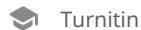


Author

document_7a87b2f8-49ae-4e1a-8adc-139bc3a558a2



Document Details

Submission ID

trn:oid::1:3410584100

Submission Date

Nov 14, 2025, 4:11 AM GMT-5

Download Date

Nov 14, 2025, 4:14 AM GMT-5

File Name

tmp_jd6_a1_.docx

File Size

66.5 KB

31 Pages

7,176 Words

45,925 Characters

85% detected as AI

The percentage indicates the combined amount of likely AI-generated text as well as likely AI-generated text that was also likely AI-paraphrased.

Caution: Review required.

It is essential to understand the limitations of AI detection before making decisions about a student's work. We encourage you to learn more about Turnitin's AI detection capabilities before using the tool.

Detection Groups

-  **52 AI-generated only 85%**
Likely AI-generated text from a large-language model.
-  **0 AI-generated text that was AI-paraphrased 0%**
Likely AI-generated text that was likely revised using an AI-paraphrase tool or word spinner.

Disclaimer

Our AI writing assessment is designed to help educators identify text that might be prepared by a generative AI tool. Our AI writing assessment may not always be accurate (it may misidentify writing that is likely AI generated as AI generated and AI paraphrased or likely AI generated and AI paraphrased writing as only AI generated) so it should not be used as the sole basis for adverse actions against a student. It takes further scrutiny and human judgment in conjunction with an organization's application of its specific academic policies to determine whether any academic misconduct has occurred.

Frequently Asked Questions

How should I interpret Turnitin's AI writing percentage and false positives?

The percentage shown in the AI writing report is the amount of qualifying text within the submission that Turnitin's AI writing detection model determines was either likely AI-generated text from a large-language model or likely AI-generated text that was likely revised using an AI paraphrase tool or word spinner.

False positives (incorrectly flagging human-written text as AI-generated) are a possibility in AI models.

AI detection scores under 20%, which we do not surface in new reports, have a higher likelihood of false positives. To reduce the likelihood of misinterpretation, no score or highlights are attributed and are indicated with an asterisk in the report (*%).

The AI writing percentage should not be the sole basis to determine whether misconduct has occurred. The reviewer/instructor should use the percentage as a means to start a formative conversation with their student and/or use it to examine the submitted assignment in accordance with their school's policies.

What does 'qualifying text' mean?

Our model only processes qualifying text in the form of long-form writing. Long-form writing means individual sentences contained in paragraphs that make up a longer piece of written work, such as an essay, a dissertation, or an article, etc. Qualifying text that has been determined to be likely AI-generated will be highlighted in cyan in the submission, and likely AI-generated and then likely AI-paraphrased will be highlighted purple.

Non-qualifying text, such as bullet points, annotated bibliographies, etc., will not be processed and can create disparity between the submission highlights and the percentage shown.



**INFLUENCE OF FINANCIAL DISTRESS ON EMPLOYEE WELFARE DURING
LIQUIDATION IN KENYAN INSURANCE COMPANIES**

NGUGI JOSEPH NELLY

**A RESEARCH PROPOSAL SUBMITTED IN PARTIAL FULFILLMENT FOR
THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION AT
THE UNIVERSITY OF NAIROBI**

NOVEMBER 2025

DECLARATION

This research proposal is my original work and has not been submitted for the award of a degree in any other university.

Signed: Date:

NGUGI JOSEPH NELLY

D61/44111/2023

This research proposal has been submitted for examination with my approval as a university supervisor.

Signed..... Date:

Prof. Harriet Kidombo
Department of Business Administration
School of Business and Management Sciences
University of Nairobi

TABLE OF CONTENTS

DECLARATION.....	ii
LIST OF FIGURES	v
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Financial Distress	2
1.1.2 Employee Welfare	3
1.1.3 Corporate Liquidation in Kenyan Insurance Companies	4
1.2 Research Problem	5
1.3 Objectives of the Study	7
1.4 Value of the Study	7
1.5 Definition of Terms	8
CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Theoretical Foundation	10
2.2.1 Financial Distress Theory.....	10
2.2.2 Stakeholder Theory	11
2.3 Financial Distress and Employee Welfare during Liquidation	12
2.4 Empirical Literature	14
2.5 Conceptual Framework.....	16
CHAPTER THREE	17
RESEARCH METHODOLOGY.....	17
3.1 Introduction.....	17
3.2 Research Design.....	17
3.3 Target Population	17
3.4 Sample Size and Sampling Technique	18
3.5 Data Collection	18
3.6 Data Analysis	19
REFERENCES	21
APPENDICES	i

APPENDIX 1: INTERVIEW GUIDE.....	i
APPENDIX II: FGD QUESTIONS	iii

LIST OF FIGURES

Figure 2.1: Conceptual framework	16
--	----

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The financial sector plays a critical role in economic stability and growth, with insurance companies serving as risk managers, investors, and major employers (Swiss Re Institute, 2021). However, financial distress in insurance firms can lead to insolvency and liquidation, affecting multiple stakeholders, particularly employees (ILO, 2016). Regulatory frameworks globally and in Kenya prioritize policyholders' protection, often neglecting employee welfare during corporate collapse, leaving workers, especially those with specialized skills, exposed to financial and psychological hardship (World Bank, 2020). In Kenya, insurance firms such as Blue Shield, Concord, and Resolution Insurance have experienced financial instability, adversely impacting employees' livelihoods (IRA, 2022). Oversight bodies like the Insurance Regulatory Authority and Retirement Benefits Authority focus mainly on policyholders, providing minimal support for employee dues, retirement benefits, or psychological wellbeing during liquidation (Wanjiru & Muturi, 2022). This gap underscores the need for policies that safeguard employees during corporate failures.

This study will be grounded in Financial Distress Theory and Stakeholder Theory, providing a comprehensive framework to examine how financial distress and liquidation impact employee welfare in Kenya's insurance sector. Financial Distress Theory, pioneered by Altman (1968) and later expanded by Dzugwahi (2024), emphasizes that declining profitability, liquidity challenges, and increased leverage signal heightened risk of corporate failure. Complementing this, Stakeholder Theory (Freeman, 1984, 2018)

This study aims to highlight how financial troubles affect the well-being of employees when Kenyan insurance companies go through liquidation. To provide context, this study will draw on cases from four Kenyan insurance companies that have experienced corporate liquidation in the recent past. These are Blue Shield Insurance, Concord Insurance, Invesco Assurance and

Resolution Insurance (IRA, 2022). Essentially, this study aims to examine the link between organizational structures and the shortcomings within regulatory bodies that should protect employee welfare (Chege, 2021). The information addressed and discoveries made in this study are meant to help in the development of a more holistic and humane approach in regards to corporate liquidation (World Bank, 2020).

