INFLUENCE OF LIQUIDITY POSITION OF ALLIANCE PARTNERS ON THE FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

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Abstract

Financial performance marks improvement in quantity, quality, and efficiency of financial intermediary services. The recurrent changes in the global economy, especially recession and general business environment dynamics, low market penetration and market share of insurance products, especially in the African continent, have necessitated the formation of horizontal alliance strategy. Business agreements such as those relating to alliance formation are key business trends that have become increasingly important in recent years. 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 self-designed questionnaires. The study also used secondary data obtained from Insurance Regulatory Authority of Kenya. 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 liquidity position and financial performance of insurance firm's insurance firms in Kenya. The study recommends liquidity creation, premium incomes and recapitalization as measures that can be taken to enhance insurance firm's liquidity position which the management and policy makers should consider.

Keywords: Liquidity position, insurance firms, financial performance, horizontal alliance strategy

INTRODUCTION

Generally, return on asset (ROA) and return on investment (ROI) have been widely used as financial performance indicators. The 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 increasing role of strategic alliances in the modern business landscape cannot be gainsaid. In the USA, Gleason, Mathur and Wiggins (2003) conducted a study that generated evidence on value creation in the financial services industries through the use of joint ventures and strategic alliances. Gleason, Mathur and Wiggins also observe that while an extensive body of literature has examined mergers, acquisitions, and consolidation activity in the insurance sector, little attention has been paid to examining how these institutions use the cooperative activities of joint ventures and strategic alliances to accomplish their growth objectives. Gleason, Mathur and Wiggins analyzed the effects of the use of joint ventures and strategic alliances by a sample of firms in the insurance industry. Their results show insurance companies experience significant abnormal returns of 0.66% on average when they announce their participation in a joint venture or strategic alliance. These abnormal returns are significantly positive across the four strategic motives of domestic, international, horizontal, and diversifying cooperative activities.

Horizontal alliance strategy may be postulated to enhance the liquidity position of the respective alliance partners (Oum, Park, Kim & Yu, 2004). The horizontal alliance strategy 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 strategy facilitates the testing with new technologies and markets. Demand and competitive uncertainty are some of the catalysts that impel competitors into horizontal alliance strategy 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).

In Kenya, Karekezi (2014) observes that the last decade has witnessed unprecedented alliance building in the insurance industry in Kenya. For instance, Saham Group of Morocco has invested in Mercantile Insurance Company (Kenya) Limited, Union Insurance of Mauritius buying shares in Phoenix Assurance of East Africa (Kenya) Limited. This has created market entry opportunities for these foreign firms which they may use as avenues for market penetration in the Kenyan market. Kenyan firms have also invested in foreign markets with the same objective. This phenomenon has dramatically changed the insurance landscape in Kenya, by creating firms that enjoy huge capital bases, and with options in exercising hybrid strategies.

In addition to this, there has been increased participation of foreign players in the insurance industry in Kenya, such as Liberty Life Insurance.

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). A variable which also has attributes in controlling industry-related and business cycle factors is liquidity, which is the quick assets ratio or the ratio of cash to total current liabilities. Cash requirements may be conditioned by industry practices, but also by the overall economic climate, since in lean time's cash flow crises can arise. Additionally, liquidity also helps capture firm-specific attributes, since the ability to manage working capital and acquire a greater quantity of cash balances relative to current liabilities reflects superior skills which are also likely to be reflected in a firm's ability to generate relatively greater profits.

