International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 6, Issue 2, pp: (66-71), Month: October 2018 - March 2019, Available at: www.researchpublish.com

Relationship between Ethical Activities and Non-Financial Performance of Insurance Companies in the Nairobi Securities Exchange (NSE)

Patience M. Mudy[1], Dr. Phylis Osodo[2], Beatrice Jemaiyo[3]

[1]Catholic University of Eastern Africa, Eldoret, Kenya

[2]Catholic University of Eastern Africa, P.O. Box 908, Eldoret, Kenya

[3]Catholic University of Eastern Africa, P.O. Box 908, Eldoret, Kenya

Abstract: **The business world is constantly changing and different organizations have adopted ethical practices as a way of enhancing competitiveness and effectiveness. Ethics focuses on the constant examination of how institutions and people interact with the world of commerce. It is therefore important for a business to continue in its commitment to behave ethically and contribute to economic development while improving the quality of life of the work force and the surrounding community at large. This study therefore sought to determine the relationship between ethical activities and non-financial performance of insurance companies in the Nairobi Securities Exchange. The study targeted a population of 4100 customers and employees of 4 insurance companies (Jubilee Holding limited; Kenya Re-insurance Corporation; Liberty Kenya holding limited and CIC Insurance group limited). The study targeted a population of 4100 customers and employees of 4 insurance companies (Jubilee Holding limited; Kenya Re-insurance Corporation; Liberty Kenya holding limited and CIC Insurance group limited). Concurrent sampling was used to select sample from the 4 insurance companies since they comprise of different population sizes.Descriptive cross sectional research was used in the study. The data was collected through questionnaires and analyzed using regression and correlation. The study established that 201 (52.9%) were in agreement that the firm performs in a manner consistent with societal expectations and ethical norms. The study concluded that Society desires that businesses contribute time, money and resources for the welfare of the community but they do not regard the firms unethical if they do not provide the desired level. The study then recommended a robust policy framework for ethical practices that should be adopted in the government ministries, parastatals and insurance companies.**

Keywords: **Ethical activities, Non-Financial Performance.**

1. INTRODUCTION

The purpose of this paper is to determine the relationship between ethical practices and non financial performance of insurance companies in the Nairobi Securities Exchange (NSE). Though making of profits is one of the top priorities of corporations, in the current times, it is not possible for companies to operate for this reason only. Due to the increased competition with so many corporations offering the same goods and services, consumers can now make buying decisions based on many factors including how much good a business is doing outside its premises. According to Flammer (2013), one of the ways in which companies use to ensure their survival in the society is through involvement in corporate social responsibility activities.

Background of the research

Professional standing necessitates a level of conduct that enhances value to the organizations and to the society we offer our service. Members of professional organizations are frequently subject to more than a single code of conduct. The global aspects of business create a probable situation where the practices in one discretion may not be acceptable or recognized in another (Ayuso 2006). The common areas that relate to ethics and ethical behavior in companies include reputation assurance, corporate citizenship, codes of conduct, corporate social responsibility, social accountability, social auditing, ethical trading, fair trading and ethical sourcing. “Because it goes to the very heart of human nature, the question of right and wrong is not a simple subject. But since it is so important to the well being of individuals, social communities, private business and the nation, it is worth some thought” (Muchene 2006). According to Lysons and Farrington (2012), ethics is a code of conduct governing a group or individual. The concept of ethical responsibility entails more than leading a truthful, honest and decent life. As part of an individual’s moral obligation, he must portray willingness to include others in the difficult task of defining the important choices that confront the technological society and how to solve them intelligently (Winner 1990).

The Non-Financial Performance Measurement Systems (NFPMSs) is developed as a consequence of the shortages in financial-based performance measures (Preda and Watts, 2004). Gomes (2004) argued that traditional approach fails to cater for the current need in today’s rapidly changing environment that may lead to short-term thinking. NFPMSs take an explicit strategic focus and provide more appropriate internal information within a proper time period and are able to respond to various information needed for decision making. This system is also capable of providing signals for improving crucial activities in organizations (Hoque and Adams, 2011); become better indicators of future financial performance, and is valuable for motivation (Banker, 2000). Additionally, Van der Stede et. al (2006) contended that organizations that included objective and subjective non-financial measures have better overall performance. Given the advantages of NFPMSs, it is crucial for today’s organizations to adopt this system for improving the level of competitiveness and the overall firm performance.

