (ER)	No	40	88.6245	25.31571	4.00276
	Yes	3	96.5601	4.01849	2.32008
Employee per capita income	No	40	159.2227	145.51660	23.00819
	Yes	3	85.5825	45.70753	26.38926
Director per capita comprehensive income	No	40	141.3951	407.35319	64.40819
	Yes	3	19.0397	31.44655	18.15568

The respondent sample size of 3 relating to those who indicated that they had implemented international governance guidelines (“YES”) is statistically too small. Another study in future may need to be carried out when the “YES” responses will have increased significantly so as to compare the research results in this study and those which will be obtained then.

Table 5.2(5): T- Test (95% confidence level)

	t-test				
	t	df	Sig. (2-tailed) p-value	Mean Difference	Std. Error Difference
Return on assets (ROA)	0.198	41	0.844	1.14446	5.76992
Return on equity (ROE)	0.772	41	0.444	28.13242	36.41816
Gross profit margin (GPM)	-0.045	41	0.965	-0.69320	15.52286
Expense ratio (ER)	-0.537	41	0.594	-7.93552	14.78953
Employee per capita income	0.865	41	0.392	73.64018	85.17113
Director per capita comprehensive income	0.514	41	0.610	122.35540	237.86002

The above T-test results confirm that there is no significant difference in performance between companies which claimed that they had adopted and implemented international corporate governance guidelines and those which stated they had not adopted the guidelines given that all the p-values are greater than 0.05.

Likewise, the following T-test results (Table 5.2(6)) were obtained relating to firms that claimed they used guidelines for corporate governance in Kenya (GCGK) relative to those that indicated that they had not adopted such guidelines.

Table 5.2(6): Adoption and Implementation level of GCGK

	Adopted and implemented GCGK?	N	Mean	Std. Deviation	Std. Error Mean
Return on assets (ROA)	No	39	2.9528	9.80883	1.57067
	Yes	3	7.6397	6.81586	3.93514
Return on equity (ROE)	No	39	12.0747	63.31326	10.1382488
	Yes	3	9.8504	27.97244	16.14989
Gross profit margin (GPM)	No	39	5.5404	26.08171	4.17642
	Yes	3	23.2007	20.65192	11.92339
Expense ratio (ER)	No	39	89.7604	25.07409	4.01507
	Yes	3	80.8093	23.26449	13.43176
Employee per capita income	No	39	159.1121	146.79380	23.50582
	Yes	3	116.1778	87.33465	48.69063
Director per capita comprehensive income	No	39	131.2138	408.26784	65.37518
	Yes	3	192.8175	280.23385	161.79309

As indicated under Table 5.2(5), the sample size result of 3 for “YES” responses is statistically too small for computing the mean and standard deviation (the degree of freedom is low).

Table 5:2(6) T- Test (95% confidence level)

	t-test				
	t	df	Sig. (2-tailed) p-value	Mean Difference	Std. Error Difference
Return on assets (ROA)	-0.808	40	0.424	-4.68682	5.80043
Return on equity (ROE)	0.060	40	0.953	2.22438	37.16273
Gross profit margin (GPM)	-1.141	40	0.261	-17.66025	15.48030
Expense ratio (ER)	0.598	40	0.553	8.95108	14.97066
Employee per capita income	0.497	40	0.622	42.93435	86.46514
Director per capita comprehensive income	-0.255	40	0.800	-61.60370	241.35572

The T-test in table 5.2(6) above results also confirm that there is no significant difference in performance between companies which considered that they adopted guidelines for corporate governance in Kenya (GCGK) and those which considered that they had not adopted the guidelines as all the p-values are greater than 0.05.

Research question two (in relation to Research Objective 2) was to determine whether the Kenyan insurance broking firms with corporate ownership have performed better than firms owned by individuals.

Table 5.2(7) below shows the T-test results relating to firms fully owned by individuals (including family members) and those with shareholder organizations with regard to performance of the firm.

Table 5.2(7): Corporate and individual ownership

Nature of the firm		N	Mean	Std. Deviation	Std. Error Mean
Return on assets (ROA)	Locally fully owned by individuals/families	32	3.6877	9.75023	1.72361
	Owned by companies	11	2.2744	9.21657	2.77890
Return on equity (ROE)	Locally fully owned by individuals/families	32	6.8349	63.43880	11.21450
	Owned by companies	11	27.3836	50.73910	15.29842
Gross profit margin (GPM)	Locally fully owned by individuals/families	32	8.8337	23.90041	4.22503
	Owned by companies	11	0.9037	30.57556	9.21888
Expense ratio (ER)	Locally fully owned by individuals/families	32	88.5004	22.89499	4.04730
	Owned by companies	11	91.1498	29.82531	8.99267
Employee per capita income	Locally fully owned by individuals/families	32	141.1746	123.87557	21.89831
	Owned by companies	11	191.6425	186.70576	56.29390
Director per capita comprehensive income	Locally fully owned by individuals/families	32	82.7065	319.73388	56.52150
	Owned by companies	11	278.7558	550.59324	166.01011

Table 5.2(7): T- test (95% confidence level)

	t-test				
	t	df	Sig. (2-tailed) p-value	Mean Difference	Std. Error Difference
Return on assets (ROA)	0.420	41	0.677	1.41331	3.36329
Return on equity (ROE)	-0.970	41	0.338	-20.54873	21.17602
Gross profit margin (GPM)	0.782	41	0.447	7.93005	10.14094
Expense ratio (ER)	-0.306	41	0.761	-2.64937	8.65561
Employee per capita income	-1.018	41	0.314	-50.46787	49.55769
Director per capita comprehensive income	-1.442	41	0.157	-	135.92196

The T-test results in Table 5.2(7) above show that the p-values are all above 0.05 thus showing that there is no evidence that there is a significant difference in performance between insurance broking firms which are fully owned by individuals (including family members) and those with corporate shareholders.

Further, T-test results were also obtained which indicated that:

- i) There was no statistically significant difference in performance between insurance broking firms which were fully family owned and those which were fully owned by non-family individuals in all the p-values were greater than 0.05.
- ii) There was no statistically significant difference in performance between firms which were fully owned by non-family individuals and those with corporate shareholders as all the p-values were greater than 0.05.

Research question three, is (in relation to Research Objective 3) sought to assess the impact the adoption and implementation of global board governance guidelines in the insurance broking sector in Kenya has had on firm performance. In this regard, the responses were obtained from section 2 (governance and regulation) comprising section 2.1 (governance structure and conduct) and section 2.2 (internal controls) of the questionnaire under the following headings of the questionnaire:

- i. Board structure (2.1.1).
- ii. Board conduct (2.1.2) comprising Board terms of reference (2.1.2.1), Board meetings (2.1.2.2) and Board processes (2.1.2.3).
- iii. Internal governance mechanisms (2.2).

The responses obtained were then analyzed and summarized in Table 5.2(8). The information was further analyzed to give answers to research question 3(i) – 3(iv) and the results are summarized in Tables 5.2(9) – 5.2(14). The results for internal governance mechanisms are also given in Table 5.2(15), for further information.

Table 5.2(8) below shows Pearson product-moment correlations. All the p-values labelled “sig (2-tail), are above 0.05 thus implying that there was no statistically significant evidence to show that there was a relationship between corporate governance practices and performance as the p-values are all above 0.05.