Statement of the Problem

The financial performance of insurance firms all over the world and particularly those from the developing economies such as Kenya are of critical importance not only for their own survival but also for the smooth economic interaction of the different segments of the market. Byeongyong, Jin and Chia (2013) conducted a study aimed at measuring the level of US Property and Liability (P/L) insurer's liquidity creation and also to identify factors affecting P/L liquidity creation. Aduloju et al. (2008) conducted an empirical survey of the role of mergers and acquisitions in the recapitalization of the Nigerian insurance sector. The purpose of their study was to present findings that aimed at creating an understanding of the challenges faced in the sector and the reaction of insurance underwriters toward the recapitalization in the Nigerian insurance sector. Despite the fact that studies have been done on the influence of liquidity position on the performance of firms, very little if any is documented and none of these studies conducted dealt with horizontal alliance strategy on the financial performance of insurance firms. Therefore, this study attempts to fill in the knowledge gap in literature by determining the influence of liquidity position on the financial performance of insurance firms in Kenya.

Objective of the Study

The objective of this study was to determine the influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya.

Hypothesis

H0: There is no significant influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya.

LITERATURE REVIEW

The Resource Based View postulates the development of valuable, rare, inimitable and non-substitutable resources as the key to developing a sustainable competitive advantage and superior performance (Barney, 1991). Borrowing from the RBV then, a firms network relations through alliance formation or otherwise, are seen as a source of relational rent and competitive advantage. Alliance formation is seen as offering synergies between firm skills, competencies and capabilities, in terms of resources that can be leveraged to offer competitive advantage. This competitive advantage can be realized in terms of cost leadership, differentiation or focus or a combination of these (Porter, 1980).

Liquidity is a variable which also has attributes in controlling industry-related and business cycle factors. Cash requirements may be conditioned by industry practices, but also by the overall economic climate, since in lean time's cash flow crises can arise. Additionally, liquidity also helps capture firm-specific attributes, since the ability to manage working capital and acquire a greater quantity of cash balances relative to current liabilities reflects superior skills which are also likely to be reflected in a firm's ability to generate relatively greater profits. Horizontal alliance strategy may be postulated to enhance the liquidity positions of the respective alliance partners (Oum et al., 2004).

Duysters and Heimeriks (2007) observed that in order to successfully leverage on the synergies offered by its alliance partners, firms need information about the skills, competencies and capabilities of potential partners. The firm's historical level of collaborative experience is seen as key in enabling the firm to identify potential partners that will offer maximum value added relationships. Also, firms that have past experience in collaborative alliances were more resourceful in generating competitive advantage from these relationships and also, were more likely to engage on future collaborations. Experience in alliances and inter-firm collaborations then forms an important source of relational rent and provides opportunities for generating supernormal returns.

Armstrong and Shimizu (2007) further argued that alliances lead to the development and refinement of dynamic capabilities that involve the ability to assimilate firm and market specific knowledge. In this way, alliances allow firms to focus on their internal core competencies, through in-house specialization, and at the same time, exploit emerging opportunities that may fall beyond their scope of expertise. Therefore, firms engaged in alliances will constantly evaluate their partner's resources, competencies and capabilities and how these may be used to develop mutual added financial value.

In explaining these findings, Grantham (2007) argued that recurrent changes in the global economy, especially recession and general business environment dynamics, this in the

face of an erosion of the market penetration and market share of insurance products, especially in the African continent, have necessitated alliance formations. Grantham further observed this situation has worsened given the rising number of claims compared to declining gross premium incomes. This situation makes alliances very important, owing to the need of enjoying synergies associated with economies of scale, shared technological infrastructure, increased financial strength, access to new markets and availability of a diversified pool of human capital.

According to Waweru (2009), reliance on financial accounting measures has been frequently criticized. It has been argued, for example, that such measures are subject to manipulation, may systematically undervalue assets, create distortions due to the nature of depreciation policies elected, inventory valuation, and treatment of certain revenue and expenditure items, differ in methods adopted for consolidation of accounts; and lack standardization in the handling of accounting conventions.

