African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary

African Journal of Emerging Issues (AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

MANAGEMENT AND LEADERSHIP

THE MODERATING EFFECT OF LEADERSHIP STYLE ON THE MEDIATING EFFECT OF HUMAN RESOURCE MANAGEMENT PRACTICE ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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Republication Date: October 2022

ABSTRACT

Background of the Study: The need for good corporate governance has gained attention both locally and globally due to the corporate crisis and collapses experienced in the recent past across the globe. Financial firms have previously collapsed due to serious malpractices and it has elicited the need to review corporate governance laws for adoption by firms.

Objective of the Study: The objective of the study was to establish moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

Research Methodology: Philosophical foundation of this study was positivism and cross-sectional survey design was adopted. The study population comprised of 52 insurance companies in Kenya as at December, 2017. Census method was used to obtain the number of senior management where a CEO and Human Resource Managers were used from each insurance company. Two general employees were selected from each of the 52 insurance company totaling to 104. Primary data was gathered using questionnaires.

Results and Findings: The study established that there is a significant moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya. The null hypothesis was rejected.

Conclusions and Recommendations: The study concluded that the moderated mediating effect of human resource management practice and leadership style on corporate governance influenced performance of insurance companies positively. The study recommends on creation of communication channels so that the benefits that come with the adoption of corporate governance can be clearly communicated to all the employees for easy adoption. The insurance firms can utilize the findings of this study to enrich the HRM practice, such as performance appraisal, service delivery, training programs, benefits and recruitment policies. Insurance companies' performance improved through integrating human resource practice and leadership style on corporate governance.

Keywords: *Corporate Governance, Human Resource Management Practice, Leadership Style, Performance, Insurance Companies & Kenya.*

1.1 INTRODUCTION

The need for good corporate governance has gained attention both locally and globally due to the corporate crisis and collapses experienced in the recent past across the globe. The financial giants like Enrol, Pamalat and Worldcom that collapsed due to serious malpractices elicited the need to review corporate governance laws for adoption by firms (Ferguson, 2018). Africa and Kenya in particular has had its share of the fiscal crisis. The collapse of several institutions in the financial and insurance sector experienced in Kenya in the recent past were also attributed to corporate malpractices (Barako & Tower, 2017). The basis for firm corporate governance is anchored on Agency theory. This theory provides for use of internal and external mechanisms to align the principal – agent interest and therefore maximize shareholder value leading to improved performance. Jensen and Meckling (1976) theorized that for managers to act in the best interest of the shareholders and maximize returns appropriate governance structures must be put in place in organizations. According to Ramakant (2012) corporate is a common term that is normally applied to large organizations particularly those which have a global presence. A corporate is also regarded as a group of people that is authorized to operate in order to generate profits by the state laws. The corporate governance constructs include transparency, board responsibility, ownership structure (Darma, 2018; Naciti, 2019; Paniagua, Rivelles & Sapena, 2018; Utama & Amarullah, 2017).

Human resources comprise the people component in an organization. Human resource refers to an individual employee that staff an organization. According to Tangthong *et al*., (2014) human resource management practice comprise policies and procedures developed by organizations to direct and guide employee behavior thereby improving performance. The human resource management function is essential in guaranteeing sustainability through its involvement in financial and societal development. The key HRM practice identified are human resource planning, recruitment and selection, training, appraisal and staff compensation (Bratton, & Gold, 2017). The worldview component of leadership style provides that leadership requires developing an understanding of a leaders own worldview as well as the worldviews of others. Worldview is a composite image created from the various lenses through which individuals view the world (Ramchunder & Martins, 2014).

Performance is the scale for measuring the efficiency of management and effectiveness of use of the company's assets. Financial performance measures are determined by assessing earnings per share (EPS), return on assets (ROA) return on investment (ROI) and return on equity (ROE) (Marinova *et al*., 2016). According to Al-Matari (2014), profitability measures are good metrics of economic growth and performance of an organization. On the other hand, product market performance is the performance of a firm, which can be measured through sales revenue, market share, profitability, competitive advantage, customer satisfaction and customers' loyalty. Market performance measures how well a company or product performs in the market place (Shin & Konrad, 2017). In the study, customer satisfaction levels, market share, employee retention and employee satisfaction level were used to measure the performance of insurance companies in Kenya.