Table 5.2(8): Adoption and Implementation impact of ICGG

		Return on assets	Return on equity	Gross profit margin	Expense ratio	Employee per capita income	Director per capita comprehensive income
Board Structure index	Pearson Correlation	0.231	0.294	0.136	-0.129	-0.113	0.021
	Sig. (2-tailed)	0.136	0.056	0.383	0.409	0.469	0.894
	N	43	43	43	43	43	43
Board terms index	Pearson Correlation	0.204	0.220	0.109	-0.179	-0.044	-0.060
	Sig. (2-tailed)	0.190	0.157	0.488	0.250	0.778	0.704
	N	43	43	43	43	43	43
Board meetings index	Pearson Correlation	0.297	0.168	0.179	-0.163	-0.058	0.004
	Sig. (2-tailed)	0.053	0.281	0.250	0.297	0.712	0.978
	N	43	43	43	43	43	43
Board processes index	Pearson Correlation	0.189	0.172	0.092	-0.195	-0.204	-0.146
	Sig. (2-tailed)	0.224	0.269	0.556	0.211	0.189	0.351
	N	43	43	43	43	43	43
Board mechanisms index	Pearson Correlation	0.206	0.239	0.151	-0.229	-0.049	0.065
	Sig. (2-tailed)	0.185	0.123	0.334	0.139	0.754	0.678
	N	43	43	43	43	43	43
Number of non-executive directors	Pearson Correlation	0.039	0.153	0.075	-0.110	0.074	0.056
	Sig. (2-tailed)	0.826	0.387	0.673	0.537	0.676	0.754
	N	34	34	34	34	34	34
Total number of directors	Pearson correlation	0.227	0.022	0.344	-0.282	0.311	
	Sig (2-tailed) p-value	0.143	0.887	0.024*	0.067	0.043*	
	N	43	43	43	43	43	

*Correlation is significant at the 0.05 level (2-tailed)

In connection with the foregoing, research question 3(i) sought to establish whether there is a positive relationship between the size of the board of insurance broking firms in Kenya and financial performance. Table 5.2(9) below shows details obtained regarding board size.

Table 5.2(9) Board size

	Minimum	Maximum	mean	Median	Mode	Std Deviation
No. of Directors	2	10	4	3	3	2

From the data obtained, the maximum number of directors was ten while the minimum was two. The average number of directors was four while most common number of directors was three, similar to the median number of directors.

From Table 5.2(10) below, there was no adequate statistical evidence that there was a relationship between the number of directors on the board and the firm's performance as the p-values are generally all above 0.05 except for only gross profit margin and employee per capita income which shows statistical evidence that the number of directors on the board had an effect on the gross profit margin and on the employee per capita income.

Table 5.2(10): Board size correlations

		Return on assets	Return on equity	Gross profit margin	Expense ratio	Employee per capita income
Total number of director	Pearson	0.227	0.022	0.344	-0.282	-0.311
	Sig. (2 tailed)	0.143	0.887	0.024	0.067	0.043
	p-value					
	N	43	43	43	43	43

* P-value lower than 0.05.

Research question 3(i) was to establish whether the proportion of outside directors on the board of directors of insurance brokers is positively associated with financial performance. Table 5.2(11) below shows the details obtained regarding number of non-executive directors.

Table 5.2(11): Non-executive directors

	Minimum	Maximum	Mean	Median	Mode	Std Deviation
No. of non-executive directors	0	8	2	2	2	2

From the data obtained in this study, the maximum number of non-executive directors was eight while the minimum was zero. The average number of non-executive directors was two while most common number of non-executive directors was also two. Further, the median number of non-executive directors was two.

Table 5.2(12) below shows that there is no significant relationship between the proportion of outside directors and performance as p-values are more than 0.05 in all the cases. There is

therefore no enough evidence to conclude that one can associate performance with the number of non-executives directors.

Table 5.2(12) Non-executive directors correlations

		Return on assets	Return on equity	Gross profit margin	Expense ratio	Employee per capita income
No. of non-executive directors	Pearson Correlation	0.039	0.153	0.075	-0.110	-0.074
	Sig. (2-tailed)	0.826	0.387	0.673	0.537	0.676
	N	34	34	34	34	34

Research question 3 (iii) was to establish whether there is a negative association between CEO duality (combined Board chairmanship and CEO roles) and financial performance of insurance broking firms.

Table 5.2(13) below show that there is no significant relationship between CEO duality and performance given that the p-values are all more than 0.05. There is therefore no evidence to conclude that insurance brokers with combined roles of chairman and CEO perform differently from those with separated roles.

Table 5.2(13): CEO duality

Role of chairperson are separated		N	Mean	Std. Deviation	Std. Error Mean
Return on assets	No	18	-2.2826	10.84270	2.55565
	Yes	25	4.0775	8.61339	1.72268
Return on equity	No	18	0.3434	65.49593	15.43754
	Yes	25	20.5502	56.55447	11.31089
Gross margin	No	18	6.8402	29.58358	6.97292
	Yes	25	6.7799	22.99756	4.59951
Expense ratio	No	18	88.4900	28.60395	6.74201
	Yes	25	89.6736	21.67826	4.33565
Employee per capita income	No	18	194.8450	140.18823	33.04268
	Yes	25	124.7378	138.38462	27.67692
Director per capita comprehensive income	No	18	145.3917	431.32267	101.66373
	Yes	25	123.8349	373.48331	74.69666

Table 5.2(13): T-test2 (95% confidence level)

	t-test				
	t	df	Sig. (2-tailed) p-value	Mean Difference	Std. Error Difference
Return on assets (ROA)	-0.605	41	0.549	-1.79492	2.96779
Return on equity (ROE)	-1.082	41	0.286	-20.20685	18.67790
Gross profit margin (GPM)	0.008	41	0.994	0.06030	8.01616
Expense ratio (ER)	-0.154	41	0.878	-1.18359	7.66182
Employee per capita income	1.630	41	0.111	70.10723	43.00959
Director per capita comprehensive income	0.175	41	0.862	21.55677	123.18012

Research Question 3 (iv) sought to establish whether there is a positive association between the existence of an audit committee and financial performance in Kenyan broking firms?

The results given in Table 5.2(14) below show that there is no statistical evidence that there is a relationship between the existence of an audit committee and performance in Kenyan insurance broking firms.

Table 5.2(14): Existence of audit committee

Board has established audit committee		N	Mean	Std. Deviation	Std. Error Mean
Return on assets (ROA)	No	25	3.8000	9.56638	1.91328
	Yes	14	4.9197	5.09097	1.36062
Return on equity (ROE)	No	25	2.2865	64.97988	12.99598
	Yes	14	29.5532	55.27958	14.77409
Gross profit margin (GPM)	No	25	8.3040	24.87440	4.97488
	Yes	14	9.1946	20.56662	5.49666
Expense ratio (ER)	No	25	89.5741	24.46574	4.89315
	Yes	14	82.2575	13.70314	3.66232
Employee per capita income	No	25	175.3683	168.62181	33.72436
	Yes	14	125.6914	97.78377	26.13381
Director per capita comprehensive income	No	25	147.9697	477.23074	95.44615
	Yes	14	137.2391	216.56461	57.87933

Table 5.2(14): T-test (95% confidence level)

	t	df	Sig. (2-tailed) p-value	Mean Difference	Std. Error Difference
Return on assets (ROA)	-0.405	37	0.688	-1.11966	2.76211
Return on equity (ROE)	-1.323	37	0.194	-27.26674	20.61124
Gross profit margin (GPM)	-0.114	37	0.910	-0.89056	7.82823
Expense ratio (ER)	1.028	37	0.310	7.31652	7.11443
Employee per capita income	1.008	37	0.320	49.67693	49.28943
Director per capita comprehensive income	0.079	37	0.937	10.73057	135.26797

Product-moment correlations thus reveal that there is no significant relationship between governance practices and financial performance as the p-values were above 0.05 in all the cases. The descriptive part of the study also indicated that there were only two insurance broking firms which have a governance committee. Furthermore, the existence of an audit committee is closely associated with board mechanisms and the Pearson product-moment results for this board characteristic were as follows:

Table 5.2(15): Internal control mechanisms

		Return on assets	Return on equity	Gross profit margin	Expense ratio	Employee per capita income
Board mechanisms index	Pearson	0.206	0.239	0.151	-0.229	-0.049
	Sig. (2-tailed) p-value	0.185	0.123	0.334	0.139	0.754
	N	43	43	43	43	43

The results in Table 5.2(15) above reveal that there is no evidence that there is a relationship between internal control mechanisms and performance in Kenyan insurance broking firms as the p-values, ie Sig (2-tailed) values, shown in the table are all above the 0.05 level.