1.1.1 Financial Distress

Financial distress is a critical concern not only within the financial services industry but across sectors where financial stability is pivotal. In insurance, financial distress extends beyond short-term cash flow problems and often signals structural inefficiencies that, if unaddressed, can escalate into insolvency and eventual liquidation (Todorova, 2012). Globally, financially distressed firms experience operational disruptions, declining investor and customer confidence, and deterioration in employee welfare. The Trade-Off Theory of Capital Structure posits that firms aim to balance the benefits of debt financing with the risks of financial instability (Kraus & Litzenberg, 1973). Excessive reliance on debt, weak risk management, or accumulation of unmanageable liabilities increases the vulnerability of insurance firms, with ramifications that extend to their employees and other internal stakeholders (Myers, 2001). Todorova (2012) observes that financial distress affects not only the balance sheet but fundamentally alters organizational functioning and the treatment of employees.

Financial distress arises from a combination of internal and external factors. Internally, poor financial governance including misallocation of funds, excessive borrowing, fraud, corruption, and mismanagement, frequently precipitates instability (Senbet & Wang, 2012). Externally, firms are exposed to macroeconomic pressures such as inflation, interest rate fluctuations, currency depreciation, legal constraints, and intense market competition (Wruck, 1990). These external shocks may compel firms to adopt unsustainable pricing, reduce production, or fail to comply with regulatory mandates, which can trigger financial penalties and amplify existing vulnerabilities (Senbet & Wang, 2012). The consequences of distress are widespread: creditors face delayed payments, investors withdraw support, and employees often experience withheld salaries, loss of benefits, and sudden job termination. Operational cutbacks and retrenchments frequently prioritize

organizational survival over employee welfare, leaving staff vulnerable to long-term economic and psychological hardship.

In Kenya, financial distress within the insurance sector has become increasingly prominent over the last decade. While the industry contributes significantly to employment, investment, and financial protection, several firms including Blue Shield Insurance, Concord Insurance, and Resolution Insurance have succumbed to insolvency due to long-term financial instability. These failures typically unfold gradually, beginning with liquidity and solvency pressures before culminating in statutory management or liquidation. Financial distress in this context is characterized by an inability to meet both short-term and long-term obligations, including policyholder claims, debt payments, and regulatory capital requirements (IRA, 2021). Consequently, employees often bear the brunt of collapse, facing job loss, unpaid dues, and minimal structured support. Regulatory interventions by bodies such as the Insurance Regulatory Authority and the Retirement Benefits Authority frequently occur after employee welfare has already been compromised.

Wang and Ning (2024) highlight that liquidation processes primarily focus on settling creditor and policyholder claims to preserve financial system trust. While necessary, this prioritization systematically neglects employee needs, leaving many workers unsupported despite years of service. In practice, financial distress within Kenyan insurance firms thus produces a recurring cycle of employee marginalization. Workers experience the direct effects of organizational failure including disrupted livelihoods, lost benefits, and psychosocial strain even though they are largely removed from the managerial decisions that precipitate corporate collapse. This underscores the need for policies and mechanisms that explicitly safeguard employee welfare during financial distress and liquidation in the insurance sector.

1.1.2 Employee Welfare

Employee welfare constitutes services, facilities and benefits the employers provide to ensure the well-being of the employees (ILO, 2019). This includes physical, mental and emotional support offered through initiatives like healthcare, safety measures, recreation, transport, counselling services and conducive working environment (Severoni, 2023). The objectives of all this is to

enhance the quality of work life, reduce stress, increase job satisfaction and ultimately improve productivity (Armstrong & Taylor, 2020).

The concept of employees' welfare is underpinned by Maslow's Hierarchy of Needs Theory, which emphasizes that individuals are driven by progression of needs beginning with psychological needs, followed by safety needs, social belonging, esteem and self-actualization (Maslow, 1943/1987). Employee welfare initiatives help satisfy these needs. For example, medical care and a safe work environment meet psychological and safety needs, while recreational and social activities address social belonging need. Training and recognition can meet esteem and self-actualization (Maslow, 1943).

Employees also have specific expectations from their employer, which align with the principles of Herzberg's Two Factor Theory. According to the theory, there are hygiene factors (such as salary, working conditions and job security) and motivators (such as: recognition, achievement and growth opportunities) (Henzberg, 1968). Employees expect their employers to fulfil both: hygiene factors helps prevent dissatisfaction, while motivators enhance better performance and commitment (Robbins & Judge, 2017). Employees commonly expect fair pay, safe and respectful working environments, opportunities for promotion and skill development, effective communication, and a balance between work and personal life (Dessler, 2020). In addition, the Social Exchange Theory explains that employees tend to respond positively when they perceive that their employer is genuinely concerned about their welfare (Blau, 1964). This mutual relationship creates trust and loyalty. When employers invest in employee welfare, workers are more likely to demonstrate commitment, higher productivity and reduced turnover (Cropanzano & Mitchell, 2005).

1.1.3 Corporate Liquidation in Kenyan Insurance Companies

Corporate liquidation, typically initiated when an organization cannot meet its financial obligations, is a critical process aimed at safeguarding the interests of clients, creditors, and stakeholders (Mwangi, 2018). Regulatory agencies in the financial and insurance sectors play an essential role in maintaining market stability and enforcing compliance (World Bank, 2020). However, employee welfare is often neglected, despite workers being a vital component of the organization. Employees, particularly in insurance, often possess specialized skills that are not

easily transferable, leaving them vulnerable to financial instability, career disruption, and job loss during liquidation. The immediate effects of corporate collapse such as unpaid salaries, disrupted benefits, and psychological stress can have long-lasting impacts on employees' lives and livelihoods, yet regulatory mechanisms primarily focus on protecting policyholders and creditors, creating a significant welfare gap for staff affected by liquidation.

