PhD Viva Voce Presentation

By

Kingsley Setsoafia Tornyeva

Topic: Prevailing Performance Issues In Corporate Governance: Comparative Analysis Of Its Impact On Ghana's Insurance Companies

Purpose of the Study

The purpose of the study is to provide an assessment of the effect of good corporate governance practices on corporate performance of insurance companies

RESEARCH PROBLEM

(1) The Basis/Background:

- ***The Research Problem Setting*:** Weak corporate governance practices have been identified to be responsible for poor company performance (Claessens et al., 2002). Previous financial episodes such as the Savings and Loans crisis in the US in the late 1980s, the East Asian crisis in the 1990s and the failure of Enron and WorldCom, give a clear indication of the importance of sound corporate governance and risk management. (ACCA, 2008, Becht et al., 2002). The series of recent corporate scandals involving firms such as Lehman Brothers, Merrill Lynch and the financial crisis (credit crunch) of 2007 were largely attributed to the failure of corporate governance.

- ***Prior Research Efforts*:** The literature is heavily weighted with studies confirming the positive relationship between good corporate governance and organizational performance in developed countries (see Coase, 1937; Jensen & Meckling, 1976; Fama & Jensen, 1983; Grossman & Hart, 1988; Harris & Raviv, 1988; Vishny & Shleifer, 1997). However, there is a paucity of studies on the subject in developing countries. Some recent studies notwithstanding (Abor & Biekpe, 2007, Tsamenyi et al., 2007, Kyereboah-Coleman & Biekpe 2007, Bokpin et al., 2009)

RESEARCH PROBLEM, Cont.

(2) ***The Research Gap***: Though some studies have been done on corporate governance, these studies have mainly focused on companies listed on the stock exchange and small and medium size companies but none exclusively on insurance companies. These studies excluded the financial sector in tandem with studies on corporate governance (Faccio & Lasfer, 2000).

These studies have concentrated on only the “hard” attributes of corporate governance and ignored the “soft” attributes. Again, these studies have used accounting and market based performance measures only and none has used CSR.

(3) ***Why Address Research Gap***: Addressing the gaps is very useful in providing new insight into best corporate practices and how they could be integrated into the business culture to enhance performance.

SIGNIFICANCE OF THE STUDY

- **Practice:**

Research Finding 2: Board factors positively influence firm financial performance

Implications: The findings can encourage board of directors to play strategic role in firm performance

Research Finding 6: Life insurance companies are more profitable compared to the non-life companies

Implications: The findings can promote more investment into the life insurance companies

Research Finding 7: Large insurance companies performed better than small companies

Implications: The findings can serve as basis for insurance companies to increase their capital.

Research Finding 8: Companies without CSR policy performed better than those who have CSR policy

Implications: The findings should discourage firms that they can gain competitive advantage by engaging in CSR activities

- **Policy:**

Research Finding 1: Evidence of high level of compliance with good corporate governance practices

Implications: The findings can contribute to policy on code of corporate governance

SIGNIFICANCE OF THE STUDY Cont.

Policy:

Research Finding 3: Audit committee factors enhances transparency and accountability of the firms

Implications: The findings can contribute to policy provision to protect investor interest and also promote the establishment of audit committees.

Research Finding 4: Ownership factors are significantly related to firm performance

Implications: The findings can contribute to policy guideline on attracting foreign direct investment and institutional investors.

- **Theoretical:**

Research Finding 2: Board factors positively influence firm financial performance

Implications: The findings can contribute to the inclusion of directors in agency theory

Research Finding 5: Soft governance factors positively influence firm performance

Implications: The findings can encourage the adoption of multiple-theoretical approach to corporate governance research.

LITERATURE REVIEW

- **The literature was reviewed from the theoretical and empirical perspectives**

Theoretical perspective:

- **Agency Theory**, Jensen & Meckling (1976), resulting from separation of ownership and control. The proponents hold a contract view of the relationship between principal and agent. Whereby the contract of engagement would normally describe in general terms the management of the funds. However, most future contingencies are difficult to describe and to foresee and as a result, complete contracts are technologically infeasible Shleifer & Vishny (1997).

