



INFLUENCE OF DIVERSIFICATION OF RISKS AMONG ALLIANCE PARTNERS ON THE FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

Ramadhan, Zainabu

Jomo Kenyatta University of Agriculture School of Business, Kenya

zainamwaura@yahoo.co.uk

Abstract

The motivation behind the alliances is increased competition for market share, and to enable these firms to build internal capacity, engage in cross-border expansion, expand distribution channels, grow existing business when organic growth is difficult and diversify risks. The financial performance of insurance firms, just like any other business, is of cardinal importance. This is not only for their long-term survival but also as a precondition to the stability and growth of a country's economy owing to the fact that insurance service is the "oil that lubricates" the engine of a country's economy. The use of horizontal alliance among insurance firms creates internal capital markets that substitute for well-developed external capital and corporate debt markets. Furthermore, the risk sharing and pooling activities of the horizontal groups take over some of the functions of a market for corporate control. The objective of this paper was to determine the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya. The study adopted a cross-sectional descriptive survey research design and the target population was 44 insurance firms. Purposive sampling technique was used to select four respondents from each insurance company that is General Manager in charge of Technical Operations, Underwriting Manager, Claims Manager and Marketing Manager giving a sample size of 176 respondents. This study used primary data obtained from administration of questionnaires. Descriptive statistics conducted were frequencies, percentages, means and standard deviation while inferential statistics consisted of correlation and regression analysis. The findings indicated a strong positive significant linear relationship between diversification of risks and financial performance of insurance firms. The

results showed that R square was 0.876 indicating that 87.6% of the variation in financial performance can be explained by a unit change in diversification of risks. The study recommends insurers to form horizontal alliance with the intention of not only minimizing risk, but diversifying systemic risk which affects all policies and poses a big threat of destabilizing portfolio premium income.

Keywords: Diversification of risks, insurance firms, financial performance, horizontal alliance

INTRODUCTION

Diversification of risk is simply an investment management strategy where we divide our investment between separate assets. Different assets carry different degrees of risk, reacting differently to any given event. (Lincoln, 2009). Financial performance refers to the excess earnings generated by an entity through its operating activities over a given period of time. According to Sablowski (2009), the financial sector which is largely bank based has been conceived as the cornerstone of the so called 'Model Germany', making its financial performance critical. In Nigeria, insurance firms are one of the major drivers of real investments and industrial growth (Omankhanlen, 2012), and hence their financial performance is essential to its economic growth. The use of horizontal alliance among insurance firms creates internal capital markets that substitute for well-developed external capital and corporate debt markets (Armstrong and Shimizu, 2007)). Furthermore, the risk sharing and pooling activities of the horizontal groups took over some of the functions of a market for corporate control. Lincoln further observes that Japanese insurance firms have achieved an enviable reputation for "relational capability," infusing trust and reciprocity into their transactions with customers and suppliers so as to spread the costs and burdens of product and process development, quality assurance, and customer service and thus to circumvent the adversarial posturing that results in less competitive behavior. Both as individual organizations and in their horizontal alliance, Japanese insurance firms are becoming more strategic, choosing courses of action and partners, less on the basis of commitment, reciprocity, and obligation, and more on the basis of what is best for the competitive success of the firm.

Financial performance refers to the excess earnings generated by an entity through its operating activities over a given period of time. These alliances, mainly characterized by cash-and-share swap deals, have been driven by fast growing economies in Kenya and Africa in general, improving insurance sector regulation and an expanding middle class that is attracting new foreign direct investment to the industry. The business sense is that these alliances will

enable insurers to capitalize on the gap in the provision of non-statutory covers, especially those targeting non-group schemes and low income earners (The Business Daily, 2015).

