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FIRM CHARACTERISTICS AND PERFORMANCE OF PRIVATE HEALTH INSURANCE
SECTOR IN KENYA

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**FIRM CHARACTERISTICS AND PERFORMANCE OF PRIVATE HEALTH
INSURANCE SECTOR IN KENYA**

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Abstract

Purpose: This study sought to establish the influence of firms' characteristics as determinants of transient advantage on performance. Specifically, the study looked at the influence of firm age and firm size on the performance of insurance firms in Kenya.

Methodology: This study employed descriptive research design targeting all the 19 insurance companies that offer health insurance products as at end of December 2017. Secondary data was collected on the firm characteristics (firm age and firm size) and the performance of health insurance (Gross Weighted Premiums and Underwritten Results). Descriptive and inferential analysis was conducted to show the relationship between the variables. The analyzed data was presented by use of bar charts, graphs and frequency tables. Inferential statistics were done including correlation regression and ANOVA.

Results: The study revealed that firm size had a positive relationship between age and firm performance that was statistically significant. The study also revealed that firm age had a positive relationship between age and firm performance that was statistically significant.

Conclusion: Age of a company is a quality that has been identified in this study as a factor which enables a company to gain capabilities which enable it to exploit transient advantage. It has been observed that the age of a company enables it to gain experience and learning which makes it able to overcome the effects of a rapidly changing business environment. With time these companies also gain a reputation placing them above their competitors. Age, alone, may not guarantee the performance of a company. Other factors have to accompany longevity for the firm to be able to exploit transient advantages and improve its performance. This can be proven by the fact that there are firms that had been in the sector for over three decades yet they control a small portion of the market share. This may be because the benefits of accumulated knowledge can be overcome by the inertia, inflexibility and bureaucracy brought about by routine, rules and organizational structure.

Contributions to theory, practice and policy: The study recommended that firms should form partnerships with other firms to enhance cheaper resource outsourcing and offset the disadvantage which comes with firm age and firm size thus increasing firms' profitability. It was also recommended that strategic partnerships should be adopted to enhance new market penetration and faster growth due to pooling of resources. It is further recommended that the age and size of an organization must be well supported by agility to enable the firm exploit transient advantages and that firms must use the financial muscle and experience gained over the years to take advantage of waves of opportunity.

Key words: *Age, Size, Dynamic capabilities, Transient advantage, Health insurance, performance.*

1.0 INTRODUCTION

Annual reports by the Insurance Regulatory Authority (IRA) provides evidence that while some insurance providers were thriving, others were struggling (IRA, 2018). It is disastrous for the insurance industry to collapse as it is a key player in the financial sector by cushioning the country in the event of risks that may ultimately affect the country's economic fortunes. It has therefore become increasingly important to understand and appreciate the determinants of success of insurance firms. This is critical in helping insurance companies to improve their profitability and overall performance and hence secure their ability to operate on a going concern basis.

Some of the factors that have been the focus of researchers for a long time include size of company, years of operation of company, liquidity, scope of operation, company ownership among others. Even though there have been researches done on insurance firms they have only been on the financial perspective. However, very little evidence has been provided on the effect of demographic factors, especially age of a firm on its success. This investigates the influence of a company's active years on its profitability.

Firm age relates to the experience of an organization in the market which is computed as number of years the firm has been in operations in that particular industry. The more the firm ages, the more it gains experience and learning and is also not prone to the liabilities of a start-up. Older firms also have the advantage of reputation which enables them to gain more profit by retaining and attracting new clients. However older firms are prone to bureaucracy and mediocrity. They may develop systems and routines that are not consistent with market changes. This leads to a negative relationship between age and performance. The older firms would also have financial muscle that would give them the ability to take advantage of short term profitable opportunities without the need to raise capital. They have the ability to discontinue some lines of operation should they consider them to be no longer economically viable (Mwangi & Murigu, 2015)

It is found that large firms have more competitive advantage over small firms. They tend to have bigger market share therefore making more profit and creating bigger value for the shareholders. They can make use of chances that require large capital since they have larger resources. They are therefore able to enter highly profitable fields with little competition (Dogan, 2013).

