The Determinants of Corporate Financial Performance in Corporate Governance Mechanism of Private Insurance Companies in Ethiopia

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ABSTRACT

This study was undertaken with the objective of identifying the impact of corporate governance mechanism on financial performance of private insurance companies in Ethiopia. The study was based on thirteen private insurance companies' currently practicing insurance business. They were sampled by using purposive sampling techniques, within the period of 2012-2022, totalling 143 observations. The study used quantitative approach to measure the data. To collect the primary and secondary data, interview and document review was conducted. The collected data were analysed through usage of panel data analysis through multiple linear regression model by the help of SPSS v26 and Eview 10 softwares. The study analyses a range of internal corporate governance variables board of director's compensation, board size, management soundness, dividend policy and frequency of board meeting. The random effects technique has been applied to find out the most significant variables from considered internal corporate governance variable. The regression results show that management soundness and frequency of board meeting has positive and significant effects on financial performance of private insurers' proxy by ROE. In contrast, board size, dividend policy and board of director's compensation don't have statically significant impacts on insurers' performance but have positive relationship. Therefore the study concludes that all corporate governance measures have a positive impact on insurance companies' financial performance. In general, to obtain significant and positive impact stakeholders should give emphasis on management soundness and frequency of board meeting when they set governance policy for industry as general and for the company specifically.

1. INTRODUCTION

The concept of insurance was developed to address the pervasive need for protection against various risks of loss, and it functions effectively by pooling individual risks into broader categories. To maximize the benefits of insurance, sound corporate governance is essential. Corporate governance serves as the backbone of a company's operations, ensuring transparency, accountability, and proper management structures. In a dynamic and fast-paced business environment, companies must be agile and responsive to market demands (Milenović & Ratković, 2012). Good governance defines the distribution of rights and responsibilities within a company, and it establishes the rules and procedures for decision-making, internal control, and risk management. It also balances the interests of shareholders with those of other stakeholders, such as employees, customers, suppliers, and communities (Zinkin, 2019).

Corporate governance has been defined as the system by which companies are directed and managed with the ultimate goal of ensuring long-term shareholder value while considering the interests of all stakeholders (Zinkin, 2019). According to G. O'Donovan (2007), it is an internal framework of policies, processes, and people that guide a company in managing its business with integrity and accountability. Proper corporate governance leads to stronger, more efficient companies that can effectively manage environmental and social responsibilities. Developing countries, in particular, need corporate governance systems that mitigate risks, attract investment, and foster sustainable growth (Cagrow Consulting, 2017).

The importance of corporate governance extends beyond the corporation itself, contributing to broader economic and social development. As companies take on responsibilities for social progress, effective governance becomes critical not only for their own success but also for the overall well-being of society. A well-functioning corporate governance system

builds trust in the market economy, lowers the cost of capital, and encourages companies to use resources efficiently, ultimately fostering economic growth (Vukčević, 2012).

Numerous studies from around the world highlight the importance of corporate governance. In developed countries, efforts to implement good governance practices began much earlier than in developing countries. For instance, in Malaysia, significant initiatives have been undertaken to establish the infrastructure necessary for effective corporate governance (Shamsher & Zulkarnain, 2011). The globalization of financial markets has also underscored the need for harmonized corporate governance practices across nations. Furthermore, corporate governance is critical in both private and public companies, regardless of their size. Laws and regulations worldwide increasingly demand that companies adopt the best governance practices to protect stakeholders' rights (Student Company Secretary, 2021).

Corporate governance reforms have evolved to address modern business challenges, including geopolitical changes, social compliance, and cyber security risks (J. Kiranmai & R.K. Mishra, 2022). In regions like Asia and Latin America, concentrated ownership structures have driven the need for more independent board members to protect minority shareholders (Franceen T. Chua, 2013). European companies, meanwhile, have led the way in integrating sustainability into their governance frameworks.