The motivation behind these alliances is increased competition for market share, and to enable these firms to build internal capacity, engage in cross-border expansion, expand distribution channels, grow existing business when organic growth is difficult and to diversify risk. However, these benefits, while tangible, are not obvious, probably owing to what Oum, Park, Kim and Yu (2004) terms as a paucity of studies that seek to document the influence of horizontal alliance in the literature. Therefore, horizontal alliance as a market entry strategy can be risky for both parties. For instance, the host partner (the firm in the target market) may appropriate the technology of the entrant and become a stronger competitor in the marketplace (Dyer, Kale & Singh, 2001). Alternatively, the entrant firm might learn enough about the target market to go it alone at a future date. Nevertheless, Terpstra and Simonin (1993) suggest that these distribution alliances are often used to enter or expand within markets. In a study of North American, Japanese, and Western European firms, they found that over 28% of about 240 complementary partnerships (e.g., licensing, manufacturing arrangements, and piggybacking alliances) were considered to be distribution arrangements.

The horizontal alliance seems to be an appropriate strategy for mitigating the risk for the incumbents in a market segment or product category. The flexibility intrinsic in horizontal alliance facilitates the testing with new technologies and markets. Demand uncertainty and competitive uncertainty are some of the catalysts that impel competitors into horizontal alliance with each other. Demand uncertainty that arises from unpredictable purchasing patterns and competitive uncertainty that arises from competitive interdependence are high in the initial face of the product cycle, as in the case of a new car segment (Baltas & Saridakis, 2009).

Statement of the Problem

Insurance firms engaged in horizontal alliance locally are faced by political and legal risks such as expropriation, uncertainty over the legal validity of electronic contracts, changes in taxation, or legal liability in underwriting and claims management. An insurance firm that forms a horizontal alliance with another insurer in a foreign market might find that the legal and political environment in those foreign markets may be very different from that of their home country (Ghisi, Martinelli & Kristensen., 2006). Therefore, political and legal events, which are largely in the domain of Government, are likely to play a key role in the performance of insurers engaged in horizontal alliance (Frazier & Niehm, 2004). Factors that motivate insurance firms to engage in horizontal alliance are fairly generic across the globe and they include among others ability to diversify risks and the subsequent effect on insurance firm profitability and market share. In this

regard, older firms have demonstrated declining profitability (Loderer & Waelchli, 2010), while large size insurers have been found to be more technically efficient compared to medium- and small-size insurers (Asghar, Kausar & Talat, 2010). Also, despite the popularity of other types of strategic alliances and the many studies that expound their benefits, popular opinion is ambivalent about the industry influence of horizontal alliance. It is not apparent that the benefits of such alliances to the firm also accrue to the industry, thus opening opportunities for research that seeks to address this ambivalence. Despite the fact that studies have been done in other industries on the influence of diversification of risks on the performance of insurance firms, very little if any is documented on the financial performance of insurance firms. As a result, this study seeks to fill the gap in literature by determining the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya.

Objective of the Study

The objective of this study was determine the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya.

Hypothesis

H_0 : There is no significant influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya.

LITERATURE REVIEW

The KBV looked at the firms as a bundle of knowledge based resources, which could be strategically deployed to generate sustainable competitive advantage. From a KBV, point of view business alliance was seen as a means for firms to extend their pool of knowledge and form new entities. Partners in the alliance were seen as crucial to knowledge innovation, creation, acquisition and deployment of the same. The KBV held that mechanisms that enabled firms to exploit knowledge were the true sources of competitive advantage, as opposed to mere knowledge itself. These mechanisms referred to firm's absorptive capacity and combinative capability (Taco, 2012). Ellis, Reus, Lamont and Ranft (2011) observed that in an alliance context, absorptive capacity was defined as a firm's ability to recognize the value of new knowledge, assimilate it, and apply it for commercial gain. Within this context, the capability to identify and assimilate knowledge among the alliance partners was a function of past experience of either firm and the complementary nature of both firm knowledge base. Past experience enhances a firm's ability to learn and assimilate new knowledge while complementary knowledge base has a lot of overlap, reducing the learning curve of the alliance

partners. Combinative capability referred to the ability of the firm to combine and recombine knowledge that enhanced the alliance ability to exploit existing knowledge. Combinative capability required firms to voluntarily create opportunities for sharing knowledge and motivate organizational members. Markets have been traditionally considered as competitive arenas for firms selling substitute or complementary products. However, competitors can simultaneously co-operate with each other in developing horizontal alliance in which the allied firms contribute similar resources in production processes.