Aduloju, Awoponle and Oke (2008) conducted an empirical survey of the role of mergers and acquisitions in the recapitalization of the Nigerian insurance sector. The purpose of their study was to present findings that aimed at creating an understanding of the challenges faced in the sector and the reaction of insurance underwriters toward the recapitalization in the Nigerian insurance sector. The study adopted stratified sampling strategy where staff of companies listed in the Nigeria Stock Exchange (NSE) was divided into top-, middle- and lower-management cadres. Within these strata, random sampling as applied to select samples of the insurance company staff and semi-structured questionnaires and interviews were used to collect primary data. Secondary data was collected from company records. A total of 54 responses were obtained and analyzed using means and standard deviations, while Chi-square was used to test hypothesis. The findings indicated that recapitalization, through alliance formation, had resulted in a robust insurance sector and that mergers and acquisitions were seen as the most viable options for insurance firms to remain as going concerns and for maximizing shareholder value. The study faced limitations from financial and non-financial resources as well as reluctance by the management in insurance firms to offer in-depth information owing to issues to do with confidentiality (Aduloju et al., 2008).

Byeongyong, Jin and Chia (2013) conducted a study aimed at measuring the level of US Property and Liability (P/L) insurer's liquidity creation and also to identify factors affecting P/L liquidity creation. Their methodology relied on secondary data obtained from accounting reports for the period dating from 1998 to 2007. In this study, liquid assets were defined as investments that matured within one year, such as cash, bonds and stocks. Illiquid assets had maturities greater than one year, e.g. mortgage loans. The proportions of reserves to be paid within one year, such as taxes, licenses and fees, unearned premiums, reinsurance payable and dividends

were classified as liquid liabilities. Funds held by insurer under reinsurance treaties, funds held or retained by insurer for account of others, provision for reinsurance, draft outstanding, and liability for amounts held under uninsured accident and health plans were categorized as illiquid liabilities.

Liquidity was based on the ease, cost, and time for meeting insurer obligations in terms of claims payments and any other expenses. Liquidity creation could be seen as the transformation of liquid liabilities into illiquid assets and an insurer with a high level of liquidity creation was considered as more risky to policy holders or claimants owing to the risk of default in the event when claims contractually come due. This is due to the fact that an insurer with a high level of liquidity creation holds more illiquid assets and a large number of liquid liabilities. If such an insurer receives a higher than expected number of claims, they may have to liquidate their assets at higher costs, or face litigation from policyholders and investors alike (Byeongyong et al., 2013).

Byeongyong et al., (2013) findings indicate that overall, insurers tended to be net destroyers of liquidity, implying that they tended to hold less illiquid assets and an overall lower amount of liquid liabilities. This enabled these institutions to maintain an acceptable and manageable level of risk in their investment portfolios. With regard to firm size, the findings indicate that smaller insurers are more likely to engage in higher levels of liquidity creation, as compared to larger insurers.

In addition, insurer capital was found to be inversely related to the levels of liquidity creation, implying that insurers with lower level of capital face more regulatory requirements and are forced to meet liquidity demand more (Berger & Bouwman, 2009). In most cases, asset size had a statistically significant negative relationship with liquidity creation, but this relationship was insignificant with regard to large insurers. These findings tend to support the push by regulators for alliance formation that leads to larger insurers by assets base as financial crisis will have a less severe impact on the insurance sector.

Srivastava and Ray (2013) conducted a research to determine a set of marketing, financial and operational variables that predicted the financial strength of general insurance firms in India. Primary data was collected from qualitative inputs from practicing managers and industry experts. Secondary data from the key financial, operational and business data of eight Indian insurance firms was also collected, compiled and analyzed. The NAIC IRIS ratios method was used to obtain an initial risk classification. Linear regression and Logit techniques were thereafter applied to estimate the significant factors (direction-wise and magnitude-wise) which influence insurer solvency.