CHAPTER SIX: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter presents a summary of the key issues of the results covered in chapter five and explains the findings. The first section presents the discussions of the study; the second section summarizes the general conclusions of the study; the third section discusses the limitations of the study; and the final section presents the recommendations and suggestions for further research arising from the study.

6.2 Discussions

The research findings have presented an important picture about Kenyan insurance broking firms. The findings provide important information which has been unclear about the insurance broking sector. Data was obtained from 43 respondent insurance broking firms, about 75% of which are locally fully owned by individuals (including family members) and 25% have corporate shareholders. In this section, the study discusses the implication of the findings for theory and practice.

An analysis of product-moment correlations reveals that there is no statistically significant relationship between corporate governance practices and the financial performance in Kenyan insurance broking firms. Corporate governance practices and financial performance for each respondent broking firm do not provide enough evidence to conclude that one can associate performance with corporate governance practices in the Kenyan insurance broking sector. It is evident from the study that although 7% of the respondent firms had indicated that they considered they had adopted and implemented the international governance guidelines, the result showed that there was no statistically significant difference between those firms that indicated

that they had adopted and implemented international corporate governance guidelines and the firms that had indicated that they had not adopted those corporate governance guidelines.

There could be certain underlying factors leading to there being no statistically significant relationship between corporate governance practices and financial performance in the insurance broking sector. The underlying factors were reflected in responses contained in the questionnaire which indicated such factors as lack of professionalism and integrity in the sector and as cases of rate undercutting were common. Arising from the responses obtained regarding major criticism of the sector, the integrity of the financial statements of some broking firms remains suspect; creative accounting and moral hazards could be influencing factor. The minimum capital required currently at Kshs 1 million is too low and therefore entry barriers into the insurance broking sector are low. Self regulating mechanisms are lacking. There was no evidence that the Insurance Regulatory Authority (IRA) established under the Insurance Act (Amendment) 2006, CAP 407 of the law of Kenya, had put in place proper regulatory measures and requirements for proper financial reporting in the sector to ensure compliance with the International Financial Reporting Standards (IFRS); the IRA was established to establish to regulate, supervise and develop the insurance industry (brokers being major players). The IRA, is precursor to the office of the Commissioner of Insurance that came into existence with the enactment of the insurance Act, CAP 487 in 1986 (before which the insurance regulation was based on the UK legislation) and is mandated to ensure compliance by any others insurance intermediaries with legal requirements and business practices.

The general weakness in adoption and implementation of international governance guidelines is hurting the sector. The study found that there was no statistically significant difference in the level of adoption and implementation of the international corporate governance guidelines and the local corporate governance guidelines. There are inadequate self and statutory regulatory

requirements. At the time of completion of this research, the IRA was in the process of developing draft insurance market guidelines for insurance intermediaries pursuant to the Insurance Act (CAP 487) to enhance the conduct of insurance business by insurance brokers/intermediaries; whilst there were draft corporate governance guidelines for insurance and reinsurance companies with regard to Board of Directors, such guidelines had not been developed for insurance intermediaries. Other statistics obtained in the study show that the impact of corporate governance practices in the few insurance broking firms in Kenya with foreign linkages on performance is not evident in the sector. This may be attributed to the restricted foreign ownership and control of broking firms as foreign ownership by a single individual or firm is restricted to 40% of the total shareholding. Foreign investors may therefore not justify their full participation in company activities due to the restricted level and magnitude of investment in a Kenyan broking firm and this makes investment attraction to this sector to be low. The low level of adoption and implementation of corporate governance guidelines confirms the fears the Insurance Regulatory Authority have over the insurance industry. The argument by Wixley and Everingham (2005) that poor corporate governance is seldom seen as reason for the failure of a small business appears to hold in this study.

The study further shows that in the Kenyan insurance broking sector, there is no statistically significant difference in performance between firms with corporate ownership linkages and firms without such ownership linkages. Malpractices and low entry requirements for the sector may have an adverse effect and IRA have a role to play to remedy the situation by regulating the operations in the sector. Some respondents indicated that insurance broking is a highly personalized service and success is very dependent on networking and contacts at the individual level.

The study presented a status report based on statistical information obtained at the time this research regarding the effect of board size, board composition, CEO duality role and the existence of an audit committee on the financial performance of insurance broking firms as presented here below.

i) Board size

There was no statistical evidence to show that there is a positive relationship between the size of the board and performance in the Kenyan insurance broking sector. There is therefore no adequate statistical evidence to support the resource dependency theory argument by Dalton et al (1998) that there is a positive association between board size and firm performance as a large board will bring together a greater depth of intellectual knowledge and therefore improve the quality of strategic decision making that ultimately impacts on performance.

Due to the generally low corporate governance level in the Kenyan insurance broking sector, the impact of larger boards on performance does not clearly show. According to Jensen (1993), large boards are less effective and are easier for the CEO to control.

ii) Board composition

The study did not provide statistical evidence to show that the proportion of outside directors on the board of directors of Kenyan insurance broking firms is positively associated with financial performance. The result does not therefore support the agency theory argument by Baysinger and Battler (1985) based on large-cap companies that companies perform better if boards include more outsiders. Agency theory assumes an inherent conflict between the interests of the owners and management (Fama and

Jensen, 1983) but in Kenyan insurance broking firms, most of the top management are owners.

iii) CEO duality role

The result of the study showed that there is no statistical significant difference in financial performance between firms with combined roles of chairman and CEO (duality role) and firms with separated roles of chairman and CEO (non-duality role). The level of corporate governance practices remains low in the Kenyan insurance broking sector and statistical evidence from the broking sector does not strongly support the agency argument by Millstein (1992) that the separation of the chairman and CEO roles (non-duality role) leads to better performance.

iv) Existence of audit committee

There was no statistical evidence to show that the existence of an audit committee in Kenyan insurance broking firms is positively associated with their financial performance. This result does not support findings by Reddy et al (2008), which are associated with the agency theory, that existence of an audit committee enhances firm financial performance. This study showed that there was no statistical significant difference in financial performance between insurance broking firms with an audit committee and those without such a committee.

6.3 Conclusions

The study has shown a low level of implementation of international governance guidelines in the insurance broking sector in Kenya. The study has also presented little statistical evidence to confirm that corporate governance practices have an impact on financial performance of Kenyan

insurance broking firms even among those firms that claimed to have the highest standard of corporate governance implementation. The product-moment correlation analysis has shown statistically weak relationships between corporate governance practices and return on assets, return on equity, gross margin, expense ratio and employee per capita income. Generally, the relationships are not strong and are generally weak, leading to the conclusion that there is no evidence to conclude that corporate governance practices in Kenyan insurance broking firms have had a significant impact on their financial performance. In the absence of evidence about this correlation, due to the level of implementation of international governance guidelines in the insurance broking sector in Kenya, the final conclusion may not be reached whether corporate governance practices have an impact on financial performance in the sector. The level of implementation of international governance guidelines in the sector may possibly have been too low to have a significant impact.

In summary and in relation to the objectives and questions of the study, it can be concluded as follows:

1. Research question 1 (Section 1.5(1))

The extent to which insurance broking firms in Kenya have adopted and implemented the international governance guidelines in theory and practices is not strong.

This conclusion is in pursuance of research objective 1 (Section 1.4(1)).

2. Research question 2 (Section 1.5(2))

There is no statistical evidence to show that the Kenyan insurance broking firms with corporate ownership have performed to a significantly higher extent than those without such ownership structure.

This conclusion is in pursuance of research objective 2 (Section 1.4(2)).

3. Research question 3 (Section 1.5(3))

The adoption and implementation of global board governance guidelines in the insurance broking sector in Kenya has not had a significant impact on firm financial performance but this may be because the level of implementation of the guidelines is low.

In this connection and with regard to the questions (i) – (iv) under research question 3, it can be concluded from this study on the Kenyan insurance broking sector as follows respectively:

- i) There is no statistical significant evidence to support resource dependency theory that there is a positive relationship between the size of the boards of Kenyan insurance broking firms and their financial performance.
- ii) There is no statistical significant evidence to support agency theory that the proportion of outside directors on the boards of directors of insurance broking firms is positively associated with their financial performance.
- iii) There is no statistical significant evidence to support stewardship theory that concentrated leadership structures which combine the chairman and CEO roles (duality role) is positively associated with financial performance in Kenya insurance firms.
- iv) There is no statistical significant evidence to support agency theory that the existence of an audit committee is positively associated with financial performance in Kenya insurance broking firms.