Various studies have been conducted on ethics and ethical practices. Makali (2015) conducted a research on ethics and procurement performance of humanitarian organizations in Kenya. The study sought to establish the relationship between ethics and procurement performance in humanitarian organizations in Kenya. The study established a positive relationship between ethics and organizational performance. Sengbeh (2015) analyzed ethical procurement practices and supply chain performance of the Kenyan energy sector. The study sought to establish the ethical procurement practices commonly used by firms in the Kenyan energy sector and to determine the relationship between ethical procurement practices and supply chain performance of firms in the Kenyan energy sector. The study found that supply chain performance is influenced by accountability practices in procurement hence ethics. The researchers have however failed to create a focus on the non financial performance insurance companies listed in the Nairobi Securities Exchange. This is the knowledge gap that the researcher aims to fill by investigating the relationship between ethical practices and non financial performance of insurance companies in the Nairobi Securities Exchange.

Objectives of the research paper

To determine the relationship between ethical practices and non-financial performance of insurance companies in the NSE.

2. LITERATURE REVIEW

Stakeholders Theory

According to Branco and Rodrigues (2007).R. Edward Freeman is the original proposer of stakeholders’ theory. Stakeholders are the parties who have an interest in the operations of a certain company. Stakeholders’ theory looks at the relationships between an organization and others in its internal and external environment and also how these connections influence how the business conducts its activities. Stakeholders can come from inside or outside the business e.g. customers, employees, stockholders, suppliers, non-profit groups, government, and the local community, among many others. These persons or groups affects or are affected by the activities carried out by an organization. According to Matten (2003), as cited by Branco and Rodrigues (2007), stakeholder theory is therefore considered a necessary process in the operationalization of corporate social responsibility and other ethical practices, as a complimentary rather than conflicting body of literature.

Relational Theory

Re1lational theory has its root from the complex firm-environment relationships. Corporate citizenship of the relational theory strongly depends on the type of community to which it is referred. It is a path that a corporation may take to behave ethically. Fundamentally, it is about the relationship that a corporation develops with its stakeholders, and therefore, the former has to continuously search for engagement and commitment with the latter. Corporate citizenship, according to Garriga and Mele (2004), is an approach used under the integrative and political theories and this is supported by Swanson (1995) and Wood and Lodgson (2002). It is necessary that the Social responsibility of the business need to reflect social power that the business possesses. The approach is both within the interactive and ethical theories, where the former emphasizes the integration of social demands and the later focuses on the right thing to achieve a good society (Garriga and Mele, 2004). Corporations are proactive in publishing reports on economic, social and environmental performance following the idea of triple-bottom line (Elkington, 1998).

New responsibilities of the corporation which are embodied in the ethical and discretionary responsibilities reflect the new, broader, social contract between business and society (Haji & Ghazali., 2012). Since what is debated in the subject of CSR are the nature and extent of corporate obligations that extend beyond the economic and legal responsibilities of the firm, it may be understood that the essence of CSR and what it really refers to are the ethical obligations of the corporation towards society. Kotler and Lee (2005) essentially see CSR in the same way. Kotler and Lee (2005) define CSR as 'a commitment to improve community well-being through discretionary business practices and contributions of corporate resources'. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries (Owiti, 2013).

Moral pressures in the market place may be enhanced through credible reporting of social activities by firms and may be directly influenced by peer pressure. This explains why certain firms record an impressive rise in market share right after successful and well marketed corporate social responsibility (Kitchen, 2010). In both the United States and Europe, corporate social auditing, accounting, and reporting (SAAR) is gaining increasing attention. SAAR is a means of measuring a firm's social performance, communicating its performance to stakeholders, and taking into account feedback from stakeholders (Owiti, 2013).

Conceptual framework:

Independent Variable

Ethical activities
1. Disclosure of information
2. Paying claims
3. Work place health and safety

→

Dependent Variable

Non financial performance
1. Customer satisfaction
2. Customer loyalty
3. Corporate image
4. Quality service
5. Customer satisfaction

3. METHODOLOGY

The study adopted a descriptive correlational research design. The population of study involved 4 insurance companies listed in the Nairobi Securities exchange. The target population consisted of 4100 employees and customers of the insurance companies who were selected through Cochran sample size formula to come up with 391 respondents. Data was collected using structured questionnaires and analyzed using both descriptive and inferential statistics. The following regression equation was used to represent ethical practices and non financial performance:-

