Analyzing the Relationship Between Corporate Governance Practices and Performance of Insurance Companies

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Abstract

Background: The formal procedure and structure whereby the administration is held responsible to shareholders for its operations and objectives are known as corporate governance. The study's theoretical perspective reveals that effective corporate governance systems lead to favourable insurance companies results while also prohibiting fraudulent actions. CEO’s compensation, Communication approach, Code of conduct, and Companies governance system are among the study's free-spirited factors. Because corporate governance has a direct impact on insurance company performance, governing bodies must design robust corporate governance systems and rules for the industry ecosystem.

Objectives: The objectives of this study were to see if there were any linkages between governance practices and the performance of Indian insurance companies.

Methods: This research was based on randomly selected top five insurance companies as case study research to evaluate the relationship between corporate governance practices and insurance companies’ performance. In this regard, the case study research design suggests examining the influence of interactions between the study's two variables utilizing quantitative research methods. This research was conducted using practical methodologies, such as the use of qualitative and quantitative research methods and data collection techniques. Previous research and theoretical foundations of corporate governance have been undertaken using a qualitative research method.

Results: The sort of communication approaches, companies’ code of conduct, and governance structures all affect the performance of an insurance company, according to a statistical study. On the contrary, the performance of insurance companies is unaffected by CEO compensation structure.

Conclusions: The purpose of this study was to assess the relationship between corporate governance practices and insurance companies’ performance. Four significant variables have been defined in order to examine the study’s goals and objectives like the communication approach of the companies, code of conduct, governance structure and CEO’s compensation. Based on the empirical analysis of the study, except CEO’s compensation, all other variables have significant relationships and influence the companies’ performance. Furthermore, it has been evaluated that the effective form of communication approach used by companies is also important. Scheduled work and regular meetings are arranged on a timely basis, and good communication approaches are followed.

Keywords: Governance, Code of Conduct, Communication, Compensation & Insurance companies.

1. Introduction

Corporate governance is seen as a critical base for making firms more productive, governed, and regulated. Furthermore, the high rate of systemic failure and business failure around the world has prompted scholars to investigate how insurance companies are governed and regulated (Imam & Asma, 2019).

Corporate governance, according to A Mohan & S Chandramohan (2018), is defined as the process of governing and controlling businesses. The effective corporate governance lays out the procedures and practices for adopting strategic choices, and also the responsibilities and authorities among the many participants in the insurance company, including the management board, executives, investors, and other representatives.

It also creates the framework for determining the company's objectives, as well as the methods for accomplishing those objectives and tracking performance. We found several studies and research works with the significance of corporate governance in the other sectors and from other countries. There are very few studies available in the chosen subject of research with the Indian's companies' perspective, especially the insurance sector (Imam, A. 2011, Imam, A. 2016).

Adopting a corporate governance structure in a company is essential for the success and sustainability of the business over a period of time. The formation of the Securities and Exchange Board of India (SEBI) set the path for growth of proper corporate governance standards and laws of corporate governance for insurance companies (E. Selarka, 2018). Examining the various governance regulations as well as the consequences for insurance firms' performance has become increasingly popular around the world (B Tricker and RI Tricker, 2015). Concerns regarding corporate governance standards have grown during the last two decades among companies and regulatory authorities. This is due to the fact that large institutions such as Enron, Satyam, Kingfisher Airlines and Jet Airways many more have failed in the last two decades. In order to address a research gap, the proposed study would review the relationship of governance practices on performance of insurance companies operating in India.

Poor and inadequate governance systems are blamed for the demise of these bug organizations. Following the failure of these large organizations, regulatory bodies and government organizations have been inspired to adopt basic and strong corporate governance. Following the failure of these large organizations, regulatory bodies and government organizations have been inspired to adopt basic and strong corporate governance norms (S Bhaumik et. al. 2019). Major modification to the corporate governance system has been made as a result, and the relationships between management, in terms of modern corporate governance norms all around world, the executive board and stockholders have changed.

According to the researchers and authors, in order to ensure seamless and very far-reaching formation and growth of economies, shareholders' interests must be secured, and the strength of organizations and financial markets must be managed. All of this is impossible to achieve without a strong corporate governance mechanism in place at insurance companies. These insurance company failures and crashes have highlighted concerns about the efficiency of corporate governance and its relationship to corporate success.

Few literatures are available, specifically from the perspective of India, on the corporate governance framework of insurance companies in India and its connections to business performance in this respect, our research is relevant and significant in terms of filling a void in the literature.