In Kenya, the last decade has witnessed the liquidation of multiple insurance firms, including Resolution Insurance, Invesco Assurance, Blue Shield Insurance, and Concord Insurance, due to insolvency, mismanagement, and inadequate capital reserves (IRA, 2022). For instance, Resolution Insurance entered statutory management in 2022 and liquidation in 2023, with over KSh 82 million disbursed to policyholders, while employees received little support. Invesco Assurance and Blue Shield Insurance experienced similar outcomes, with policyholder compensation prioritized over employee welfare (Cytonn Investments, 2025). Across these cases, hundreds of employees lost jobs, faced delayed salaries, or missed terminal benefits. Despite the crucial role of human resources in sustaining the industry, liquidation practices largely overlooked staff needs, highlighting a pressing gap in employee protection and post-liquidation reintegration within Kenya's insurance sector.

1.2 Research Problem

The stability of financial institutions in a country relies on the effective interaction of several factors, including profitability, liquidity, leverage, the quality of governance, capital adequacy and firm sizes. Strong profitability supports liquidity, while manageable leverage enhances financial flexibility, enabling firms to meet obligations and remain solvent. However, negative interactions among these factors can arise. For example, declining profitability may reduce liquidity, while excessive leverage can raise debt-servicing costs, exposing insurance companies to financial distress and increasing the risk of collapse. In the insurance sector, such dynamics directly affect firms' capacity to settle claims, comply with regulatory solvency standards, and maintain public confidence. These pressures ultimately influence both operational stability and the broader health of the industry.

In Kenya, the impact of these challenges has been evident in the liquidation of previously reputable insurers such as Blue Shield Insurance, Concord Insurance, Invesco Assurance and Resolution Insurance. Their closure illustrates how firms can be undermined by weak capital structures, poor investment decisions, market volatility and regulatory shortcomings. The collapse of these companies eroded public trust in the sector while disrupting the livelihood of employees and leaving policyholders exposed to losses. This situation underscores a dual crisis; policyholders lose confidence in insurance commitments, while employees face losses and income insecurity. This highlights the importance of examining insurance company liquidations in Kenya and their implication for both corporate survival and employee welfare.

Several studies have explored financial distress and employee welfare across different contexts. Internationally, Amini (2022) examined U.S. firms and found that better employee welfare practices significantly reduced the probability of firm exit, highlighting the role of human capital protection in mitigating the adverse effects of financial distress. Regionally, Jombe and Pretorius (2022) analyzed business rescue cases in South Africa and reported that restructuring processes positively influenced employee retention and income continuity, though outcomes varied depending on the firm's financial and managerial capacity. In Kenya, Kisaka (2022) investigated the protection of employee rights under corporate insolvency and noted that while legal frameworks such as the Insolvency Act (2015) provide some safeguards, employees remain vulnerable to delayed payments and job insecurity during liquidation. Similarly, Bowmans Law (2022) highlighted practical challenges faced by employees in Kenyan firms undergoing insolvency, emphasizing that severance pay and other entitlements are often inadequately addressed, leaving workers financially exposed. Despite these insights, there remains insufficient empirical evidence on how financial distress directly impacts employee welfare during the liquidation of insurance companies in Kenya. The question that therefore arises is: How does financial distress influence employee welfare during liquidation in Kenyan insurance companies?

Despite increasing focus on financial distress, significant knowledge gaps persist. Conceptually, much of the existing research on financial indicators, while overlooking critical human and institutional dimensions such as employee welfare and governance quality. Contextually, much of the existing evidence is derived from developed economies, offering limited insights into emerging markets like Kenya where regulatory capacity, capital markets and institutional resilience differ

significantly. Theoretically, prevailing models assume stable market conditions and efficient regulatory oversight, yet Kenyan insurance sector operates in an environment characterized by volatility and regulatory shortcomings. Methodologically, most studies rely on quantitative models such as Z-score or regression analysis, which captures financial metrics but often exclude qualitative perspectives that could reveal how distress and liquidation affects employees on the ground. Therefore, this study seeks to fill this gap by answering the question: How does financial distress influence employee welfare during the liquidation of insurance companies in Kenya?

1.3 Objectives of the Study

To assess how financial distress influences employee welfare during the liquidation of insurance companies in Kenya?

1.4 Value of the Study

This study provides concrete, evidence-based insights to guide reforms in labor laws, insolvency frameworks, and liquidation procedures. It highlights existing gaps in employee protection during corporate failure and offers recommendations that can strengthen national policies, improve compensation mechanisms, and enhance the responsiveness of regulatory interventions during liquidation.

Regulators such as the IRA can use the study's findings to refine supervisory strategies and develop proactive intervention mechanisms that protect employees before and during liquidation. Insurance firms and industry managers can also draw on the insights to strengthen internal governance, improve risk management practices, and adopt policies that safeguard employee welfare during periods of financial distress.

The study contributes to the limited body of literature on corporate failure and employee welfare in emerging markets, particularly within the African insurance sector. By offering empirical evidence and highlighting contextual gaps, it provides a foundation for future research, comparative studies, and policy audits aimed at deepening academic understanding of financial distress and labor outcomes.

1.5 Definition of Terms

Financial Distress: A situation where individual's or company's struggles to meet its short term and long term financial obligations, often marked by declining revenues, rising liabilities, and risk of insolvency. (Ross et al., 2019; IRA, 2022)

Liquidation: The legal process where a company's assets are sold to pay creditors before the firm is permanently closed. (Insolvency Act, 2015)

Employee Welfare: The overall physical, emotional, financial and social well-being of workers, including job security, fair treatment and access to benefits. (Employment Act, 2007).

IRA: The statutory body established under the Kenya Insurance Act (Cap 487) to regulate, supervise and develop Kenya insurance industry (IRA, 2022)

RBA: it is a regulatory body established by the government of Kenya under the Retirement Benefits Act of regulate, supervise and promote retirement benefits schemes in the republic Kenya (RBA, 2023).

Insolvency: The inability of a company to pay its debts when they fall due, often leading to administration or liquidation (Insolvency Act, 2015).

Redundancy: A lawful termination of employment that arises when an employer cannot retain an employee due to financial or structural reasons (Employment Act, 2007, Sec. 40).

Policyholders Compensation Fund (PCF): A statutory fund established under the Insurance Act (Cap 487) to provide compensation to policyholders of insurers placed under statutory management or liquidation. (PCF, 2023).