Despite the growth of health firms in terms of size and age in Kenya over the last 10 years, the industry has experienced consistent losses across the industry for the past five years (IRA 5 Year Analysis, 2017). Medical costs have been on the rise over the past five years and not all insurance companies are offering health insurance despite the fact that all insurance companies that have a license for general insurance can offer medical insurance. Doctor consultation fees have almost doubled since 2014. This coupled with an increase in the cost of medicine and medical equipment has caused the cost of medical services to rise drastically.

1.1 Statement of the problem

The performance of the private health insurance sector in Kenya has continued to be way below expectation with most of the companies reporting losses. According to IRA (2017), the profitability of this class of insurance has made it unattractive to many insurance companies with many opting not to offer health insurance as part of their products despite being licensed to do so.

Health insurance players in the industry continue to compete for the same client base without registering any significant improvement in the penetration levels (Kazungu & Barasa, 2017).

The health insurance sector continues to face poor performance in terms of profitability driven by competition amongst insurance companies that has resulted into undercutting (Kituku & Amata, 2016). The health insurance industry was put on the spotlight following the collapse of Mediplus Insurance in 2003 and Strategies Health in 2005 (Gitau, 2013). This study focused on the effect of firm characteristics on the performance of private health insurance sector in Kenya.

1.3 Purpose of the study

To determine the influence of firms characteristics (firm age and firm size) on performance of private health insurance sector in Kenya.

2.0 LITERATURE REVIEW.

A number of studies have been conducted regarding the influence of firm characteristics on performance. According to research carried out by Castellani and Navaretti (2013), newly formed firms or ones that have been in operation for only a few years' experience low performance rates are they are said to still be in the learning phase but as time goes by the performance actually improves this is due to the significant experience and understanding that older firms possess. This phenomenon only goes on for a given amount of time as the firms reach a certain age and start performing poorly. This shows that firms that are in the hiring and start-off phase experience a lag in their profit maximization activities while there is uniform improvement in performance when there is laying off of workers.

Age of firms also affects their readiness to go into what others may term to be risky, with a higher percentage of firms that are involved in innovation projects being the older ones. This is because younger firms are driven by getting capital and meeting their clients' needs while mature firms focus on the long term goals and are more adaptable to market shifts and seek out new strategies and they have confidence in their abilities to withstand challenges that are attributed to change (Mazzarol, 2010).

According to research carried out on firms in the Croatian Food Industry by Pervan, and Čouto (2016), the older firms get the more rigid their organization becomes specifically their structure because the executives are less inclined to new ideas and would prefer to stick with their original ideas as they have been tried and tested over time and have not failed them. These older firms do not want any disruptions in their system and prefer to keep the status quo going. It appears that researchers are split down the middle on whether experience favors older firms or youth favors newly formed companies as they are more flexible to new ideas. On the contrary, there is a certain threshold past which younger firms perform poorly and; before which older firms do not outperform their younger rivals (Çelik, 2018).

When this context is applied to insurance firms it shows that that firms are capable of high performance despite their age if both executives take advantage of resources at their disposal, since older firms have experience and thus can attract clients based on loyalty to an established brand whereas younger firms appeal to the youth as they have new innovative ideas that show that they are moving with the times (Derbali, 2014). Ilaboya and Ohiokha (2016) sought to find out the relationship between a firm's age, size and profitability. The study employed regression analysis on data collected from a sample of 30 firms listed in the Nigeria Stock Exchange Market. The study findings revealed a positive relationship between firm age, firm size and profitability.

Similarly Dogan (2013) investigated the effect of firm size on profitability. Data on 200 companies listed in the Istanbul stock exchange was used. Return on assets was used as a measure of profitability while total assets, total sales and number of employees was used to measure firm size. The results revealed a positive relationship between firm size and profitability. Oyelade (2019) examined the impact of firm size on firm's performance in Nigeria. Annual data was collected from firms in the building industry. Return on assets and return on equity was used to measure financial performance. Two of the four variables used to measure size had positive impact on performance.