  As such, the managers have the residual control right to make decisions that are not clearly stipulated within their contract (Grossman & Hart, 1986; Hart & Moore, 1990). This results in conflict of interest as managers end up with substantial residual control rights and therefore discretion to allocate funds as they choose to enhance their personal interest at the expenses of the investors (Shleifer & Vishny, 1997). This brings about agency problem.

  The remedies to the agency problem within corporate governance involves the acceptance of certain ‘agency costs’ either in creating incentives or sanctions that will align executive self interest with the interest of shareholders (Roberts, 2004)

  The theory has been criticized for its narrowness and the assumption of self interest. However, the theory help better to explain the behavior of management hence its adoption for the study.

LITERATURE REVIEW Cont.

- **Resource Dependence Theory**, Pfeffer & Salancik (1978), they believe the influence of non-executive directors improves firm's ability to protect itself against the uncertainties of the external environment. The Theory focuses on the crucial role that the directors play in providing or securing essential resources to the company through their linkages to the external environment. Though, the theory has been criticized for advocating for large boards and interlocking boards, we have adopted it to explain the strategic role of the board by inclusion of board factors

- **Stakeholder Theory**, Freeman (1984), emphases the need for managers to have corporate accountability to stakeholders instead of shareholders. The Theory advocates for representation of all interest groups on the board of directors to ensure consensus building.

  The theory has been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. This situation has given managers the discretionary powers to decide on whose interest to serve (Jensen, 2001). The theory is adopted for the inclusion of other stakeholders in the study.

LITERATURE REVIEW Cont.

- **Stewardship Theory**, Donaldson & Davis (1991), holds the view that, managers are there to pursue the interest of shareholders and therefore managerial opportunism is irrelevant. The theory is based on the assumption that the interest of shareholders and the interest of management are aligned.

  Therefore, management is motivated to take decisions that would maximize company performance and thereby maximize the total value of the company. The theory believes that, there is greater utility in cooperative than individualistic behavior and hence, whilst the actions of management would be maximizing shareholder wealth, it would at the same time be meeting their personal needs.

- The theory is adopted to emphasis management skills and integrity

LITERATURE REVIEW Cont.

Empirical perspectives:

- Kyereboah-Coleman & Biekpe (2007), investigated seven governance characteristics and firm performance in Africa. They concluded that large and independent board, longer CEO tenure, separation of CEO and chairman positions, size of audit committee and institutional ownership had positive effect on firm performance. However, the study concentrated on only firms listed on the stock exchange. Also, banking and financial sector was omitted because of its peculiar characteristics. The study has improved his work by including the insurance sector.

- Kyereboah-Coleman & Biekpe (2008), examined the relationship between board size, board composition, CEO duality and firm performance. They found positive relationship between large board size, separation of CEO and chairman position and firm performance. But found negative relationship between independent directors and firm performance. The study omitted financial institutions because of their debt structure.

LITERATURE REVIEW Cont.

- Nanka-Bruce (2009), identified negative relationship between ownership concentration and market valuation. However the effect of ownership concentration on firm profitability was mixed. He also suggested that board size had negative effect on profitability, CEO duality had no impact on firm performance and independent directors had insignificant influence on performance. His study was limited to 17 OECD countries, 16 from European Union and USA

- Ntim (2009), posited that, there was positive association between quality of internal corporate governance structures and firm financial performance. He found positive relationship between board size, CEO duality and firm performance. However, he indicated that board diversity, frequency of board meetings, audit and remuneration committees of the board had no effect on firm performance. The study was restricted to only firms listed on the South African Stock Exchange

LITERATURE REVIEW Cont.

- Adusei (2011), investigated the relationship between board structure and bank performance in Ghana and concluded that increasing board size of the banks decreased their profitability and also increasing board independence decreased the efficiency of the banks. Though this study considered the financial sector, it was limited to only banks and therefore not conclusive.