Calandro and Lane (2004) observed that the underwriting or combined ratio has for a long period formed the basis for measuring operating financial performance in the insurance sector. The underwriting ratio is defined as the sum of the ratio of indemnity claims and related expenses to earned premiums and the ratio of operating expenses to written premiums. The underwriting ratio focuses attention on the core business of the insurance sector, mainly policy sales and claims handling, thus serving as a largely relevant operational measure over the years. However, insurance firms, just like other industries, have been subject to change, with revenue streams increasingly being generated by non-core business. These alternative revenue streams are what the underwriting ratio fails to capture, mainly the investment returns paid as premium commission by reinsurance companies to the primary underwriters who have efficiently and profitably underwritten their risks. Risk distribution (or reinsurance), which have grown in importance over time.

Investment returns as a percentage of premiums have dramatically increased over the years, while efficient reinsurance has become a critical part of capital management (Calandro & Lane, 2004). Investment income has become of increased importance as a profit centre owing to the shift from short-tailed policies (those whose claims required settlement in the short-term) to long-tailed policies (whose settlement period extended over several years).The increased numbers of the latter implied increased reserve funds (also known as premium float), whose return on investment constituted a formidable source of income for insurers. These and other change drivers have necessitated the development of innovative performance measures that reflect the broader drivers of value that have emerged over the years, in the insurance sector globally.

The concept of insurance financial performance has been interpreted in various ways. In applied studies, it is common to associate improvements in firm financial performance with increased profitability, higher efficiency and increased output (Teruel, 2008). Assessing managerial performance is a difficult task. Typically, the capital market only has the current profit statement and other public disclosures with which to assess performance. These are inadequate measures of managerial quality since they ignore "soft issues" and strategic off-the balance sheet items in such as human resource development, expansion of production capacity and Research and Development whose return can only be realized in subsequent accounting periods (Star, 2008).

Extant research addressing insurance financial performance has relied on accounting-based financial indicators (Vuong,2008 and Van, 2010), market-based indicators as well as combinations of both (Waweru, 2009). The nature of a given financial performance indicator may be fundamental, as there is some disagreement regarding the extent to which any board or

executive decisions might impact accounting versus market-based measures of financial performance.

METHODOLOGY

This study adopted positivism research philosophy, which holds that reality is concretized and has an independent existence of its own 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 study was also a survey since the basic idea was to measure the influence of selected independent variables on given dependent variables by asking people questions followed by an examination of the variables.

The target population for this study was 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 and a sample size of 176 respondents was obtained.

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**

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, as 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. In this section, a variety of statistical procedures was used in the analysis of the data starting with descriptive statistics followed by more complex procedures such as factor analysis, correlations, and multivariable linear regression. All quantitative data analysis was done using Statistical Package for the Social Sciences (SPSS) software 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 will inform 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 multiple linear regression (the findings from the testing of hypothesis was significant at $p \leq .05$). Simple linear regressions helped the researcher understand the causal relationship between firm performance and the independent variables (Sprinthall, 2011).

Model: Influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya.

$Y1 = \beta 0 + \beta 1X1 + e$

Where:

Y = Financial Performance

X1 = Liquidity position

$\beta 0$ = Model intercept.

$\beta 1$ = The beta coefficient of liquidity position.

e = Error term of the model.

FINDINGS

Reliability

Reliability is an indication of the stability and consistency with which the instrument measures a concept and helps to assess the goodness of a measure (Bryman, 2008). In this study, Cronbach's Alpha was used to examine the research instrument reliability. Sekaran and Bougie (2010) argued that Cronbach's Alpha ranges between 0-1 and the higher the coefficient the more reliable the research instrument. In table 2, the cronbach's alpha value of 0.847 was accepted with good internal consistency.