$$Y=a+b_1x_1+ \varepsilon$$

Where y = Non-financial performance

a= Constant

X_1 = Ethical activities

e= error term

4. FINDINGS AND DISCUSSIONS

The study sought to establish the relationship between Ethical activities and non-financial performance in the insurance companies. The researcher put a five-point scale for the respondents to rate. It was established that 201 (52.9%) were in agreement that the firm performs in a manner consistent with societal expectations and ethical norms, 50 (13.2%) were undecided, 105 (27.6%) disagreed while 14 (6.3%) strongly disagreed. A total of 333 (85.6%) were in agreement that the firm provides full and accurate product use information, to enhance customer satisfaction, 18 (4.6%) were undecided while 38 (9.8%) were in disagreement. Majority 352 (90.5%) found that the firm recognizes and respect new and evolving ethical norms adapted by society with only 23 (5.9%) of respondents disagreeing. It was also established that the firm prevents ethical norms from being compromised in order to achieve corporate goals with 315 (81.6%) being in agreement. Majority 179 (47.1%) were in disagreement that the firm prevents ethical norms from being compromised, 154 (40.5%) were undecided while only 113 (29.7%) were in agreement. On the aspect that the firm discloses important information concerning the products and services to the client, majority 180 (47.6%) were in disagreement that it forms part of CSR and another 76 (20.1%) being undecided. Under the aspect that the firm is prompt in paying claims as stipulated by the regulator this it was established that majority of the respondents disagreed with 36.5 percent, however there were others 21.8 percent who agreed and another 17.8 percent strongly agreed. On the aspect that CSR activities have the lead to the acceptability of the insurance's products by customers, there were a big percentage who agreed with 44.8 percent strongly agreeing and 41.7 percent just agreeing. The remaining smaller percentage 2.8 percent were undecided and a negligible percentage disagreeing. Finally, under the aspect that CSR has improved the level of customer loyalty this also there were majority 29.5 percent who agreed, this was followed closely by those who disagreed with 28.2percent of the total respondents.

Generally, societal expectations and ethical norms; accurate product use information; new and evolving ethical norms and firm discloses important information had asymmetrical distribution with positive skewness (a long tail to the right). On the other hand, CSR activities has promoted the employees' perception from the customers was found to be asymmetrical with a negative skewness (a long tail to the left). The distribution of data for all ethical activities and non-financial performance in the insurance companies were found to have negative kurtosis (flatter distribution) as indicated in table 1 below:-

Table1: Ethical activities

STATEMENTS	*5* f (%)	*4* f (%)	*3* f (%)	*2* f (%)	*1* f (%)	Skewness SE=0.166	Kurtosis SE=0.330
The firm performs in a manner consistent with societal expectations and ethical norms	77(20.3)	124(32.6)	50(13.2)	105(27.6)	24(6.3)	0.198	-1.598
The firm provides full and accurate product use information, to enhance customer satisfaction	134(34.4)	199(51.2)	18(4.6)	33(8.5)	5(1.3)	0.160	-1.170
The firm recognizes and respect new and evolving ethical norms adapted by society	178(45.8)	174(44.7)	14(3.6)	18(4.6)	5(1.3)	0.292	-1.366
The firm prevents ethical norms from being compromised in order to achieve corporate goals	149(38.6)	166(43.0)	24(6.2)	37(9.6)	10(2.6)	-0.224	-1.401
Metallic waste	35(9.2)	78(20.5)	88(23.2)	154(40.5)	25(6.6)	0.329	-1.227
The firm discloses important information concerning the products and services to the client	38(10)	85(22.4)	76(20.1)	134(35.4)	46(12.2)	0.542	-0.902
The firm is prompt in paying claims as stipulated by the regulator	68(17.8)	83(21.8)	39(10.2)	139(36.5)	52(13.6)	0.160	-1.104
CSR activities have the lead to the acceptability of the insurance's products by customers	173(44.8)	161(41.7)	11(2.8)	34(8.8)	7(1.8)	1.615	-1.271
CSR has improved the level of customer loyalty	73(19.2)	112(29.5)	46(12.1)	107(28.2)	42(11.1)	-0.936	-1.103

Note: 1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree, S.D.=Standard Deviation, S.E=Standard Error

Correlation Analysis

Pearson's product moment correlation coefficient test was used to test this relationship. The Ethical activities index was correlated with the non-financial performance index. The results are presented in Table 2.

Table 2: Results of Pearson's product moment correlation test on the relationship between Ethical activities and non-financial performance

		Non-financial performance Index
Ethical activities Index	Pearson's Correlation Sig.(2 -tailed) N	0.586** .000 391

Correlation significant at the 0.01 level (2-tailed)

The results indicate a moderately strong positive and significant correlation between Ethical activities and non-financial performance of insurance companies (r=0.586, p= 0.000).

Regression Results of ethical practices and non-financial Performance

Regression analysis was conducted to find the proportion in the dependent variable (non-financial Performance) which can be predicted from the independent variable (ethical practices). Table 3 shows the analysis results.