Insurance is a concept of pooling funds from several entities to provide protection from risk (Nyaga & Muema, 2017). Insurance plays a crucial role in the financial intermediation chain by providing a ready source of long term funds from the pooling function. Insurance is a critical element of any modern economy as it immensely contributes to Kenya's Gross domestic product (AKI, 2019). Insurance companies offer protection from loss by charging a premium to the insured. By indemnifying risk, insurance companies play the crucial role of providing capital for investment and infrastructure financing. Insurance companies provide protection to policyholders through offering protection against loss to their investments (Too & Simiyu, 2019). Insurance has therefore has gained importance as a major contributor to economic development.

In Kenya, there were 52 licensed insurance companies (IRA, 2019). Of this twenty-seven underwrite general insurance business, thirteen life insurance business and twelve are composite companies. The insurance industry has various players namely; insurance companies, reinsurance companies, insurance brokers, intermediaries and other service providers such as investigators, motor vehicle assessors, insurance risk assessors, surveyors, claims and loss adjusters and insurance agents (IRA, 2019). This study focused only on the insurance companies in Kenya. In Kenya insurance business is regulated by the Insurance Regulatory Authority under the statutes of the Insurance Act, Chapter 487 Laws of Kenya.

1.2 STATEMENT OF THE PROBLEM

Low insurance penetration in the region and increased claims and losses due to fraud, particularly in the motor and health businesses, have strained the industry's performance (Deloite, 2020). This is despite the fact that insurance is a critical factor to the development of the financial sector in Kenya and contributes to the achievement of Vision 2030 goals under the economic pillar (IRA, 2020). The low penetration hinders the achievement of goals and contribution to the Gross domestic product. Insurance companies in Kenya therefore presents a sub–optimal performance.

Various scholars' studies relating to corporate governance create research gaps, for instance; Nasereddin and Sharabati (2016) conducted a study on the influence of university's leadership styles on governance in India. The study presents a contextual gap as it was done in universities while the current study was conducted in the insurance companies. In addition the study presents a conceptual gap as leadership styles was used in general while the current study categorized into transformational leadership, transactional leadership and laissez faire leadership style. Olayo (2017) study on the effect of strategic human resource management practice on performance of parastatals in Kenya presents both conceptual gap and contextual gap, as it was limited to the commercial parastatals in Kenya. The study also focused on the direct effect of HRM practice on performance as moderated by corruption while the current study focused on the insurance companies in Kenya where HRM practice was the mediating variable in the relationship between corporate governance and performance. Kamau, Machuki and Aosa (2018) investigated the relationship between corporate governance and firm performance without the moderating and the mediating variables thus presenting a conceptual gap. The current study included the mediating variable and the moderating variable, in investigating the relationship between corporate governance and performance.

This study addressed these gaps by introducing human resource management practice and leadership style as mediating and moderating variables respectively to examine whether corporate governance influence on performance in the insurance companies in Kenya can be improved by adopting efficient human resource management practice and effective leadership style. To bridge the gap, this study therefore sought to investigate if corporate governance, human resource management practice and leadership style affect performance of the insurance companies in Kenya.

1.3 OBJECTIVE OF THE STUDY

The objective of the study was to determine the moderating-mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

2. LITERATURE REVIEW

2.1 Theoretical Literature Review

Universalistic Theory

Universalistic Theory was proposed by Delery and Doty (1996). The Universalistic Theory is regarded as the simplest approach to analyzing HR strategies. It argues that there is an exact set of human resource practices that can be applied in any organizational context and the application of these practices can increase an organization’s performance and help to attain competitive advantage. It focuses mainly on certain practices oriented to reinforce employees’ abilities. Strategic HRM theorists have argued that the HRM contribution to organizational outcomes is a function of three interrelated processes.