Corporate governance is a concept that has been defined as the structural responsibility for developing corporate policies, guidelines, and recognized business behavior that regulate the connections with both stock holders that make investments in companies and company executives that manage financial assets (P Olojede & O Erin, 2021). Financial companies and creditors are examples of investors who give funds to businesses, whereas stakeholders offer valuation money. Employees, on just the contrary, are an organization's human capital. Investors can include suppliers, who provide both extrinsic and intrinsic resources and assets that are critical to the development and expansion of an insurance firm (AA Rorong & L Lasdi, 2020). The notion of corporate governance sits in the middle of all of these considerations, ensuring that corporate resources are managed fairly while all stakeholders' interests are considered (J Solomon, 2020).

According to NS Sewpersadh (2019), corporate governance is the framework that assures financiers of sufficient and appropriate profitability. In this context, it is argued that diverse components of performance of the insurance company, resource allocation, and ownership structures have been advocated in corporate governance definitions (M Brychko & A Semenog, 2018). In this regard, definitions of corporate governance have ranged from a singular scope on managerial ownership to a broader focus that includes other aspects of the company such as the size and structure of the Governing board, non-financial procedures, executive rewards, and insurance company laws and guidelines (JA Akuffo, 2020).

M Sarfraz et. al. (2018), in contrast to these definitions, defines corporate governance as the formalized process and system in which administration has been held responsible to stakeholders because of its programs and decisions. SM Bae et. al. (2018), on the other hand, argue that corporate governance is a process that ensures who are the shareholders and managers of the company, as well as the guidelines and regulations for the management and distribution of corporate resources in order to achieve financial value on resources, and the manner in which financial returns are distributed to shareholders, employees, and managers. MK Shad et. al. (2019) classified the distinction between managers and shareholders and explored management's role to play in managing corporate resources to achieve community input and corporate benefit.

All of these criteria show that corporate governance not just to secures the distribution of insurance businesses, and also clarifies the appropriate managerial ownership. In a broader sense, corporate governance relates to maximizing shareholder profit while also ensuring fair economic growth.

The authors discovered a relationship between corporate governance and the better performance of Indian insurance companies. For example, according to T Clarke (2020), a secure and flexible corporate governance structure results in good performance of an insurance company and also prevents fraudulent actions in the company. Additionally, B Akkaya & A Tabak (2020) assess the link between organizational management operations and business performance. In a similar line, Imam & Asma, (2019) research paper focused and investigated the relation between corporate governance and business ethics in Indian life insurance companies. AA Elamer et al. (2018) found that effective information disclosure to shareholders as well as a good corporate governance structure improve an insurance company's financial position.

2. Objectives

The following are the research's goals:

- To highlight corporate governance from a theoretical viewpoint.
- To evaluate the relationship of corporate governance and insurance companies' development in India.
- To suggest achieving a sound corporate governance structure for Indian insurance companies.

3. Methods

This research was based on randomly selected top five insurance companies as case study research to evaluate the relationship between corporate governance practices and insurance companies' performance. In this regard, the case study research design suggests examining the influence of interactions between the study's two variables utilizing quantitative research methods. This research was conducted using practical methodologies, such as the use of qualitative and quantitative research methods and data collection techniques. Previous research and theoretical foundations of corporate governance have been undertaken using a qualitative research method.

Quantitative methods, on the other hand, have been linked to obtaining empirical evidence of links between corporate governance practices and insurance companies' performance. The researchers have acquired explanatory as well as empirical evidence of the impact of corporate governance practices on companies' performance using multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 1999). The current study's data gathering techniques and data analysis approach are in line with a pragmatic research approach (Ramanadhan et al., 2021). The data for this study was collected from the managers of the selected insurance companies in India. This information was derived from primary sources. A near end questionnaire survey was undertaken to acquire primary data.

All study variables were included in this questionnaire, including CEO's compensation, communication approach, code of conduct, insurance companies' performance, and corporate governance structure. Sub questions have been prepared for each variable. All of these questions were posed in order to determine the extent to which each of them had an impact on companies' performance.

Ten branches of insurance companies from various regions were chosen for this investigation. As a result, the population of this study is made up of managers responses from these specific insurance companies. A convenience sampling technique was used to obtain a sample of 100 managers as respondents from these specified insurance companies branches. In this study, 72 percent response rate was achieved. In this study, the data acquired by a closed end questionnaire survey was used in this case, The data analysis tool like regression analysis was used to assess the connections between corporate governance practices and insurance companies' performance. Analysis results were taken to validate or invalidate the study's hypotheses.

On the basis of review of literature, given below hypothetical background has been developed for this study that Communication approach, Code of Conduct, Companies governance structure and CEO's compensation have some relations with the company's performance.