These conclusions under research question 3 are in pursuance of research objective 3 (Section 1.4(3)).

The findings of this study support certain previous studies. The findings support Bennedsen et al. (2008) that the relationship between board size and performance may not be linked with various characteristics such as size, age and industry affiliation of the firm, and the findings support Dalton et al. (1998) who found that neither the board composition nor leadership structure can be consistently linked to corporate financial performance. These findings are also in line with Weisbach and Hermalin's (2000) conclusion that board composition is not related to corporate performance. The findings are also in line with study findings by Reddy et al. (2008) who found that there was no evidence to support the view that establishment of an audit committee enhances firm financial performance.

6.4 Limitations of the study

The aim of the study was to consider all the companies which had an operating license for 2008, provided they were registered with the Association of Insurance Brokers of Kenya (AIBK) as well as having an uninterrupted operation during the period 2004 - 2008 with available full sets of audited financial statements for each of the consecutive five years. The companies that strictly met these criteria were 60 out of which 10 were randomly selected for exclusion from the sample (by blindly picking ten chits with pre-assigned serial numbers of the broking firms to be eliminated) thus leaving a random sample of 50 firms but the respondent firms were 43. The researcher requested the sampled firms to provide their financial statements for the period 2004–2008 and where these were not provided, the researcher requested IRA to provide copies of the financial statements. There were however certain challenges faced during the research as some CEO's of a particular racial origin were un-cooperative and suspicious.

All the broking firms in Kenya are private companies and therefore information was not readily available. There are no publicly-quoted and government-owned broking firms and this restricted the sources of secondary information which would otherwise be readily accessible in the public

domain; the insurance broking sector is not closely monitored and supervised and this will need to be addressed by IRA which has the mandate to issue appropriate guidelines.

As aforementioned, the sample size was 50 but out of the 43 respondent firms, only 3 indicated that they had implemented international governance guidelines while 40 indicated that they had not implemented international governance guidelines. The respondent firms at 3 restricted the degree of freedom and this number was statistically too small for computing the mean and standard deviation. With time, the governance status in the insurance broking sector may change and it may be necessary to carry out another research so as to compare the results of the two researchers.

Financial ratios such as the return on assets (ROA) and the return of equity (ROE) suffer from the well-known conceptual shortcomings relating to any evaluation of inventories and depreciation (Pi and Timme, 1993); however this was not a significant factor due to the nature of insurance broking operations.

6.5 Recommendations

6.5.1 Importance of the findings

The study findings are important in many ways. The findings may be used to demonstrate the prevailing low level of corporate governance insurance broking firms and the need for boards to take remedial actions. The investors and the boards of directors will see the need to adopt and implement corporate governance guidelines in their firms as a key issue and also for the Kenyan insurance broking firms to benchmark against international corporate governance guidelines more actively.

The Insurance Regulatory Authority (IRA) has a role to play in this by putting in place regulations that require effective implementation for such corporate governance guidelines in the insurance broking sector in Kenya. IRA should enforce the implementation of those aspects of corporate governance which are considered critical to the success of the broking sector.

The stakeholders of the insurance broking sector including the Association of Insurance Brokers of Kenya (AIBK) and the Insurance Institute of Kenya (IIK) will find the study findings useful. The study findings will also be useful to researchers and academicians.

6.5.2 Suggestions for further research

There is need to carry out a further study to identify why the insurance broking sector in Kenya is not taking corporate governance more seriously. The study did not cover all the aspects of corporate governance in the broking sector. Further research is therefore considered necessary including:

- i) A study to assess the impact of the Insurance Regulatory Authority (IRA) in its governance role in insurance broking in Kenya.
- ii) A study on the impact of executive remuneration of insurance broking firms on their performance.

Another area of interest to research into include carrying out a survey on corporate governance practices and performance of Kenyan insurance companies as it would not be appropriate to generalize findings from this study on the insurance broking sector for the rest of the insurance industry since they may not be applicable to insurance companies.

It is recommended that the insurance broking sector should strive to put in place the best corporate governance practices taking into account the recommended international corporate governance practices of OECD as well as the recommended local best corporate governance practices by PSICG or the Capital Markets Act as may be considered appropriate. As already mentioned in this study, due to the low level of implementation of governance guidelines in the insurance broking sector, there is need to carry out another research in future when the governance status has significant changed to observe the outcome for comparison purposes.

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APPENDIX A: LETTER OF INTRODUCTION

Strathmore University,
Faculty of Commerce,
P. O. Box 59857-00200,
NAIROBI.

18th March 2009

Dear Sir/Madam,

RE: INSURANCE BROKING

I wish to introduce Lazaro Akunga Kimang'a, who is a postgraduate student at Strathmore University in the Faculty of Commerce and is currently carrying out a research on the insurance broking sector in Kenya. In this regard, I am pleased to inform you that you have been selected as one of the respondents. I would thus be grateful if you could kindly spare 30 minutes or thereabouts of your time to complete a short research questionnaire at your convenience. A duly authorized representative may get in touch with you in this respect, if possible.

I thank you in advance for your co-operation in this respect and assure you that the research is solely for academic purposes and, as such, any information you give will be highly appreciated and treated as strictly private and confidential.

Kindly use the enclosed addressed envelope with stamps for full postage paid to return the questionnaire as soon as you complete it within 7 days from the date hereof, as a special request. Your participation and assistance in this research will be specially recognized, and you will be informed once the research is finalized.

Yours faithfully,

Prof. David Sperling

APPENDIX B: QUESTIONNAIRE

CORPORATE GOVERNANCE PRACTICES OF KENYAN INSURANCE BROKING FIRMS: A STUDY ON THE IMPACT OF SOME BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE

1. GENERAL INFORMATION

1.1 What is the nature of your firm? (*Tick appropriately*)

- | | |
|--|--------------------------|
| Locally fully owned family business | ☐ |
| Locally fully owned by individuals | ☐ |
| Locally fully owned by companies and individuals | ☐ |
| Part of a foreign broking network/alliance | ☐ |
| Part of a group of local companies requiring insurance | ☐ |

1.2 In which year was your broking firm incorporated in Kenya.....

2 GOVERNANCE AND REGULATION

In sections 2.1.1, 2.2 and 2.3 and 2.4.1 you are given statements which you may (1) **Strongly Disagree (SD)**; (2) **Disagree (D)**; (3) **Neither Disagree nor Agree (N)**; (4) **Agree (A)** or **Strongly Agree (SA)** with. You are therefore requested to tick the appropriate column for each of the statements reflecting the state of your firms or the broking sector.

2.1 Governance Structure and Conduct

2.1.1 Board structure

- a) The Board has a balanced mix of executives, non-Executive and independent non-executive directors.
- b) The roles of Chairperson of the Board and Chief Executive Officer are separated and held by different persons.
- c) The board has established and appointed committees With written terms of reference, composition and reporting requirements.
- d) The Board has in place a written company regulation Determining how executive and non-executive directors ought to be appointed
- e) The Board has specified in writing the terms of office for directors.
- f) The company has a written requirement specifying the necessary suitability standards to be met by any person to be appointed a director.
- g) The Board holds regular Board meetings.
If so, how often.....
(eg monthly, bi-monthly, quarterly, etc)

SD	D	N	A	SA

h) Which of the following committees has your Board established?

(Tick as applicable)

- i) An executive committee..... ☐
- ii) An audit committee..... ☐
- iii) A nomination and remuneration committee..... ☐
- iv) A corporate governance committee..... ☐
- v) Others (specify)..... ☐

i) Indicate the following

- i) Total number of directors.....
- ii) Total number of non-executive directors.....
- iii) Number of independent non-executive directors.....
(Not representing particular stakeholders)

2008	2007	2006	2005	2004

iv) Minimum number of directors required by the Commissioner of Insurance (if any).....