The universalistic perspective of HRM is also known as the best practice approach, and claims that there exists a bundle of best HRM practices which can be used by any organization irrespective of industry, size, workforce or product market to improve performance. The universalistic model suggests the existence of a linear relationship between HR and performance and argues that certain single or set of HR policies and practices are linked to high performance (Zheng, Rolfe, Di Milia & Bretherton, 2007).

The Universalistic Theory informs the variable on HRM where it includes employee participation in decision- making, rewards fairness, and chances for development, which affect performance. The combination of HRM practices are said to have a positive effect on firm performance.

2.2 Empirical Literature review

Muriuki *et al.*, (2017) found a positive correlation between corporate governance and organization performance of state corporations in Kenya moderated by board conflict management strategies employed. The research design was descriptive research design. The study utilized both descriptive and inferential statistics to analyze data with use of SPSS software. The study used linear regression model to establish the connection amid corporate governance and performance. The study therefore concludes that conflict resolution is achieved through employment of effective management strategies in state corporations. The study used board conflict management strategies as a moderator variable and was limited to State Corporations. The study created a methodological gap by use of a descriptive survey while the current study adopted a cross sectional survey design. The descriptive research design may provide variations in findings when compared with a cross sectioanl research design which further presents a methodological gap (Bulitia & Amayi, 2016). The existing empirical studies have set forth moderation and mediation relationships on corporate governance and performance, while some of the studies have looked at mediation and moderation relationship separately. The current study sought to establish if the relationship between corporate governance and performance is affected by human resource management practice as mediator variable and leadership style as a moderator variable.

Filatotchev *et al*. (2016), conducted a study on corporate governance, human resource management and firm performance. The study examined the role of corporate governance with regard to human resource management and corporate strategy over the course of the firm life cycle, as well as in diverse institutional environments such as the UK, Germany and Japan. The study affirmed that Human resource management was a vital element of corporate governance that led to successful organizations when aligned with the overall goals, values, and priorities of that organization. However, the study was conducted in a developed economy (UK, Germany and Japan) that may present different findings form local findings and thus necessitating the current study. Further, the study by Filatotchev *et al*. (2016) did not incorporate leadership styles as the moderating variable.

Petrovic, Saridakis and Johnstone (2018) conducted a survey on the integrative role of corporate governance in the relationship between human resource management and firm performance in Australia. The study included 100 research studies published in the field. The review included papers published in mainstream HRM journals and broader management journals with strong ties to HRM literature. A significant contribution of the paper to theory was the proposal of an integrative framework that would conceptualise the elusive relationship between HRM and firm performance, and which drew on different literatures and multiple theoretical perspectives in offering more holistic insights into the relationship. The study was based on empirical literature review and thus presented a methodological gap since the current study used a cross sectional survey design.

Zulkafli and Ibrahim (2016) conducted an empirical inquiry into the relationship between corporate governance and human resource management. Based on the tenets of the stakeholder theory, the study investigates the influence of corporate governance best practice on ‘hard’ and ‘soft’ human resource management practice in public listed companies in Malaysia. Data was collected from public listed companies in the consumer product sector via structured questionnaire. Multiple regression analysis is conducted using SPSS to test the hypotheses. The findings suggest that board of directors’ independence significantly predicts training and development practice. It is also evidenced that audit committee’s effectiveness is significantly related to team-based work. The significant relationship between board of directors’ independence and training and development; and audit committee effectiveness and team-based work indicate that training and development and team-based work are ingrained in the companies’ HRM practice, more acceptable and the least complicated to implement. The study was based on empirical literature review and thus presented a methodological gap since the current study used a cross sectional survey design. The current study collected primary data from the insurance companies' staff.

2.3 Hypothesis of the Study

H$_0$: There is no significant moderated-mediation effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

2.4 Conceptual Framework

The study's conceptual framework is conceptualized by corporate governance as independent variable. Human resource management practice and leadership style are the moderator mediator variables. The dependent variable is performance. The study's conceptual framework is illustrated in Figure 1.