- Other studies have established positive relationship between corporate governance and firm performance (see Rajan & Zingale, 1998; Brickly et al., 1994; Williams, 2000; Drobetz et al., 2003; Byrd & Hickman, 1992; Hossain et al., 2000; Rosenstein & Wyatt, 1990; Gemmill & Thomas, 2004; Weisbach, 1988). Alternatively, others have established negative relationship (Bathala & Rao, 1995; Hutchinson, 2002). However, other researchers could not establish any relationship (Park &Shin, 2003; Singh & Davidson, 2003)

LITERATURE REVIEW Cont.

- Literature proves that, good corporate governance contribute tremendously to firm performance. Whilst corporate failures have been attributed to weak governance

- However, no specific study has yet been undertaken on corporate governance and performance in the insurance industry. Although, insurance companies have witnessed rapid expansion and assumed importance in the economy

- Again, previous studies have been limited to only hard core governance characteristics. Also, firm performance has been restricted to only accounting and market based measures.

- These gaps have been addressed by investigating the relationship between the governance characteristics and performance of the insurance companies. Also, the inclusion of soft governance factors and using three performance measures

RESEARCH METHODOLOGY

Research Design

- The survey method was chosen because it involves the structured collection of large amount of data from a sizeable population of companies and in a highly economical way (Saunders et al., 2007)

- It allows for the measuring of these variables and testing of the multiple hypotheses

- The data collected are standardized, allowing for easy comparison; the data is comparatively easy to explain and to understand (Saunders et al., 2007).

Research Method

- The study follows the quantitative approach in the research process and data analysis. This is in line with the research objective to use scientific methods to examine the relationship between corporate governance and firm performance

- Quantitative approach ensures the objective measurement of these variables and the examination of the relationship between them numerically and statistically.

RESEARCH METHODOLOGY Cont.

Research Format

- The study was based on the causal method. The relationship between two or more variables in which the effect on one variable is caused by the other variables (Saunders et al. (2007)

- The study tested hypotheses developed on the premise that good corporate governance practices lead to better corporate performance

- It allows for the elimination of plausible alternative explanations through built-in design controls (Newman, 2007)

- The study includes control variables of age, size and asset tangibility

Data Collection Method

- The study employed a combination of primary and secondary data

- The primary data was collected on the independent variables and secondary data for the dependent variables.

- The primary data was collected through the use of self-administered questionnaires by management of the companies.

RESEARCH METHODOLOGY Cont.

Sampling Procedure

- The population of the study was 42 insurance companies

- 35 companies representing 83.33% of the population qualified and were included in the study

- 7 companies were excluded because they operated for less than 6 years

- The study adopted non-probability sampling because of the intention to include all the companies.

Analytical Framework

- The study employed panel data framework

- Panel data is more informative, allows for large data points, increasing the degree of freedom and reducing the collinearity among the explanatory variables and thereby improving the efficiency of the estimates (Hsiao, 2003)

RESEARCH METHODOLOGY Cont.

Data Analysis

Research Questions	Analysis Method	Reasons
Question One: What is the nature of corporate governance systems of insurance companies?	Descriptive Statistics	Provide better description of the nature of corporate governance of the companies
Question Two: What is the relationship between corporate governance and the performance of insurance companies?	OLS Regression	Predict a consistent and efficient estimate of the independent variables
Question Three: What is the relationship between "soft" governance and performance of the companies?	OLS Regression	Predict the impact of "soft" governance variables on the performance of the companies
Question Four: What is the impact of corporate social responsibility policy on the financial performance of the companies?	Ratio Analysis	Effective for evaluating and doing comparison of company performance
Question Five: How does corporate governance contribute to accountability and transparency?	OLS Regression	Measure the contribution of corporate governance to company accountability and transparency
Question Six: Which category of the companies is performing better financially? Specifically, what is the financial performance of non-life, life, large and small insurance companies?	Ratio Analysis	Effective for evaluating and doing comparison of company performance

