#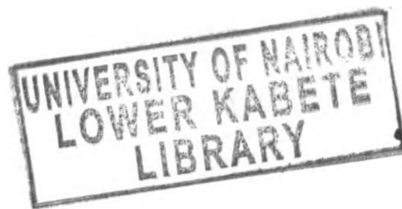 AN EXAMINATION OF THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND FINANCIAL MANAGEMENT PRACTICES ADOPTED BY INSURANCE COMPANIES IN KENYA

BY:

MESHACK NAKITARE NYONGESA
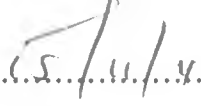
A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLEMT OF THE REQUIREMENT OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

NOVEMBER, 2011

DECLARATION

This management Research Proposal is my original work and has not been presented in any other University.

Signed...Date................(5./.11/.4...........

MESHACK NAKITARE NYONGESA   **D61/70003/2008**

This Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this research project to my loving Wife. Her encouragement and support propelled me to achieve my goal.

ACKNOWLEDGMENT

This Research Project would not have been possible without the cooperation and support of a number of people, who in one way or the other steered me towards my ultimate goal. I would like to express my appreciation to them and especially to the following:-

I hereby wish to express my sincere gratitude to my project supervisor, Dr. Josiah Aduda Lecturer, Department of Finance and Accounting for his tireless guidance, selfless dedication and encouragement in making this project a reality. I also wish to acknowledge the contribution of the rest of university of Nairobi fraternity especially the library staff, MBA coordination office and moderators to the success of this project.

I would wish to thank my lovely Wife, for her moral support and encouragement and my entire family for their understanding when I was not there for them during the project period; I wouldn't have made it this far without them.

Most important of all I extend my gratitude to the Almighty God and His servants Dr. Rev. Kepha Omae, Brother James Rogen and Abel Matoke for providing me with strength, encouragement and direction that helped make this project a reality.

To all, I remain forever grateful

ABSTRACT

The study was set out to examine the financial management practices as used by insurance companies in Kenya, and to find out the relationship between financial performance and financial management practices of 45 Insurance companies in Kenya. The study employed a census survey. Primary data was collected through questionnaires which were dropped and picked from the respondents. Of the target population of the study, 33 questionnaires were returned and this represented 73.3% response rate. Secondary data was obtained from published financial statements filled annually at Insurance Regulatory Authority (IRA) offices, insurance companies' offices and College of insurance library.

The study found out that the most common financial management practices used by insurance companies were accounting information systems (AIS), financial reporting and analysis (FRA), working capital management (WCM), fixed asset management (FAM), and capital structure management (CSM). All these practices were crucial for an efficient financial management in organizations. On the relationship between financial performance and financial management practices, the earnings before interest and tax and total assets, the data was collected from published financial statements filled annually at Insurance Regulatory Authority (IRA) offices, insurance companies' offices and College of insurance library. The data was analyzed using the statistical package for social sciences (SPSS) version 17.

The study used multiple regression analysis to examine the association between financial performance and financial management practices of Insurance companies in Kenya. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that model was significant. This was demonstrated in the part of the analysis where R^2 for the association between financial performance and financial management practices of Insurance companies in Kenya was 76.9%. In other words the results revealed a consistent, significant positive association between financial performance and financial management practices measured by ROA.

It is recommended that a similar study be carried out in other sectors of Kenyan economy to test the same relationship and also in a specific industry to obtain homogenous results.

ACRONOMIES/ ABBREVIATIONS

AIS	Accounting Information Systems
AKI	Association of Kenya Insurers
ARR	Accounting Rate of Return
CBA	Cost Benefit Analysis
CEO	Chief Executive Officer
COMESA	Common Market for Eastern And Southern Africa
CSM	Capital Structure Management
EAIT	Earnings After Interest And Taxes
EBIT	Earnings Before Interest And Tax
EVA	Economic Value Added
FAM	Fixed Asset Management
FRA	Financial Reporting and Analysis
GDP	Gross Domestic Product
IRA	Insurance Regulatory Authority
IRR	Internal Rate of Return
MIRR	Modified Internal Rate of Return
NPV	Net Present Value
ROA	Return On Assets
ROCE	Return On Capital Employed
ROI	Return on Investment
SME	Small Medium Enterprises
WACC	Weighted Average Cost Of Capital
WCM	Working Capital Management

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CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Financial Management is a discipline concerned with the generation and allocation of scarce resources to the most efficient use within the firm's competing projects through a market pricing system i.e. the required rate of return Nayak and Greenfield (1994). According to Gitman (2003), financial management refers to the concepts of time, money and risk and how they are interrelated. Virtually all individuals and organizations earn or raise money and spend or invest money.

The process of financial management takes place at two levels. At the individual level, financial management involves tailoring expenses according to the financial resources of an individual while from the organizational point of view; the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures.

Efficient financial management will help the industry to strengthen their profitability and hence overcome some difficulties currently being faced. It is an indelible truth that without the insurance sector, the economy and the wealth creation associated with it can be dramatically and adversely affected. The insurance industry forms an integral part of the country's financial sector and its benefits cannot be over-emphasized. If this crucial sector was missing, the consequence on the economy would be devastating, knocking off billions of shillings from the Gross Domestic Product (GDP) index. According to Insurance industry annual report (2009) available figures indicate that claims incurred in general insurance alone has been constantly rising over the years, from Ksh 10.4 billion in 2005 to Ksh 19.8 billion in 2009, reflecting a 90.4 per cent increase. And the total re-insurer's claims incurred since 2005 to 2009 rose from Ksh 939.5 million to Ksh 1.12 billion. These figures indicate the crucial role the insurance sector plays in providing cover for various kinds of risks.

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1.1.1 Financial Management Practices

The most common financial management practices used are accounting information systems (AIS), financial reporting and analysis (FRA), working capital management (WCM), fixed asset management (FAM), and capital structure management (CSM). All these practices are crucial for an efficient financial management in organizations.

Orwel A. (2009) states the Accounting information system (AIS) is a system of records, usually computer based, which combines accounting principles and concepts with the benefits of an information system and which is used to analyze and record business transactions for the purpose of prepare financial statements and provide accounting data to its users. AIS assists in the analysis of accounting information provided by the financial statements. Romney et al (2009) purport that the biggest advantage of computer-based accounting information systems is that they automate and streamline reporting. Reporting is major tool for organizations to accurately see summarized, timely information used for decision-making and financial reporting.

As pertains financial reporting and analysis (FRA), recording and organizing the accounting information systems will not meet objectives unless reports from systems are analyzed and used for making managerial decisions. Financial statements usually provide the information required for planning and decision making. Information from financial statement can also be used as part of the managerial evaluation, planning and decision making by making historical comparisons.

According to Garrison (1999) Working Capital Management (WCM) refers to decisions relating to working capital and short term financing. These involve managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. The context of working capital management includes cash management, receivables and payables management, and inventory management. Cash management is the process of planning and controlling cash flows. It consists of three basic components: cash forecasting practices, cash surplus investment practices and cash-control practices.

Fixed assets management is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and theft deterrence. Many organizations face a significant challenge to track the location, quantity, condition, maintenance and depreciation status of their fixed assets. A popular approach to tracking fixed assets utilizes serial numbered Asset Tags, often with bar codes for easy and accurate reading. Periodically, the owner of the assets can take inventory with a mobile barcode reader and then produce a report.

Capital structure management (CSM) according to Wilkison (2009) means overseeing the capital structure of an organization. A company's capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity. When determining a company's cost of capital, the costs of each component of the capital structure are weighted in relation to the overall total amount. This calculates the company's weighted average cost of capital (WACC). The weighted average cost of capital is used to calculate the net present value (NPV) of capital budgeting for corporate projects. A lower WACC will yield a higher NPV, so achieving a lower WACC is always optimal.

1.1.2 Measurement of Financial Performance

Financial performance of companies' can be measured by use of accounting information or stock market values in a financial management practices context. When applying stock market values as a measure of performance, one is interested in analyzing the change in market value. Firm performance is measured over time by using the average stock market change per year. This value is usually obtained by calculating the yearly change in stock price. The efficient market hypothesis is often used as tool to create structure when analyzing information contained in stock prices.

When accounting information is used, accounting ratios are employed. Among the common accounting ratios used to measure profitability are: return on assets (ROA) and Return on Capital Employed (ROCE). Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings. It's calculated by dividing a company's annual earnings by its total assets, and

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it's displayed as a percentage. Because of the limitations cited in using stock market price above, this study will employ Return on Assets (ROA) to measure the operating efficiency of the insurance companies in Kenya.

When the relationship between financial management practices and financial performance is analyzed, it should not be lost that there are other factors, which account for potential influences on the relationship. Although these other variables are not directly related to the relationship between financial management practices and performance, it is important to take them into account in order to isolate their effect on performance. These variables include: firm size, degree of risk, capital intensity, leverage and industry factors such as growth, firm advertising market share research and development. This study will hold these variables as control variables.

1.1.3 Insurance Industry Financial Performance

In a bid for the Government to support the survival of many organizations, insurance companies included, it had introduced a series of economic reforms in insurance industry which have led to insurance companies' rapid growth in terms of the volume of businesses, capital and employees. In the forty years since independence, Kenya's insurance industry has flourished, and by 2010 it had 45 registered insurers, 22 transacting general insurance business, 9 transacting life business, and 14 composite insurers – transacting both life and general insurances. Kenya's insurance industry leads within the East Africa Community (a trading block of Kenya, Uganda, Tanzania, Rwanda and Burundi), and is a key player in the COMESA region, (Common Market for Eastern and Southern Africa). The industry employs over 20,000 people, underwrites well over Kshs.79 billion premiums, and pays over Kshs. 40 billion per annum in claims.

It is noteworthy that an increase in insurance penetration has been registered for the second straight year. The Insurance Industry has recorded gross written premium of Kshs. 79.1 billion compared to Kshs. 64.47 billion 2009, representing an increase of 22.7%. Gross earned premium increased by 17.7% to stand at Kshs. 63.44 billion in 2010 compared to Kshs. 53.92 billion in 2009. The industry's annual performance therefore had exceeded the overall economic growth of 5.6% recorded in 2010. The insurance penetration was estimated at 3%. However, this was

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projected to increase in future due to the ongoing improvement in the regulatory environment, the review of the Insurance Act, product development and innovations taking place in the industry. The Association of Kenya Insurers (AKI) in conjunction with Insurance Regulatory Authority (IRA) are championing visible media campaign aimed at increasing insurance utilization.