Table 2: Reliability coefficient for Liquidity Position

Variable	Cronbach's Alpha	Number of items	Comment
Liquidity Position	0.847	5	Accepted

Descriptive Statistics on Liquidity Position

The influence of the liquidity position of alliance partners on financial performance of insurance firms in Kenya

The influence of liquidity position of alliance partners on the performance of insurance firms in Kenya was examined using the five statements indicated in Table 3. The respondents were requested to indicate their level of agreement with the given statements concerning the financial strength, ability to meet insurer obligations in settling claims and other expenses through alliance formation, increase of underwriting margins by at least five percent in the insurance firms. The results in the table below shows that 42.9% of the respondents strongly agreed, 34.9% agreed, 11.1% neither agreed nor disagreed, 6.3% disagreed and 4.7% strongly disagreed. The findings show that majority of the respondents (77.8%) believed that increased ability to meet insurer obligations in settling claims and other expenses through alliance formation, increases underwriting margins by at least five percent.

The findings concur with Obonyo (2016) who found a negative relationship between retention ratio and underwriting profit ratio indicates that when insurance companies cede their risks to reinsurance companies, this reduces their retention of the insurance premiums, the underwriting profit ratio increases. This is because when the insured perils occur, the insurance firms share the losses with the reinsurance companies commensurate to the ratio of the risk retained and ceded. This way, insurance firms that have less retentions will have better underwriting profits therefore the need for alliance formation to improve on the firm's liquidity.

The study aimed at establishing increased financial strength due to alliance formation increases earnings before profits and taxes, by at least five percent in the insurance firms. The findings indicated that 40.4% of the respondents strongly agreed, 37.3% agreed, 12.6% neither agreed nor disagreed, 7.1% disagreed and 2.3% strongly disagreed. Majority of the respondents strongly agreed that increased financial strength due to alliance formation increases earnings before profits and taxes, by at least five percent in the insurance firms.

Increased liquidity creation occasioned by alliance formation increases insurance firm earnings before profits and taxes, by at least five percent was another liquidity position

indicator that was examined. Results indicated that 45.2% of the respondents strongly agreed, 36.5% agreed, 7.9% neither agreed nor disagreed, 6.3% disagreed and 3.9% strongly disagreed. This implied that increased liquidity creation occasioned by alliance formation is imperative in profit earnings since most respondents strongly agreed with the statement.

The study examined whether increases in gross premium incomes due to alliance formation has an influence on the underwriting margins. The findings showed that 41.2% of the respondents strongly agreed, 33.3% agreed, 9.5% strongly disagreed while 7.9% of the respondents each neither agreed nor disagreed and disagreed. This implied that most respondents agreed that increases in gross premium incomes due to alliance formation have an influence on the underwriting margins.

In regard to recapitalization, thus increasing the firm asset base, through alliance formation maximizes earnings before profits and taxes, by at least five percent, 38% of the respondents strongly agreed, 36.5% agreed, 8.7% neither agreed nor disagreed, 8.7% disagreed and 7.9% strongly disagreed. The implication is that earnings before profits and taxes are a factor of the firm asset base since most respondents agreed with the statement. The findings are in line with Wambu (2013) who conducted a study on the relationship between the profitability and the liquidity position of commercial banks in Kenya. He found out that there was a positive relationship between profitability and liquidity of commercial banks in Kenya; however, the coefficients from the study were not significant.

Results of the study were in agreement with past studies, the sample taken on the insurance firms reflect the earlier finding that liquidity position has a positive and significant effect on insurance firm performance. As Grantham (2007) argued liquidity position to insurance firm is fundamental because of the need to maintain sufficient level of liquidity to be able to pay claims that are usually received unexpectedly. Alliances therefore help to improve the liquidity position by encouraging sharing of resources such technological infrastructure, enabling the realization of synergy in use of scale and more importantly ensuring financial strength is enhanced by the widening of markets (Grantham, 2007). Further, findings by Panigrahi (2013) on liquidity position of five leading Indian cement companies, found out that the liquidity position of small companies were better as compared to big ones and the growth rate of current ratio, quick ratio and working capital to current assets of all the companies were negative which indicated an unsound liquidity position.