PRESENTATION AND ANALYSIS

Non-Life Companies

Research Questions	Test/Analysis Performed	Results
Question One: What is the nature of corporate governance systems of insurance companies?	Determine compliance level of good corporate governance	High level of compliance with good corporate governance practices
Question Two: What is the relationship between corporate governance and the performance of insurance companies?	1.Test board factors to determine their impact on firm performance 2.Test ownership factors to determine their impact on firm performance	1. Board skill, management skill and CEO tenure, supported. Board size and independence not supported 2.supported
Question Three: What is the relationship between “soft” governance and performance of the companies?	Test soft governance factors to determine their impact on firm performance	Supported
Question Four: What is the impact of corporate social responsibility policy on the financial performance of the companies?	Test to determine whether companies with declared CSR policy perform better than those without CSR policy	Not Supported
Question Five: How does corporate governance contribute to accountability and transparency?	Test audit committee factors to determine their impact on firm performance	supported
Question Six: Which category of the companies is performing better financially? Specifically, what is the financial performance of non-life, life, large and small insurance companies?	Performed ratio analysis to compare the performance of the companies	supported

PRESENTATION AND ANALYSIS Cont.

Life Companies

Research Questions	Test/Analysis Performed	Results
Question One: What is the nature of corporate governance systems of insurance companies?	Determine compliance level of good corporate governance	High level of compliance with good corporate governance practices
Question Two: What is the relationship between corporate governance and the performance of insurance companies?	1.Test board factors to determine their impact on firm performance 2.Test ownership factors to determine their impact on firm performance	1. supported 2.supported
Question Three: What is the relationship between "soft" governance and performance of the companies?	Test soft governance factors to determine their impact on firm performance	Supported
Question Four: What is the impact of corporate social responsibility policy on the financial performance of the companies?	Test to determine whether companies with declared CSR policy perform better than those without CSR policy	Not Supported
Question Five: How does corporate governance contribute to accountability and transparency?	Test audit committee factors to determine their impact on firm performance	supported
Question Six: Which category of the companies is performing better financially? Specifically, what is the financial performance of non-life, life, large and small insurance companies?	Performed ratio analysis to compare the performance of the companies	supported

PRESENTATION AND ANALYSIS Cont.

Key Findings – Non Life Companies

Independent Variable	(ROA)	(ROE)	(CSR)
Board Factors			
Board Size	0.687 **(0.014)***	0.399 (0.563)	-0.003 (0.996)
Board Independence	0.009 (0.911)	-0.243 (0.304)	-0.014 (0.945)
Board Skill	-0.712 **(0.008)***	-0.235 (0.714)	-0.154 (0.783)
Management Skill	0.042 (0.138)	0.175 **(0.044)***	0.081 **(0.025)***
CEO Tenure	0.02 **(0.046)***	-0.008 (0.915)	0.043 (0.52)
Audit Committee Factors			
Size of Audit Committee	-0.024 **(0.044)***	0.123 **(0.035)***	-0.165 **(0.045)***
Audit Committee Independence	0.084 (0.490)	0.294 **(0.026)***	-0.065 (0.068)
Ownership Factors			
Foreign Ownership	-0.319 **(0.015)***	-0.871 **(0.002)***	-0.322 **(0.032)***
Institutional Ownership	-0.478 (0.08)	-0.841 (0.125)	-0.091 (0.888)
Dividend Policy	0.395 **(0.016)***	0.455 (0.127)	0.118(0.737)
Annual General Meeting	-0.205 (0.566)	-2.276 **(0.007)***	0.782 **(0.038)***
Soft Governance Factors			
Recruitment Policy	-0.069 (0.728)	-0.518 (0.211)	0.389 **(0.023)***
Staff Training & Development	0.234 **(0.046)***	0.792 (0.149)	-0.410 (0.324)
Communication Policy	-0.016 (0.930)	-0.576 (0.131)	0.610 **(0.048)***
Performance Evaluation	-0.078 **(0.041)***	-0.407 **(0.050)***	0.110 (0.464)

PRESENTATION AND ANALYSIS Cont.