In addition to achievements and contributions mentioned above, some insurance companies are currently being faced with many serious difficulties such as shortage of capital for expanding and renovating equipment and technology, low productivity and competitiveness, lack of experience in terms of marketing, production management, and financial management. Of these difficulties, lack of financing resources and experience of financial management is currently one of the most serious issues (Ebashi *et al,* 1997). Inefficient financial management may damage Insurance companies' profitability and as a result, the difficulties of the insurance industry will become greater.

1.2 Statement of the Problem

Sound financial management is crucial to the survival and well-being of many business enterprises' of all types. Studies of reasons for business failure inevitably show poor or careless financial management to be the most important cause Berryman and Peacock, (1991). According to financial theory, the objective of the firm is to maximize the wealth of its shareholders. Financial management practices adopted by organizations are said to maximize the shareholders' wealth when they contribute to the company's performance. Under the assumption of economic rationality, sound financial management practices can regarded as means by which a firm uses in order to fulfill its objective, i.e. to maximize shareholders wealth. This fact indicates that firms can increase or even maximize their shareholders wealth by using sound financial management practices. Studies on the relationship between financial management practices and financial performance have presented mixed results. Nguyen (2001), in his study of the relationship between financial management practices and profitability of small and medium enterprises in Australia, found out that, with the growing adoption of financial management practices, there was consistent significant association between financial management practices and financial characteristics. Klammer (1973), in his study of the relationship between sophisticated capital

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budgeting methods and financial performance in US, found out that, despite the growing adoption of sophisticated capital budgeting methods, there was no consistent significant association between financial performance and capital budgeting techniques. A similar research by Haka, Gordon and Pinches (1985), found out that there was no significant improvements in firms financial performance even though the firms had adopted sophisticated selection techniques. However they found that there were short-run positive effects when firms adopt financial management practices and sophisticated capital budgeting selection procedures.

Moore and Reichert (1989) in their multivariate study of firm performance and the use of modern analytical tools and financial techniques study in 500 firms in US, they showed that firms adopting sophisticated capital budgeting techniques had better than average firm financial performance. More specifically, firms using modern inventory management techniques and Internal Rate of Return (IRR) reported superior financial performance, unlike those firms using methods such as Pay Back method and Accounting Rate of Return (ARR).

Locally four studies on financial management practices have been carried out. Mundu, (1997) did a research on selected financial management practices by small enterprises in Kenya: the case of Kenya Industries Estates wane; Wanyungu, (2001) did a research on financial management practices of micro and small enterprises in Kenya: A case of Kibera; Khakasa, (2009) sought to provide empirical evidence on the current state of the use of formal appraisal investment techniques in IT investments among the Kenyan banking institutions. Kadondi, (2002) in her study looked at capital budgeting application by companies listed on the Nairobi Stock Exchange.

Following the conflicting results on the relationship between financial performance and financial management practices, and lack of a local study on the same, this study seeks to examine the relationship between financial performance and financial management practices of all insurance companies in Kenya.

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1.3 Objectives of the Study

1.3.1 Main objective

The study examined the relationship between financial performance and financial management practices of insurance companies in Kenya.

1.3.2 Specific objectives

The study was guided by the following specific objectives:

 i. To identify the financial management practices adopted by insurance companies in Kenya

 ii. To determine the relationship between financial performance and financial management practices of insurance companies in Kenya

1.4 Significance of the study

The research findings of this study would have a direct relevance to the finance and accounting personnel of insurance companies in Kenya. The study revealed how certain skills in financial management practices related to the understanding of certain aspects of financial performance in insurance companies.

The study also added to the existing knowledge and stimulate further research on different aspects of financial management practices that have been adopted by insurance companies

The government through the regulatory bodies would find the results of this study valuable as it would give them an important insight into the dynamics of financial management practices on financial performance in insurance companies.

The study would help the Chief executive Officer's of insurance companies in understanding the importance of financial management practices adopted by insurance companies at large and hence the relationship with financial performance.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter will discuss the literature review used in this study. Section 2.1 details the theoretical framework; Section 2.2 discusses financial management of insurance companies vis-à-vis financial management practices. Section 2.3 details the performance measures, section 2.4 discusses the empirical studies and section 2.5 concludes and summarizes the empirical studies.

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory explains how to best organize relationships in which one party determines the work, which another party undertakes Eisenhardt, (1985). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard, Eisenhardt, (1985). The primary agency relationships in public institutions are either those between stakeholders and managers or between debt holders and stakeholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals on financial reporting and management practices. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature which widely discusses the financial reporting and management practices in the public institutions.

Most publicly owned institutions like the public institutions now employ financial reporting and management practices given to executives on the basis of performances as defined by financial measures such as earnings per share, return on assets, return on equity, and stock price changes. If corporate performance is above the performance targets, the firm's managers earn more shares. If performance is below the target, however, they receive less than 100 percent of the

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shares. Incentive-based compensation plans, such as performance shares, are designed to satisfy two objectives. First, they offer executives incentives to take actions that will enhance shareholder wealth. Second, these plans help companies attract and retain managers who have the confidence to risk their financial future on their own abilities-which should lead to better performance.

Information transfer in a non-hierarchical setting is problematic because of the agency problem of moral hazard. If the principal has imperfect information about the agent's ability to perform the task that is demanded of the agent, the principal will have difficulty ensuring that the agent has performed that task Barzel, (1989). This lack of measurement ability will provide the agent with an incentive to shirk on the proper performance of that task Chi, (1994). In the context of franchising, this means that if the franchiser cannot be sure that the franchisee is performing the job of managing a local retail outlet, the franchisee will have an incentive to shirk on his efforts to manage the outlet.

2.2.2 Residual Equity Theory

In the residual equity theory, changes in asset valuation, changes in income and in retained earnings, and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equation becomes as follows: 'Assets minus Specific equities are equal to Residual equity'. The equity of the common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders. According to Hendrickson (1982), the residual equity point of view is a concept somewhere between the proprietary theory and the entity theory.

The objective of the residual equity approach is to provide better financial reporting as a consequence of good financial management practices. In a going-concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future financial status is dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders, and requirements for reinvestment. Since financial statements are not generally prepared on the basis of possible liquidation, the

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information provided regarding the residual equity should be useful in predicting possible future financial status to common stockholders, Hendrickson, (1982).

In the balance sheet format this is stated as follows: 'Assets minus Liabilities are equal to residual equity'. The assets are assumed to be owned by the proprietor, and the liabilities are the proprietor's obligations. Revenues are increases in proprietorship and expenses are decreases. Thus net income accrues directly to the owners, that is, it represents an increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners. It is a wealth concept Hendriksen (1982).

2.2.3 The Contingency Theory

According to Pike (1986), resource-allocation efficiency is not merely a matter of adopting sophisticated, theoretically superior investment techniques and procedures, but consideration must also be given to the fit between the corporate context and the design and operation of the capital budgeting system. Pike (1986) focuses on three aspects of the corporate context, which are assumed to be associated with the design and operation of a firm's capital budgeting system. The first aspect is a firm's organizational characteristics. Decentralization and a more administratively oriented control strategy involving a higher degree of standardization are characteristics of large companies. Smaller, less complex organizations tend to adopt interpersonal, less sophisticated control systems. Haka, Gordon & pinches (1985) however have an opposite opinion and argue that firms will experience more benefits from using sophisticated capital budgeting techniques, the more stable the environment. They base their argument on Schall & Sundem (1980) study, which shows that the use of sophisticated capital budgeting techniques declines with an increase in environmental uncertainty.

The second aspect is environmental uncertainty. The more variable and unpredictable the context of operation is, the less appropriate will be the highly bureaucratic, mechanistic capital budgeting structures. Pike (1986) suggests that firms operating in highly uncertain environments are assumed to benefit from sophisticated investment methods, particularly in appraising risk. The last aspect concerns behavior characteristics. Pike (1986) identifies three characteristics, i.e. management style, degree of professionalism and the history of the organization. An

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administratively-oriented capital budgeting control strategy is assumed to be consistent with an analytical style of management, a high degree of professionalism and a history of undistinguished investment outcomes.

The firm's financial status may influence the design and effort put on capital budgeting. According to Axelsson H, Jakovicka J & Khedddache M (2002), more effort will be devoted to budgeting in an adverse financial situation, since it will no longer be as simple to find an acceptable budget and there will a need for more frequent follow up. These arguments have been applied to capital budgeting by Haka, Gordon & pinches (1985). They argue that the implementation of sophisticated capital budgeting procedures is one of many means of coping with acute resource scarcity. Another argument is that since the main value of adequate investment rules is in distinguishing profitable from unprofitable projects, highly profitable firms are expected to derive less benefit from such techniques than would less successful firms with a history of marginal projects Axelsson H, Jakovicka J & Khedddache M (2002).

2.2.4 The pecking order theory

It states that companies have a preferred hierarchy for financing decisions and maximize value by systematically choosing to finance new investments using the 'cheapest available' source of funds. Two key assumptions about financial managers are implicit in the Pecking Order Theory: First, there is asymmetric information: Managers know more about the firm's current earnings and future growth opportunities than do outside investors and there is a strong desire to keep such information proprietary.

Secondly, managers will act in the best interests of existing shareholders: They will forego positive NPV projects if raising fresh equity gives more of the project's value to new shareholders than existing shareholders Myers & Majluf, (1984). Managers therefore prefer internally generated funds (retained earnings) to external funding, and if necessary, prefer debt to equity because of lower information costs associated with debt issues. Myers (1984) in 'The Capital Structure Puzzle," Journal of Finance, suggests that companies would only issue equity as a last resort when their debt capacity has been exhausted. Worth noting is that internal funds incur no floatation costs and require no additional disclosure of proprietary financial information

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that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock Myers, (1984). This order reflects the motivations of the financial manager to retain control of the firm (since only common stock has a "voice" in management), reduce the agency costs of equity, and avoid the seemingly inevitable negative market reaction to an announcement of a new equity issue Hawawini and Viallet, (1999).

A firm's capital structure is a function of its internal cash flows and the amount of positive NPV investment opportunities available. A firm that has been very profitable in an industry with relatively slow growth (i.e. few investment opportunities) will have no incentive to issue debt and will likely have a low debt-to-equity ratio. A less profitable firm in the same industry will likely have a high debt-to-equity ratio. The more profitable a firm, the more financial slack it can build up.