Strongly Disagree ← → Strongly Agree

1 2 3 4 5

2.1.2 Board Conduct

2.1.2.1 Board terms of reference

- a) The Board has defined its functions in writing.
- b) The Board has been given in writing the company's mission and vision statements.
- c) The Board devotes significant time and serious thought to the organization's long-term objectives and to the strategic options available

SD	D	N	A	SA

Strongly Disagree ← → Strongly Agree

1 2 3 4 5

- d) The Board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by management to meet routine and exceptional circumstances.
- e) The majority of the Board's time is not spent on issues of day-to-day management.
- f) The Board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals.
- g) Proposals from management are analyzed and debated vigorously before being approved by the Board, and any proposal that is considered inappropriate is declined.

2.1.2.2 Board Meetings

- a) Every Board member has been supplied with a calendar of meetings showing dates of Board meetings, committee meetings, etc. and key or critical events of the company.
- b) Board meetings are conducted in a manner that encourages open communication, meaningful participation, and timely resolution of issues.
- c) Board time is used effectively so that the Board adds value to management.

SD	D	N	A	SA

1 2 3 4 5

- [illegible]

a) The Board is involved in the selection of directors.

- 73

Strongly Disagree ← → Strongly Agree

1 2 3 4 5

- g) Directors understand the extent of their personal liability for the affairs of the company.
- h) A succession plan for the Chairperson, Chief Executive Officer, Board members and senior management is reviewed regularly.
- i) Directors who have not been contributing to the governance of the organization and are uninterested in improving their performance, are asked to terminate their dictatorship (or their position).
- j) Where the ethical or professional conduct of any director is called into question such director is a suspended pending investigation.
- k) Board members bind themselves to uphold proper ethical conduct upon appointment and to resign where their actions are called into question.

2.2 Internal governance mechanisms

(Tick as applicable)

- a. Every Board member is supplied with all establishment instruments, all legal documents, the mission statement, and vision and strategy documents of the company upon appointment.
- b. The company has put in place controls covering all the basic and administrative procedures.
- c. The company has in place operational manuals covering all the control procedures.

SD	D	N	A	SA

Strongly Disagree ← ————— → Strongly Agree

1 2 3 4 5

SD	D	N	A	SA

- d. Reporting channels have been put in place to ensure that all members of the Board receive **timely** information for discharging their responsibilities effectively.
- e. Reporting channels have been put in place to ensure that all members of the Board receive **accurate** information for discharging their responsibilities effectively.
- f. Reporting channels have been put in place to ensure that all members of the Board receive **complete** information for discharging their responsibilities effectively.
- g. Board members are encouraged to discuss matters with members of management after obtaining the approval of the chairperson or the chief executive officer.
- h. Reporting channels are in place to ensure Board members are regularly advised on matters of governance and applicable laws.
- i. The Board monitors the effectiveness of governance practices under which it operates and makes changes regularly.

2.3 Governance Guidelines

- a) Has the company adopted and implemented international guidelines for corporate governance (IGCG)?

Yes ☐

No ☐

If yes, specify whether you have the Organization for Economic Cooperation Development (OECD) guidelines for insurer's governance?

.....
.....

- b) Does the company use guidelines for corporate governance in Kenya (GCGK)?

Yes ☐

No ☐

If yes, specify whether you have guidelines by the Private Sector Initiative for Cooperate Governance (PSICG)

.....
.....

2.4 Other

Identify any major criticisms against the Kenya insurance broking sector:

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

2.5 Financials

	Amount in Kshs 'million				
	2008	2007	2006	2005	2004
Profit and Loss Account					
Total gross income					
Total expense					
Profit before tax					
Profit after tax					
Dividend					
<u>Balance Sheet</u>					
Share capital					
Total retained earnings					
Total shareholders' funds					
Total assets					
Total liabilities					
Net assets					
<u>Other</u>					
Total number of paid up shares					
Total number of employees					
Do you have a Corporate Governance Statement in financial statements?					

APPENDIX C: LIST OF THE 2008 LICENSED BROKERS IN KENYA

GAZETTED INSURANCE BROKERS FOR YEAR 2008				
LICENSED BROKERS 2008				
1	AA INSURANCE BROKERS LTD	IRA/06/122/08	BOX 40087	NAIROBI
2	ABOO INSURANCE BROKERS LTD	IRA/06/061/08	BOX 83313-80100	MOMBASA
3	ACROPOLIS INSURANCE BROKERS LTD	IRA/06/279/08	BOX 1157-00606	NAIROBI
4	AFRICAN CONTINENT INSURANCE BROKERS LTD	IRA/06/275/08	BOX 82777	NAIROBI
5	AFRISHIELD INSURANCE BROKERS LTD	IRA/06/226/08	BOX 10305-00100	NAIROBI
6	AL'AMIN INSURANCE BROKERS LTD	IRA/06/302/08	BOX 85098	MOMBASA
7	AL-FAZWEN INSURANCE BROKERS LTD	IRA/06/465/08	BOX86570-8000	NAIROBI
8	AMRO INSURANCE BROKERS LTD	IRA/06/476/08	BOX 40896-00100	NAIROBI
9	AMS INSURANCE BROKERS LTD	IRA/06/313/08	BOX 2295-00200	NAIROBI
10	AON MINET INSURANCE BROKERS LTD	IRA/06/014/08	BOX 48279-00100	NAIROBI
11	ARISTOCRATS INSURANCE BROKERS LTD	IRA/06/114/08	BOX 57386-00200	NAIROBI
12	ASSOCIATED INSURANCE BROKERS LTD	IRA/06/390/08	BOX 1423-0606	NAIROBI
13	ASSURED INSURANCE BROKERS LTD	IRA/06/058/08	BOX 67511-00200	NAIROBI
14	AUM INSURANCE BROKERS LTD	IRA/06/454/08	BOX 90087-80100	MOMBASA
15	AVOCET INSURANCE BROKERS LTD	IRA/06/287/08	BOX 67683	NAIROBI
16	BAFANA INSURANCE BROKERS LTD	IRA/06/408/08	BOX 56846-00200	NAIROBI
17	BAHARI INSURANCE BROKERS LTD	IRA/06/236/08	BOX 62337-00200	NAIROBI
18	BATLEX INSURANCE BROKERS LTD	IRA/06/311/08	BOX 27664-00506	NAIROBI
19	BOSOM INSURANCE BROKERS LTD	IRA/06/464/08	BOX 11721-00100	NAIROBI
20	BOTTOMRY INSURANCE BROKERS LTD	IRA/06/384/08	BOX 70489-00400	NAIROBI
21	BTB INSURANCE BROKERS LTD	IRA/06/414/08	BOX 40127-00100	NAIROBI
22	CANOPY INSURANCE BROKERS LTD	IRA/06/125/08	BOX 51960-00200	NAIROBI
23	CENTAUR INSURANCE BROKERS LTD	IRA/06/443/08	BOX 33029-00200	NAIROBI
24	CHANCERY INSURANCE BROKERS LTD	IRA/06/095/08	BOX 55537-00200	NAIROBI
25	CHANNEL INSURANCE BROKERS LTD	IRA/06/138/08	BOX 511-00100	NAIROBI
26	CHESTER INSURANCE BROKERS LTD	IRA/06/319/08	BOX 66795-00800	NAIROBI
27	CLARKSON INSURANCE BROKERS LTD	IRA/06/002/08	BOX 30279-00100	NAIROBI
28	CLEAR INSURANCE BROKERS LTD	IRA/06/276/08	BOX 6521-00300	NAIROBI
29	COMMUNITY INSURANCE BROKERS LTD	IRA/06/185/08	BOX 25330-00603	NAIROBI
30	CONSOLIDATED INSURANCE LTD	IRA/06/054/08	BOX 72973-00200	NAIROBI