Busse, Dacorogna and Kratz (2013) observed that diversification of risks forms the pillar of successful insurance and investment strategies and it is therefore important to understand its role in firm performance. The key objective of risk diversification is to create a portfolio of policies whose overall premium income shows minimum variability over time. Systemic risk, which affects all policies simultaneously, poses a big threat of destabilizing portfolio premium income. Therefore, insurers may form horizontal alliance with the intention of not only minimizing risk, but diversifying systemic risk. Diversification is a way to reduce the risk by retaining many different risks, with various probabilities of occurrence and a low probability of happening simultaneously.

Ai, Bajtelsmit and Wangz (2014) conducted a study on Enterprise Risk Management (ERM) and diversification effects for property and casualty insurance firms in the US. The sample consisted of all U.S. Property and Casualty (P&C) insurance firms in the SNL financial database for the period from 2006 to 2012, the period for which Standard and Poor's (S&P) ERM quality ratings are available. The methodology relied on secondary data for stock prices and financial accounting records. Their findings indicated that ERM had a strong positive effect on firm performance as measured by Return on Assets (ROA). On the other hand, business line diversification had a significant positive value effect on ROA and geographic diversification was not a significant factor. This was a major departure from previous studies that have found a positive association between geographic diversification and firm performance.

In Hemrit and Ben Arab (2012) study, whose purpose was to investigate the determinants of frequency and severity of operational losses in the Tunisian insurance industry, findings indicated that the frequency of operational losses negatively related to the variety of insurance activities or diversification of the product line. The significant negative relationship between operational risk and variety of insurance activities indicates that a wide variety of insurance activities are associated with a low frequency of losses. The frequency of operational losses was also positively related to geographic expansion, implying that an extended network of agency facilitates the occurrence of operational losses. Conversely, the

results represent a positive effect of the rate of geographic diversification on the probability of high severity losses or losses that are of a huge magnitude. This relationship between geographic diversification and operational risk was attributed to poor or scattered internal controls over the geographic area.

In Byeongyong, Jin and Chia (2013) study on liquidity creation or de-creation in the US P/L industry, firm diversification was found to be negatively related to liquidity creation or transformation of liquid liabilities into illiquid assets. Diversification was a control variable which was measured along the number of lines of business an insurer underwrote and the level of geographic spread. The findings indicate that regardless of lines of business or regional spread, more diversified insurers tended to create more liquidity. For large insurers, line of business diversification had a statistically significant positive relationship with liquidity creation, indicating a tendency to create less liquidity.

More diversified insurers transformed more of their liabilities into assets with appreciable returns, while large diversified insurers have a tendency to invest a lesser proportion of their liabilities into income generating assets. Therefore, firm size had a moderating influence on liquidity creation for a given level of product and geographic diversification. Low levels of line diversification (high specialization), implied greater expertise, and a positive relationship with premiums, but carried the risk of lower scale economies and reduced opportunity for cross-selling and reduced premium income (Byeongyong et al., 2013).

Feng and Hayes (2014) conducted a research on the issue of diversifying systemic risk in agriculture, targeting the US crop industry. Their study was motivated by the fact that adverse weather conditions do result in huge crop losses at a given time making crop insurance an expensive affair for private insurance markets owing to the high portfolio risk. The objective of their study was to investigate the effectiveness of diversifying portfolio risk by creating a risk pool across multiple crops and countries. Their methodology used a Copula-based Approach. Their findings revealed that crop yield risks were significantly reduced by combining crop insurance policies across the crops and countries. Additionally, systemic risk was reduced by combining crop insurance policies under one pool. The study demonstrates that when dealing with instances of potential huge losses in a given portfolio, the use of diversification as a mitigating strategy was recommended for risk reduction.