Financial slack is defined as a firm's highly liquid assets (cash and marketable securities) plus any unused debt capacity Moyer, McGuigan, and Kretlow, (2001). Firms with sufficient financial slack will be able to fund most, if not all, of their investment opportunities internally and will not have to issue debt or equity securities. Not having to issue new securities allow the firm to avoid both the flotation costs associated with external funding and the monitoring and market discipline that occurs when accessing capital markets.

2.3   Objectives of Financial Management

Objectives of financial management are foundations or bases for comparing and evaluating the efficiency and effectiveness of financial management. The final goal of financial management is to maximize the financial wealth of the business owner McMahon R, (1995). This general goal can be viewed in terms of two much more specific objectives: profitability and liquidity.

Profitability management is concerned with maintaining or increasing a business's earnings through attention to cost control, pricing policy, sales volume, stock management, and capital expenditures. This objective is also consistent with the goal of most businesses.

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Liquidity management, on the other hand, ensures that the business's obligations (wages, bills, loan repayments, tax payments, etc.) are paid. The management wants to avoid any damage at all to a business's credit rating, due to a temporary inability to meet obligation by: anticipating cash shortages, maintaining the confidence of creditors and bank managers and, pre-arranging finance to cover cash shortages. Liquidity management minimizes idle cash balances which could be profitable if they are invested (McMahon, 1995).

In addition to the two objectives mentioned by McMahon R, and English (1990) viewed growth as another objective of financial management in relation to liquidity, growth and profitability.

While discussing the objective function of financial management of a privately held small firm, Ang (1992) indicated that its financial management objective is to maximize three components. The first is to maximize its current market price, to avoid unwanted mergers and to obtain outside financing in the securities market. The second is to maximize long term or intrinsic value, if the two values diverge. The last is to maximize non-owner manager's own pecuniary and non-pecuniary incomes by avoiding control rights.

Whether the absence of marketable securities means that small firms need not be concerned with current performance and can concentrate on long-term values, depends on the organizational types and circumstances. Profitable firms where outside funding is not a major concern can afford to maximize long-term value whereas for those small businesses which need outside financing, current performance may be very important. Thus, a number of small businesses would have a weighted average objective function consisting of both current profit and long-term value.

In making decisions related to financial management, the owner-manager or the financial manager should remember objectives of financial management and balance between liquidity and profitability objectives, and between current and long-term(growth) objectives.

2.4   Specific areas of financial management and practices

This section reviews the specific areas of financial management, which have regularly been raised and discussed by the recent authors and researchers such as Walker and Petty (1978), Barrow (1984), Meredith (1986), Cohen (1989), English (1990) and McMahon (1995).

Walker and Petty (1978) define the main areas of financial management including Planning (cash planning and control, asset-required forecasting, profit planning), financial leverage, investment decision-making, working capital management (cash, receivable and management) and sources of financing (short-term and long-term financing, intermediate financing and going public). Barrow (1984) emphasizes a practical rather than theoretical perspective. Instead of identifying specific areas of financial management, he listed the tools of financial analysis, including business controls; measure of profitability; control of working capital (or liquidity); control of fixed assets, cost; volume; pricing and profit decisions, and business plans and budgets.

Meredith (1986) emphasizes information systems as a base for financial management including financial management records and reports. This is considered very important because the owner-managers or financial managers find it difficult, if not impossible, to make decisions if they lack finance information. Cohen (1989) focuses on working capital management and tools of financial management such as ratio analysis, profitability measures and bread-even analysis. English (1990) emphasizes objectives of financial management including liquidity, profitability and growth. Therefore, the specific areas that financial management should be concerned with are liquidity management (cash flow budgeting, working capital management), profitability management (profit analysis, profit planning), and growth management (capital resource planning and decisions).

McMahon R, (1995) examines specific areas of financial management including all areas that relate to items on the balance sheet of the business. The specific areas that financial management covers consist of managing working capital, managing long-lived assets, managing sources of finance, planning financial structure, and planning and evaluating profitability.

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This study examines financial management practices in relation with objectives, decisions and specific areas of financial management. Objectives, decisions and areas of financial management are relevant to financial management practices. The specific areas of financial management are viewed as a theoretical framework for financial management practices while objectives and decisions of financial management are viewed as factors influencing financial management practices.

2.5   Financial Performance Measures

Measures of corporate performance are numerous.   Traditional common measures includes Return on Investment (ROI), Return on Assets (ROA), Return on Capital Employed (ROCE), Cost Benefit Analysis (CBA) and Economic Value Added (EVA). In this study these measures will be discussed.

2.5.1 Return on Investments (ROI)

This is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

The return on investment formula: $ROI = \dfrac{Gain\ from\ investment - Cost\ of\ investment}{Cost\ of\ investment}$

In the above formula "gains from investment", refers to the proceeds obtained from selling the investment of interest. Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

2.5.2 Return on Assets (ROA)

This is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It's calculated by dividing a company's annual earnings by its total assets. It is computed as follows:

ROA= Net income (EBIT)/ Total Assets

ROA tells us what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry.

2.5.3 Return on Capital Employed (ROCE)

The Return on Capital Employed, (ROCE) indicates the efficiency and profitability of a company's capital investment. It is one of the most important operating ratios that can be used to assess corporate profitability. It is expressed as a percentage and can be very revealing about the industry in which a company is operating in, the skills of the management and occasionally the general business climate. Analysis of potential investments over a reasonable period of time will expose an investor to many potential types of business and industry. It is not always true, but as a rule, a firm with a high return on capital employed will probably be a very profitable business.

ROCE = Trading Profit / Capital Employed

Where Capital Employed = share capital + reserves + all borrowing.

2.5.4 Cost Benefit Analysis (CBA)

Cost Benefit Analysis (CBA), is an economic decision-making approach, used particularly in government and business. CBA is used in the assessment of whether a proposed project, programme or policy is worth doing, or to choose between several alternative ones. It involves comparing the total expected costs of each option against the total expected benefits, to see whether the benefits outweigh the costs, and by how much. In CBA, benefits and costs are expressed in money terms, and are adjusted for the time value of money, so that all flows of benefits and flows of project costs over time (which tend to occur at different points in time) are expressed on a common basis in terms of their "present value."

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2.5.5 Economic Value Added (EVA).

This is a registered trademark of Stern Stewart & Co., is an estimate of a firm's economic profit being the value created in excess of the required return of the company's investors (being shareholders and debt holders). Quite simply, EVA is the profit earned by the firm less the cost of financing the firm's capital. The idea is that value is created when the return on the firm's economic capital employed is greater than the cost of that capital. Thus EVA is actually Stern Stewart & Co.'s trademark for a specific method of calculating economic profit. "The Quest for Value" was published in 1991. Just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. Stated simply, any profit earned over and above the cost of capital is Economic Value Added (Mallik, A.K. and Rakshit, D. (2005).

It is a measure of corporate surplus that should be shared by the employees, management and shareholders. EVA focuses on clear surplus in contradiction to the traditionally used profit available to the shareholders. It is used by companies as a performance indicator and also as a basis for executive compensation. Surplus should be derived by deducting cost of capital from profit before interest but after tax.

EVA = NOPAT − WACC * Capital Employed.

Where, NOPAT means Net Operating Profit before Interest and after Tax.
WACC represents Weighted Average Cost of Capital.

2.6   Empirical Review

Nguyen (2001), sought to assess the relationship between financial management practices and profitability of small and medium enterprises in Australia. He focused his attention at various financial management practices on SME's. The research study provided descriptive findings of financial management practices and financial characteristics and demonstrates the simultaneous impact of financial management practices and financial characteristics on SME profitability. In addition, the research study provided a model of SME profitability, in which profitability was found to be related to financial management practices and financial characteristics. With the

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exception of debt ratios, all other variables including current ratio, total asset turnover, working capital management and short-term planning practices, fixed asset management and long-term planning practices, and financial and accounting information systems were found to be significantly related to SME profitability.

Nguyen K. M (2001) further examined fixed asset management practices of the sample of 99 trading and 51manufacturing SMEs. Firstly, he learnt that nearly 80 percent of SMEs always or often evaluate capital projects before making decisions of investment, and review the efficiency of utilizing fixed assets after acquisitions. Some 87 percent of SMEs stated that they used payback period techniques in capital budgeting, only 27.3 percent used the more sophisticated discounted cash flows; that is, the net present value (NPV), internal rate of return (IRR) and modified internal rate of return (MIRR).These findings revealed that SMEs highly regarded fixed asset management although their knowledge of management techniques was not outstanding.

The majority of SMEs always or often evaluated capital investment projects before making decisions on investment. In addition, efficient utilization of fixed assets after investing was reviewed frequently. However, like the findings of previous researchers, this research indicated that payback-period methods was most popularly used in evaluating capital investment projects while the more sophisticated methods such as NPV, IRR or MIRR were rarely used.

Klammer T. (1973) sought to investigate the association of capital budgeting techniques and performance in American firms. Attention was directed at the relationship of performance and capital budgeting procedures because the future of the firm is dependent largely on the investment decisions made today. A total of 369 manufacturing firms were sampled, of which 184 firms' responded representing 48.9%.The study focused on the operating rate of return as a measure of the firms' performance. Capital budgeting techniques tested were payback method and the discounting techniques.

For testing the association of firm performance and capital budgeting techniques, the study adopted a hypothesis that firms having better performance will have adopted more sophisticated capital budgeting techniques. A simple regression analysis was carried out to test the hypothesis.

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The results of the study indicated that, despite a growing adoption of sophisticated capital budgeting methods, the regression results did not show a consistent significant association between performance and capital budgeting techniques. This indicated that the mere adoption of various analytical tools is not sufficient to bring about superior performance and, that other factors such as marketing, product development, executive recruitment and training, labor relations, etc., may have a greater impact on profitability.

Another study by Haka, Gordon & Pinches, (1985), aimed to determine the effect on a firm's market performance of switching from naive to sophisticated capital budgeting selection procedures. They theoretically stated that, a firm should perform better if it employs sophisticated techniques than if it uses naive techniques. The study had a population sample of 50 firms, out of which 30 firms responded. To obtain a set of firms that switched from naive to sophisticated techniques, the study used personal interviews for two main reasons; firstly was to determine whether the firm had indeed adopted sophisticated capital budgeting techniques for evaluating a large part of their capital budget and, that such techniques were properly employed and secondly, it was important to ascertain as precisely as possible, when the adoption took place. The results of the study provided a more definitive conclusion than Klammer's (1973) study.