Studies from around the world have demonstrated a positive relationship between corporate governance and financial performance. For example, Shamsher & Zulkarnain (2011) found that institutional ownership and corporate performance were positively correlated. In India, Priyanka (2013) observed that governance ratings significantly influenced corporate financial performance. Amidu (2007) found that financial performance, as measured by return on assets, was positively related to dividend policies. However, some studies reveal mixed results. For instance, Duc Hong & Tri Minh Nguyen (2014) reported multiple effects of governance on firm performance in Vietnam, while Keyre & Ausloos (2020) found varying relationships between governance mechanisms and firm performance in London-listed companies.

Despite these global findings, there is a recognized gap in research concerning corporate governance and financial performance in developing economies. The global financial crises and corporate scandals have further emphasized the value of strong governance structures for long-term sustainability and performance.

In Ethiopia, limited research has been conducted on corporate governance, particularly in relation to financial performance. Existing studies have primarily focused on the banking and insurance industries. For example, Bayelign et al. (2022) found that board size, management soundness, and financial disclosure positively influenced the financial performance of insurance companies in Ethiopia. Similarly, Bonsa (2015) identified a positive relationship between corporate governance and financial performance. However, other studies, such as those by Gardachew (2017), found no significant correlation between governance mechanisms and company performance.

Despite the few studies conducted in Ethiopia on corporate governance and financial performance, none have specifically addressed the insurance industry in detail. The insurance sector plays a critical role in risk management for the broader community, pooling risks and offering protection against financial losses. To the best of the researcher's knowledge, no study has comprehensively examined the impact of corporate governance mechanisms on the financial performance of private insurance companies in Ethiopia. This study aims to fill that gap by focusing on this sector and providing new insights into how governance practices influence financial outcomes in the Ethiopian insurance industry.

2. METHODS AND MATERIALS

An explanatory research design was employed to investigate the cause-and-effect relationship between corporate governance and financial performance, utilizing a quantitative research approach to assess this impact. The target population comprised 18 insurance companies, of which 17 were privately owned. Due to data unavailability, 13 private insurance companies were purposively selected based on their audited financial reports from 2012 to 2022.

Both primary and secondary data were collected for the study. Primary data were obtained through interviews, while secondary data were sourced from the National Bank of Ethiopia and the audited financial statements and board reports

of the insurance companies for the years 2012 to 2022. Data collection involved reviewing corporate governance information, director profiles, and financial performance metrics such as balance sheets, cash flow statements, and statements of comprehensive income.

The data were analyzed using multiple linear regression to assess the relationship between corporate governance and financial performance, with Return on Equity (ROE) serving as the dependent variable. The independent variables included board size, board compensation, management soundness, dividend policy, and the frequency of board meetings. The analysis was conducted using SPSS v26 to ensure the model fit various assumptions of multiple linear regression.

ROE was used as a measure of financial performance, reflecting the company's profitability relative to shareholders' equity. The independent variables were chosen based on previous empirical studies and theories related to corporate governance. Board size was measured by the total number of directors, board compensation by the total annual remuneration, management soundness by the ratio of total expenses to net income, dividend policy by the ratio of dividends paid to net income, and frequency of board meetings by the total number of meetings held annually.This study used the multiple linear regressions Model.

$ROE = \beta_0 + \beta_1 * BSIZE + \beta_2 * MGTS + \beta_3 * DPOLICY + \beta_4 DRCOMP + \beta_5 FBMETING + \epsilon$

Where,   ROE= return on equity

β_0= constant term

BSIZE=board size

MGTSOUNDNESS =management soundness

DPOLICY= dividend policy

DRCOMP= board of directors compensation

FBMETING= frequency of board meeting

ϵ= error term

3. ANALYSIS RESULT AND DISCUSSIONS
3.1. Test Results for the Multiple Linear Regression Model Assumptions
3.1.1. Test for normality assumption

Normality test is very important in conducting a research.it used to determine whether sample data has been drawn from a normally distributed population which is of course within some tolerance level (laerd statistics, 2018). Keith (2006) indicates that normality test provides the information about predicted values.