Corporate Social Responsibility (CSR): A company's voluntary commitment to ethical practices, employee welfare, and social well-being beyond legal requirements. (Carroll, 1999).

Altman Z-Score: A financial model that uses multiple ratios to predict the likelihood of a firm entering bankruptcy within two years. (Altman, 1968).

International Labor Organization (ILO): A United Nations agency that sets international labor standards and promotes decent work and social protection globally. (ILO, 2021).

Organization for Economic Co-operation and Development (OECD): An intergovernmental body that promotes policies aimed at economic development, employment, and improved living standards. (OECD, 2020).

National Social Security Fund (NSSF): A government agency that manages mandatory retirement savings for workers in Kenya, providing social security benefits. (NSSF Act, 2013).

Retirement Benefits Authority (RBA): A statutory body regulating, supervising, and promoting retirement benefit schemes in Kenya. (Retirement Benefits Act, 1997).

Insolvency Act (2015): Kenya's legislation governing bankruptcy, restructuring, administration, and liquidation of distressed companies.

Employment Act (2007): Kenya's principal labor legislation providing guidelines on employment contracts, rights, and termination.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines existing literature on how financial distress and company liquidation affects employee welfare in Kenyan insurance companies, especially in emerging market settings where regulatory frameworks and social protection mechanisms are often underdeveloped. This review is structured around key thematic areas that inform this study's theoretical foundation and research approach.

2.2 Theoretical Foundation

This study is anchored on Financial Distress Theory and the Stakeholder Theory which collectively provide a multidimensional framework for understanding how financial distress and liquidation affect employee welfare in Kenyan insurance sector.

2.2.1 Financial Distress Theory

Financial distress theory has been widely studied as an important precursor to corporate failure, with several scholars contributing to its development. Dzugwahi (2024) was among the first to propose qualitative methodology for predicting financial distress through the Z-score model, which demonstrated that declining profitability, liquidity challenges and raising leverage heightened the risk of bankruptcy (Altman, 1968). Building on this, Arifiana and Khalifaturofi (2022) advanced the use of logistic regression model to improve prediction accuracy, focusing on firm size, financial ratios and prevailing markets conditions. Purnanandam (2007) later introduced the concept of financial flexibility, noting that firms with limited access to capital markets are particularly vulnerable to economic downturns. Similarly, Kraus and Litzenberger (1973) advanced the Trade-off Theory which stresses the need for firms to balance the benefits of debt financing against the potential cost of financial distress.

The main components of Financial Distress Theory include financial indicators such as profitability, liquidity, leverage and firm size, alongside predictive models such as the Z-score and logistic regression. The theory also emphasizes the importance of financial flexibility in shielding firms from external shocks and the delicate balance between leveraging debts and avoiding insolvency risks. Within this study, the theory provides a useful framework for analyzing how financial distress emerges in Kenyan insurance companies, which often face challenges in maintaining sufficient capital reserves due to solvency requirements imposed by the Insurance Regulatory Authority (IRA, 2022; Kamau, 2020).

Despite its strengths, the theory has limitations. It places considerable emphasis on financial ratios while often overlooking non-financial dimensions such as corporate governance, managerial competence and employee welfare, all of which are essential in understanding distress. Moreover, most predictive models, including the Z-score, were developed in advanced economies and do not fully capture the realities of emerging markets like Kenya, where data inconsistencies and structural market weaknesses remain prevalent. Lastly, the Trade-off theory assumes that managers make rational decisions and that markets operate efficiently, conditions that rarely hold in practice, especially in emerging economies such as Kenya (Myer, 2001). Lastly, these frameworks tend to overlook institutional governance and behavioral factors that also play a critical role in determining whether firms survive or collapse (Shleifer & Vishny, 1997).

2.2.2 Stakeholder Theory

The stakeholder theory, advanced by Freeman (1984, 2018), challenged the traditional view of shareholder primacy by arguing that firms must also account for the interests of other stakeholders, including employees, customers, suppliers and the surrounding communities (Donaldson & Preston, 1995). This theoretical lens provides a broader ethical and practical framework, particularly relevant in the context of financial distress and liquidation, where multiple groups are affected. The Theory was further enriched by Mitchell, Agle and Wood (1997), who introduced the concept of stakeholders' differing salience, emphasising that stakeholders differ in terms of power, legitimacy, and urgency. Employees gain legitimacy through contractual rights and their role in creating organisational value, yet they often lack influence in decision-making during liquidation (Crane & Matten, 2020).

Stakeholder theory directly aligns with this study, which addresses the study's concerns with employee welfare during financial distress and liquidation in the Kenyan insurance sector. It provides an ethical basis for recognising employees as core stakeholders whose rights and interests deserve protection alongside those of policyholders, creditors and shareholders (Freeman, 1984). However, the concept of stakeholder salience shows why employees remain vulnerable in the liquidation process: although their claims are legitimate and urgent, they rarely possess the power to shape outcomes (Mitchell, Agle & Wood, 1997). In developing countries like Kenya, this imbalance is more evident because labour protection is weak and regulatory systems often prioritise creditors and policyholders over employees. While the stakeholders' Theory provides a compelling normative basis for employee rights, it is not without limitations. Firstly, the Theory is often criticised for being overly broad, offering limited practical guidance on how to balance competing stakeholders' claims in situations of scarcity, such as liquidation. Secondly, the concept of stakeholder salience is descriptive rather than prescriptive, meaning it explains why certain stakeholders dominate but does not provide a mechanism to correct the imbalances. Thirdly, in practice, firms and regulators may prioritise economic imperatives such as solvency and creditor repayment over ethical considerations, making the application of stakeholder principles difficult. Lastly, most empirical work has been conducted in developed economies, creating a contextual gap in understanding how stakeholder dynamics play out in emerging markets such as Kenya.