Key Findings – Life Companies

Independent Variable	(ROA)	(ROE)	(CSR)
Board Factors			
Board Size	-0.157 (0.469)	-0.314 (0.562)	0.625 **(0.000)***
Board Independence	0.245 (0.329)	0.086 (0.089)	-0.573 **(0.002)***
Board Skill	-0.183 **(0.002)***	-0.026 **(0.033)***	-0.186 (0.141)
Management Skill	0.108 **(0.035)***	0.019 (0.946)	0.098 (0.139)
CEO Tenure	0.054 **(0.016)***	-0.013 (0.902)	-0.023 (0.349)
Audit Committee Factors			
Size of Audit Committee	-0.022 (0.909)	-0.046 (0.924)	0.251 **(0.021)***
Audit Committee Independence	0.201 (0.394)	0.338 **(0.004)***	-0.281 (0.303)
Ownership Factors			
Foreign Ownership	0.293 **(0.039)***	1.127 **(0.012)***	-0.226 (0.448)
Institutional Ownership	-0.109 **(0.048)***	-0.251 (0.35)	0.15 **(0.021)***
Dividend Policy	0.007 (0.973)	0.374 (0.409)	0.212 **(0.035)***
Annual General Meeting	-0.206 (0.568)	-2.283 **(0.007)***	0.782 **(0.037)***
Soft Governance Factors			
Recruitment Policy	0.144 (0.667)	0.299 (0.73)	-0.289 **(0.043)***
Staff Training & Development	-0.567 **(0.023)***	0.492 **(0.024)***	-0.064 **(0.009)***
Communication Policy	0.054 **(0.009)***	0.094 **(0.045)***	0.216 (0.546)
Performance Evaluation	0.276 (0.468)	0.632 **(0.039)***	-0.003 **(0.013)***

PRESENTATION AND ANALYSIS Cont.

Comparative Analysis

Category	ROA	ROE
Non-Life and Life Performance		
Non-Life	8%	18%
Life Insurance Companies	**8.8%**	**20%**
Large and Small		
Large Insurance Companies	**11%**	**19%**
Small Insurance Companies	7%	16%
CSR Policy		
Companies with CSR Policy	8.3%	18.6%
Companies without CSR Policy	**8.5%**	**19.2%**

DISCUSSION OF RESULTS

Research Objectives	Research Questions	Research Findings
1.To examine the nature of corporate governance of insurance companies	**Question One:** What is the nature of corporate governance systems of insurance companies in Ghana?	Evidence of high level of compliance with good corporate governance practices
2.To investigate the relationship between corporate governance and the performance of insurance companies	**Question Two:** What is the relationship between corporate governance and the performance of insurance companies?	Governance factors positively influence firm financial performance
3.To investigate the role of “soft” governance in influencing firm performance	**Question Three:** What is the relationship between “soft” governance and performance of insurance companies?	“Soft” governance factors positively influence firm performance
4.To compare result of performance between life and non-life insurance companies	**Question Six:** Which category of the companies is performing better financially? Specifically, what is the financial performance of non-life and life insurance companies?	Life insurance companies are more profitable compared to the non-life companies
5.To compare result of performance between small and large insurance companies	**Question Six:** Which category of the companies is performing better financially? Specifically, what is the financial performance of large and small insurance companies?	Large insurance companies performed better than the small companies

DISCUSSION OF RESULTS Cont.

Research Objectives	Research Questions	Research Findings
6.To compare result of performance between insurance companies with CSR and those without CSR	**Question Four:** What is the impact of corporate social responsibility policy on the financial performance of the companies?	Companies without CSR policy performed better than those who have CSR policy
7. To establish the effect of good corporate governance practices on corporate transparency.	**Question Five:** How does corporate governance contribute to accountability and transparency?	Audit committee factors enhances transparency and accountability of the firms

DISCUSSION OF RESULTS Cont.