Coad, Segarra and Teruel (2013) analyzed the performance of Spanish manufacturing firms between 1998 and 2006. They found evidence that firm performance improves with age because ageing firms are steadily increasing levels of productivity, higher profits, lower debt ratios and higher equity ratios. Older firms are also able to convert sales growth into profits and productivity. In contradiction they also found out that older firms have lower expected growth rate of sales, profits and productivity. When size is controlled they have lower profitability. They also have problems of converting employment growth into sales and profit growth.

Haykir and Celik (2018) conducted an investigation to find out the relationship between the age of a firm and its performance. The study analyzed family owned businesses in Turkey. It employed least square estimation on 38 listed, non-financial companies. Profitability was used to measure firm performance. Profitability was calculated as earnings before interest and tax divided by the value of total assets. The findings revealed that younger firms realized high profits until they reached a certain threshold age from which older firms performed better than young ones. Similarly Akben-Seluk (2016) conducted a similar study using a sample of 302 non-financial firms revealed that there was a negative relationship between firm age and performance. Young firm realized a decline in their profitability as they grew older but the profits later began to increase.

According to Isik and Unal (2017), the relationship between success of a firm and its size is mostly a linear one. The more a firm grows the more substantial its performance becomes. This conclusion was put forward when all market factors are held constant and it showed that the size of a firm affected its profitability. This due to larger firms having more resources available to them and the workforce at their disposal and make use of their size to control the market in terms of market strategies and traction they receive (Dogan, 2013).

The efficiency with which a firm carries out its day to day activities is enhanced for a large firm as they deal with larger economies of scale than small firms (Abbasi, 2015). This occurs when a firm grows it moves into its long run course of action where the executives point of view is to implement decisions that will actually be beneficial and allow for profit maximization in both the short and long run. Now just because a firm is small it does not necessarily mean that it is doomed to have low performance rates, because there are a number of ways either internally or through mergers and acquisitions. In the first method the firm actively seeks to use its resources to grow within a given time frame whereas mergers and acquisitions involve the consolidation of resources and work force of two or more firms resulting to a larger firm that can cut down on its spending and enhance competitiveness.

Although the large size of firms may actually seem to give them a competitive edge in the market, small firms can also expect high performance rates by ensuring that they develop a market niche where consumers can actually differentiate them from their competitors and building a brand that is recognizable for quality, developing networks with both local and international players in their

sectors so as to reach markets that may have been previously unavailable to them, they can also establish e-commerce platforms and although it has its pitfalls such as added high cost of maintenance of the system and danger of being overrun by multinational firms

According to the research, insurance firms whether small can make use of what they have and still have high performance rates while larger firms that have been in existence for more years actually can make use of their vast resources, work force and carved out market niche to build the industry to become more successful (Kumar, 2012).

Ilaboya and Ohiokha (2016) sought to find out the relationship between a firm's age, size and profitability. The study employed regression analysis on data collected from a sample of 30 firms listed in the Nigeria Stock Exchange Market. The study findings revealed a positive relationship between firm age, firm size and profitability. The relationship between firm age and profitability was a confirmation of the learning by doing hypothesis. Elsewhere, Leite and Carvalhal (2016) sought to determine the relationship between firm age, value and performance. They hypothesized that in the life cycle of a firm their performance resembles an inverted 'U' shape. As firms grow, they reach an optimal level where they begin to decline because of inflexibility and inability to adopt to market changes. These researchers analyzed 250 Brazilian companies but found that older firms recorded better performance. This was a rejection of the hypothesis of their study.

The relationship between firm age and performance has not always been found to be positive. There are studies that have revealed different results from those hypothesized. Pervan, Pervan and Curak (2017) sought to find out the relationship between firm performance and firm age. The study employed dynamic panel analysis on a sample of 956 Croatian food firms. They found out that as firms get older, the benefits of experience and learning are counteracted by the company's acquired rigidity due to rules, routines and organizational structure. It could therefore be said that age does not always contribute positively to a company's performance. However this could be because there are many factors, apart from age, that contribute to firm performance.