2.3 Financial Distress and Employee Welfare during Liquidation

Financial distress lies at the centre of corporate collapse and is particularly visible in the failures of Kenyan insurance firms such as Blue Shield Insurance, Concord Insurance, Invesco Assurance, and Resolution Insurance. In the insurance sector, financial distress refers to a situation where a company is unable to meet short-term and long-term obligations, including settling policyholder claims, paying debts, and maintaining regulatory capital. Scholars such as Myers (2001) and Kraus and Litzenberger (1973) argue through the Trade-off Theory that excessive debt increases a firm's vulnerability to distress, especially in highly regulated industries like insurance. Empirical work by Rossi (2008) further shows that financial distress affects not just financial performance but internal operations, culture, and treatment of employees. In Kenya, the collapse of several insurers was not sudden; it was a gradual process marked by years of financial weakness that went unaddressed.

The causes of financial distress are both internal and external. Internally, weak financial management, resource misallocation, excessive leverage, fraud, and corruption often accelerate decline. Externally, macroeconomic shocks such as inflation, currency depreciation, rising interest rates, and regulatory non-compliance heighten vulnerability. Competitive pressures may force insurers to underprice premiums, creating unsustainable financial positions. Studies such as Beaver (2010) show that financial distress evolves in predictable patterns, with early warning signs like regulatory sanctions, declining market share, and poor customer satisfaction factors clearly visible in the Kenyan insurance cases. OECD (2025) findings similarly indicate that insurers worldwide face unique risks related to catastrophic claims, volatile investments, and regulatory requirements, making financial distress both cumulative and sector-specific.

Liquidation processes significantly shape the treatment of stakeholders, particularly employees. International evidence shows that corporate insolvency tends to prioritise secured creditors and policyholders over employees (DSpace, 2025). In Kenya, the Policyholders Compensation Fund (PCF, 2024) protects policyholders, yet no equivalent mechanism exists for workers, leaving them exposed during company failures. Employee welfare deteriorates rapidly during financial distress, with workers experiencing unpaid salaries, job insecurity, termination without adequate compensation, and psychological strain. Studies by Graham et al. (2023) reveal that employees in bankrupt firms suffer long-term wage reductions of up to 30%, while research by Burgard et al. (2007) shows heightened anxiety, depression, and family stress even before liquidation begins. These findings indicate that the human cost of financial distress precedes and exceeds the formal liquidation stage.

Legal frameworks offer partial protection but remain insufficient. Kenya's Employment Act (2007) and Insolvency Act (2015) provide for notice, redundancy pay, and prioritisation of employee claims, but these protections are often unenforceable when firms lack adequate assets. Internationally, ILO Conventions (2019; 2021) advocate stronger employee safeguards during insolvency, though implementation remains inconsistent across developing economies. Insurance-specific studies (Cummins, Lalonde & Phillips, 2004) note that failures in this sector often stem from weak reserving, poor underwriting, and investment losses compounded by stringent regulatory capital requirements. In emerging markets, limited social protection and restricted labor

mobility intensify employee vulnerability (Kimani, 2025), mirroring the experiences of workers in Kenya's collapsing insurers.

2.4 Empirical Literature

Amini (2022) investigated the relationship between employee welfare practices and firm survival in distressed U.S. companies. Using quantitative analysis of longitudinal firm-level data, the study measured how human resource policies, including severance schemes, health benefits, and employee support programs, mitigated the negative impacts of financial distress. Findings revealed that firms with stronger welfare practices had a lower likelihood of bankruptcy and experienced reduced employee turnover during financial difficulties. The research recommended integrating employee welfare as a strategic risk management tool to improve organizational resilience. However, the study was limited to the U.S., highlighting the need for empirical evidence in emerging markets like Kenya, where legal protections and labor market conditions differ substantially. Darul Wiyono et al. (2025) examined ESG-driven human resource strategies in Indonesian firms, focusing on corporate sustainability and employee well-being during financial challenges. Using a mixed-methods approach, including interviews with HR managers and content analysis of corporate ESG reports, the study found that proactive welfare interventions enhanced employee morale and mitigated stress during periods of financial strain. Recommendations included embedding employee welfare in ESG strategies to sustain performance under distress. The limitation of this study lies in its focus on ESG-compliant firms, leaving a gap for understanding welfare outcomes in less regulated or crisis-prone sectors such as insurance.

Jombe and Pretorius (2022) analyzed the effects of business rescue processes on employee welfare in South African companies. Using qualitative interviews with rescued firms' staff, the study highlighted that structured restructuring positively influenced job retention and income continuity. However, outcomes varied according to the financial health of firms and managerial competence. The findings emphasized the need for regulatory oversight to safeguard employees' rights during corporate distress. Nonetheless, the research was geographically limited to South Africa, indicating the need to explore similar dynamics in Kenya's insurance sector.

Van Deventer and Van Deventer (2023) investigated the impact of corporate insolvency on employees in South Africa using secondary data from legal case files and insolvency reports. The

study found that employees often faced unpaid wages, job losses, and limited claim priority, with protections heavily favoring creditors. Recommendations stressed the importance of policy reforms to enhance employee claims and safeguard welfare during liquidation. The study's limitation was its regional focus, suggesting further research is needed in other African markets with weaker labor protections.

Kisaka (2022) explored employee rights protection under Kenya's Insolvency Act (2015) in liquidated firms. Using document review and interviews with affected employees, the study found that while legal provisions prioritize employee claims over unsecured creditors, delays in enforcement and inadequate resources often compromised welfare outcomes. The study recommended strengthening institutional capacity to ensure timely payment of wages, severance, and other entitlements. Its limitation is that it examined only a few firms, signaling the need for broader empirical research across multiple insurance companies.

Bowmans Law (2022) analyzed real-life insolvency cases in Kenya to assess the treatment of employees during liquidation. Through case study review and legal commentary, the study revealed systemic delays in paying severance and redundancy entitlements, leaving employees financially vulnerable. Recommendations included improved enforcement mechanisms and employee-focused policy reforms. The limitation of this study is its focus on legal commentary rather than empirical data from employees themselves, highlighting the need for direct qualitative insights.

Ongwae (2024) examined employee welfare practices in Kenyan firms, focusing on organizational outcomes such as income, benefits, and job satisfaction. Using structured interviews and questionnaires with employees of Kenya Power and Lighting Company, the study found that effective welfare policies enhance productivity and morale. The research underscores the importance of structured welfare systems in maintaining employee well-being even under operational stress. However, it did not investigate firms undergoing liquidation, leaving a gap in understanding welfare during corporate failure.