They found out that 48 months before the firms switched to sophisticated capital budgeting techniques, with three different 48-month periods after the switch showed no significant improvements in the relative market performance of the firms' adopting sophisticated selection techniques. However, while they found no long-run effects on relative market returns for adopting firms, their results suggested that there was a short-run positive effect when firms adopt sophisticated capital budgeting selection procedures.

Consistent with Klammer's (1973) study, other factors were found to vitiate the improvement of firm performance after a switch from naive to sophisticated capital budgeting selection techniques. These factors were found to be: economic stress (the acute resource scarcity), which they asserted that in times of economic stress, firms do some 'belt tightening' by instituting cost reduction procedures and the adoption of new criteria for capital budgeting could be one of these

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belt tightening procedure. The company's reward structure was also another factor, where they found out that companies that reward their employees on the basis of long-term incentive plans may experience more benefits from sophisticated selection techniques than companies that reward using a short-term reward plan. The study concluded that the adoption of sophisticated capital budgeting selection techniques, in itself does not result in superior market performance.

Gilbert E. (2005) carried out a study to determine the application of capital budgeting methods and their association with firm performance among South African manufacturing firms. A sample of 318 firms was surveyed, but only 118 firms representing 37% responded. The survey tested the application and impact of payback method, accounting rate of return, net present value and the internal rate of return. The ratio of the rate of return on assets was also used as a measure of firm performance. The results of the study indicated that 15% of the firms employed the payback method, 8% used purely the discounting methods while the rest employed a mixture of both non-discounting and discounting methods. It was also concluded that though many of the managers were aware of the benefits of using the discounting methods, their responses involved the use of estimates and approximations. The study concluded that, while discounted cash flow methods can, and do play an important role in capital investment decision-making, the costs and sometimes impossibility of computing them properly means that their usage is always limited. Thus the conclusion of the study was that capital budgeting techniques had no significant impact on the financial performance of the manufacturing firms.

A study by Olawale F, Olumuyiwa O and George H, (2010) was conducted to investigate if companies make use of sophisticated investment appraisal techniques when making investment decisions, and the impact of sophisticated appraisal techniques on the profitability of the manufacturing firms in the Nelson Mandela Bay Metropolitan area, South Africa. The study had a sample of 124 firms out which 85 firms responded making 39% which were found to be using sophisticated investment appraisal techniques when making investment decisions. Therefore, the first objective that manufacturing firms usually employ sophisticated investment appraisal techniques when making investment decisions was confirmed. The profitability of the firms was measured by the rate of return on assets (ROA) and was determined based on the calculation of the earnings after interest and taxes (EAIT) and total assets. The study used regression analysis

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to test the relationship of each independent variable on profitability. The traditional methods comprising the payback method and accounting rate of return were also regressed against profitability to determine their significance and relationships to profitability.

The results of the study showed that the pay back method used by the respondents was not significant to profitability and did not have a positive relationship with profitability of the respondent firms. Accounting rate of return was also found insignificant to profitability and negatively related to profitability. However, the results indicated that the use of sophisticated investment appraisal techniques had a positive impact on profitability thus confirming the second objective of the study.

In Kenya, Mundu S. M (1997) study sought to review selected financial management practices adopted by small enterprises in Kenya. The study found out that more than 66% of the respondents did not undertake cash budgeting, 70% of the business owners kept surplus cash with themselves and over 56% of the business owners were handling cash personally as the security to their money. Furthermore, more than 70% of the respondents sold on credit to those customers believed to be known by the business owner. Overdue accounts were followed up through reminders either by personal visits or telephone calls or both; 70% of the businesses charged prices on the basis of full cost plus margin which may be a mentally calculated price or selling at what the competitors are charging and only 16% of them kept cost control reports. Over 80% of the businesses had prepared a business plan with the most common reason being to get financing. These results led to the conclusion that the survival of SME's heavily depended on the good practice of formal financial management.

Wanyungu D. M (2001) did a research on financial management practices of micro and small enterprises in Kenya, A case of Kibera. The study had a sample of 50 MSE's, out of which 45 or 90% SME's responded to the study questionnaire. The study found that more than 68% of the failed MSE's did not have a budget for their cash receipts and disbursements, 77.8% did not have bank accounts for their business proceeds and 42.2% had their Debtors' compliance rate below 50% rating, which is not good for business; 53.3% of the businesses did not have any cost controls or undertook any cost leadership, 46.7% had their payables greater than sales, and

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73.3% had drawings but did not have formal records; Over 55.6% of MSEs did not adopt JIT inventory management

Kadondi E. A,(2002) undertook a study to determine the capital budgeting techniques used by companies listed at NSE and also to determined how the firms' and CEO characteristics influenced the use of particular techniques. The study had a sample of 43 companies, out of which 28(65%) companies responded to the study questionnaire. The study found out that 85% carried out capital budgeting in stages though many of the respondents ignored the first stages of capital budgeting. Of these, the study found that 31% used the payback method, 27% applied NPV while 23% were using the IRR technique.

Khakasa E, (2009), attempted to provide empirical evidence on the state of practice in Kenyan banking institutions in evaluating IT investments ex ante. The results of the survey showed that the most popular investment appraisal techniques used in such evaluation in Kenyan banks were cost-benefit analysis, risk analysis, competition, payback period and return on investment, while the least popular were the internal Rate of Return, computer based techniques and the Net Present Value. Of the 41 banks sampled, a total of 25 responses were obtained. This was a response rate of 60.97%; 100% of the responding institutions indicated that they used at least one of the economic techniques to appraise potential IT projects. Most institutions used more than one financial technique to appraise their investments. The most popular economic technique was the Cost Benefit Analysis (CBA) method with 92%, while Internal Rate of Return (IRR) ranked the lowest (0%). Besides CBA, payback period and Return on Investment were both used by 60% of the responding institutions. Only 8% of the banking institutions used at least one of the discounting techniques. Net Present Value was found to be used by 8% of the banks, while IRR was not used by any of the responding banks. Overall, the study concluded that banks had limited use of discounting techniques and this raised questions as to the extent of the use of cash flows to appraise potential projects.

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2.7 Chapter Summary

The objectives of this study will be to examine the relationship between financial performance and financial management practices of all insurance companies Kenya. The results of most studies have reported the use of both the naive capital budgeting and discounted cash flow techniques. The naive methods include; the payback method and the accounting rate of return. The discounted cash flow methods otherwise referred to as sophisticated capital budgeting include the net present value and the internal rate of return. Many companies seem to prefer the payback method and net present value to accounting rate of return and internal rate of return respectively.

In the literature, it has been argued that the use of financial management practices may be related to improved financial performance. A number of arguments to support this have been cited. Some of the studies indicated that sophisticated capital budgeting techniques mostly NPV and IRR had a positive relationship with return on assets (ROA) while the traditional methods showed an insignificant relationship.

However similar studies reported a negative relationship of the capital budgeting techniques and financial performance. The studies have indicated that, despite a growing adoption of sophisticated capital budgeting methods, there is no consistent significant association between performance and capital budgeting techniques. This indicates that the mere adoption of various analytical tools is not sufficient to bring about superior performance and that other factor such as marketing, product development, executive recruitment and training, labor relations, etc., may have a greater impact on profitability.

Local studies on the other hand have mainly dealt with the application of the capital budgeting techniques in listed companies and also in the banking sector. Their findings indicate that discounted cash flow methods are not extensively being used to appraise investment decisions. The study in the banking sector particularly found the overwhelming application of the naive capital budgeting techniques. Thus given these conflicting findings in the literature and lack of substantive local study on the relationship between financial performance and financial management practices this study seeks to establish the effect of the financial management practices on financial performance of all the insurance companies in Kenya.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the design of the study, the target population of the study, data collection method, measurement of variables used in analyzing the data and statistical technique to be used for data analysis.

3.2 Research Design

A research design is the detailed blueprint used to guide a research study toward its objectives. The study employed a Causal Research design. Causal designs are also known as experimental designs. It analyzes the cause – effect relationship between the variables. Causal research has the potential to illustrate that a change in one variable causes some predictable chance in another variable. The research design will see how various independent variables (i.e X_1, X_2 , X_3, X_4,) are manipulated in order to examine how a dependent variable is a affected with a relatively controlled environment. The study sought to establish the relationship between financial performance and financial management practices of insurance companies in Kenya between the periods 2006-2009.

3.3 Population and sample of the Study

The target population consisted of all the 45 insurance companies in Kenya. This was because the number of insurance companies was small and they all had a representation in Nairobi where the researcher was based hence easily accessible. A census study was conducted, because the Insurance companies as of the time of the study had only 45 registered companies, therefore the whole population of the companies was included in this study. Thus, no sampling procedure was conducted. It was also noted that in comparison to similar studies conducted elsewhere, the size of the population in this study is small.

3.4 Data collection

The study used both primary and secondary data. Primary data was collected using a questionnaire. The questionnaire was subdivided into two sections including: demographic statistics and main issues covering the financial management practices adopted in the insurance industry. The questionnaire made use of both open and closed ended questions. A five point likert scale was used to save time and money. One questionnaire was administered to each insurance company using a drop and pick method. The secondary data was obtained from published financial statements filled annually at Insurance Regulatory Authority (IRA) offices, insurance companies offices and College of insurance library.

3.5 Data Analysis and presentation

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis. The data was then entered into Statistical Package for Social Sciences (SPSS) Statistics for analysis version 17. The data was analyzed by generating descriptive statistics such as percentage and measures of central tendency like mean and standard deviations. The data was presented using tables, charts and cross tabulations. The following regression model was used to compute the relationship between financial performance and financial management practices of insurance companies in Kenya.

The regression equation was ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$):

Whereby

Y = Financial Performance (ROA)

X_1= Shows the unit change in Fixed Asset Management as a results of units increase in ROA

X_2= Shows the unit change in Accounting Information Systems as a results of units increase in

ROA

X_3= Shows the unit change in Financial Reporting Analysis as a results of units increase in ROA

X_4= Shows the unit change in Capital Structure Management as a results of units increase in

ROA

ε = Error term

$\beta0$ = Constant

$\beta1$, $\beta2$, $\beta3$, and $\beta4$, are regression coefficients

The error is the difference between the calculated dependent variable value and actual value.