3.0 METHODOLOGY

This study used the descriptive research design. Descriptive studies are those used to describe phenomena associated with a subject population or to estimate proportions of the population that have certain characteristics. The target population of the study was all the 19 insurance companies that offer health insurance products as at end of December 2017. Secondary data was collected on the firm characteristics (firm age and firm size) and the performance of health insurance (Gross Weighted Premiums and Underwritten Results) using secondary data collection sheet. Descriptive and inferential analysis was conducted to show the relationship between the variables. The analyzed data was presented by use of bar charts, graphs and frequency tables. Inferential statistics were done including correlation regression and ANOVA. ANOVA analysis measured the goodness fit and further determined whether the overall model was statistically significant

4.0 RESULTS AND DISCUSSIONS.

The study was conducted in an endeavour to assess the influence of innovative products, distribution models, market sensing capabilities and strategic partnerships on the performance of the private health insurance sector in Kenya. The effect of the control variables and size and age on the relationship between its transient advantages and performance was assessed.

4.1 Firm characteristics (age and size)

Insurance firm size and age were used as variables in the study. This finding compares with that by (Kioko, 2013) who also asserted that the Net assets of an organization does has a positive coefficient when used as a predictor to Return on Assets and profitability ($B = 0.0356$) and has a t-statistic of 2.093 which is significant at 5% level of significance. The study then indicated that net assets are a significant predictor of Return on Assets and hence it has a positive coefficient indicating that increase in net assets by an organization which results from increase in sales as a result of increase in the customer base and market share in Kenya increases the return on assets and hence its performance

Descriptive statistics of firm size

A description of the performance of health insurance firms across size and the relationship between size and performance results are as shown in Table 2.

Table 2: Descriptive for all the insurance firm sizes

Size		LN(GWP)	U/Wx10 ⁻⁴	GWP	U/W Results
Large	Mean	15.221	-5.86	4,114,874	5,744
	Std. Deviation	0.1393	7.165	563,796	7,777
Medium	Mean	14.572	-6.35	2,140,426	14,952
	Std. Deviation	0.0975	8.73	208,772	26,295
Small	Mean	12.939	-0.65	638,749	5,853
	Std. Deviation	1.3029	2.51	387,522	8,640
Very Large	Mean	15.632	19.45	6,173,819	194,492
	Std. Deviation	0.084	13.961	516,042	139,646
Total	Mean	14.103	-0.48	2,347,061	31,994
	Std. Deviation	1.3906	10.925	1,975,004	80,525

The results show that performance as indicated by the Gross Weighted Premiums (GWP) and Underwritten results (U/W) or profits significantly varies with the size of insurance firms. The larger the size of the firm the higher the better the performance of the firm. This is in line with the core assumption of the critical mass in insurance which is anchored on the concept of pooling of risks. The results agree with earlier studies (Ilaboya & Ohiokha, 2016; Dogan, 2013) that the size of a firm predicts its performance. Based on empirical literature, these finding compares with that by Isik and Unal (2017) who asserted that the larger the firm, the better the performance due to the advantage of economies of scale and ability to utilize and allocate the realized resources to realize better performance and get to expand even further in size. Bigger companies would have better chances to have their brands recognized because of the ability to finance marketing and promotional campaigns. Larger companies also inspire confidence to potential clients hence attracting new clients who would result into bigger market share and bigger top-line.

Further cross-tabulation was used to examine the association between firm size and performance. The results are shown in Table 3.

Table 3 shows that there was significant difference in financial performance across the firm sizes though the perception of the employees (respondents) of performance was similar across all the firms ($F=1.64, p=0.18 >0.05$). Similar results were obtained for the log Gross Weighted Premiums and for U/W scaled down by 10^{-4} . Though there was no significant variation in qualitative

performance assessment and size, the variation was significant for quantitative performance measuring GWP and U/W ($p < 0.001$). This finding suggested that size very significantly accounts for the variation in performance of private health insurance for performance.

Table 3: ANOVA Results of Size of Firm and Performance

				Sum Squares	of df	Mean Square	F	Sig.
GWP size *	Between Groups	Combined		1.14631E+15	3	3.821E+14	2269.2 69	<0.001
	Within Groups			5.1188E+13	304	1.6838E+11		
	Total			1.1975E+15	307			
U/W Results * size	Between Groups	Combined		1.1837E+12	3	3.9457E+11	148.63 7	<0.001
	Within Groups			8.06989E+11	304	2654570651		
	Total			1.99069E+12	307			
Performa nce * size	Between Groups	Combined		1.39	3	0.463	1.64	0.18
	Within Groups			85.928	304	0.283		
	Total			87.319	307			

Descriptive statistics of firm age and performance.