Figure 1: Normality Test Result
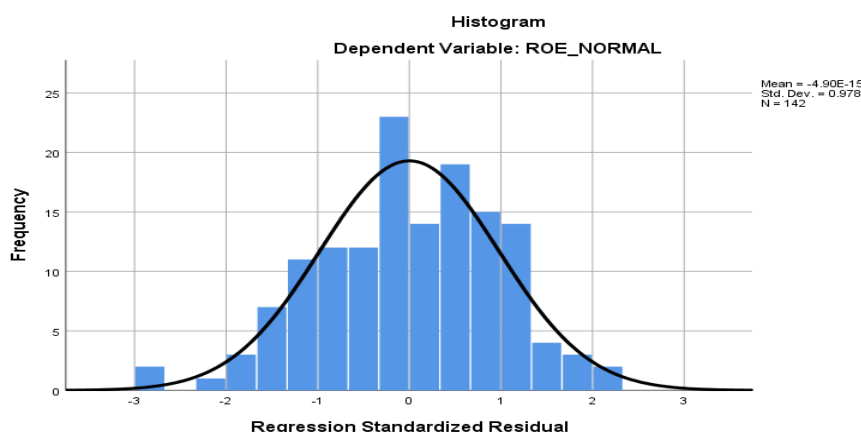
Source: researcher's own computation (2023).

As we can see from the figure 1 the graph is bell shaped and symmetric to mean. Which indicates that the data used in the study is normally distributed.

3.1.2.   Test for Linearity Assumption

Linearity means that the predictor variables in the regression have a straight line relationship with the outcome variable (statistics solution, 2023).without testing linearity of the variables one can't identify the true relationship of the variables which leads to the significant reduction of accuracy of the model used (shweta, 2021).bivariate correlations were employed in order to guarantee whether the linearity assumption was satisfied on table 1.

The result shows that return on equity (ROE_NORMAL) has significant relationship with frequency of board meeting (FBMETING), $r(143) = .937$, $p< .05$,board size (BSIZE), $r(143)= .189$,$p< 0.05$, management soundness (MGTSOUNDNESS_inverse), $r(143) = .450$, $p<0.05$, director's compensation (DRCOM_log), $r(143) =.341$, $p<0.05$ and dividend policy (DPOLICY), $r(143) =-.179$,$p< .05$.

Table 1 Linearity Test

Correlations

		ROE_NORMAL	BSIZE	MGTSOUND NESS_inverse	DRCOM_log	FBMETING	DPOLICY
ROE_NORMAL	Pearson Correlation	1	.189*	.450**	.341**	.937**	-.179*
	Sig. (2-tailed)		.024	.000	.000	.000	.033
	N	142	142	142	142	142	142
BSIZE	Pearson Correlation	.189*	1	.047	.047	.186*	.064
	Sig. (2-tailed)	.024		.578	.575	.026	.445
	N	142	143	143	143	143	143
MGTSOUNDNESS_inverse	Pearson Correlation	.450**	.047	1	.301**	.320**	.150
	Sig. (2-tailed)	.000	.578		.000	.000	.073
	N	142	143	143	143	143	143
DRCOM_log	Pearson Correlation	.341**	.047	.301**	1	.325**	.001
	Sig. (2-tailed)	.000	.575	.000		.000	.986
	N	142	143	143	143	143	143
FBMETING	Pearson Correlation	.937**	.186*	.320**	.325**	1	-.248**
	Sig. (2-tailed)	.000	.026	.000	.000		.003
	N	142	143	143	143	143	143
DPOLICY	Pearson Correlation	-.179*	.064	.150	.001	-.248**	1
	Sig. (2-tailed)	.033	.445	.073	.986	.003	
	N	142	143	143	143	143	143

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: researcher's own computation (2023).

3.1.3.   Test for Multicollinearity Assumption

Multicollinearity occurs when the multiple linear regression analysis includes several variables that are significantly correlated not only with the dependent variable but also to each other.it makes some of the significant variables under study to be statistically insignificant (Shrestha,2020). A little bit of multicollearity sometimes will cause big problem but when it is moderate of high then it will be a problem to be solved (Daoud ,2017). According to Tabachink and Fidell (2001) if the tolerance value is <0.1 and VIF is >10, at indicates the presence of Multicollinearity in the data. Therefore the variables used in this study are free from the violation of Multicollinearity assumption.

