THE EFFECT OF CORPORATE GOVERNANCE ON FIRMS PERFORMANCE: A CASE STUDY OF PUBLIC LISTED INSURANCE FIRMS IN KENYA

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ABSTRACT

Investors are increasingly placing their private funds in intermediaries (corporations) to act as their investment vehicles. To this effect these investors normally raise the issues of governance and accountability in order to get a justification for the returns of their investments. However, when ownership and management are separated the control (governance) of the corporation presents a significant challenge (Roe, 2003).

The interest in corporate governance worldwide has been influenced by a number of factors, mainly being the collapse of major corporations in America and Europe such as Enron. These events have led to a global attention to this phenomenon. In the Kenyan context, eight insurance firms have either collapsed or have been placed under statutory management since 1985. This represents an average of one insurance company after every four years.

In this backdrop, the researcher carried out a research on the effect of corporate governance on the performance of six NSE listed insurance firms. Factor analysis was used to identify three variables indicative of their Corporate Governance practices. These are the board structure, competence of the board and Audit, transparency and disclosure polices. Analysis of Variance (ANOVA) was used to test the type of relationship. Data analysis conducted revealed that the competence of board members affects the firm's performance whereas the other variables board structure and Audit, Transparency and Audit policies did not affect the performance of these firms.

For enhanced performance of companies, it is recommended that shareholders and regulators should be concerned about the interrelationships between corporate governance and firm performance.

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