31	COVERMAX INSURANCE BROKERS LTD	IRA/06/207/08	BOX 72519	NAIROBI
32	CROWNSCOPE INSURANCE BROKERS LTD	IRA/06/045/08	BOX 46280-00100	NAIROBI
33	DISNEY INSURANCE BROKERS LTD	IRA/06/284/08	BOX 3600-00200	NAIROBI
34	EAGLE INSURANCE BROKERS LTD	IRA/06/008/08	BOX 30076-00100	NAIROBI
35	ECONOMIC INSURANCE BROKERS LTD	IRA/06/346/08	BOX 46454-00100	NAIROBI
36	EDEN ROCK INSURANCE BROKERS LTD	IRA/06/440/08	BOX 2187-30200	KITALE
37	EXECUTIVE INSURANCE BROKERS LTD	IRA/06/067/08	BOX 80142-80100	MOMBASA
38	FAIRSURE INSURANCE BROKERS LTD	IRA/06/338/08	BOX 59112-00200	NAIROBI
39	FAMILY INSURANCE BROKERS LTD	IRA/06/105/08	BOX 74145-00200	NAIROBI
40	FAULU INSURANCE BROKERS LTD	IRA/06/480/08	BOX 10474-00100	NAIROBI
41	FINCHLEY INSURANCE BROKERS LTD	IRA/06/403/08	BOX 34832-00100	NAIROBI
42	FINESSE INSURANCE BROKERS LTD	IRA/06/349/08	BOX 34886-00100	NAIROBI
43	FIRST REINSURANCE BROKERS LTD	IRA/06/144/08	BOX 50565-00200	NAIROBI
44	FLAGSHIP INSURANCE BROKERS LTD	IRA/06/229/08	BOX 13889-00800	NAIROBI
45	FORMAX INSURANCE BROKERS LTD	IRA/06/194/08	BOX 1769	MOMBASA
46	FORTRESS INSURANCE BROKERS LTD	IRA/06/335/08	BOX 1415-20100	NAIROBI
47	FOUR M INSURANCE BROKERS LTD	IRA/06/418/08	BOX 78710-00507	NAIROBI
48	FOUR STAR INSURANCE BROKERS LTD	IRA/06/329/08	BOX 2538-00200	NAIROBI
49	FRED BLACK INSURANCE BROKERS LTD	IRA/06/449/08	BOX 76140-00508	NAIROBI
50	GACHICHIO INSURANCE BROKERS LTD	IRA/06/019/08	BOX 43002-00100	NAIROBI
51	GETRIO INSURANCE BROKERS LTD	IRA/06/110/08	BOX 52172	NAIROBI
52	GREAT FIVE INSURANCE BROKERS LTD	IRA/06/362/08	BOX 10683-00100	NAIROBI
53	H.G THANAWALLA INSURANCE BROKERS LTD	IRA/06/051/08	BOX 40579-00100	NAIROBI
54	H.S JUTLEY INSURANCE BROKERS LTD	IRA/06/029/08	BOX 59915-00200	NAIROBI
55	HABARI INSURANCE BROKERS LTD	IRA/06/350/08	BOX 80604-80100	MOMBASA
56	HARMONY INSURANCE BROKERS LTD	IRA/06/474/08	BOX 2242-00200	NAIROBI
57	HILLSTONE INSURANCE BROKERS LTD	IRA/06/441/08	BOX 46869-00100	NAIROBI
58	HP INSURANCE BROKERS LTD	IRA/06/461/08	BOX 3976-00506	NAIROBI
59	IMAGE INSURANCE BROKERS LTD	IRA/06/413/08	BOX 10739-00100	NAIROBI
60	INSURANCE BROKERS & CO-ORDINATORS	IRA/06/404/08	BOX 45566-00100	NAIROBI
61	INTERBROKE INSURANCE BROKERS LTD	IRA/06/251/08	BOX 49589-1000	NAIROBI
62	JEMISAM INSURANCE BROKERS LTD	IRA/06/402/08	BOX 16923-00100	NAIROBI
63	KENBRIGHT INSURANCE BROKERS LTD	IRA/06/347/08	BOX 28281-00200	NAIROBI
64	KENFIDENT INSURANCE BROKERS LTD	IRA/06/439/08	BOX 44812-00100	NAIROBI

65	KENFIRM INSURANCE BROKERS LTD	IRA/06/172/08	BOX 56724-00200	NAIROBI
66	LALIT INSURANCE BROKERS LTD	IRA/06/364/08	BOX 1582-40100	NAIROBI
67	LEMA INSURANCE LTD	IRA/06/121/08	BOX 12936-00400	NAIROBI
68	LEON INSURANCE BROKERS LTD	IRA/06/307/08	BOX 16476-00100	NAIROBI
69	LIASON INSURANCE BROKERS LTD	IRA/06/013/08	BOX 58013-00200	NAIROBI
70	LOSAGI INSURANCE BROKERS LTD	IRA/06/308/08	BOX 48505-00100	NAIROBI
71	M.A KHAN INSURANCE BROKERS LTD	IRA/06/339/08	BOX 46424-00100	NAIROBI
72	MACLY INSURANCE BROKERS LTD	IRA/06/291/08	BOX 61492-00200	NAIROBI
73	MAJ INSURANCE BROKERS LTD	IRA/06/419/08	BOX 61701-00100	NAIROBI
74	MAJANI INSURANCE BROKERS LTD	IRA/06/265/08	BOX 10150-00100	NAIROBI
75	MASUMALI INSURANCE BROKERS LTD	IRA/06/231/08	BOX 83110-80100	MOMBASA
76	MEESON INSURANCE BROKERS LTD	IRA/06/475/08	BOX 48984-00100	NAIROBI
77	METHODIST INSURANCE BROKERS LTD	IRA/06/145/08	BOX 47633-00100	NAIROBI
78	MIC GLOBAL INSURANCE LTD	IRA/06/382/08	BOX 51343-00200	NAIROBI
79	MILINIUM INSURANCE BROKERS LTD	IRA/06/085/08	BOX 49665-00100	NAIROBI
80	MIMA INSURANCE BROKERS LTD	IRA/06/278/08	BOX 1200	NAKURU
81	MINLET INSURANCE BROKERS LTD	IRA/06/375/08	BOX 75157-00200	NAIROBI
82	MIRAN INSURANCE BROKERS LTD	IRA/06/436/08	BOX 43441-00100	NAIROBI
83	MOMBASA INSURANCE BROKERS LTD	IRA/06/456/08	BOX 1810-80100	NAIROBI
84	NANYUKI INSURANCE BROKERS LTD	IRA/06/240/08	BOX 275	NANYUKI
85	NELION INSURANCE BROKERS LTD	IRA/06/263/08	BOX 13910-00800	NAIROBI
86	NOMURA INSURANCE BROKERS LTD	IRA/06/020/08	BOX 86752-80100	MOMBASA
87	NOTCUTT INSURANCE BROKERS LTD	IRA/06/002/08	BOX 79466-00200	NAIROBI
88	ONLINE INSURANCE BROKERS LTD	IRA/06/358/08	BOX 1000-00100	NAIROBI
89	OPTIONS INSURANCE BROKERS LTD	IRA/06/479/08	BOX 14678-00100	NAIROBI
90	PACIFIC INSURANCE BROKERS LTD	IRA/06/077/08	BOX 50565-00200	NAIROBI
91	PACKAGE INSURANCE BROKERS LTD	IRA/06/266/08	BOX 10019-00100	NAIROBI
92	PAELINA INSURANCE BROKERS LTD	IRA/06/130/08	BOX 28073-00200	NAIROBI
93	PALSHA INSURANCE BROKERS LTD	IRA/06/268/08	BOX 922	KISUMU
94	PASAN INSURANCE BROKERS LTD	IRA/06/468/08	BOX 16227-00100	NAIROBI
95	PEACE OF MIND INSURANCE BROKERS LTD	IRA/06/450/08	BOX 6742-00100	NAIROBI
96	PELICAN INSURANCE BROKERS LTD	IRA/06/033/08	BOX 52801-00200	NAIROBI
97	PISTIS INSURANCE BROKERS LTD	IRA/06/293/08	BOX 89948	MOMBASA
98	PLAN AND PLACE INSURANCE BROKERS LTD	IRA/06/463/08	BOX 4431-00100	NAIROBI