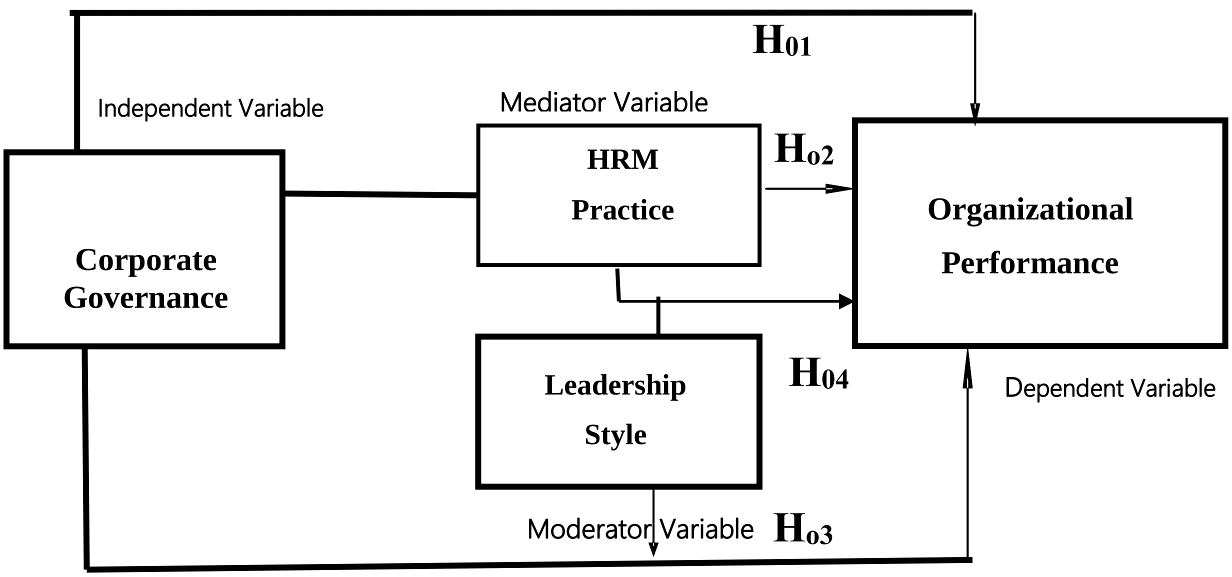

Figure 1: Conceptual Model

3. RESEARCH METHODOLOGY

The philosophical foundation of this study was positivism, where quantitative data was used. This study thus adopted the positivist philosophy which is founded on objectivity, precision and scientific rigor to develop knowledge as opposed to the phenomenological approach which focusses on personal knowledge and subjectivity (Van, 1997). The cross-sectional survey design was adopted for this study in order to provide relevant information of the extent to which corporate governance influences performance of insurance companies in Kenya. The study population comprised of fifty two (52) insurance companies in Kenya licensed by the Insurance Regulatory Authority (IRA) as at December, 2017. The respondents were the Senior Managers and the general employees. It is imperative to note that according to IRA (2017) report the total number of employees in the registered insurance companies was 7,411. Of this, 7,307 were general employees. These general employees were selected using Kothari's sampling formulae where a sample of 365 was obtained.

Census method was used to obtain the number of senior management where a CEO and Human Resource Managers were used from each insurance company (52*2=104). From the total of 365 general employees, 2 were selected from each of the 52 insurance company totaling to 104. This was done since the general employees work in the same organization and their responses were likely to be the same. Stratified random sampling was used to obtain the 104 general employees from the insurance companies. Therefore, the total sample size was 208 made of 104 respondents in senior management and 104 from general employees. Table 1 shows the distribution of the respondents.