Table 3: Liquidity Position Indicators

Liquidity Position Indicators	SD	D	N	A	SA			Total
	%	%	%	%	%	Mean	SD	%
Increased ability to meet insurer obligations in settling claims and other expenses through alliance formation, increases underwriting margins, by at least five percent	4.7	6.3	11.1	34.9	42.9	5	1	100
Increased financial strength due to alliance formation increases earnings before profits and taxes, by at least five percent	2.3	7.1	12.6	37.3	40.4	5	1	100
Increased liquidity creation occasioned by alliance formation increases insurance firm earnings before profits and taxes, by at least five percent	3.9	6.3	7.9	36.5	45.2	5	1	100
Increases in gross premium incomes due to alliance formation has an effect on the underwriting margins	9.5	7.9	7.9	33.3	41.2	5	1	100
Recapitalization, thus increasing the firm asset base, through alliance formation maximizes earnings before profits and taxes, by at least five percent	7.9	8.7	8.7	36.5	38.0	5	1	100

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

Descriptive statistics on 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 Pauwelset 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, thus bold decisions and actions are many 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

Financial Performance Statements	SD	D	N	A	SA			Total
	%	%	%	%	%	Mean	SD	%
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 financial 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)

Diagnostics Tests

Normality Test

To test the normality of the dependent variable, performance of insurance firms, a One-Sample Kolmogorov-Smirnov Test (KS) was done. The null and the alternative hypothesis are stated below.

H0: The data is normally distributed

H1: The data is not normally distributed.

The rule is that if the p-value is greater than 0.05, H0 is accepted and H1 is rejected, if the p-value is less than 0.05, H0 is rejected and H1 is accepted.

The findings of this study in table 5 indicated that Kolmogorov-Smirnov Z statistic is 0.902 (p-value= 0.390). Since the statistic is high with the p-value greater than 0.05, the null hypothesis was accepted and conclusion made that the data was normally distributed and therefore fit for regression analysis.

Table 5: One- Sample Kolmogorov-Smirnov Test for Firm Performance

	Firm Performance
N	126
Kolmogorov-Smirnov Z	.902
Asymp. Sig. (2-tailed)	0.390

Homoscedasticity Test

According to Garson (2012), homoscedasticity suggests that the dependent variable has an equal level of variability for each of the values of the independent variables. Homoscedasticity test is used to test for variance in residuals in the regression model used. Existence of equal variance of the error terms means normal distribution. Lack of equal level of variability for each value of the independent variables is homoscedasticity. Breusch-Pagan Test was used to test for homogeneity in a linear regression mode. The null and alternative hypotheses are stated below.

H0: The data is heterogeneous in variance

H1: The data is not heterogeneous in variance

The rule is that if the p-value is greater than 0.05, H0 is accepted and H1 is rejected, if the p-value is less than 0.05, H0 is rejected and H1 is accepted.

The findings of the test as shown in Table 6 indicate that the test statistic is 3.4981 (p-value= 0.6237) with the degrees of freedom. Since the p-value is greater than 0.05, the null

hypothesis was accepted and conclusion made that there was homoscedasticity in the data thus satisfying the assumption of the regression.

Table 6: Homoscedasticity Test

Test Statistic	Degrees of Freedom	Sig.
3.4981	5	0.6237

Results on the Regression Analysis and ANOVA Tests for the Objective of the Study

The results of the regression and ANOVA tests for the objective of the study are stated in this section. Kothari (2014) defined regression as the determination of the statistical relationship between two or more variables. In simple regression, there are two variables; one variable (independent) is the cause of the behaviour of another variable (dependent). When there are two or more independent variables, the analysis concerning relationship is the multiple regression and multiple regression equation is the equation describing the relationship. Further, Kothari (2014) stated that ANOVA is the procedure for testing the difference among different groups of data for homogeneity. In ANOVA, the total amount of variation in a set of data is broken down into that amount attributed to chance and that amount which can be attributed to specific causes.

The influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya

The study examined the influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya and the statistical significance of the variables, regression analysis was established.