3.6 Data Validity and Reliability

Data validity refers to how well the result of a research can give the right answer to the research question (Remenyi et al 1988). To ensure validity, information from previous studies and different literatures which covered all the areas of the study was used. The theoretical framework being a reflection of these previous studies, the questionnaire was developed based on theoretical framework in order to arrive at the right answer to the research problem. Peer review of the questionnaire was conducted for purposes of validation and to minimize internal validity threat of the instrument. A pilot test was conducted to test validity.

Data reliability refers to the extent to which data collection techniques or analysis yielded consistent findings Saunders el al, (2009). Data was analyzed and interpreted based on theoretical framework and the researcher tried to relate it back to empirical evidence.

CHAPTER FOUR:

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results were presented on the relationship between financial performance and financial management practices of insurance companies in Kenya. The study targeted a total of 45 insurance companies for primary data collection out of which 33 responded and returned their questionnaires contributing to 73% response rate. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Information

4.2.1   Type of business Transacted

The study sought to establish the type of business transacted by the respondents. From the findings, 49% of the respondents transacted both general and life insurance, 33% transacted only General insurance while 18% transacted only life insurance. These findings are well illustrated in table 4.1 below.

Table 4.1: Type of Business Transacted

Type of business transacted	Frequency	Percent
General	11	33%
Life	6	18%
Composite Insurance Company	16	49%
Total	33	100%

Source: Research data, 2011

Figure 4.1: Type of Business Transacted
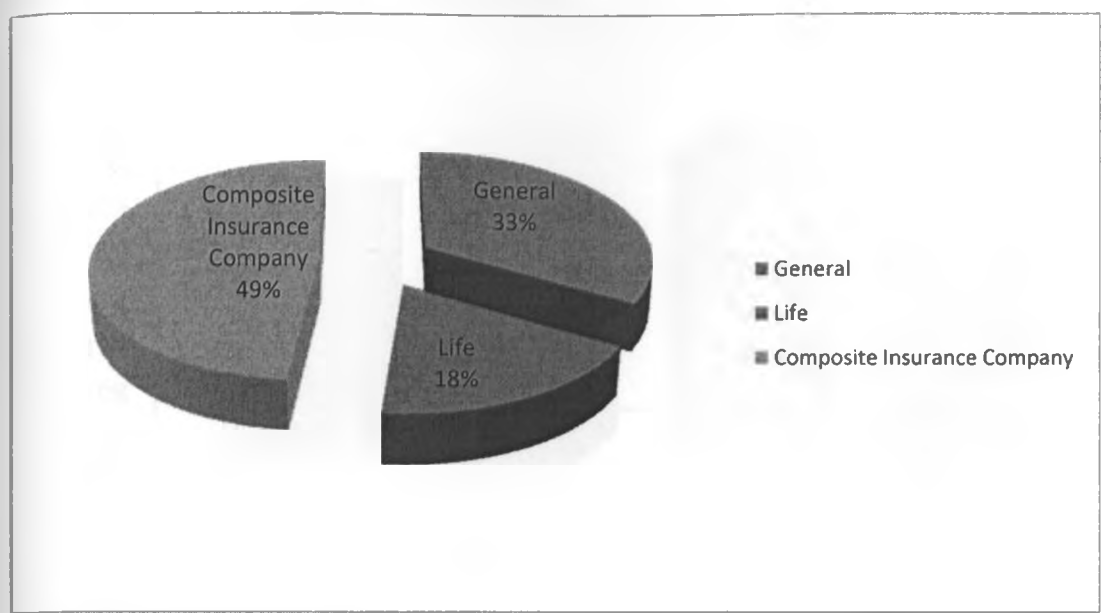
Source: Research Data, 2011

4.2.2 Number of years in Operation

The study sought to establish the number of years that the respondents had been in operations. From the findings, the insurance companies that had been in operation for between 1-15 years made 27% of the respondents, Those in operations for between 16-30 years were 15%, those in operation for between 31-45 years were 33%. The insurance companies that had operated in Kenya for more than 46 years were represented by 24% of the respondents. These findings are well illustrated in table 4.2 below.

Table 4.2: Number of years in operations

	Frequency	Percent
between 1-15 years	9	27%
Between 16 - 30 years	5	15%
between 31-45 years	11	33%
over 46 years	8	24%
Total	33	100%

Source: Research Data, 2011

Figure 4.2: Number of years in operations
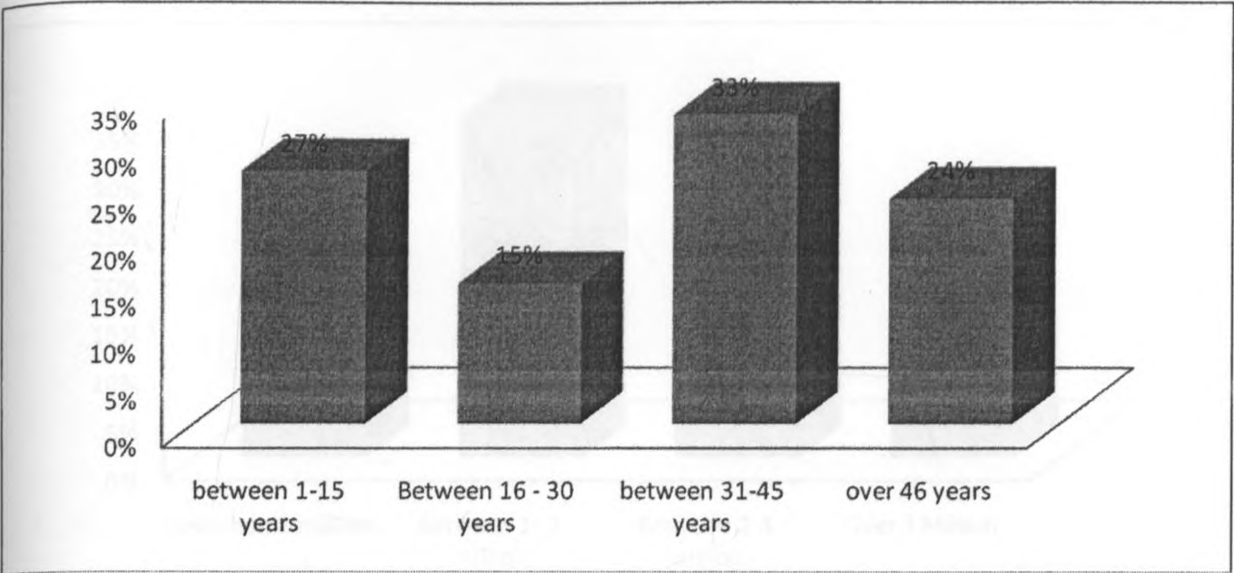
Source: Research Data, 2011

4.2.3 Clientele base for Life Insurance

The study sought to establish the clientele base for the life insurance business of the respondents. From the findings, 18% of the life insurance companies had a clientele base of less than 1 million. The insurance companies with a clientele base between 1-2 million made up 35% of the life insurance companies that responded. 35% of the life insurance companies that respondent had a clientele base of between 2-3 million. The insurance companies with more than three million clientele base made of 12% of the life insurance companies that responded as indicated in table 4.3 below.

Table 4.3: Clientele Base for Life Insurance

Clientele Base	Frequency	Percent
Less than 1 million	3	18%
Between 1- 2 million	6	35%
Between 2-3 Million	6	35%
Over 3 Million	2	12%
Totals	17	100%

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Figure 4.3: Clientele Base for Life Insurance
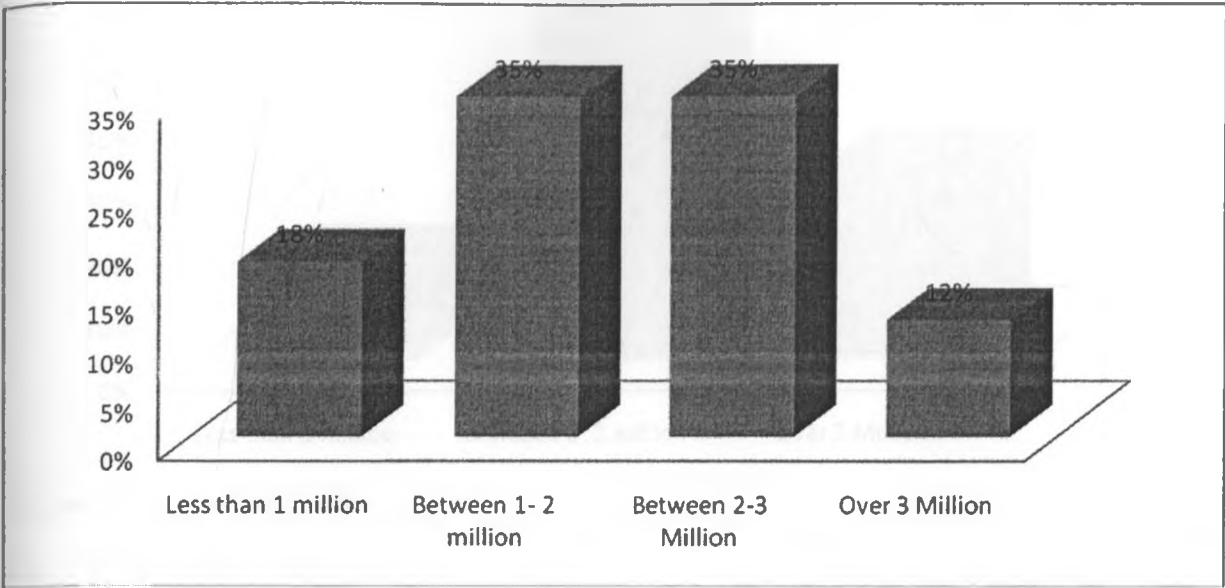
Source: Research Data, 2011

4.2.4 Clientele Base for General business

The study sought to establish the clientele base for the general insurance. From the findings, most respondents (56%) had a clientele base of between 1-2 millions followed by those with a clientele base of over 3 million at 29 % and finally those with a clientele base of below 1 million at 15%. These findings are well illustrated in table 4.4 below.