Ajuoga, Egessa, and Odera (2024) studied employee welfare management in Kenyan county referral hospitals, focusing on pay, benefits, and psychosocial support. Using a mixed-methods approach, including interviews and survey questionnaires, the study demonstrated that comprehensive welfare practices improve organizational commitment and mitigate stress during

organizational changes. Though informative, the study was conducted in healthcare and did not specifically address the insurance sector or the effects of liquidation, highlighting a need for sector-specific research.

2.5 Conceptual Framework

The Figure 2.1 illustrates the direct relationship between financial distress in insurance companies and its impact on employee welfare.

Figure 2. 1: Conceptual framework

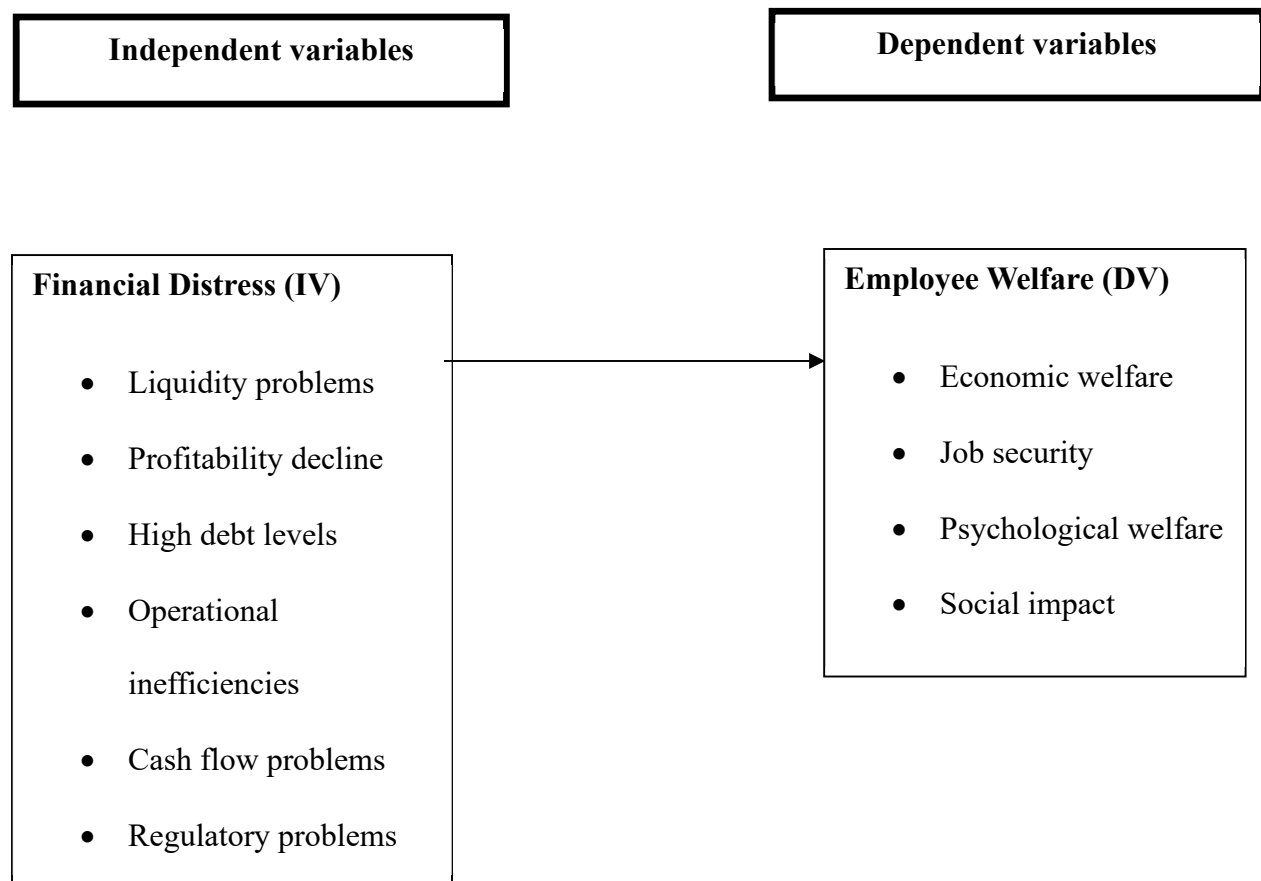


Figure 2.1: Conceptual framework

Source: Author (2025)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology applied to examine the effect of financial distress on employee welfare during the liquidation of insurance companies. It includes the research design, study population, sampling methods, data collection approaches and data analysis techniques.

3.2 Research Design

This study employs a descriptive cross-sectional qualitative research design. It aims to describe and explore employee welfare during the liquidation of multiple Kenyan insurance companies, including Blue Shield Insurance, Concord Insurance, Invesco Assurance, and Resolution Insurance. Data is collected through focus group discussions and in-depth interviews, capturing the experiences, perceptions, and challenges faced by employees at a single point in time. This design is appropriate because it allows for detailed, contextualised insights into employee welfare while enabling comparison across different organizations, highlighting patterns, commonalities, and variations in how financial distress affects workers. .

3.3 Target Population

The target population for this study comprises all insurance firms in Kenya that have gone through liquidation since the enactment of the Insurance Act in 2015. These include Blue Insurance, Concord Insurance, Invesco Insurance, Resolution Insurance, Stallion Insurance, Lakestar Insurance and Access Insurance (IRA, 2022). However, due to limitations in data availability and the need for an in-depth, detailed analysis, the study focuses on a purposefully selected sample of four cases. These companies include Blue Shield Insurance, Concord Insurance, Invesco Assurance and Resolution Insurance.

3.4 Sample Size and Sampling Technique

This study will employ purposive sampling to select participants who have direct experience with the liquidation process in Kenyan insurance companies. The focus will be on employees from four firms that have undergone liquidation, Blue Shield Insurance, Concord Insurance, Invesco Assurance, and Resolution Insurance, chosen for their relevance and accessibility. A total of 50 participants will be included, distributed approximately evenly across the four firms to ensure balanced representation. Participants will be drawn from multiple departments, including finance, claims, customer service, and administration, and will comprise both junior and senior staff, capturing a wide range of perspectives and experiences. The sample size is guided by the principle of data saturation, with interviews and focus group discussions conducted until no new themes emerge, ensuring rich and in-depth qualitative insights. Using semi-structured interviews and focus group discussions allows for triangulation of findings, capturing both individual and collective experiences of how financial distress and liquidation affect employee welfare. This approach ensures the study generates detailed, contextually relevant data while maintaining manageability in terms of logistics and analysis.