99	PLATINUM INSURANCE BROKERS LTD	IRA/06/462/08	BOX 75850-00200	NAIROBI
100	PORIM INSURANCE BROKERS LTD	IRA/06/460/08	BOX 52435-00200	NAIROBI
101	PRECIOUS INSURANCE BROKERS LTD	IRA/06/453/08	BOX 3969-00506	NAIROBI
102	PRIME MOVER INSURANCE BROKERS LTD	IRA/06/280/08	BOX 79460-00200	NAIROBI
103	PRIMEKEN INSURANCE BROKERS LTD	IRA/06/196/08	BOX 6895-00300	NAIROBI
104	QUANTUM INSURANCE BROKERS LTD	IRA/06/452/08	BOX 52439-00200	NAIROBI
105	RICHLANDS INSURANCE BROKERS LTD	IRA/06/021/08	BOX 40732-00100	NAIROBI
106	RISK SOLUTION INSURANCE BROKERS LTD	IRA/06/437/08	BOX 763-00606	NAIROBI
107	RISK CARE INSURANCE BROKERS LTD	IRA/06/473/08	BOX 55298-00200	NAIROBI
108	ROBERTS INSURANCE BROKERS LTD	IRA/06/148/08	BOX 73415-00200	NAIROBI
109	SAFE N SOUND INSURANCE BROKERS LTD	IRA/06/430/08	BOX 162-30100	ELDOROT
110	SAFENET INSURANCE BROKERS LTD	IRA/06/281/08	BOX 11804-00400	NAIROBI
111	SAKAKA INSURANCE BROKERS LTD	IRA/06/171/08	BOX 685	NAKURU
112	SAPON INSURANCE BROKERS LTD	IRA/06/239/08	BOX 47628-00100	NAIROBI
113	SCANNER INSURANCE BROKERS LTD	IRA/06/411/08	BOX 67718-00200	NAIROBI
114	SECOM INSURANCE BROKERS LTD	IRA/06/417/08	BOX 70358-00400	NAIROBI
115	SECULAR INSURANCE BROKERS LTD	IRA/06/420/08	BOX 1258-00100	NAIROBI
116	SEDGWICK INSURANCE BROKERS LTD	IRA/06/035/08	BOX 40709	NAIROBI
117	SHASHI INSURANCE BROKERS LTD	IRA/06/356/08	BOX 43527-00100	NAIROBI
118	SIFA INSURANCE BROKERS LTD	IRA/06/066/08	BOX 20341-00200	NAIROBI
119	SKYLARK INSURANCE BROKERS LTD	IRA/06/257/08	BOX 10437-00100	NAIROBI
120	SMART GUARD INSURANCE BROKERS LTD	IRA/06/442/08	BOX 15542-00200	NAIROBI
121	SOBAGH INSURANCE BROKERS LTD	IRA/06/336/08	BOX 148-30100	ELDOROT
122	SOIN INSURANCE BROKERS LTD	IRA/06/204/08	BOX 44856-00100	NAIROBI
123	SPEEDSURE INSURANCE BROKERS LTD	IRA/06/423/08	BOX 4327-00200	NAIROBI
124	STARLIT INSURANCE BROKERS LTD	IRA/06/274/08	BOX 10778-00100	NAIROBI
125	SUNLAND INSURANCE BROKERS LTD	IRA/06/352/08	BOX 11553-00100	NAIROBI
126	SUPERLINK INSURANCE BROKERS LTD	IRA/06/309/08	BOX 54241	NAIROBI
127	TEEVE INSURANCE BROKERS LTD	IRA/06/305/08	BOX 3000	NAKURU
128	TRISON INSURANCE BROKERS LTD	IRA/06/205/08	BOX 555-00606	NAIROBI
129	TRUST MARK INSURANCE BROKERS LTD	IRA/06/306/08	BOX 19936-00202	NAKURU
130	UNICORN INSURANCE BROKERS LTD	IRA/06/001/08	BOX 48131-00100	NAIROBI
131	UNICOVER INSURANCE BROKERS LTD	IRA/06/119/08	BOX 76021-00508	NAIROBI
132	UNIPOLAR INSURANCE BROKERS LTD	IRA/06/359/08	BOX 16234	NAIROBI

133	UNIVERSAL INSURANCE BROKERS LTD	IRA/06/070/08	BOX 11930-00400	NAIROBI
134	UTMOST INSURANCE BROKERS LTD	IRA/06/417/08	BOX 70358-00400	NAIROBI
135	VEFIS INSURANCE BROKERS LTD	IRA/06/458/08	BOX 5978-00100	NAIROBI
136	VICTORIA INSURANCE BROKERS LTD	IRA/06/152/08	BOX 56892-00200	NAIROBI
137	VIKE INSURANCE BROKERS LTD	IRA/06/328/08	BOX 2790-00100	NAIROBI
138	WAUMINI INSURANCE BROKERS LTD	IRA/06/459/08	BOX 13475-00800	NAIROBI
139	WIDESCOPE INSURANCE BROKERS LTD	IRA/06/026/08	BOX 50661-00200	NAIROBI
140	YOUJAYS INSURANCE BROKERS LTD	IRA/06/254/08	BOX 46707-00100	NAIROBI

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APPENDIX D: RESPONSE DETAILS AND SCORES

SCORE		1		2		3		4		5		Total	Score		Note	
		Category	No.	%	No.	%	No.	%	No.	%	No.	%	No.	Max. 200		Max. 15
2.1.1 Board Structure																
a)	Board has a balanced mix of directors	NO	8	20.0%	5	12.5%	5	12.5%	16	40.0%	6	15.0%	40	127	11	
		YES					1	33.3%	2	66.7%			3			
b)	Role of chairperson and CEO are separated	NO	7	17.5%	4	10.0%	6	15.0%	13	32.5%	10	25.0%	40	135	12	
		YES					1	33.3%	1	33.3%	1	33.3%	3			
c)	Board has established & appointed committees	NO	7	17.5%	12	30.0%	7	17.5%	10	25.0%	4	10.0%	40	112	9	
		YES					3	100.0%					3			
d)	Board has written regulations for appointments	NO	3	7.5%	8	20.0%	7	17.5%	15	37.5%	7	17.5%	40	135	10	
		YES					2	66.7%	1	33.3%			3			
e)	Board has specified in writing office terms for directors	NO	3	7.5%	8	20.0%	9	22.5%	14	35.0%	6	15.0%	40	132	10	
		YES					2	66.7%	1	33.3%			3			
f)	Board has written standards to be met by individuals	NO	3	7.5%	5	12.5%	18	45.0%	6	15.0%	8	20.0%	40	131	10	
		YES					2	66.7%	1	33.3%			3			
g)	Board holds regular board meetings	NO	2	5.0%	4	10.0%	9	22.5%	14	35.0%	11	27.5%	40	148	11	
		YES					1	33.3%	2	66.7%			3			
Average													131	10		

		Category	No		Yes		Total	
			No.	%	No.	%	No.	%
h (i)	Board has established executive	NO	20	55.6%	16	44.4%	36	100.0%
		YES	2	66.7%	1	33.3%	3	100.0%
(ii)	Board has established audit committee	NO	24	66.7%	12	33.3%	36	100.0%
		YES	1	33.3%	2	66.7%	3	100.0%
(iii)	Board has established nomination and remuneration committee	NO	32	88.9%	4	11.1%	36	100.0%
		YES	2	66.7%	1	33.3%	3	100.0%
(iv)	Board has established corporate governance committee	NO	31	88.6%	4	11.4%	35	100.0%
		YES	2	66.7%	1	33.3%	3	100.0%

Note: Scores in each field are obtained by multiplying the number of those who marked that they had not implemented international corporate governance guidelines (categorised as "NO") and those who indicated that they had implemented international corporate governance guidelines (categorised as "YES") with the respective response scores ranging from 1-5 (ie Strongly Disagree: 1; Disagree: 2; Neutral/Not Sure: 3; Agree: 4; Strongly Agree: 5).