Table 2 Multicollinearity Test

Coefficients[a]

| Model		Collinearity Statistics	
		Tolerance	VIF
1	DP0LICY	.868	1.152
	BSIZE	.950	1.053
	FBMETING	.716	1.397
	MGTSOUNDNESS_inverse	.797	1.255
	DRCOM_log	.848	1.179

a. Dependent Variable: ROE_NORMAL

Source: researcher's own computation (2023).

3.1.4. Test for Heteroskedasity(Heteroscedasticity) Assumption

As Dekha (2021) explained heterodasticity is a condition where the error term is not constant with on the independent. heteroscedasticity can cause some errors in linear regression model since this regression OLS (ordinary least square) algorithm which is strongly influenced by variance consistency. As Dekha (2021) also adds that the inconsistency of a variance that occurs in heteroscedasticity can cause the linear regression model to be under fitting (high bias) and doesn't have a good performance of robustness. Therefore the importance of heteroscedasticity is to ensure our model will produce an unbiased and rebuts estimation.

In this study the researcher used visualization method (plotting a graph of residuals) to determine the heteroscedasticity of the data. Visually if there appears to be a fan or cone shape in residual plot, it indicates the presence of heteroscedasticity. Correspondingly regression with heteroscedasticity shows a pattern where the variances of the residuals increase along with the fitted values (CFI team, 2023). Since figure 2 is neither fan nor cone shaped in residual plot, it is free from the presentation of heterodasticity. This supports that error term is constant with on the independent.

Figure 2: Heteroskedasity Test Result
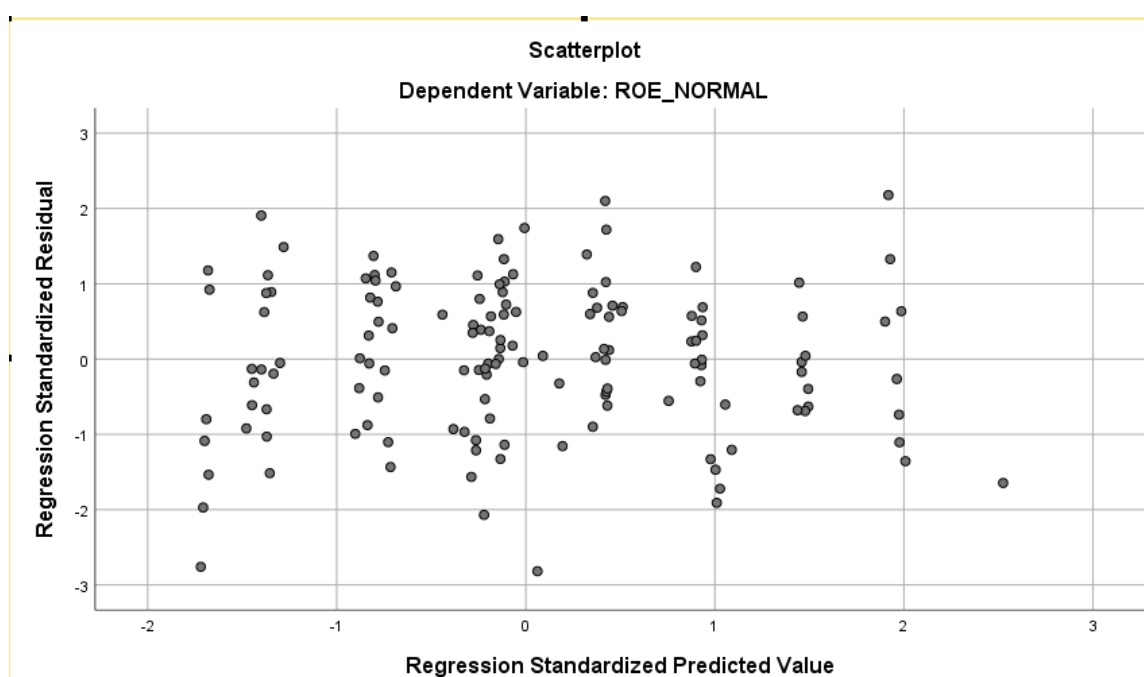
Source: researcher's own computation (2023).