3.5 Data Collection

This study will collect primary qualitative data from past and present employees of four liquidated Kenyan insurance firms namely Blue Shield Insurance, Concord Insurance, Invesco Assurance, and Resolution Insurance using purposive sampling. A total of 50 participants will be selected, with roughly 10–15 employees per firm, ensuring representation across departments such as finance, claims, customer service, and administration, and including both junior and senior staff. This method is appropriate because it targets individuals with direct, relevant experience of financial distress and liquidation, allowing for rich, detailed narratives. Data will be collected through semi-structured interviews to explore personal experiences, and focus group discussions (FGDs) to capture shared perceptions and generate interactive reflections on key issues such as job security, income loss, benefit payments, and psychosocial wellbeing. The combination of interviews and FGDs ensures triangulation of perspectives, allowing both individual and collective experiences to be analyzed thematically. Participant selection will continue until data saturation is

reached, ensuring that all major themes regarding employee welfare during liquidation are captured.

Secondary data will be gathered using a structured data collection sheet to systematically review documents relevant to employee welfare. The sheet will include fields for document type (e.g., IRA reports, liquidators' reports, court filings, media articles), source, date, summary of content, and relevance to employee welfare. These sources will provide context for the primary data, highlighting regulatory frameworks, institutional responses, and public reporting of corporate distress and liquidation events. By combining the firsthand experiences of employees with systematically collected documentary evidence, the study enhances credibility, validity, and reliability of findings, allowing for a comprehensive understanding of how financial distress affects employee welfare during liquidation (Creswell, 2014; Saunders et al., 2019; Yin, 2014).

3.6 Data Analysis

The study will employ qualitative thematic analysis to examine data collected through semi-structured interviews and focus group discussions with employees of liquidated insurance companies. Thematic analysis will be appropriate because it will allow for the systematic identification, analysis, and reporting of patterns and themes within the data, providing a rich, detailed, and nuanced understanding of employee welfare experiences during corporate liquidation (Braun & Clarke, 2006).

Data analysis will begin with transcription of all interviews and FGDs, followed by repeated reading of the transcripts to achieve familiarity with the content. Open coding will then be applied, in which meaningful segments of text related to employee welfare will be labeled. These initial codes will capture recurring issues such as job insecurity, delayed or unpaid salaries, emotional and psychological stress, coping strategies, communication effectiveness, and perceptions of fairness in the liquidation process. Related codes will subsequently be grouped into broader thematic categories, reflecting major patterns in the data. Thematic maps will be used to visually organize themes and sub-themes, highlighting relationships between experiences across different staff levels, departments, and firms.

To enhance credibility and reliability, the analysis process will include cross-checking of codes and themes among research team members and will triangulate findings across interviews and FGDs. Where relevant, secondary data such as regulatory documents, media reports, and liquidators' records will be consulted to provide context and verify emerging themes. The findings will then be synthesized to present a comprehensive understanding of how financial distress and liquidation affect employee welfare, including both common trends and firm-specific variations. This approach will ensure that the analysis not only identifies what issues employees face, but also how and why these challenges manifest in practice.

REFERENCES

- Almira, M. M. (1999). *La dimensión jurídica del tiempo en el Muhtasar de Halil*.
- Amini, S., Johan, S., Kashefi Pour, E., & Mohamed, A. (2023). Employee welfare, social capital, and IPO firm survival. *Entrepreneurship Theory and Practice*, 47(6), 2174–2204
- Arifiana, R., & Khalifaturafi'ah, S. O. (2022). The effect of financial ratios in predicting financial distress in manufacturing companies. *Jurnal Riset Bisnis Dan Manajemen*, 15(2), 103–108.
- Beaver, W. H. (2010). Financial Statement Analysis and the Prediction of Financial Distress. *Foundations and Trends in Accounting*, 5(2), 99–173.
- Berrill, J., Cassells, D., O'Hagan-Luff, M., & van Stel, A. (2020). The relationship between financial distress and well-being: Exploring the role of self-employment. *International Small Business Journal: Researching Entrepreneurship*, 39(4), 330–349.
- Bowmans Law. (2022, August). More companies are going insolvent in Kenya, putting the spotlight on severance pay for employees. Bowmans Law Insights.
- Burgard, S. A., Brand, J. E., & House, J. S. (2007). Toward a Better Estimation of the Effect of Job Loss on Health. *Journal of Health and Social Behavior*, 48(4), 369–384.
- Coile, C. C., & Levine, P. B. (2011). The Market Crash and Mass Layoffs: How the Current Economic Crisis May Affect Retirement. *The B.E. Journal of Economic Analysis & Policy*, 11(1).
- Cummins, J. David., Lalonde, D., & Phillips, R. D. (2004). The basis risk of catastrophic-loss index securities. *Journal of Financial Economics*, 71(1), 77–111.
- Darul Wiyono, D., Dewi, D. A., Ambiapuri, E., Parwitasari, N. A., & Hambali, D. S. (2025). Strategic ESG-driven human resource practices: Transforming employee management for sustainable organizational growth.
- DSpace. (2025). *The Untenable Case for Repeal of Chapter 11*. Yale.edu.
- Dzugwahi, H. (2024). Corporate Failure Prediction Tools: A Comprehensive Analysis of Altman Z-Score and Argenti A-Score Models in Financial Distress Assessment. *World Journal of Finance and Investment Research E-ISSN*, 8(5).
- Farooq, M., & Noor, A. (2021). The impact of corporate social responsibility on financial distress: evidence from developing economy. *Pacific Accounting Review*, 33(3), 376–396.
- Freeman, R. E. (2018). *Stakeholder theory*. Stakeholdertheory.org.
- Graham, J. R., Kim, H., Li, S., & Qiu, J. (2023). *Employee Costs of Corporate Bankruptcy*.
- ILO. (2024). *Convention C158 - Termination of Employment Convention, 1982 (No. 158)*. Ilo.org.
- Jombe, M. K., & Pretorius, M. (2022). Direct and indirect impacts of business rescue on employment: Evidence from South Africa. *Journal of Contemporary Management*, 19(2), 269–297.
- Karamzadeh, M. S. (2013). Application and Comparison of Altman and Ohlson Models to Predict Bankruptcy of Companies. *Research Journal of Applied Sciences, Engineering and Technology*, 11(9), 2007–2011.
- Kenya Law. (2012). *Employment Act Chapter 226*.
- Kenyan Law. (2015). *The Insolvency Act*.
- Kimani, H. (2025, April 30). *Corporate Governance Challenges in Emerging Markets in Kenya*. Centre for Corporate Governance.