RESEARCH METHODOLOGY

This study adopted positivism research philosophy, which holds that reality is concretized and has an independent existence of its own. This study also adopted a cross-sectional descriptive survey research design. This study was a cross-sectional survey study

since it involves the analysis of data that was collected from a population, or a representative subset, at one specific point in time. The descriptive design was used in this study because of its appropriateness in establishing relationships between variables and facilitating the collection of information for determining the population parameter. This involves quantitative approaches that utilize techniques such as closed ended questionnaires to collect data.

The target population for this study was all the 44 insurance firms in Kenya and classified into three key sub sectors -General business, Life business and in Composite business. Purposive sampling technique was used to select four respondents from each insurance company. The four respondents were General Manager in charge of technical Operations, Underwriting Manager, Claims Manager and Marketing Manager. This was adopted because of the technical nature of information to be derived from the respondents and there were possibilities that those respondents have adequate knowledge about effect of horizontal alliance on firm performance in the insurance industry in Kenya.

Table 1: Sample Size

Management Level	Sample per registered	
	Insurance companies (40)	Sample Size
General Manager Operations	1	44
Underwriting Manager	1	44
Claims Manager	1	44
Marketing Manager	1	44
Total	4	176

Primary data was collected using a questionnaire, which Pyrczak (2010) highlights gives respondents' adequate time to give well thought out answers. The questions in the questionnaire were closed-ended questions. Kothari (2008) noted that whereas the open-ended type of questions gives respondents freedom of response, the closed-ended types facilitate consistency of certain data across respondents. The questionnaire is ideal for the survey, it has enabled quick collection of similar data across a relatively dispersed population. Using a pre-designed questionnaire ensures that information sought is relevant to the objectives of the research, is standard and focuses the research on collecting the information rather than thinking about what information to collect.

Data analysis was executed using descriptive and inferential statistics. All quantitative data analysis was done using Statistical Package for the Social Sciences

(SPSS) Version 22. Descriptive statistics that were used include mean, standard deviation, frequencies and percentages. According to Babbie (2007), descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. Mean values informed the researcher on the expected score or measure from a group of scores in a study. Standard deviations informed the analyst about the distribution of scores around the mean of the distribution. The frequency distribution and percentages recorded the number of times a score occurs and the extent of occurrence of a particular observation respectively.

Inferential analysis included correlation analysis and simple linear regressions and helped the researcher understand the causal relationship between firm performance and the independent variables (Sprinthall, 2011).

Model: Influence of diversification of risks of alliance partners on the financial performance of insurance firms in Kenya.

$$Y = \beta_0 + \beta_1(X) + e$$

Where:

Y = Insurance financial performance

X = Diversification of unique risks

β_0 = Constant

β_1 = The beta coefficient of diversification of unique risks

e = Error term of the model

FINDINGS

Reliability

Kothari (2008) emphasizes the role of piloting in ascertaining the validity and reliability of research instruments. Reliability is a statistical measure of the reproducibility of study data. For quantitative data, reliability was assessed by examining the internal consistency of the study questions. In this study, internal consistency was measured by calculating a statistic known as Cronbach's coefficient alpha. Coefficient alpha measures internal consistency among a group of questions combined to form a single scale. It is a statistic that reflects the homogeneity of the scale. A Cronbach's Alpha coefficient of .70 (70%) or higher was sufficient for the purpose of this evaluation (Kothari, 2008). Results in Table 2 shows that the cronbach's alpha coefficient was 0.763 and was accepted.

Table 2: Reliability Test Statistic

Variable	Cronbach's Alpha	Number of items	Comment
Diversification of Unique Risks	0.763	4	Accepted

Descriptive Statistics for the influence of diversification of unique risks of alliance partners and the financial performance of insurance firms in Kenya

The study sought to find out the influence of diversification of risks among the alliance partners on performance of insurance firms in Kenya. Results of the descriptive analysis are shown in Table 3. In regard to whether business line diversification has a positive influence on earnings before profits and taxes, by at least five percent, findings revealed that 46.8% of the respondents strongly agreed, 35.7% agreed, 9.5% disagreed, 4.7% neither agreed nor disagreed and 3.1% strongly disagreed. This implies that majority of the respondents strongly agreed business line diversification has a positive influence on earnings before profits and taxes in insurance firms.