3.1.5. Test for Autocorrelation Assumption

Autocorrelation exists when successive values of a random variable, ordered over either time or across space, have a nonzero (Clarke and Granto, 2006). When this assumption is not met in the context of time series research designs, the errors are said to be autocorrelated or dependent. time series designs involve the collection of data from a single participant at many points in time rather than from many participants at a time The assumption of independent errors inheret in many parametric statistical may not be met. When this occurs, the outcome of these analysisand the conclusions drawn from them are likely to be misleading unless corrective action is taken (Huitema and Laraway, 2006).

This study used Durbin-Watson to test the autocorrelation assumption. The Durbin-Watson statistic lies in range 0 – 4.a value of 2 or nearly 2 indicates that there is no first order autocorrelation.an acceptable range is 1.50 – 2.50.where successive error differences are small, Durbin –Watson is low (less than 1.50) which indicates the presence of positive autocorrelation (SAP affiliate company,2016).

Table 4.3 Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.948[a]	.899	.896	.09117	1.608

a. Predictors: (Constant), DRCOM_log, DP0LICY, BSIZE, MGTSOUNDNESS_inverse, FBMETING

b. Dependent Variable: ROE_NORMAL

Source: researcher's own computation (2023).

Therefore the result of Durbin –Watson is 1.608 which is found 1.50 – 2.50. This indicates that there is no first order autocorrelation between variables.

3.2. Model Selection; Fixed Effect versus Random Effect Models

The most often estimated models for panel/cross sectional time series data are probably fixed effects (FEM) and random effects models (REM)(Williams,2018). Since this study used panel data from 2012-2022, it checked whether which of the two (FEM or REM) models provide consistent estimates for this study.

For selecting the best way for data analysis this study used Hausman test distinguishes the appropriate model. And the following hypothesis was developed.

Ho: Random effect model is appropriate.

H1: Random effect model is not appropriate.

The Hausman test, according to Li Yuqi (2007), compares a more effective model to a less effective but reliable model to ensure that the more effective model likewise produces reliable results. The fixed effects model is preferable to the random effects model if the p-value for the Hausman test is less than 5% (Brooks, 2008).

The test of null hypothesis was preferred regression method .Table 4.4 demonstrates that the test of p-value was 0.8573 which was greater than 5%. Therefore the null hypothesis was accepted. In another way the random effect was preferred. Thus, in this study random effect model was used to test impact of corporate governance on the financial performance of private insurance companies.

Table 4 Hausman test for Fixed, Random Effect Correlated Random Effects

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.940575	5	0.8573

Source: researcher's own computation (2023).

3.3. Results
3.3.1. Correlation Analysis of the Study Variables

The study presents the results and discussions of the Pearson correlation analysis, which identifies the relationship among the measured internal corporate governance mechanism variables and the financial performance of insurers, using Pearson correlation coefficients to display the magnitude and direction of the linear relationships. The correlation matrix in Table 4.5 shows the relationship between the dependent variable, return on equity (ROE_NORMAL), and independent variables such as directors' compensation (DRCOM_log), management soundness (MGTSOUNDNESS_inverse), dividend policy (DPOLICY), board size (BSIZE), and frequency of board meetings (FBMETING). According to Heidel (2023), a p-value less than 0.05 indicates a statistically significant bivariate association between two continuous variables. The analysis reveals that ROE_NORMAL has a positive significant association with DRCOM_log ($p = 0.000$), MGTSOUNDNESS_inverse ($p = 0.000$), DPOLICY ($p = 0.033$), BSIZE ($p = 0.024$), and FBMETING ($p = 0.000$). While the correlation analysis illustrates the strength and direction of the correlation between the studied variables and ROE, it does not allow for conclusions about the nature of these relationships. Consequently, correlation analysis alone cannot explain the relationship between corporate governance characteristics and performance metrics; therefore, regression analysis, which addresses the limitations of correlation analysis, is proposed as the primary method of analysis.