Model Summary of the Regression Analysis between Liquidity position and the financial performance

The results in Table 7, shows a relationship R= 0.722, indicating a strong positive relationship between liquidity position and performance of insurance firms. R^2= 0.521 indicates that 52.1% of the variation in firms financial performance can be explained by a unit change in liquidity position. The remaining 47.9% is explained by underwriting capacity, co-insurance of large risks, diversification of risks and information sharing.

Table 7: Model Summary for the Regression Analysis between Liquidity
Position and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.722[a]	.521	.517	1.32169	1.830

a. Predictors: (Constant), Liquidity Position
b. Dependent Variable: Financial   Performance

ANOVA Results for liquidity position and financial performance.

H0: There is no significant influence of liquidity position of 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 liquidity position of alliance partners on the performance of insurance firms in Kenya. The ANOVA test in Table 8 shows that the F value is 135.037 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 liquidity position of alliance partners on the financial performance of insurance firms in Kenya.

Table 8: ANOVA Results for Liquidity Position and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	235.893	1	235.893	135.037	.000[a]
	Residual	216.613	124	1.747		
	Total	452.506	125			

a. Predictors: (Constant), Liquidity Position
b. Dependent Variable: Performance

Coefficients for Regression between Liquidity Position and financial Performance

To test the significance of regression relationship between liquidity position and financial performance of insurance firms, regression coefficients, the intercept and the significance of all the coefficients in the model were subjected to 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 liquidity position and 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 9 shows that the constant = 0.075 is different from 0, since the p value= 0.000 is less than 0.05. The t value for the constant is 8.333, while the t value for the liquidity position is 11.621, which indicates they are significant. The regression model from the results was

Y= 0.075+ 0.714 X

The beta value of 0.714 implies that a unit change in liquidity position will lead to 0.714 units change in the firm performance. This confirms that there is a significant positive relationship between liquidity position and performance of insurance firms in Kenya. This implies that the null hypothesis that (β) =0 is rejected and the alternative hypothesis accepted.

A review of Byeongyong's et al., (2013) study revealed that organization that engage in converting liquid liabilities into illiquid assets may be imposing unnecessary risk to the firm and to policyholder as well. One of the ways to ensure that such firm remain liquid is through alliances as it open market and tends to diversify unavoidable risk away, otherwise firms holds a high level of illiquid assets may be forced to liquidate them at the time of need at extra cost.

Table 9: Coefficients for Regression between
Liquidity Position and Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.075	.009		8.333	.000
	Liquidity Position	.714	.061	.722	11.621	.000

a. Dependent Variable: Performance

SUMMARY

The main objective of this study was to find out the influence of liquidity position of alliance partners on the financial performance of insurance firms in Kenya.

The current study was hinged from the realization that there was a research problem since empirical and theoretical literature reviewed revealed that horizontal alliance strategy has influence on insurance firm performance though there is limited documented evidence on their influence in Kenyan perspective.

The findings show that 77.8 percent of the respondents believed that increased ability to meet insurer obligations in settling claims and other expenses through alliance formation increases underwriting margins by at least five percent which is a significant financial performance.

The findings concur with Obonyo (2016) who found a negative relationship between retention ratio and underwriting profit ratio this performance indicates that when insurance firms cede their risks to reinsurance companies, this reduces their retention of the insurance premiums, the underwriting profit ratio increases. This is because when the insured perils occur, the insurance firms share the losses with the reinsurance companies commensurate to the ratio of the risk retained and ceded. This way, insurance firms that have less retentions will have better underwriting profits therefore the need for alliance formation to improve on the firm's liquidity.

The findings showed that 41.2 percent of the respondents strongly agreed that increases in gross premium incomes due to alliance formation had an influence on the profitability margins. This implied that most respondents agreed that increases in gross premium incomes due to alliance formation have an influence on the underwriting margins. The findings are in line with Wambu (2013) who conducted a study on the relationship between the profitability and the liquidity position of commercial banks in Kenya.