The study sought to examine if geographic diversification has a positive influence on earnings before profits and taxes, by at least five percent. Results indicated that 42.8% strongly agreed, 34.9% agreed, 10.3% neither agreed nor disagreed, 8.7% disagreed and 3.1% strongly disagreed. This implies that most respondents agreed that geographic diversification has a positive influence on earnings before profits and taxes in insurance firms.

Regarding whether liquidity creation resulting in illiquid assets occasioned by diversification of risks has a positive influence on earnings before profits and taxes, by at least five percent, findings indicated that 40.4% strongly agreed, 38.8% agreed, 10.3% neither agreed nor disagreed, 8.7% disagreed and 3.9% strongly disagreed. This result implies that Liquidity creation resulting in illiquid assets occasioned by diversification of risks has a positive influence on earnings before profits and taxes in insurance firms since 79.2% of the respondents agreed with the statement.

In regard to whether systemic risk, which affects all policies simultaneously has a positive influence on earnings before profits and taxes, by at least five percent, 42.8% of the respondents strongly agreed, 34.1% agreed, 9.5% neither agreed nor disagreed, 9.5% disagreed and 3.9% strongly disagreed. The result implied that systemic risk which affects all policies simultaneously has a positive influence on earnings before profits and taxes in insurance firms as evidenced by most respondents strongly agreeing on the statement

Diversification of the risks is a necessary evil for firms engaging in the insurance firms (Busse *et al.*, 2013). As proved by the results of this study increased diversification of risk leads to improved performance, as shown by the strong positive correlation analysis and later

confirmed by regression analysis. Firms engaging in horizontal alliance would enjoy the benefit that comes with mitigated risks as well as the complete diversification of the market risk.

Table 3: Diversification of Risks Indicators

Diversification of Risks Indicators	SD	D	N	A	SA	Mean	SD	Total
	%	%	%	%	%			%
Business line diversification has a positive influence on earnings before profits and taxes, by at least five percent	3.1	9.5	4.7	35.7	46.8	5	1	100
Geographic diversification has a positive influence on earnings before profits and taxes, by at least five percent	3.1	8.7	10.3	34.9	42.8	5	1	100
Liquidity creation , resulting in illiquid assets occasioned by diversification of risks has a positive influence on earnings before profits and taxes, by at least five percent	3.9	6.3	10.3	38.8	40.4	5	1	100
Systemic risk, which affects all policies simultaneously has a positive influence on earnings before profits and taxes, by at least five percent	3.9	9.5	9.5	34.1	42.8	5	1	100

(Strongly Disagree- SD, Disagree- D, Nether Agree nor Disagree- N, Agree- A, Strongly Agree-SA)

Insurance Financial Performance

The study examined performance issues as measured by investment returns, profitability, market share and expeditious claims settlement in the insurance firms in Kenya and the results are shown in Table 4. Regarding increased number of business lines has led to increased growth of market share, 55% strongly agreed, 29% agreed, 7.1% neither agreed nor disagreed, 5.5% disagreed and 3.9% strongly disagreed. The results suggest that respondents strongly agreed that introducing new insurance products has led to the growth of market size/share of insurance firms.

The study determined whether investment returns occasioned by increased underwriting premiums increases earnings before profits and taxes, by at least five percent. Results indicated that 41% strongly disagreed, 39% agreed, 11% disagreed, 5.5% strongly disagreed and 3.1% neither agreed nor disagreed. The findings imply that investment returns occasioned by increased underwriting premiums increases earnings before profits and taxes since 80% of the respondents agreed with the statement.

The study sought to find out if ability to manage operational risks and underwriting losses leads to profitability. 44% of the respondents strongly agreed, 37% disagreed, 7.1% neither agreed nor disagreed, 6.3% strongly disagreed and 5.5% disagreed. The result implies that majority of the respondents agreed that ability to manage operational risks and underwriting losses leads to profitability.