Table 5 correlation matrix

Correlations

		ROE_NORMAL	BSIZE	MGTSOUNDNESS_inverse	DRCOM_log	FBMETING	DPOLICY
ROE_NORMAL	Pearson Correlation	1	.189*	.450**	.341**	.937**	-.179*
	Sig. (2-tailed)		.024	.000	.000	.000	.033
	N	142	142	142	142	142	142
BSIZE	Pearson Correlation	.189*	1	.047	.047	.186*	.064
	Sig. (2-tailed)	.024		.578	.575	.026	.445
	N	142	143	143	143	143	143
MGTSOUNDNESS_inverse	Pearson Correlation	.450**	.047	1	.301**	.320**	.150
	Sig. (2-tailed)	.000	.578		.000	.000	.073
	N	142	143	143	143	143	143
DRCOM_log	Pearson Correlation	.341**	.047	.301**	1	.325**	.001
	Sig. (2-tailed)	.000	.575	.000		.000	.986
	N	142	143	143	143	143	143
FBMETING	Pearson Correlation	.937**	.186*	.320**	.325**	1	-.248**
	Sig. (2-tailed)	.000	.026	.000	.000		.003
	N	142	143	143	143	143	143
DPOLICY	Pearson Correlation	-.179*	.064	.150	.001	-.248**	1
	Sig. (2-tailed)	.033	.445	.073	.986	.003	
	N	142	143	143	143	143	143

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: researcher's own computation (2023).

3.3.2. Results of Descriptive Statistics

Descriptive statistics provide an overview of the data used in this study, which includes 143 observations from 13 private insurance companies over 11 years (2012-2022). The average return on equity (ROE) is 0.50, indicating a 50% return on equity investments, with a maximum of 122% and a minimum of -21%, revealing significant profit variation among companies (std. dev. = 0.28). For management soundness, the mean ratio of total expenses to net income is 1.39, indicating that expenses exceed income on average, with values ranging from -0.71 to 5.61 (std. dev. = 0.85). The frequency of board meetings shows that companies conduct approximately 15 meetings per year (mean = 14.38), with a minimum of 12 and a maximum of 19 (std. dev. = 1.74). Regarding board size, the average is 8.94 members, with a minimum of 6 and a maximum of 10 (std. dev. = 0.64). The average dividend payout is 27% of net income (mean = 0.265), with a range from 0% to 102% (std. dev. = 0.24). Finally, board of directors' compensation has a mean value of 5.88, with a minimum of 4.09 and a maximum of 7.90 (std. dev. = 0.62)

Table 6 Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Dev.
ROE_NORMAL	142	-.21	1.22	.5035	.28202
MGTSOUNDNESS_inverse	143	-.71	5.61	1.3935	.85498
FBMETING	143	12	19	14.38	1.740
BSIZE	143	6	10	8.94	.641
DP0LICY	143	.00000000	1.0242879	.26509117	.24484928
DRCOM_log	143	4.09	7.90	5.8800	.62040
Valid N (listwise)	142				

Source: researcher's own computation (2023).

3.3.3. Results of Regression Analysis

As explained in chapter three, the model used to to investigate the cause and effect relationships between financial performance and the corporate governance mechanism was;

$ROE = \beta 0 + \beta 1 * BSIZE + \beta 2 * MGTS + \beta 3 * DPOLICY + \beta 4\ DRCOMP + \beta 5\ FBMETING + \epsilon$

Where,   ROE= return on equity

$\beta 0$= constant term

BSIZE=board size

MGTSOUNDNESS =management soundness

DPOLICY= dividend policy

DRCOMP= board of directors compensation

FBMETING= frequency of board meeting

ϵ= error term

On table 7 below, an R-square and adjusted R-square of 0.840 and 0.8183 respectively. Adjusted R-square of t the independent variables that w ere used in this study explains 81.83 percent of the dependent variable. The regression output shows that the explanatory variables in the model strongly explain the dependent variable. The modified R-squared of 84% further supports this effect. The coefficient of determination R-square suggests that about 81.83% of the change in return on equity is accounted for by the explanatory factors. The remaining 18.83 percent of financial performance of insurers is influenced by other factors that are not examined in this research, which leaves room for additional research to explore the other factors. As a result, this area is designated as a potential area for future research.