The results of data analysis and findings further indicated that 52.1% of the variation in firm's performance can be explained by a unit change in liquidity position. The remaining 47.9% is explained by other factors not captured in the model.

In summary, the survey found that insurance firm's financial performance is strongly supported by stable liquidity position through increased investment in business lines, increased underwriting premiums and management of operation costs.

CONCLUSION

The results of the hypothesis indicated that liquidity had a significant influence on the financial performance of insurance firms in Kenya. The model coefficient for correlation and regression were all positive and contributed significantly to insurance firm performance. This implied that if insurance firms adopted a horizontal alliance strategy and matched their liquidity attributes as spelt out in this study they would increase their earnings, thereby improving on their financial performance. The results of the current study were in support of the resource based view theory that stipulates that accumulation of liquidity enhances positive contribution to insurance firm performance. Moreover, descriptive and inferential analysis revealed that liquidity had positive contribution to insurance firm performance since most of the respondents strongly agreed with the influence of all attributes. Significant influence of liquidity on insurance firm performance mirrored the documented empirical review which had reported significant influence of liquidity in on insurance firm performance. The findings of this study concur with suggestions made by Penrose (1959) and (Garnsey, Stam, & Heffernan, 2006) the theory of firm growth in

international business, that undertaking different activities required different amounts and types of resources. Penrose (1959) viewed growth as resulting from firms' decisions to seize expansion opportunities on their own, even if, to do so, they had to purchase additional resources.

In assessing the liquidity position of an alliance partner the financial strength, insurer ability meet its obligations, liquidity creation, premium incomes and recapitalization are measures that should be considered. Liquidity position not only assist the insurance firms in successful financial performance, but also in the internal operations of the business especially in policy formulation. Proper liquidity position levels nurtures insurance firms at crucial junctures in their development and lay the foundation for an emerging generation of locally owned large enterprises.

The result implies that majority of the respondents agreed that ability to manage operational risks and underwriting losses leads to profitability. These conclusions bring about important implications in applying liquidity position and improving financial performance. From the findings, it can be concluded that liquidity position of alliance partners has a positive influence on the financial performance of insurance firms in Kenya.

LIMITATIONS OF THE STUDY

The current study faced limitations characterized by restrictions imposed by the survey method. The researcher developed questions general enough to minimally be appropriate for all respondents, possibly missing out what was most appropriate to the majority of the respondents. The current research study was limited to survey research excluding personal interview approaches. The study dealt with the 'context', which may have arisen owing to different management styles adopted by the insurers in their different business pursuits. The approach of questions in the questionnaire was similar and closed ended questions limiting the freedom of response. The current study faced reluctance by management of some insurance firms who declined to offer in-depth financial information owing it on issues to do with confidentiality, to mitigate this challenge we assured them that the information provided was solely for academic purposes and it will be handled with confidentiality. Still, there were some participants who did not want to report their actual, true responses and therefore this constituted another limitation to the study. Micro- and macro-economic context did not remain constant throughout the period of the study although any fluctuations may not have been so significant to invalidate the research objectives/findings. To mitigate these shortcomings, the research methodology relied on standardization.

RECOMMENDATIONS

This research study has revealed that liquidity position plays a significant role in the financial performance of insurance firms. Therefore, insurance firms in Kenya should ensure that they maintain good liquidity position in their business ventures for greater success. To enhance this, the government should be able to come up with policy measures that ensures that proper liquidity positions are adhered to. This can be achieved by giving incentives to those firms that meet these conditions like tax waiver.

From the findings of the research, the study recommends that financial institutions and in particular insurance firms should design effective service delivery channels and liquidity management programs in order to promote financial performance. Decision making in regard to liquidity position should be contingent to development needs enhancing penetration levels of insurance services. Financial strength, insurer obligations, liquidity creation, premium incomes and recapitalization are measures taken to enhance insurance liquidity position which the policy makers should consider to enhance sound financial performance.

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