- Kisaka, C. J. (2022). Corporate insolvency: Protection of employee rights in Kenya (Master's thesis). University of Nairobi.
- Krajňáková, E., & Vojtovič, S. (2017). Struggles of Older Workers at the Labour Market. *Economics & Sociology*, 10(1), 319–333.
- McLeod, S. (2025). *Maslow's hierarchy of needs*. Simply Psychology.
- Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a Theory of Stakeholder Identification and salience: Defining the Principle of Who and What Really Counts. *The Academy of Management Review*, 22(4), 853–886.
- Najjar, N. J., & Salman, R. A. M. (2013). The Impact of Corporate Governance on the Insurance Firm's Performance in Bahrain. *International Journal of Learning and Development*, 3(2), 56.
- Nickerson, C. (2025, April 18). *Herzberg's two-factor theory of motivation-hygiene*. Simply Psychology.
- OECD. (2025). *OECD Journal Financial Market Trends Volume 2016/2 Focus on • Insurer investment strategies • Green finance*.
- PCF. (2024). *Statutory Management - Statutory Management - Policyholders Compensation Fund*. Pcf.go.ke.
- Purnanandam, A. (2008). Financial distress and corporate risk management: Theory and evidence. *Journal of Financial Economics*, 87(3), 706–739.
- Ridha Esghaier. (2023). The dynamic trade-off theory of capital structure: evidence from a panel of US industrial companies. *Studies in Economics and Finance*, 41(4).
- Senbet, L. W., & Wang, T. Y. (2012). Corporate Financial Distress and Bankruptcy: A Survey. *SSRN Electronic Journal*.
- Severoni, E. (2023, May 11). *3 welfare initiatives to improve employee well-being*. Doxee.
- Shim, W. S., Hwang, M. J., & Lee, J. (2009). Professional Identity, Job Satisfaction, and Retention of Licensed Social Workers in Korea. *Asia Pacific Journal of Social Work and Development*, 19(1), 82–95.
- Todorova, Z. (2012). Book Review: The Future of Money: From Financial Crisis to Public Resource. *Review of Radical Political Economics*, 45(1), 107–109.
- Van Deventer, J., & Van Deventer, L. (2023). The impact of insolvency on employees in South Africa. Van Deventer & Van Deventer Legal Commentary.
- Wang, C., & Ning, Y. (2024). The employee's perception of psychological safety: construct dimensions, scale development and validation. *BMC Psychology*, 12(1).

APPENDICES

APPENDIX 1: INTERVIEW GUIDE

Section 1: General Information (Background)

1. Could you briefly tell me about yourself (e.g., your role, duration in the insurance industry, and the company you worked for before liquidation)?
2. How did you become involved or affected by the liquidation process?

Section 2: Regulatory Framework Effectiveness

1. From your experience, how effective were the laws (such as the Insolvency Act or Employment Act) in protecting employees when your company went into liquidation?
2. How would you describe the role of the Insurance Regulatory Authority (IRA) during the liquidation process?
3. Compared to other groups (policyholders, creditors, shareholders), how fairly do you feel employees were treated?
4. Overall, what is your perception of the regulatory framework in safeguarding employee welfare during liquidation?

Section 3: Financial Distress and Employee Welfare

1. In your view, what were the main causes of financial distress in your company?
2. How did you and other employees first become aware of the financial problems?
3. Can you describe the key challenges you faced as an employee during liquidation (e.g., delayed salaries, pensions, psychological stress)?
4. Of all the challenges you experienced, which one had the greatest impact on your life and why?

Section 4: Coping Mechanisms and Responses

1. How did you and your colleagues cope with the uncertainties brought about by liquidation?
2. How would you describe the communication from management or regulators during the process?
3. What measures, if any, were taken to protect employee welfare? (e.g., severance packages, counseling, support from unions, etc.)
4. In your opinion, how adequate were these measures in meeting employees' needs?

Section 5: Future Reforms

1. Do you think Kenya should establish an Employee Compensation Fund similar to the Policyholders Compensation Fund? Why or why not?

2. In your opinion, what reforms or changes are most important to improve employee welfare during liquidation?
3. If you were advising policymakers, what single change would you prioritize to better protect employees in the insurance sector?

APPENDIX II: FGD QUESTIONS

Demographic & background form

FGD ID / date / location.....

Participant code (e.g., J001)

Age Group

☐ 18–25 ☐ 26–35 ☐ 36–45 ☐ 46 & above

Gender.....

Job level / title.....

Department

Years with organization.....

Current employment status (still employed / on notice / terminated / redeployed)

Whether they received compensation (Yes/No) — optional: amount range.....

Section A – Communication practices

1. How and when did you first hear about the liquidation?

Probes: source (email, meeting, manager, rumor), clarity of information, timeliness.

2. How effective was the communication from management and regulators?

Probes: frequency, language, access to Q&A, whether explanations matched actions.

Section B – Compensation & administrative challenges

3. What happened to salaries, benefits, leave pay and other entitlements?

Probes: delays, partial payments, documentation requested, clarity on process.

4. Which administrative procedures were most difficult for you?

Probes: paperwork, bank issues, proof of employment, interacting with liquidators.

Section C – Coping mechanisms & support

5. How did you cope financially and emotionally after the announcement?

Probes: family support, loans, selling assets, community support, counseling.

6. Did the organization or other institutions offer any support (training, referrals)?

Probes: usefulness, accessibility, suggestions for improvement.

Section D – Perceptions of fairness & institutional response

7. Do you feel the liquidation process was handled fairly? Why or why not?

Probes: transparency, equal treatment, who was prioritized, perceived favoritism.

8. How did liquidation affect team morale and relationships at work?

Probes: trust in leadership, workplace conflicts, long-term career plans.

Closing

9. If you could make three recommendations to management or regulators, what would they be?