The null hypothesis, according to which all the coefficients are jointly zero, is rejected and the models do not suffer from specification bias, is rejected by the F- statistic of 38.63, which is likewise significant with a P- value of zero.

Table 7 Results of the random effect panel data regression analysis

Cross-section random effects test equation:
Dependent Variable: ROE_NORMAL
Method: Panel Least Squares
Date: 10/25/23   Time: 08:06
Sample: 2012 2022
Periods included: 11
Cross-sections included: 13
Total panel (balanced) observations: 143

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.652202	0.235748	-7.008351	0.0000
MGTSOUNDNESS_INVERSE	0.057929	0.015548	3.725742	0.0003
FBMETING	0.138059	0.007461	18.50506	0.0000
DRCOM_LOG	0.010202	0.022568	0.452054	0.6520
DP0LICY	0.039971	0.054213	0.737289	0.4623
BSIZE	0.001672	0.023668	0.070661	0.9438

Effects Specification				

Cross-section fixed (dummy variables)

R-squared	0.840086	Mean dependent var	0.499976
Adjusted R-squared	0.818338	S.D. dependent var	0.284164
S.E. of regression	0.121116	Akaike info criterion	-1.266919
Sum squared resid	1.833634	Schwarz criterion	-0.893974
Log likelihood	108.5847	Hannan-Quinn criter.	-1.115372
F-statistic	38.62767	Durbin-Watson stat	2.416434
Prob(F-statistic)	0.000000		

Source: researcher's own computation (2023).

Based on the results shown in table above, explanatory variables as management soundness represented as (MGTSOUNDNESS_INVERSE) and frequency of board meeting (FBMETING) are significant at 1% significance level. Whereas board of director's compensation's represented as natural logarithm of (DRCOM_LOG), dividend policy (DP0LICY) and board size (BSIZE) are not statistically significant.

Despite of this, the parameter coefficients' signs suggest that there is a positive correlation between management soundness represented, frequency of board meeting, board of director's compensation's, dividend policy and board size. This implies that there are a direct relationship between the above five independent variables and ROE.

Regarding insignificant variables there is a positive correlation between boards of director's compensation; dividend policy and board size. This shows that changes in director's compensation, dividend policy and board size, the presence or absence of them do not significantly affect private insurer performance in Ethiopia. Instead, they have a small but positive impact.

3.4. Discussion
Management Soundness
The random effect model indicates a strong positive relationship between management soundness (MGTSOUNDNESS_INVERSE) and return on equity (ROE), with a statistically significant p-value of 0.0003 at the 1% significance level. This suggests that a 1% change in management soundness corresponds to a 5.79% change in financial

performance, highlighting the critical role of sound management in enhancing the financial performance of private insurers. The finding aligns with Stewardship theory and is consistent with previous research by Bayelign et al. (2022), leading to the rejection of the null hypothesis that management soundness does not significantly affect financial performance.

Frequency of Board Meetings

The frequency of board meetings (FBMETING) is positively related to financial performance, with a p-value of 0.0000, indicating a significant effect at the 1% level. Each additional meeting correlates with a 13.81% increase in ROE, as more meetings allow for better performance review and identification of strengths and weaknesses. This finding supports previous studies and the national bank's recommendation for monthly meetings, resulting in the rejection of the null hypothesis regarding board meeting frequency's impact on performance.

Board of Directors' Compensation

The model reveals a positive but statistically insignificant relationship between board compensation and ROE (p-value = 0.6520). This suggests that while good governance practices exist, they do not translate to immediate financial valuation for insurers. The findings align with agency theory, supporting the pay-performance framework, and confirm previous research. Consequently, the null hypothesis is accepted, indicating that board compensation does not significantly affect financial performance.