Table 4.4: Clientele base for General Insurance Business

Clientele Base	Frequency	Percent
Less than 1 million	4	15%
Between 1- 2 million	15	56%
Over 3 Million	8	29%
Totals	27	100%

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Figure 4.4: Clientele base for General Insurance Business
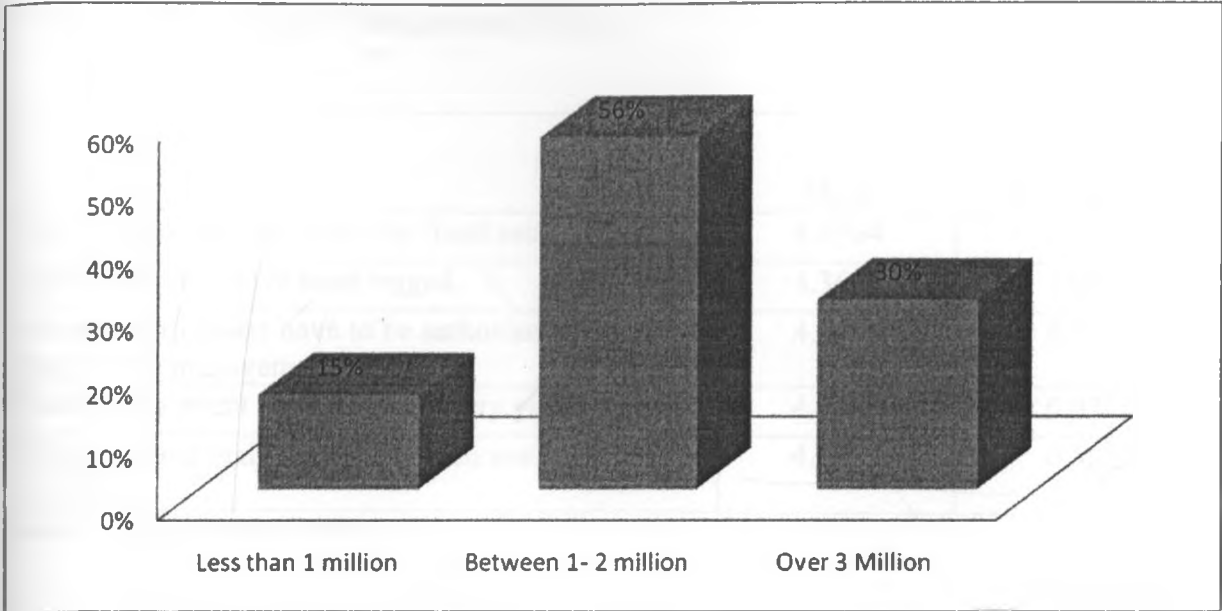
Source: Research Data, 2011

4.3 Fixed Assets Management.

The study sought to establish the practices used by the insurance companies in the management of their fixed assets. A five point likert scale was used ranging from strongly disagree representing 1 and strongly agree representing 5. The researcher then used SPSS descriptive statistics to compute the measure of central tendency mean and standard deviation. The means were high meaning that the companies employed use of fixed assets in their management of fixed assets. Asked whether their companies had a register for fixed assets, the analysis gave a mean of 4.6364 and a standard deviation of 0.50452. An analysis of whether the companies had their fixed assets tagged provided a mean of 4.3636 and a standard deviation of 1.02691. Further, an analysis of controls concerning the movement of assets and authorization by the fixed assets management officer gave a mean of 4.5455 with a standard deviation of 0.93420. Asked whether the companies conducted fixed assets count and verification at each year end provided a mean of 4.3636 and a standard deviation of 0.92442. Finally, the study inquired on the frequency of the repair and maintenance of fixed assets. This gave a mean of 4.5455 and a standard deviation of 0.52223

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Table 4.5 : Fixed Assets Management System

	Mean	Std. Deviation
The company has a register for fixed assets	4.6364	0.50452
The fixed assets have been tagged	4.3636	1.02691
Movement of assets have to be authorized by the fixed assets management officer	4.5455	0.93420
Fixed assets count is carried out every year	4.3636	0.92442
The repair and maintenance of fixed assets is carried out often	4.5455	0.52223

Source: Research data, 2011

4.4   Accounting Information System

The study sought to establish the Accounting Information system usage levels in the insurance companies. An analysis of the mean and standard deviations revealed that the Companies had a financial information management system as supported by a more than moderate mean score of 4.9091and a standard deviation of 0.30151. The financial system used by the insurance companies was also appropriate as indicated by the mean of 4.8182 and a standard deviation of 0.40452. The accounting systems were well backed up outside the organization's offices as indicated by a mean of 4.3636 and a standard deviation of 0.67420. The analysis further revealed that the accounting systems were flexible to accommodate the changes in the operating environment as indicated by mean of 4.4545 and a standard deviation of 0.68755. The respondents also revealed that retrieval of accounting information from the system was easy as supported by a high mean of 4.4000 and a standard deviation of 0.69921. These findings are well illustrated in table 4.6 below.

	Mean	Std. Deviation
The company has a financial information management system	4.9091	.30151
The financial system is appropriate for the company	4.8182	.40452
The accounting system is well backed up outside the organization's offices	4.3636	.67420
The accounting system is custom made for the company	4.6364	.67420
The accounting system is flexible to accommodate the changes in the operating environment	4.4545	.68755
The Accounting system has an automatic back up	4.3000	.82327
Retrieval of accounting information from the system is easy	4.4000	.69921

Source: Research Data, 2011

4.5 Capital Structure Management

The study sought to establish the capital structure management practices usage among the insurance companies in Kenya. From the analysis, it was revealed that the capital structure of the company was appropriate as supported by a mean score of 4.6364 and a standard deviation of 0.80904. Further, the companies had fully utilized the debt facility according to its capital structure capabilities as supported by a mean of 3.9091 and a standard deviation of 1.13618. An inquiry of companies' reliance on equity capital only gave a mean of 3.2641 and a standard deviation of 1.39371. Few insurance companies were quoted on the Nairobi Stock Exchange as supported by a low mean score of 2.5955and a standard deviation of 1.90713. Most companies also had foreign ownership as supported by a moderate mean score of 3.1818 and a standard deviation of 1.66242.

Table 4.6: Capital Structure Management

	Mean	Std. Deviation
The capital structure of the company is appropriate	4.6364	.80904
The company has fully utilized the debt facility according to its capabilities	3.9091	1.13618
The company relies on equity capital only	3.39371	1.39371
The company is quoted on the NSE	2.5925	1.90713
The company has foreign ownership	3.1818	1.66242

Source: Research Data, 2011

4.6 Regression Analysis

In addition, the researcher conducted a multiple regression analysis so as to test the relationship between the dependent variable (Financial performance) and independent variables (Fixed Assets Management, Accounting Information System, Financial Reporting Analysis and Capital Structure Management). The analysis applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The findings were as shown in the table 4.9 below.

Table 4.7: Model Summary

Model	R	R^2	Adjusted R Square	Std. Error of the Estimate
1	.915[a]	0.837	0.769	0.6582

Source: Research Data, 2011

The correlation and coefficient of determination of the dependent variables when all independent variables are combined was measured and tested. From the findings 76.9% of Insurance Industry Performance is attributed to combination of the four factors independent factors (Fixed Assets Management, Accounting Information System, Financial Reporting Analysis and Capital Structure Management) investigated in this survey. A further 23.1% of Insurance industry performance is attributed to other factors not investigated in this survey.

Table 4.8: Coefficient of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.213	1.213		.926	.387
Fixed Assets Management	.231	.117	.165	2.945	.017
Accounting Information System	.1712	.154	.076	3.162	.035
Financial Reporting Analysis	.327	.241	.145	2.894	.039
Capital Structure Management	.682	.213	.542	3.563	.042

The researcher conducted a multiple regression analysis so as to determine the relationship between Insurance Industry performance and financial management practices using the four variables. As per the SPSS generated table 4.8, the equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$) becomes:

$$Y = 1.213 + 0.231\ X_1 + 0.1712 X_2 + 0.327\ X_3 + 0.682 X_4 + \varepsilon$$

Where

Constant = 1.213, shows that if FAM, AIS, FRA, CSM were all rated as zero, ROA rating would be 1.213

$X_1 = 0.231$, shows that one unit change in FAM results in 0.231 units increase in ROA

$X_2 = 0.1712$, shows that one unit change in AIS results in 0.1712 units increase in ROA

$X_3 = 0.327$, shows that one unit change in FRA results in 0.327 units increase in ROA

$X_4 = 0.682$, shows that one unit change in CSM results in 0.682 units increase in ROA

Ranking of the individual independent variables, it shows that, CSM is highly related with ROA, followed by FRA, FAM and AIS respectively.

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According to the regression equation established, taking all factors into account (Fixed Assets Management, Accounting Information System, Financial Reporting Analysis and Capital Structure Management) constant at zero, financial performance of the insurance industry will be 1.213. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in Fixed Assets management will lead to a 0.231 increase in financial performance of insurance companies in Kenya. A unit increase in Accounting Information System will lead to a 0.1712 increase in financial performance of insurance companies in Kenya: a unit increase in Financial Reporting Analysis will lead to a .327 increase in financial performance of insurance companies in Kenya and a unit increase in Capital Structure Management System will lead to a .682 increase in financial performance of insurance companies in Kenya. This infers that Capital Structure Management System contribute more to the financial performance of insurance companies in Kenya followed by Financial Reporting Analysis.

At 5% level of significance and 95% level of confidence, Fixed Assets Management had a .017 level of significance, Accounting Information System had a 0.035 level of significance. Financial Reporting Analysis showed a .039 level of significant and Capital Structure Management System showed a .042 level of significant hence the most significant factor is Capital Structure Management. The t critical at 5% level of significance at k = 4 degrees of freedom is 2.245. Since all t calculated values were above 2.245 then all the variables were significant in explaining the financial performance of insurance companies Kenya.

4.7 Summary and interpretations of findings

The study sought to establish the relationship between financial performance and financial management practices of insurance companies in Kenya. The population of interest comprised 45 insurance companies operating in Kenya as December 2010. For primary data, a questionnaire was administered to the whole of the population. 33 insurance companies responded and returned questionnaires contributing to 73.3% response rate. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

From the study it was found that of the respondents, 49% transacted both general and life insurance, 33% transacted only General insurance while 18% transacted only life insurance. This means that most registered insurance companies transacted both general and life businesses

The findings also indicated that 27% of the respondents were from insurance companies that had been in operation for between 1-15 years, 15% were those in operations for between 16-30 years, 33% had operated between 31-45 years were 33% while 24% represented those companies that had operated over 46 years, an indication that many companies had been in insurance business for more than three decades.