In regard to whether expeditious claims settlement enhances performance, 41% strongly agreed, 33% agreed, 10% neither agreed nor disagreed, 7.9% disagreed and 7.1% strongly disagreed. This implies that majority of the respondents agreed that expeditious claims settlement enhances performance in insurance firms.

According to Pauwels et al., (2003), product introductions have positive effects on the firm's top-line and bottom-line financial performance and on the firm value both in the short-run and long-run. Further, there is evidence showing the relevance of prone risk firms in the attainment of results. The achievement of firms' goals is sometimes based on a great deal of uncertainty, therefore bold decisions and actions are at times a necessary condition. Eventually, firms that are strategic and are risk takers improve their market share and perform very well compared to them that shun risk taking (Ling et al., 2008).

Table 4: Financial Performance

Performance Statements	SD	D	N	A	SA	Mean	SD	Total
	%	%	%	%	%			
Increased number of business lines has led to increased growth of market share	3.9	5.5	7.1	29	55	5	1	100
Investment returns occasioned by increased underwriting premiums increases earnings before profits and taxes, by at least five percent	5.5	11	3.1	39	41	5	1	100
Ability to manage operational risks and underwriting losses leads to profitability	6.3	5.5	7.1	37	44	5	1	100
Expeditious claims settlement enhances performance	3.1	6.3	7.9	44	39	5	1	100

(Strongly Disagree- SD, Disagree- D, Nether Agree nor Disagree- N, Agree- A, Strongly Agree-SA)

Model Summary of the Regression Analysis

The study sought to determine the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya.

Model Summary of the Regression Analysis between diversification of risks and financial performance

In the regression analysis conducted to determine the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya, $R=0.936$ as shown in Table 5 indicating a strong positive relationship between diversification of risks and performance of insurance firms. $R^2= 0.876$ indicates that 87.6% of the variation in firms performance can be explained by a unit change in diversification of risks. The remaining 12.4% is explained by other independent variables not found in the model.

Table 5: Model Summary of the Regression Analysis between diversification of risks and financial performance

Model	R	R Square
1	.936 ^a	.876

a. Predictors: (Constant), Diversification of Risks b. Dependent Variable: Performance

ANOVA Results for diversification of risks and financial performance

H_0 : There is no significant influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya.

F test was carried out to test the null hypothesis that there is no significant effect of diversification of risks among the alliance partners on the performance of insurance firms in Kenya. The results of ANOVA test in Table 6 show that the F value is 876.571 with a significance p value= 0.000 which is less than 0.05, meaning that the null hypothesis is rejected and concludes that there is a significant relationship between diversification of risks and the performance of insurance firms in Kenya.

Table 6: ANOVA Results for diversification of risks and performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	396.427	1	396.427	876.571	.000
	Residual	56.079	124	.452		
	Total	452.506	125			

a. Predictors: (Constant), Diversification of Risks b. Dependent Variable: Performance

Coefficients for Regression between diversification of risks and Financial Performance

To test for the significance of regression relationship between diversification of risks and the financial performance of insurance firms, regression coefficients, the intercept and the

significance of all the coefficients in the model were subjected the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis stated that beta (β) =0, meaning there is no significant relationship between diversification of risks and financial performance of insurance firms as the slope beta (β) =0 (no relationship between two variables).