Dividend Policy

The results show a weak positive relationship between dividend policy and ROE, with a p-value of 0.4623, suggesting that a 1% change in dividends leads to a 3.9% change in financial performance. This aligns with the dividend irrelevance theory and corroborates findings from Cyril (2020) and Sharin (2023). Thus, the null hypothesis is accepted, indicating that dividend policy does not significantly impact financial performance.

Board Size

The relationship between board size and financial performance is weak and statistically insignificant (p-value = 0.9438). A 1% change in board size corresponds to a mere 1.6% change in ROE, indicating minimal impact. This aligns with Tewodros (2020) and Bonsa (2015), leading to the acceptance of the null hypothesis that board size does not significantly influence financial performance in private insurers.

4. CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

Good corporate governance reduces energy costs. This provides a reasonable opportunity for owners and managers to achieve their objectives for the benefit of shareholders and the company. Good corporate governance also reduces waste, corruption, risk, and fraudulent controls. Corporate governance helps an organization, its linked activities, and the state as a whole grow and develop. The company's role has long gone beyond simply producing goods or rendering services to generate revenue. Businesses are accountable for the improvement of the social environment. When relying solely on the company's interests and ignoring the community's general development, it is impossible to ensure the company's growth.

This study targeted at examining corporate governance mechanism that could influence the performance of private insurance companies in Ethiopia. In order to achieve this objective, five hypotheses have been developed. To address research hypotheses and achieve the broad research objective, the study used quantitative research approach. A random effect model was used to evaluate eleven years period from 2012-2022. More specifically, the analyses were performed by reviewing documents of private insurance companies in Ethiopia obtained from each insurers and NBE and interview.

On this study Return on equity the dependent variables; board size, board of director's compensation, dividend policy, sound management, and frequency of board meeting as the explanatory variables. In general, compared to the extensive corporate ideology, the prior research's contribution to the financial performance of the corporate governance mechanism was negligible. The letter was not given much attention in the literature on this subject because developed and developing nations' economies are not equal. Few studies have been done specifically on Ethiopia, and to the researcher's knowledge, none have been done previously on the effect of corporate governance mechanisms on the financial performance of

private insurance companies in Ethiopia. The researcher is confident that the study will produce more accurate data that can be used by the government, shareholders, and other researchers in the future.

4.2. Recommendation

The researcher has made the following recommendations based on the study's findings;

As the finding of this study indicates management soundness plays fundamental role in increasing private Insurers financial performance. So if shareholders give due considerations to formulating sound management system within their company, it will lead them to better performance.

Frequencies of board meeting have significant and positive impact over private Insurer's performance in Ethiopia. By increasing board meeting as proper as possible they can improve their financial performance. Because the more they conduct a meeting the more they identify their financial performance through time. The review by itself helps them to solve any problem as they occur and vice versa.

The insurance industry will be able to maintain the level of risk it can tolerate with the aid of sound corporate governance practices, and policyholders and other stakeholders will benefit from a high enough level of security for their investments. Furthermore, the government should reevaluate the corporate governance guidelines it had suggested for insurers, especially with regard to deciding on the right board size, director's compensation and dividend policy.

4.3. Research and Development Directions

There are numerous potential opportunities for future research and improvements. There is still general shortage of corporate governance studies that make use of Ethiopia corporate organization in different sector especially for private owned companies.

In addition to this, current study has mainly examined the relationship between internal corporate governance and Insurers financial performance by focusing on private insurance companies. Future studies can examine by adding different internal corporate governance mechanism such as insider shareholding, institutional ownership ,directors independence and other external corporate governance mechanisms, for instance the market for corporate control, the managerial labour market, and the law, that affect Insurers financial performance specifically private insurance companies.

Subsequent investigations may delve deeper into the correlation within particular domains, such as non-profit organizations and other businesses that are owned privately. And the other is It would be helpful to have a better understanding of the corporate governance roles in other types of organizations since this study was concentrated on the Ethiopian insurance sector specifically private insurers. Such studies could look at the parallels and discrepancies between the roles in various organizations as well as the legal specifications for various organizations. Lastly, studies on the various facets of corporate governance procedures are also necessary. To improve our understanding of corporate governance, we should broaden the scope of this research to include board dynamics, decision-making processes, and other governance practices

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