18% of the life insurance companies had a clientele base of less than 1 million, 35% had a clientele base between 1-2 million of the life insurance companies that responded another 35% of the life insurance companies that respondent had a clientele base of between 2-3 million. The insurance companies with more than three million clientele base made 12% of the life insurance companies that responded. Most respondents (56%) had a clientele base of between 1-2 millions followed by those with a clientele base of over 3 million at 29 % and finally those with a clientele base of below 1 million at 15%.

The means were high indicating that insurance companies employed use of fixed assets in their management of fixed assets. Asked whether their companies had a register for fixed assets, the analysis gave a mean of 4.6364 and a standard deviation of 0.50452. An analysis of whether the companies had their fixed assets tagged provided a mean of 4.3636 and a standard deviation of 1.02691. Further, an analysis of controls concerning the movement of assets and authorization by the fixed assets management officer gave a mean of 4.5455 with a standard deviation of 0.93420. Asked whether the companies conducted fixed assets count and verification at each year end provided a mean of 4.3636 and a standard deviation of 0.92442. Finally, the study inquired on the frequency of the repair and maintenance of fixed assets. This gave a mean of 4.5455 and a standard deviation of 0.52223.

An analysis of the mean and standard deviations revealed that the Companies had a financial information management system as supported by a more than moderate mean score of 4.9091and

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a standard deviation of 0.30151. The financial system used by the insurance companies was also appropriate as indicated by the mean of 4.8182 and a standard deviation of 0.40452. The accounting systems were well backed up outside the organization's offices as indicated by a mean of 4.3636 and a standard deviation of 0.67420. The analysis further revealed that the accounting systems were flexible to accommodate the changes in the operating environment as indicated by mean of 4.4545 and a standard deviation of 0.68755. he respondents also revealed that retrieval of accounting information from the system was easy as supported by a high mean of 4.4000 and a standard deviation of 0.69921.

The capital structure of the company was appropriate as supported by a mean score of 4.6364 and a standard deviation of 0.80904 and the companies had fully utilized the debt facility according to its capital structure capabilities as supported by a mean of 3.9091 and a standard deviation of 1.13618. An inquiry of companies' reliance on equity capital only gave a mean of 3.2641 and a standard deviation of 1.39371. Few insurance companies were quoted on the Nairobi Stock Exchange as supported by a low mean score of 2.5955 and a standard deviation of 1.90713. Most companies also had foreign ownership as supported by a moderate mean score of 3.1818 and a standard deviation of 1.66242.

76.9% of Insurance Industry Performance was attributed to combination of the four factors independent factors (Fixed Assets Management, Accounting Information System, Financial Reporting Analysis and Capital Structure Management) investigated in this survey. A further 16.3% of Insurance industry performance is attributed to other factors not investigated in this survey

At 5% level of significance and 95% level of confidence, Fixed Assets Management System had a .017 level of significance, Accounting Information System had a 0.035 level of significance, Financial Reporting Analysis showed a .039 level of significant and Capital Structure Management showed a .042 level of significant hence the most significant factor is Capital Structure Management. The t critical at 5% level of significance at k = 4 degrees of freedom is 2.245. Since all t calculated values were above 2.245 then all the variables were significant in explaining the financial performance of insurance companies Kenya.

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The study used regression analysis to find the relationship between financial performance and financial management practices of insurance companies in Kenya. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that model was significant. This is demonstrated in the part of the analysis where R^2 for the relationship between financial performance and financial management practices of insurance companies was 76.9%. All the independent variables were also linearly related with the dependent variable thus a model of four predictor variables (FAM, AIS, FRA, CSM) could be used to forecast ROA of insurance companies registered in Kenya. Ranking of the individual independent variables, showed that, CSM is highly related with ROA, followed by FRA, FAM. AIS and controlled variables respectively.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of this study was to examine the financial management practices adopted by insurance companies in Kenya and to find out the relationship between financial performance and financial management practices of insurance companies in Kenya. The study was set out to determine the financial management practices adopted by insurance companies in Kenya and to find out the relationship between the financial performance and financial management practices of 45 registered insurance companies in Kenya.

The choice of insurance companies was preferred because they represented the main sectors of the Kenyan economy, and are therefore considered as adequate representation of companies in Kenya. In addition, since they are supervised by Insurance Regulatory Authority (IRA), are required file their annual financial reports with the Authority, information about the measurement of the financial performance were readily available, unlike those of unregulated companies.

The study employed a census survey. Primary data was collected through questionnaires which were dropped and picked from the respondents. Of the target population of the study, 33 questionnaires were returned and this represented 73.3 % response rate. The study found out that all the four financial management practices; accounting information systems (AIS), financial reporting and analysis (FRA), working capital management (WCM), fixed asset management (FAM), and capital structure management (CSM) were being used by the insurance companies in Kenya. On the relationship between the financial performance and financial management practices, the earnings before interest and tax and total assets, the data was collected from published financial statements filled annually at Insurance Regulatory Authority (IRA) offices, insurance companies' offices and College of insurance library. The data was analyzed using the statistical package for social sciences (SPSS) version 17.

The study used multiple regression analysis to examine the association between financial performance and financial management practices of Insurance companies in Kenya. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that model was significant. This was demonstrated in the part of the analysis where adjusted R^2 for the association between financial performance and financial management practices of Insurance companies in Kenya was 76.9%. In other words the results revealed a consistent, significant positive association between financial performance and financial management practices measured by ROA.

5.2 Conclusion

The main purposes of this study were: firstly, to examine the relationship between financial performance and financial management practices of insurance companies in Kenya, and secondly to identify financial management practices adopted by insurance companies in Kenya. In order to achieve the first objective, a thorough literature review was done. Based on the literature it was found that insurance companies used various financial management practices to make financial management decisions. The results of the study show that majority of respondents employ the four financial management practices; accounting information systems (AIS), financial reporting and analysis (FRA), working capital management (WCM), fixed asset management (FAM), and capital structure management (CSM) in making financial management decisions.

Meredith (1986) emphasizes, information systems is a base for financial management including financial management records and reports. This is considered very important because the owner-managers or financial managers find it difficult, if not impossible, to make decisions if they lack finance information. From the study, it was established that insurance companies in Kenya kept clear record of their transactions that included structured monitored of fixed assets movement and management.

Nguyen (2001) assessed the relationship between financial management practices and profitability of small and medium enterprises in Australia. He focused his attention at various financial management practices on SME's .The research study provided descriptive findings of financial management practices and financial characteristics and demonstrates the simultaneous

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impact of financial management practices and financial characteristics on SME profitability. In addition, the research study provided a model of SME profitability, in which profitability was found to be related to financial management practices and financial characteristics. With the exception of debt ratios, all other variables including current ratio, total asset turnover, working capital management and short-term planning practices, fixed asset management and long-term planning practices, and financial and accounting information systems were found to be significantly related to SME profitability.

Barrow (1984) emphasizes a practical rather than theoretical perspective. Fixed Assets Management needs to be effective in an organization to ensure maximum returns on investments. Fixed assets management plays a key role in ensuring proper monitoring and tracing of the company's assets. With a well managed company's fixed assets, the cost of repairs and maintenance was kept low and thus increased profitability of the insurance company.

Accounting Information System is concerned with collecting information on the company and presenting it to the decision makers for the purpose of decision making. Poorly managed information will lead to poor formulation of strategies which will lead to poor performance management of the insurance companies in Kenya. As such, proper accounting information system is of paramount importance to the organization as it ensures high integrity of information presented to decision makers and the owners of the company.

5.3 Policy Recommendations

Financial Management as a discipline concerned with the generation and allocation of scarce resources to the most efficient use within the firm's competing projects through a market pricing system. As such, maximum allocation of scarce resources is of paramount importance if organizations are to realize maximum value for their shareholders. Since information is key for sound decision making, this study recommends that insurance companies implement fully the financial management practices to ensure increased shareholders' value.

In addition, fixed assets are key to the future generation of incomes and revenues for an organization. Proper management of fixed assets means that the company will be able to

generate the desired revenue levels and thus improve its future profitability by keeping maintenance cost of fixed assets at the minimum levels thus improving the company's profitability.

This research found that managers feel that financial management practices are at times implemented without adequate education to implementers and ill fitting financial and operating structures. It thus recommends that proper understanding of the demand placed by implementation of these projects on the resources of a firm should be well assessed before implementation It is important for the management of the companies to get involved in training and skill development especially in areas of capital budgeting and investments. Training consultants could be used to train the employees who will be advising the management on the best investment alternatives.

In addition, low levels of financial literacy can impact the degree to which companies use financial management practices. The government through the ministry of finance should broaden its efforts to ensure that a high level of financial management literacy is universal to company managers. Government agencies such as Insurance Regulatory Authority (IRA) and Association of Kenya Insures (AKI) should ensure training for its member on good financial management practices.

5.4 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were: Some respondents refused to fill in the questionnaires citing that the information was of a sensitive nature and could be used for other purposes other the intended one.

Another limitation included the fact that most of the respondents were busy throughout and had to continuously be reminded and even persuaded to provide the required information. Further some respondents decided to withhold information which they considered sensitive and

classified. This reduced the probability of reaching a more conclusive study. However, conclusions were made with this response rate.

The study was also limited in terms of resources. The resource available to go to the field and ascertain whether the information being provided was the reality of whatever happens in real sense was limited. This forced the researcher to wholesomely rely on the information provided by the respondents.

5.5 Suggestions for Further Studies

The study suggests that further research be conducted on the relationship between financial performance and financial management practices of the banking industry to assess the relationship and compare it with the findings in the insurance industry. This is because the financial markets of any economy are majorly composed of the banking and insurance industry.

The study further recommends that another study be conducted in Kenya on the relationship between financial performance and financial management practices of Small and Medium Enterprises as this sector has been experiencing high growth rate in Kenya over the past four years.

Further studies are needed to test the relationship between financial performance and financial management practices by use of a different firm financial performance measurement other than ROA for instance earnings per share (EPS). Future research could also focus on a specific industry to obtain homogeneous results.

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Appendix

QUESTIONNAIRE

AN EVALUATION OF THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA   Date _____

Please take a few minutes to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on relationship between financial management practices and financial performance of insurance companies in Kenya. Kindly answer all questions.