Descriptive statistics were used to determine the effect of age on firm performance and the findings were as shown in table 4.

Table 1: Descriptive for Age and Performance

	Mean	Std. Deviation	N
Age of firm	16.61	9.44	19
GWP	2347060.523	1975004.077	19
U/W Results	-340.46	186.544	2

Table 4.24 shows that the mean age of health insurance firms in Kenya was 16.61 years with a variation of 9.44. This implies that insurance firms in Kenya vary widely in their age. The analysis noted that AAR Insurance and Resolution Insurance initially operated as Health Management Organizations (HMO's) before getting licenses to operate as insurance companies in 2013. The table also shows that the mean GWP was Kes 2,347,060 and U/W was Ksh-340.46. These results are in line with IRA's 5 year analysis (2017) which reports that the health insurance industry in Kenya has experienced consistent losses across the industry for the past five years.

Correlation analysis was also used to examine the strength and direction of the relationship between firm age and performance. The results are shown on Table 5.

Table 4.5 shows that firm performance varied significantly with age. Firm age is strongly and positively connected with both GWP ($r = 0.714$, $p < 0.001$) and U/W ($r = 0.465$, $p = 0.001$). These results suggests that as size increases so does the GWP and the U/W. This finding agrees with

previous studies by Mwangi and Murigu (2015); Haykir and Celik (2018); who also found that age positively affects performance of a firm. A particular look at Jubilee which is the oldest firm studied indicates a significant positive correlation between the firm's age and performance. The organization has consistently reported profits and is also the largest in market share and with a significant gap between the Jubilee and the number two.

Table 2: Relationship between performance and age of insurance firm

Variable		LN(GWP)	U/Wx10 ⁻⁴	Age firm
LN(GWP)	Pearson	1		
	Correlation			
	Sig. (2-tailed)			
	N	19		
U/Wx10 ⁻⁴	Pearson	.173**	1	
	Correlation			
	Sig. (2-tailed)	0.002		
	N	19	19	
Age firm	Pearson	.714**	.465**	1
	Correlation			
	Sig. (2-tailed)	<0.001	<0.001	
	N	19	19	19

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

Discussion

According to Mwangi and Murigu (2015) the more a firm ages, the more it gains experience and learning and is not prone to the liabilities of a start-up. Older firms also have the advantage of reputation which enables them to gain more profit. However older firms are prone to bureaucracy and mediocrity. They may develop systems and routines that are not consistent with market changes. This leads to a negative relationship between age and performance. Older firms have the experience and brand visibility that gives them significant advantage over their peers.

Haykir and Celik (2018) conducted an investigation to find out the link between the age of a firm and its performance. The study analyzed family owned businesses in Turkey. It employed least square estimation on 38 listed, non-financial companies. Profitability was used to measure firm performance. Profitability was calculated as earnings before interest and tax divided by the value of total assets. The findings revealed that younger firms realized high profits until they reached a certain threshold age from which older firms performed better than young ones. Younger firms also realized higher growth rates than the older firms because the older firms would be at the maturity stage and with a slower growth rates. The younger firms are agile and able to adapt as well as act swiftly to take advantage of opportunities.

Similarly Akben-Seluk (2016) conducted a similar study using a sample of 302 non-financial firms revealed that there was a negative relationship between firm age and performance. Young firm realized a decline in their profitability as they grew older but the profits later began to increase. This would happen as they gained experience and expertise in their areas of operation.