In connection with this hypothetical background, we developed some hypotheses for which are given below:

(Null Hypothesis) H0: Communication approach do not influence companies' performance

(Alternative Hypothesis) H1: There exists a relationship between Communication approach and Companies' performance

(Null Hypothesis) H0: Code of Conduct have no influence on companies' performance

(Alternative Hypothesis) H1: Code of Conduct influence companies' performance

(Null Hypothesis) H0: Governance structure have no influence on companies' performance

(Alternative Hypothesis) H1: Governance structure influence companies' performance

(Null Hypothesis) H0: CEO's Compensation has no influence on companies' performance

(Alternative Hypothesis) H1: CEO's Compensation influence companies' performance

4. Results

The empirical finding of the study found that corporate governance has a relationship and have effects on insurance companies 'performance in many ways. Better corporate culture and code of conduct helps companies in their development and growth performance. Mostly respondents from insurance companies agreed and believed that the companies' performance will improve if we have better governance structure (Collins.D,2010). Our findings shows that selected insurance companies' managers agreed on that there is relationship with the corporate governance with the insurance companies' performance. The study's findings also showed that the selected insurance companies' productivity also improved in almost five years with the corporate governance practices.

The ANOVA test was used to develop regression analysis in this case and the results shows clearly that the companies' corporate governance practices have an influence on their performance.

The empirical study of model summary:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension 1	.974a	.948	.946	.51520

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	398.103	4	99.525	388.247	.000a
	Residual	19.401	68	.285		
	Total	417.504	72			

a. Communication approach, Code of Conduct, Corporate Governance Structure and CEO's compensation are all constant predictors and independent variables.

b. Criterion variable/Dependent Variable: Insurance companies' performance

The empirical findings of this research means that companies governance structure and companies' performance are linked and have a substantial relationship. Furthermore, the statistical findings of this study clearly show that corporate governance structure affected the companies' performance. The r value according to above model summary table is close to 1, which indicated that the study's overall model is remarkable and confirming that the performance of chosen insurance companies is influenced by their corporate governance processes.

The values of coefficient of this study's results are presented in the table below:

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		

1 (Constant)	.197	.182		1.084	.281
Communication Approach	.290	.052	.285	5.528	.000
Code of Conduct	.566	.058	1.037	9.820	.000
Governance Structure	.114	.015	.241	7.792	.000
CEO's Compensation	.112	.074	.128	1.504	.136

a. Dependent variable: Insurance companies' performance

Based on the data in the table above, it is being determined that corporate governance practices have a considerable influence on insurance companies 'performance. According to empirical analysis, the degree of importance of a range of studies is a little less than 0.05. In this case, the significance threshold is less than 0.05 for the communication approach, code of conduct and governance structure. This means that each of these variables has a significant relationship and influence on the companies' performance. Furthermore, the findings of this study show that CEO's compensation have no relationship and no influence on insurance companies' performance. The findings of this study are consistent with the findings of earlier researchers like Alves & Mendes (2004), Aggarwal, P. (2013), Naimah, Z. (2017) and Aktan, B. et.al. (2018) which indicated that companies' corporate governance standards have an influence on its performance. Upon this basis of the findings of this research, the relevant theories have been suggested and it's proved that there is no relationship between CEO's compensation and performance of companies. Additionally, there are significant relationship shown between companies' performance and other independent variables like communication approach, code of conduct and governance structure.

5. Discussion

The purpose of this study was to assess the relationship between corporate governance practices and insurance companies' performance. Four significant variables have been defined in order to examine the study's goals and objectives like the communication approach of the companies, code of conduct, governance structure and CEO's compensation. Based on the empirical analysis of the study, except CEO's compensation, all other variables have significant relationships and influence the companies' performance. Most of the respondents around 70 % during the survey responded that they don't have any kind of incongruity or differences with company's senior directors and management.

Furthermore, it has been evaluated that the effective form of communication approach used by companies is also important. Scheduled work and regular meetings are arranged on a timely basis, and good communication approaches are followed. The results of this research study have positive directorial implications for improving corporate governance practices and ensuring performance of the company. To have a strong corporate governance mechanism is the most important applied managerial implication of this study.

The executives of companies need to understand that there exists a relationship between corporate governance and companies' performance. It will help executives to recognize the importance of the relationship and they are more likely to manage companies successfully. The second application of this study is for the government or regulatory authorities to build a strong and operative corporate governance structure and guidelines which will apply to all the industries.

Finally, as a result, top administration and board of directors should focus more on better corporate governance practices which are ultimately supportive towards the improvement of insurance companies 'performance.

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