Table 1: Distribution of the Respondents

Category	Position	No. of Insurance Firms	Number	Pilot	Total
Senior Managers	CEO	52	1*52	5	47
	HRM	52	1*52	5	47
General Employees	Junior	52	2*52	10	94
Total				**20**	**188**

The study utilized primary data collected using questionnaires. Prior to running a regression model pre-estimation and post estimation tests were conducted. The diagnostic tests conducted in this case were; normality test, multicollinearity, heteroscedasticity and linearity tests. The diagnostic analysis results met the requirements for conducting Classical Linear Regression Model.

The moderation– mediation effect model analyses mediation and moderation simultaneously or separately. The effect was analyzed using the interaction term of corporate governance with the mediating effect of Human Resource Management practice and the moderating effect of leadership style as guided by the following model:

$P = \beta_0 + \beta_1 CG*LS + HRM + \varepsilon$

Where,

P= Performance

CG*LS= Interaction term of Corporate Governance and Leadership style

HRM= Human Resource Management Practice

β_0 = Intercept

β_{1-2}= Beta coefficient

4. RESULTS AND FINDINGS

The study realized a success rate of 85.11%. According to Mugenda and Mugenda (2003) and Kothari (2004), a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good and 70% is very good. A response rate of 85.11% was considered very good for the study.

4.1 Correlation Analysis

Correlation analysis was carried out to determine the association between the variables, corporate governance, human resource management practice, leadership style and organization performance. The mean score for each of the independent variables was calculated and the Pearson's correlation obtained using SPSS. When the p-value is less than or equal to 0.05 the correlation is statistically significant. However, if the p-value is greater than 0.05 or the significant level then correlation is not statistically significant. The correlation results are presented in Table 2.

Table 2: Correlation Matrix

Variables		Organization Performance	Corporate Governance	HRM	Leadership
Organization Performance	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Corporate Governance	Pearson Correlation	0.718**	1.000		
	Sig. (2-tailed)	0.000			
HRM	Pearson Correlation	0.749**	0.676**	1.000	
	Sig. (2-tailed)	0.000	0.000		
Leadership	Pearson Correlation	0.770**	0.722**	0.754**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	

The results in Table 2 indicated that corporate governance was positively and significantly associated to performance (r=0.718, p=0.00<0.05). Human Resource Management Practice was positively and significantly associated to performance (r=0.749, p=0.00<0.05) while leadership style was positively and significantly associated to performance (r=0.770, p=0.000<0.05). This was an indication that corporate governance, human resource management practice and leadership style portrayed a strong connection with performance. Similar studies from Katou (2009) established that HRM policies have a partial mediating effect on HRM outcomes among manufacturing firms in Greece. Saeed *et al*., (2015) find a positive relationship between corporate governance, intellectual capital and corporate performance. Ibrahim and Zulkafli (2016) examine the mediating role of HRM practice on corporate governance and performance of Malaysian companies in the consumer product sector and Sumati *et al*., (2016) find a significantly positive relationship between HRM practice and performance of educational institutions.

4.2 Hypothesis Testing

The study hypothesis was stated in the null form that;

H_0: There is no significant moderating effect of leadership style on the mediating effect of HRM practice on the relationship between corporate governance and performance

The moderated mediated effect was analyzed using the interaction term of corporate governance and the moderating effect of leadership style and the mediating effect of Human Resource Management Practice as guided by the following model: $OP = \beta_0 + \beta_1 CG*LS + \beta_2 HRM + \varepsilon$. The effect was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. This was conducted using SPSS by using average mean scores of corporate governance, Human Resource Management practice, leadership style and performance. The results are presented in Table 3.