Ilaboya and Ohiokha (2016) sought to find out the relationship between a firm's age, size and profitability. The study employed regression analysis on data collected from a sample of 30 firms listed in the Nigeria Stock Exchange Market. The study findings revealed a positive relationship

between firm age, firm size and profitability. The relationship between firm age and profitability was a confirmation of the learning by doing hypothesis. In another related study, Leite and Carvalhal (2016) sought to determine the relationship between firm age, value and performance. They hypothesized that in the life cycle of a firm their performance resembles an inverted 'U' shape. As firms grow, they reach an optimal level where they begin to decline because of inflexibility and inability to adopt to market changes and the diminished agility. The researchers analyzed 250 Brazilian companies but found out that older firms recorded better performance than their younger peers. This resulted into a rejection of the hypothesis of their study at the time.

The relationship between firm age and performance has not always been found to be positive. There are studies that have revealed different results from those hypothesized. Pervan, Pervan and Curak (2017) sought to find out the relationship between firm performance and firm age. The study employed dynamic panel analysis on a sample of 956 Croatian food firms. They found out that as firms get older, the benefits of experience and learning are counteracted by the company's acquired rigidity due to rules, routines and organizational structure. Rigidity and reduced and diminishing agility played a key role in the poor/diminishing performance. It could therefore be said that age does not always contribute positively to a company's performance. However, this could be because there are many factors, apart from age, that contribute to firm performance.

5.0 SUMMARY AND CONCLUSION

The study investigated the relationship between age and firm performance and found out that there was a positive relationship between age and firm performance that was statistically significant.

5.1 Summary.

Because of the high risk nature of Medical insurance, coupled with challenges of the macro-economic environment, many private health insurance companies and the entire sector as a whole have been experiencing huge losses in their business. Few companies have been able to maintain their performance above the average industry performance. They have also been able to realize profits where others have recorded losses. Another performance indicator that can be identified in this study is the gross written premiums of the companies since 2013.

As evidenced by the findings in this research, investigation into the high performers reveals qualities that make them leaders in their class. It has been observed that companies that have been in operation for long tend to have a higher market share than their younger compatriots. Although this has no significant relationship with the profitability, market share is a desirable quality in any business and it can be a capability that gives a company competitive advantage. A higher market share is also desirable for health insurance considering profitability is realized once an organization is able to hit the critical mass at the right pricing.

Age of a company is a quality that has been identified in this study as a factor which enables a company to gain capabilities which give it competitive advantage. It has been observed that the age of a company enables it to gain experience and learning which makes it able to overcome the effects of a rapidly changing business environment. With time these companies also gain a reputation placing them above their competitors. Age, alone, may not guarantee the performance of a company. Other factors have to accompany longevity for the firm to have competitive advantage and improve its performance. This can be proven by the fact that there are firms that been in the sector for over three decades yet they control a small amount of the market share. This may be because the benefits of accumulated knowledge can be overcome by the inertia, inflexibility and bureaucracy brought about by routine, rules and organizational structure. It is

therefore critical that even with the experience that comes from operating for many years, an organization is agile enough to take advantage of the fleeting profitable opportunities as they may arise and hence exploit on transient advantages.

5.2 Recommendations

The study recommends that firms should always communicate to customers relating to changes in services in order to increase customer loyalty and eradicate uncertainties among them. Firms are also recommended to conduct regular customer satisfaction surveys in order to establish customer satisfaction with their products/services. Managers also need to engage employees in gathering information regarding competitors and potential threats in the market in order to establish competitive operational strategies. This study recommends continuous market sensing and implementations of the feedback received from the clients. Health Insurance companies also need to find a way of getting feedback from the clients on the quality of service received from the medical service providers that they are third parties in the engagement notwithstanding.

Organizations should therefore design their policies to address horizontal concerns and generate inducement for innovation activities. Innovation must be from the point of what the client needs and should result into the tweaking of existing products, development of new products as well as improvement of processes to serve the customer better. Further, organizations have to be agile enough to take advantage of opportunities that continue to present themselves in various forms. Organizations with many years of experience and the financial muscle should align their resource allocation to the opportunities that present the greatest opportunity to realize better performance. The organization must be cognizant of the fact that while controls and sometimes bureaucracy may be desirable to a certain extent especially in view of size, bureaucracy can also stifle growth that emanates from innovation and creativity. Structure should then be put in place to support agility even in the midst of an elaborate controls environment. Even with size and age, there must be a good balance between controls and agility.

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