The results on the beta coefficient of the resulting model in Table 7 shows that the constant = 1.205 is significantly different from 0, since the p value= 0.000 is less than 0.05. The t value for the constant is 7.747, while the t value for the diversification of risks is 29.607, which indicates they are significant. The regression model from the results was

$$Y = 1.205 + 0.684X$$

The beta value of 0.684 implies that a unit change in diversification of risks will lead to 0.684 units change in the financial performance. This implies that the null hypothesis that (β) =0 is rejected and the alternative hypothesis accepted indicating that the model $Y = 1.205 + 0.684$ (diversification of risks), is significantly fit. This confirms a positive linear relationship between diversification of risks and financial performance. Also, Contrary to this study, Kahloul and Hallara (2010) argues that a huge diversification of risk may be at the expense of the shareholders, if managers find a way out that satisfy reduction in both the unique and overall risk. Despite Kahloul and Hallara (2010) believing that more diversification could instead of lowering the firm risk results in an increase in the risk, they agreed that a certain level of diversification may yield a positive insurance firms performance. A comparative study of firms in Pakistan, Sindhu, Ul-Haq and Ali (2014) observed that diversified firms tended to be more risky than undiversified firm implying that performance would also be subject to changes. The findings of the study disapprove earlier findings by Hemrit and Ben-Arab (2012) and Chen *et al.*, (2009) studies who found no significant linkage that exist between the profitability of the firm and operational losses. However, the current study focused specifically on diversification of risks, and for this reason it adopted different measures of risk diversification.

Table 7: Coefficients for Regression between diversification of risks and Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.205	.156		7.747	.000
	Diversification of Risks	.684	.023	.936	29.607	.000

a. Dependent Variable: Performance

CONCLUSION

The study sought to determine the influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya. The objective of the study was based on the realization that there was a research problem since empirical and theoretical literature reviewed revealed that diversification of risks among alliance partners has an influence on the financial performance of insurance firms.

The hypothesis stated that there is no significant influence of diversification of risks among the alliance partners on the financial performance of insurance firms in Kenya. Based on simple linear regression analysis, diversification of risks had a positive and significant influence on financial performance of insurance firms in Kenya. Descriptive analysis indicated that insurance firms should diversify geographically, develop measures to create more liquidity and venture into specific business lines. Moreover, the findings highlighted the significance of reinsurance arrangements so as to minimize the underwriting costs and examination of systematic risks that may have a multiplier effect on risk exposure minimization and consequently improve insurance financial performance.

The correlation of diversification of risks and financial performance revealed a significant and positive relationship between the two variables. The study findings further confirmed an earlier study that observed that diversification of risks can offer firms many advantages such as synergies, cost sharing, risk reduction or brand improvement (Thomas, 2002).

The findings of the current study disapprove earlier findings by Hemrit and Ben-Arab (2012) and Chen *et al.*, (2009) studies who found no significant linkage that exist between the profitability of the firm and operational losses. However, the current study focused specifically on diversification of risks, and for this reason it adopted different measures of risk diversification.

LIMITATIONS OF THE STUDY

The study faced limitations characterized by the choice of the respondents who were mainly business leaders in their own right and restrictions imposed by the sampling technique that was purposive instead of random sampling technique method that is used for testing associations and differences. The current research study was limited to a sample size of four (4) line managers that were conveniently picked and these may not be a representation of the entire population. The study dealt with the 'context', which may have arisen owing to different management styles adopted by the insurers in their different business interests. Other limitations were beyond the researcher's control due to statistical model constraint and generalizability of the sample size.

RECOMMENDATIONS

The findings revealed a positive and significant influence between diversification of risks and financial performance of insurance firms in Kenya. There is need for insurance firms to create a portfolio of policies whose overall premium income will show minimum variability over time. Further, insurers need to form horizontal alliance with the intention of not only minimizing risk, but diversifying systemic risk which affects all policies and poses a big threat of destabilizing portfolio premium income. Additionally, systemic risk may be reduced by combining several insurance policies under one pool.

The current study demonstrates that when dealing with instances of potential huge losses in a given portfolio, the use of diversification as a mitigating strategy may be recommended for risk reduction. Moreover, the research findings, recommends firms to take bold decisions and actions that are at times a necessary condition. Eventually, firms that are strategic and are risk takers improve their market share and perform very well compared to them that shun risk taking. Based on the current research findings the study demonstrates that regardless of lines of business or regional spread, more diversified insurers tended to create more liquidity. For large insurers, line of business diversification had a statistically significant positive relationship with liquidity creation.

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