Table 3: Model Summary ethical practices and non financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793[a]	.629	.625	2.38372

a. Predictors: (Constant), Ethical activities (X_1), Environmental activities (X_2), Philanthropic activities (X_3), Dependent Variable: non financial performance

Source: Field Data (2018)

The Adjusted R-squared is 0.625, meaning that approximately 63% of the variability of Non-financial performance is accounted for by the variables in the model. In this case, the adjusted R-squared indicates that about 63% of the variability of Non-financial performance is accounted for by ethical activities, environmental activities and philanthropic activities. This argument is reaffirmed by Stevens (2008) that codes of conduct can be eff ective and efficient instruments for guiding ethical behavior and employee decision making.

5. CONCLUSION

The objective of this study was to determine the relationship between ethical practices and non financial performance of insurance companies in the NSE. The study concluded that ethical activities must be affected on non-financial performance in the insurance companies; this entails commitment to improve community well-being through discretionary business practices and contributions of corporate resources'. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive companies. The influence of morality in markets is enhanced through disclosure and dissemination of information. More so, Ethical responsibilities embody those norms, practices or expectations that show concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping with the respect or protection of stakeholders' moral rights. Ethical responsibilities in the sense are often ill-defined or continually under public debate as to their legitimacy

6. RECOMMENDATIONS

Even though many organizations have adopted the use of ethical practices in order to gain long term reputation to their businesses, the study recommends that there is need to integrate all aspects of ethics to other business sectors other than insurance in order to reap maximum benefits.

ACKNOWLEDGEMENT

The paper wants to acknowledge the contributions from Dr. Osodo and Ms. Jemaiyo who assisted in the formulation of this paper to the best of their ability.

REFERENCES

[1] Ayuso, S. (2006). Adoption of voluntary environmental tools for sustainable tourism: Analyzing the experience of Spanish hotels. Corporate Social Responsibility and Environmental Management, 13, 207–220.

[2] Branco, M., & Rodrigues L. (2007). *Positioning stakeholder theory within the debate on corporate social responsibility.* Electronic Journal of Business Ethics and Organization Studies, 12(1), 5-15

[3] Elkington, John (1998). Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Gabriola Island, BC ; Stony Creek, CT : New Society Publishers, c1998

[4] Flammer, C. (2013). *Does corporate social responsibility lead to superior financial performance?* A regression discontinuity approach. Unpublished project. MIT Sloan School of Management.

[5] Garriga, E. and Mele, D. (2004) Corporate social responsibility theories: Mapping and territory. Journal of Business Ethics, 53, 51-74.

[6] Gomes, C. F. Yasin, M. M. e Lisboa, J.V. (2004), "A Literature Review of Manufacturing Performance Measures and Measurement in an Organizational Context: A Framework and Direction for Future Research", Journal of Manufacturing Technology Management, Vol. 15 No. 6, pp. 511-530.

[7] Haji, A. A., & Ghazali, N. A. M. (2012). Intellectual capital disclosure trends: some Malaysian evidence. Journal of Intellectual Capital, 13(3), 377-397.

[8] Kotler, P. and Lee, N. (2005). Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause. Hoboken, NJ: John Wiley & Sons.

[9] Lysons, K. & Farrington B. (2012). Purchasing and Supply Chain Management. England: Pearson Education Limited

[10] Makali, M. J. (2015). Ethics and procurement performance of humanitarian organizations in Kenya. Unpublished MBA project, University of Nairobi.

[11] Matten, D. (2003). Symbolic politics in environmental regulations: corporate strategic responses. 12 (4)

[12] Muchene, C. (2006). Ethical business is good business. Financial standard. Tuesday 23rd May, 2006- pg 14

[13] Owiti W. B. (2013). *Effects of Corporate Social Responsibility on Company Image*. Unpublished MBA Project, University of Nairobi.

[14] Sengbeh, A. B. (2015). Ethical procurement practices and supply chain performance of Kenyan energy sector. University of Nairobi; press

[15] Stevens, B. (2008). Corporate Ethical Codes: Effective Instruments for Influencing Behaviour. Journal of Business Ethics, Vol. 78.

[16] Swanson, Diane L. 1995. Addressing a Theoretical Problem by Reorienting the Corporate Social Performance Model. Academy of Management Review, 20 (1): 43-64

[17] Hoque, Z., Adams, C. (2011), the rise and use of balanced scorecard measures in Australian government departments. Financial Accountability and Management, 27(3), 308-334.

[18] Van der Stede, W.A., Chow, C.W. and Lin, T.W. 2006. Strategy, choice of performance measures, and performance, Behavioral Research in Accounting 18, 185-205.

[19] Winner, L. (1990). Engineering Ethics and Political Imagination in Durbin, Paul T., (Ed). Philosophy and Technology Broad and Narrow Interpretations of Philosophy of Technology, Vol. 7. Boston: Kluwer Academic Publishers Group.

[20] Wood, R.A, & Logsdon P C, (2002), *Corporate social responsibility and financial performance*, The Academy of Management Journal, 27, 42-56