Note 1, 2, 3, 4, 5 and 6 are shown against totals on the right hand side of the table.

SCORE		1		2		3		4		5						Note
		Strongly Disagree		Disagree		Neutral /Not sure		Agree		Strongly Agree		Total		Score		
		Category	No.	%	No.	%	No.	%	No.	%	No.	%	No.	Max. 200	Max. 15	
	2.1.2 Board Terms of Reference													200	15	
a)	Board has defined its functions in writing	NO	6	15.0%	3	7.5%	7	17.5%	17	42.5%	7	17.5%	40	136		
		YES			1	33.3%			2	66.7%			3		10	
b)	Board has in writing the company's mission and vision statement	NO	1	2.5%	4	10.0%	7	17.5%	16	40.0%	12	30.0%	40	154		
		YES							3	100.0%			3		12	
c)	Board devotes time & thoughts to objectives and available options	NO	2	5.0%	1	2.5%	8	20.0%	22	55.0%	7	17.5%	40	151		
		YES							3	100.0%			3		12	
d)	Board has defined & communicated management requirements	NO	3	7.5%	1	2.5%	8	20.0%	16	40.0%	12	30.0%	40	153		
		YES					1	33.3%	1	33.3%	1	33.3%	3		12	
e)	Majority of board's time is not used to daily management	NO	5	12.5%	6	15.0%	8	20.0%	13	32.5%	8	20.0%	40	133		
		YES					1	33.3%	2	66.7%			3		11	
f)	Board ensures availability of sufficient resources	NO	3	7.5%	4	10.0%	6	15.0%	14	35.0%	13	32.5%	40	150		
		YES							2	66.7%	1	33.3%	3		13	
g)	Proposals are analysed & debated vigorously before approving	NO	5	12.5%	4	10.0%	6	15.0%	12	30.0%	13	32.5%	40	144		
		YES							2	66.7%	1	33.3%	3		13	
												Average		146	12	
	2.1.2.2 Board meetings															
a)	Every board member has a calendar of meetings	NO	7	17.5%	4	10.0%	8	20.0%	15	37.5%	6	15.0%	40	129		
		YES			1	33.3%	1	33.3%	1	33.3%			3		9	
b)	Board meetings environment encourage discussion	NO	5	12.5%	1	2.5%	7	17.5%	15	37.5%	12	30.0%	40	148		
		YES			1	33.3%	1	33.3%	1	33.3%			3		9	
c)	Board time is used effectively	NO	5	12.5%	1	2.5%	9	22.5%	12	30.0%	13	32.5%	40	147		
		YES							2	66.7%	1	33.3%	3		13	
d)	Board members receive timely and accurate minutes and board papers	NO	5	12.5%	1	2.5%	9	22.5%	12	30.0%	13	32.5%	40	147		
		YES			1	33.3%			1	33.3%	1		3		11	
e)	All board members are fully informed of relevant matters	NO	6	15.0%	1	2.5%	7	17.5%	17	42.5%	9	22.5%	40	142		
		YES			1	33.3%			1	33.3%	1	33.3%	3		11	
f)	Absenteeism from board meetings is rare	NO	5	12.5%	1	2.5%	6	15.0%	16	40.0%	12	30.0%	40	149		
		YES							3	100.0%			3		12	
g)	Board meetings are facilitated but not overtly influenced by chairperson	NO	5	12.5%	1	2.5%	9	22.5%	15	37.5%	10	25.0%	40	144		
		YES			1	33.3%			1	33.3%	1	33.3%	3		11	
												Average		144	11	

SCORE		1		2		3		4		5		Total		Score		Note
2.1.2.3 Board Processes	Category	No.	%	No.	%	No.	%	No.	%	No.	%	No.	Max. 200	Max. 15		
a)	Board is involved in the selection of directors	YES	5	12.5%	1	2.5%	6	15.0%	18	45.0%	10	25.0%	40	147		
		NO					1	33.3%	2	66.7%			3		11	
b)	Selection process considers skills deficiencies in the current board	YES	4	10.0%	4	10.0%	13	32.5%	12	30.0%	7	17.5%	40	134		
		NO							2	66.7%	1	33.3%	3		13	
c)	New board members are oriented with appropriate process	YES			1	33.3%	1	33.3%			1	33.3%	3	127		
		NO	4	10.0%	7	17.5%	14	35.0%	8	20.0%	7	17.5%	40		10	
d)	Board members understand their relationship with management	YES	1	33.3%					2	66.7%			3	121		
		NO	5	12.5%	7	17.5%	16	40.0%	6	15.0%	6	15.0%	40		9	
e)	Board members evaluated their performance annually	YES	3	7.5%	4	10.0%	9	22.5%	17	42.5%	7	17.5%	40	141		
		NO							2	66.7%	1	33.3%	3		13	
f)	Board members are encouraged to be keen in handling issues	YES	1	33.3%			2	66.7%	10	25.0%	6	15.0%	40	123		
		NO	4	10.0%	2	5.0%	11	27.5%	16	40.0%	7	17.5%	40		7	
g)	Directors understand the extent of their liability	YES							2	66.7%	1	33.3%	3	140		
		NO	2	5.0%	1	2.5%	7	17.5%	20	50.0%	10	25.0%	40		13	
h)	A succession plan for senior members is in place and reviewed regularly	YES	1	33.3%					1	33.3%	1	33.3%	3	155		
		NO	7	17.5%	5	12.5%	16	40.0%	6	15.0%	6	15.0%	40		10	
i)	Incompetent directors are asked to resign	YES			2	66.7%	1	33.3%					3	119		
		NO	9	22.5%	4	10.0%	12	30.0%	10	25.0%	5	12.5%	40		7	
j)	A director with a questionable character is suspended	YES					2	66.7%	1	33.3%			3	118		
		NO	5	12.5%	6	15.0%	14	35.0%	9	22.5%	6	15.0%	40		10	
k)	Board members bind themselves upon appointment	YES					2	66.7%	1	33.3%			3	125		
		NO													10	
Average													132	10	4	

SCORE		1		2		3		4		5		Total		Score	
2.2 Internal Governance Mechanisms	Category	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	Max. 200
															Max. 15
a) Every board member is supplied with all requirements on appointment	NO	5	12.5%	2	5.0%	9	22.5%	13	32.5%	11	27.5%	40	143		
	YES	1	33.3%			1	33.3%	1	33.3%			3			8
b) The company has put in place controls	NO	2	5.0%	5	12.5%	11	27.5%	12	30.0%	10	25.0%	40	143		
	YES					1	33.3%	1	33.3%	1	33.3%	3			9
c) The company has operational manuals	NO	2	5.0%	3	7.5%	3	7.5%	25	62.5%	7	17.5%	40	152		
	YES							2	66.7%	1	33.3%	3			13
d) Reporting channels have been put in place for timeliness	NO	3	7.5%	4	10.0%	7	17.5%	17	42.5%	9	22.5%	40	145		
	YES					1	33.3%	2	66.7%			3			11
e) Reporting channels have been put in place for accuracy	NO	2	5.0%	7	17.5%	8	20.0%	13	32.5%	10	25.0%	40	142		
	YES					1	33.3%	2	66.7%			3			11
f) Reporting channels have been put in place for completeness	NO	2	5.0%	5	12.5%	11	27.5%	13	32.5%	9	22.5%	40	142		
	YES			1	33.3%			2	66.7%			3			10
g) Board members are encouraged to hold discussions with management	NO	2	5.0%	5	12.5%	10	25.0%	14	35.0%	9	22.5%	40	143		
	YES							3	100.0%			3			12
h) Reporting channels are put in place to ensure regular board advice	NO	4	10.0%	7	17.5%	6	15.0%	15	37.5%	8	20.0%	40	136		
	YES			1	33.3%			1	33.3%	1	33.3%	3			11
i) The Board monitors effectiveness of governance	NO	3	7.5%	8	20.0%	8	20.0%	12	30.0%	9	22.5%	40	136		
	YES					1	33.3%	1	33.3%	1	33.3%	3			11
Average													142	11	5
Overall Average													139	11	6