Table 3: R2 for Moderating and Mediating effect on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792[a]	.627	.617	2.62799

The R^2 results shows that regressing the moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya had an R^2 of 0.627. This was conducted using SPSS by using average mean score of corporate governance, HRM, leadership style and performance. The model indicates that the moderation and mediating effect had a 62.7% variation on performance. This implies that there exists a significant relationship between moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

Table 4: ANOVA for Moderating and Mediating Effect on Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	894.212	2	447.106	64.738	.000[b]
	Residual	531.788	77	6.906		
	Total	1426.000	79			

The ANOVA results indicates that F-Calculated (2, 79) = 64.738 which is greater than F-Critical (2, 481) = 3.96 at 95% confidence level. Results also show that p-value = 0.000 < 0.05. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. This was conducted using SPSS by using average mean score of corporate governance, HRM, Leadership Style and performance. This further confirms that the interaction term of corporate governance and leadership style and Human Resource Management practice positively and significantly influences performance of insurance companies in Kenya

Table 5: Regression for Moderating and Mediating effect on Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-5.841	1.192		-4.902	.000
CG*LS	0.148	.056	.199	2.632	.010
HRM	3.534	.385	.693	9.185	.000

The fitted model was;

$P = \beta_0 + 0.148\ CG*LS + 3.534\ HRM$

Where,

P= Performance

CG*LS= Interaction term of Corporate Governance and Leadership style

HRM= Human Resource Management Practice

β_0 = Intercept

β_{1-2}= Beta coefficient

The regression of coefficients results shows that the regression model between Leadership Style and Human Resource Management Practice on the relationship between corporate governance and performance was significant with (β_1=0.148, p=0.010<0.05: β_2=3.534, p=0.000<0.05) and supported by $T_{Calculated}$ = (2, 79) = 2.632, 9.185> $T_{Critical}$ (0.05, 79) = 1.658. Since, the p value 0.000<0.05 was less than the critical value 0.05, the study rejected the null hypotheses and thus, there is a significant moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

4.3 Discussion

The objective of the study was to determine the moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya. The effect was analyzed using the interaction term of corporate governance with the moderating effect of Leadership Style and the mediating effect of Human Resource Management Practice. Since the P value of the interaction term (CG*LS) is 0.000< 0.05, thus, there is a significant moderating effect of Leadership Style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya. The study rejected the null hypothesis that there is no significant moderating effect of leadership style on the mediating effect of human resource management practice on the relationship between corporate governance and performance of insurance companies in Kenya.

The results are consistent with those of Gollan and Graeme (2017) on corporate governance and strategic human resources management that established a significant positive relationship between corporate governance and human resource management and consequently between human resource management and firm performance. The results are consistent with the work of Muriuki *et al.*, (2017) who found a positive correlation between corporate governance and organization performance of state corporations in Kenya moderated by board management strategies. The finding also agree with those of Zaman *et al.*, (2018) who established that performance was positively related to transparency and disclosure among the banks in Pakistan. Further, the findings are constituent with Amba (2018) who established a positive correlation between performance and proportion of institution ownership. In addition, Ullah *et al.*, (2016) established a positive relationship between accountability, transparency and performance of listed manufacturing firms. The study findings also illustrated that accountability and transparency had a significant impact on the firm performance. Waithaka *et al.*, (2019) established a negative and significant relationship between social performance and board remuneration. The study looked at the effect of board characteristics on social performance of microfinance institutions (MFIs) in Kenya. The results indicated that MFI`s in Kenya could enhance their performance by having the appropriate board mix.

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5. CONCLUSION

The study concluded that the moderated mediating effect of human resource management practice and leadership style on corporate governance also influenced performance of insurance companies positively. Insurance company's performance improved through integrating human resource practice and leadership style on corporate governance. The findings established additional empirical evidence to enrich the corporate governance and performance relationship through providing for an integrated approach. This moderated mediating effect provides a deeper understanding of the corporate governance and performance relationship that was not addressed by earlier studies.

6 RECOMMENDATIONS

The study recommends that communication channels be created to so that the benefits that come with the adoption of corporate governance be clearly communicated to all the employees for easy adoption. The insurance firms can utilize the findings of this study to enrich the HRM practice, such as performance appraisal, service delivery, training programs, benefits and recruitment policies. This findings form the basis for experts to critically consider the corporate governance – HRM nexus when developing policies to guide corporate governance. The insurance industry in Kenya has a declining penetration rate which has been mainly attributed to poor leadership and corporate governance practice. Policies can be developed that drive performance, penetration of insurance and contribution to GDP.

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