Relationship of Research Findings to other Research

Findings 2, 3 and 4:

- Kyereboah-Coleman & Biekpe (2007), corporate governance and firm performance in Africa. Confirmed
- Ehikioya (2009), corporate governance structure and firm performance in developing countries. Confirmed
- Reddy et al. (2010), the effects of principle-based corporate governance practices on the financial performance of largely publicly-listed companies. Confirmed
- Mollah et al., (2012) ownership structure, corporate governance and firm performance in African emerging markets. Extended
- Bathala & Rao (1995), The determinants of board composition: An Agency Theory Perspective. Contradicted
- Hutchinson, M. (2002), An analysis of the association between firms investment opportunities, board composition and firm performance. Contradicted

DISCUSSION OF RESULTS Cont.

Relationship of Research Findings to other Research

Findings 5:

- Meredith & Robyn (2005). Corporate governance and performance: Confirmed

- Kocourek et al., (2003), Corporate governance: Hard facts about soft behaviors. Confirmed

- Sonnenfeld (2002), What makes great boards great? Confirmed

Findings 8

- Achua, J., K. (2008). Corporate social responsibility in Nigeria banking. contradicted

DISCUSSION OF RESULTS Cont.

Implications of Research Findings

Research Findings	Practical Implication	Theoretical Implication	Policy Implication
1.Evidence of high level of compliance with good corporate governance practices			The findings can contribute to policy on code of corporate governance
2. Board factors positively influence firm financial performance	The findings can encourage board of directors to play strategic role in firm performance	The findings can contribute to the inclusion of directors in agency theory	
3. Audit committee factors enhances transparency and accountability of the firms		.	The findings can contribute to policy provision to protect investor interest
4. Ownership factors are significantly related to firm performance			The findings can contribute to policy guideline on attracting direct foreign investment
5. Soft governance factors positively influence firm performance		The findings can encourage the adoption of multiple-theoretical approach to corporate governance research	

DISCUSSION OF RESULTS Cont.

Implications of Research Findings

Research Findings	Practical Implication	Theoretical Implication	Policy Implication
6. Life insurance companies are more profitable compared to non-life insurance companies	The findings can promote more investment into the life insurance companies		
7. Large insurance companies performed better than small insurance companies	The findings can serve as basis for insurance companies to increase their capital		
8.Companies without CSR policy performed better than those who have CSR policy	The findings should discourage firms that they can gain competitive advantage by engaging in CSR activities		

CONCLUSIONS AND SUMMARY

Research Objectives	Research Findings	Research Implications
1.To examine the nature of corporate governance of insurance companies	1.Evidence of high level of compliance with good corporate governance practices	**Policy:** The findings can contribute to policy on code of corporate governance
2.To investigate the relationship between corporate governance and the performance of insurance companies	2.Board factors positively influence firm financial performance 3.Audit committee factors enhances transparency and accountability of the firms 4. Ownership factors are significantly related to firm performance	**Practice :** The findings can encourage board of directors to play strategic role in firm performance. **Policy**: The findings can contribute to the protection of investor interest **Policy**: The findings can contribute to policy guideline on attracting direct foreign investment
3.To investigate the role of "soft" governance in influencing firm performance	5."Soft" governance factors positively influence firm performance	**Theoretical :** The findings can encourage the adoption of multiple-theoretical approach to corporate governance research
4.To compare result of performance between life and non-life insurance companies	6.Life insurance companies are more profitable compared to the non-life companies	**Practice :** The findings can encourage more investment into the life insurance companies
5.To compare result of performance between small and large insurance companies	7.Large insurance companies performed better than the small companies	**Practice :** The findings can serve as basis for insurance companies to increase their capital
6.To compare result of performance between insurance companies with CSR and those without CSR	8.Companies without CSR policy performed better than those who have CSR policy	**Practice :** The findings should discourage firms that they can gain competitive advantage by engaging in CSR activities
7. To establish the effect of good corporate governance practices on corporate transparency.	3.Audit committee factors enhances transparency and accountability of the firms	**Policy:** The findings can promote policy on establishment of audit committees

CONCLUSIONS AND SUMMARY Cont.

The study filled the existing gaps in knowledge by;

- Providing direct evidence on the relationship between corporate governance and financial performance of insurance companies

- Offering direct evidence on the relationship between “soft” governance and financial performance of insurance companies

- Including in the study CSR as a performance measure of the insurance companies

THANK YOU