1. Name of the Company (optional) _____

2. Type of business transacted?

a) General insurance   [ ]   (b) Life [ ]   (c) Both [ ]

3. How long has your company been in operation?

(a) 1- 15 years [ ]   (b) 16-30 years [ ] (c) 31-45 years [ ] (d) Over 46 years [ ]

4. What is your clientele base for life insurance? (Tick as appropriate)

a)	Less than 1 million	[ ]
b)	Between 1- 2 million	[ ]
c)	Between 2 – 3 million	[ ]
d)	Over 3 million	[ ]

What is your clientele base for general insurance? (Tick as appropriate)

a)	Less than 1 million	[ ]
b)	Between 1- 2 million	[ ]
c)	Between 2 – 3 million	[ ]
d)	Over 3 million	[ ]

A

please tick (√) as appropriate your agreement with each of the following statements

	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree
Fixed Assets Management					
6. The company has a register for fixed assets	[ ]	[ ]	[ ]	[ ]	[ ]
7. The fixed assets have been tagged	[ ]	[ ]	[ ]	[ ]	[ ]
8. Movement of assets have to be authorized by the fixed assets management officer	[ ]	[ ]	[ ]	[ ]	[ ]
9. Fixed assets count is carried out every year	[ ]	[ ]	[ ]	[ ]	[ ]
10. The repair and maintenance of fixed assets is carried out often	[ ]	[ ]	[ ]	[ ]	[ ]
In your own words, how can fixed assets management be improved in your organization					
Accounting Information System					
11. The company has a financial information management system	[ ]	[ ]	[ ]	[ ]	[ ]
12. The financial system is appropriate for the company	[ ]	[ ]	[ ]	[ ]	[ ]
13. The accounting system is well backed up outside the organization's offices	[ ]	[ ]	[ ]	[ ]	[ ]
14. The accounting system is custom made for the company	[ ]	[ ]	[ ]	[ ]	[ ]
15. The accounting system is flexible to accommodate the changes in the operating environment	[ ]	[ ]	[ ]	[ ]	[ ]
16. The Accounting system has an automatic back up	[ ]	[ ]	[ ]	[ ]	[ ]
17. Retrieval of accounting information from the system is easy	[ ]	[ ]	[ ]	[ ]	[ ]
In your own words, how can accounting information system be improved in your organization					

B

Financial Reporting Analysis

18. The financial statements of the company are prepared in line with the financial accounting standards	[ ]	[ ]	[ ]	[ ]	[ ]
19. The Financial statements are prepared in accordance with GAAP	[ ]	[ ]	[ ]	[ ]	[ ]

In your own words, how can Financial Reporting Analysis be improved in your organization

Capital Structure Management

20. The capital structure of the company is appropriate	[ ]	[ ]	[ ]	[ ]	[ ]
21. The company has fully utilized the debt facility according to its capabilities	[ ]	[ ]	[ ]	[ ]	[ ]
22. The company relies on equity capital only	[ ]	[ ]	[ ]	[ ]	[ ]
23. The company is quoted on the NSE	[ ]	[ ]	[ ]	[ ]	[ ]
24. The company has foreign ownership	[ ]	[ ]	[ ]	[ ]	[ ]

In your own words, how can Capital Structure Management be improved in your organization

C

LIST OF REGISTERED INSURANCE COMPANIES.

1. Africa Merchant Assurance Company Ltd.
2. Chartis Kenya Insurance Kenya Ltd.
3. APA Insurance Company Ltd.
4. Apollo Life Insurance Company Ltd.
5. Blue Shield Insurance Company Ltd.
6. British American Insurance Co. (K) Ltd.
7. Cannon Assurance (K) Ltd.
8. Concord Insurance Company Ltd.
9. CFC Life Assurance Company (K) Ltd.
10. Co-operative Insurance Ltd.
11. Corporate Insurance Company Ltd.
12. Directline Assurance Company Ltd.
13. Fidelity Shield Insurance Company Ltd.
14. First Assurance Company Ltd.
15. Gateway Insurance Company Ltd.
16. Geminia Insurance Company Ltd.
17. General Accident Insurance Company Ltd.
18. Heritage A.I.I. Insurance Company Ltd.
19. Insurance Company of East Africa Ltd.
20. Intra Africa Assurance Company Ltd.
21. Invesco Assurance Company Ltd.
22. Jubilee Insurance Company Ltd.
23. Kenindia Assurance Company Ltd.
24. Kenya National Assurance (2001) Ltd.
25. Kenya Orient Insurance Company Ltd.
26. Kenyan Alliance Insurance Co. Ltd.
27. Lion of Kenya Insurance Company Ltd.
28. Madison Insurance Company Kenya Ltd.
29. Mayfair Insurance Company Ltd.

30. Mercantile Insurance Co. Ltd.
31. Metropolitan Life Insurance (K) Co. Ltd.
32. Occidental Insurance Company Ltd.
33. Old Mutual Insurance Company Ltd.
34. Pacis Insurance Company Ltd.
35. Pan Africa Life Assurance Ltd.
36. Phoenix of East Africa Insurance Co. Ltd.
37. Pioneer Assurance Company Ltd.
38. Real Insurance Company of East Africa.
39. Standard Assurance Kenya Ltd.
40. Tausi Insurance Company Ltd.
41. The Monarch Insurance Company Ltd.
42. Trident Insurance Company Ltd.
43. Trinity Life Assurance Company Ltd.
44. UAP Insurance Company Ltd.
45. Xplico Insurance Company Ltd.

SOURCE: INSURANCE REGULATORY AUTHORITY ANNUAL REPORT 2009

Appendix

QUESTIONNAIRE

AN EVALUATION OF THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA Date _____

Please take a few minutes to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on relationship between financial management practices and financial performance of insurance companies in Kenya. Kindly answer all questions.

1. Name of the Company (optional) _____

2. Type of business transacted?

a) General insurance   [ ]   (b) Life [ ]   (c) Both [ ]

3. How long has your company been in operation?

(a) 1- 15 years [ ]   (b) 16-30 years [ ] (c) 31-45 years [ ] (d) Over 46 years [ ]

4. What is your clientele base for life insurance? (Tick as appropriate)

a)	Less than 1 million	[ ]
b)	Between 1- 2 million	[ ]
c)	Between 2 – 3 million	[ ]
d)	Over 3 million	[ ]

What is your clientele base for general insurance? (Tick as appropriate)

a)	Less than 1 million	[ ]
b)	Between 1- 2 million	[ ]
c)	Between 2 – 3 million	[ ]
d)	Over 3 million	[ ]

A

please tick (√) as appropriate your agreement with each of the following statements

	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree
Fixed Assets Management					
6. The company has a register for fixed assets	[ ]	[ ]	[ ]	[ ]	[ ]
7. The fixed assets have been tagged	[ ]	[ ]	[ ]	[ ]	[ ]
8. Movement of assets have to be authorized by the fixed assets management officer	[ ]	[ ]	[ ]	[ ]	[ ]
9. Fixed assets count is carried out every year	[ ]	[ ]	[ ]	[ ]	[ ]
10. The repair and maintenance of fixed assets is carried out often	[ ]	[ ]	[ ]	[ ]	[ ]
In your own words, how can fixed assets management be improved in your organization					
Accounting Information System					
11. The company has a financial information management system	[ ]	[ ]	[ ]	[ ]	[ ]
12. The financial system is appropriate for the company	[ ]	[ ]	[ ]	[ ]	[ ]
13. The accounting system is well backed up outside the organization's offices	[ ]	[ ]	[ ]	[ ]	[ ]
14. The accounting system is custom made for the company	[ ]	[ ]	[ ]	[ ]	[ ]
15. The accounting system is flexible to accommodate the changes in the operating environment	[ ]	[ ]	[ ]	[ ]	[ ]
16. The Accounting system has an automatic back up	[ ]	[ ]	[ ]	[ ]	[ ]
17. Retrieval of accounting information from the system is easy	[ ]	[ ]	[ ]	[ ]	[ ]
In your own words, how can accounting information system be improved in your organization					

B

Financial Reporting Analysis

18. The financial statements of the company are prepared in line with the financial accounting standards	[ ]	[ ]	[ ]	[ ]	[ ]
19. The Financial statements are prepared in accordance with GAAP	[ ]	[ ]	[ ]	[ ]	[ ]

In your own words, how can Financial Reporting Analysis be improved in your organization

Capital Structure Management

20. The capital structure of the company is appropriate	[ ]	[ ]	[ ]	[ ]	[ ]
21. The company has fully utilized the debt facility according to its capabilities	[ ]	[ ]	[ ]	[ ]	[ ]
22. The company relies on equity capital only	[ ]	[ ]	[ ]	[ ]	[ ]
23. The company is quoted on the NSE	[ ]	[ ]	[ ]	[ ]	[ ]
24. The company has foreign ownership	[ ]	[ ]	[ ]	[ ]	[ ]

In your own words, how can Capital Structure Management be improved in your organization

LIST OF REGISTERED INSURANCE COMPANIES.

1. Africa Merchant Assurance Company Ltd.
2. Chartis Kenya Insurance Kenya Ltd.
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4. Apollo Life Insurance Company Ltd.
5. Blue Shield Insurance Company Ltd.
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7. Cannon Assurance (K) Ltd.
8. Concord Insurance Company Ltd.
9. CFC Life Assurance Company (K) Ltd.
10. Co-operative Insurance Ltd.
11. Corporate Insurance Company Ltd.
12. Directline Assurance Company Ltd.
13. Fidelity Shield Insurance Company Ltd.
14. First Assurance Company Ltd.
15. Gateway Insurance Company Ltd.
16. Geminia Insurance Company Ltd.
17. General Accident Insurance Company Ltd.
18. Heritage A.I.I. Insurance Company Ltd.
19. Insurance Company of East Africa Ltd.
20. Intra Africa Assurance Company Ltd.
21. Invesco Assurance Company Ltd.
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29. Mayfair Insurance Company Ltd.
30. Mercantile Insurance Co. Ltd.
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37. Pioneer Assurance Company Ltd.
38. Real Insurance Company of East Africa.
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40. Tausi Insurance Company Ltd.
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42. Trident Insurance Company Ltd.
43. Trinity Life Assurance Company Ltd.
44. UAP Insurance Company Ltd.
45. Xplico Insurance Company Ltd.

SOURCE: INSURANCE REGULATORY AUTHORITY ANNUAL REPORT 2009