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

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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

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DECLARATION

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

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

Signed…… Date: …….....

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The insurance firms within the financial sector are pivotal for economic advancement and stability as they are key employers and, thus, have a huge impact as investors and risk underwriters (Swiss Re Institute, 2021). Yet, liquidation and insolvency of the insurance firms causes financial distress that impacts financial and psychological wellbeing of many parties including employees, particularly those with specialized skills (ILO, 2016). Most policies across the world, including those in Kenya, focus on the protection of a firm's policyholders which leaves employees, particularly specialized insurance personnel, without any form of protection which leads to a situation where they suffer distress as financial and psychological loss (World Bank, 2020). Insurance firms in Kenya such as Blue Shield, Concord, and Resolution Insurance have had financial distress which has been a livelihood crisis for their employees (IRA, 2022). During liquidation, Oversight institutions such as the Insurance Regulatory Authority and the Retirement Benefits Authority primarily consider the policyholders and, thus, offer little to no assistance on the employees' outstanding remuneration, pension, or psychological wellbeing (Wanjiru & Muturi, 2022). This has created the necessity for the formulation of policies that address employee protection in the event of liquidation of a firm.

This research primarily focuses on Financial Distress Theory and Stakeholder Theory to analyze the implications of financial distress and insolvency on employees' wellbeing in the Kenyan insurance industry. As postulated by Altman (1968) and further developed by Dzugwahi (2024), Financial Distress Theory examines the phenomenon where loss of profitability, issue of liquidity, and increase in the debt equity ratio of the business increases the risk of a business going into bankruptcy. In addition to this, there exists Stakeholder Theory (Freeman, 1984, 2018).

This study wishes to demonstrate the effect of the financial hardships and liquidation of Kenyan companies on the wellbeing of employees. The study draws examples from Blue Shield Insurance, Concord Insurance, Invesco Assurance and Resolution Insurance, all of which have suffered

corporate liquidation recently (IRA, 2022). Overall, the study is trying to show the interconnection between the organization of the business and the gaps on the supervision (and hence the protection of the employees) (Chege, 2021). The phenomena described and the answers potentially found will serve to provide a base for a more humane treatment of corporate liquidations. The World Bank 2020.

1.1.1 Financial Distress

Financial distress is an important concern not only within the financial services industry but across sectors where financial stability is necessary. In the context of insurance, financial distress goes beyond temporary cash flow issues and has often been a symptom of deeper structural inefficiencies that worsen and culminate in insolvency and liquidation if unresolved. Globally, financially distressed firms experience operational disruptions, eroding investor and customer confidence as well as deteriorating employee welfare. The Trade-Off Theory of Capital Structure suggests firms seek to trade off the benefits of debt finance against the costs of financial distress. The excessive use of debt, poor risk management practices, or inability to manage key liabilities increases insurance firm vulnerability, the consequences of which affect their employees and other internal stakeholders. According to Todorova (2012), financial distress impacts organizational function and employee treatment far beyond the balance sheet.

There are both internal and external bases for financial distress. Internal factors that contribute to poor financial governance include misallocation of funds, overborrowing, fraud, corruption, and mismanagement, which are commonly the precursors to instability. Firms are usually subject to outside influences, such as inflation, interest rate changes, currency fluctuation, legal restrictions, and competition in the marketplace. All these can lead a firm to unforeseeable business practices, including pricing that cannot be maintained, closing down production lines, or ignoring regulations and ending up with heavy financial penalties for non-compliance. Distress has wide ramifications: creditors are paid late; investors pull out; and employees often do not receive their salary, benefits, and, finally, lose their jobs without any warning. Reductions and cutbacks in operations are usually designed to ensure the survival of the company rather than the employees.

In Kenya, financial distress in the insurance sector has grown over the past decade. While the industry is a significant player in employment, investment, and financial protection, a number of

firms, including Blue Shield Insurance, Concord Insurance, and Resolution Insurance, have fallen due to long-term financial instability. These collapses take time and often begin with liquidity and solvency pressures before leading to statutory management or liquidation. Financial distress in this context is defined by an inability to meet both short-term and long-term obligations, such as policyholder claims, debt payments, and regulatory capital requirements IRA, 2021. As a result, employees are usually the biggest victims of collapse through job loss, unpaid dues, and almost zero structured support. Regulatory interventions by bodies like the Insurance Regulatory Authority and the Retirement Benefits Authority tend to come after the welfare of employees might already be compromised.

Wang and Ning (2024) point out that liquidation processes essentially focus on settling the claims of both creditors and policyholders to retain confidence in the financial system. This, while very important, systematically sidelines employees' needs and, in effect, leaves many workers unsupported despite decades of service. In actual practice, therefore, financial distress within Kenyan insurance firms creates a repeated pattern of employee marginalization. Employees are mostly excluded from managerial decisions that lead to corporate collapse, yet they suffer directly from the organizational failure in disrupted livelihoods, lost benefits, and psychosocial strain. This calls for the need to implement policies and mechanisms which explicitly protect the welfare of employees both during periods of financial distress and liquidation in the insurance sector.

1.1.2 Employee Welfare

Employee welfare includes services, facilities and benefits which employers avail to ensure the well-being of their workers (ILO, 2019). This includes physcal, mental and emotional support offered through initiatives like healthcare, safety measures, recreation, transport, counselling services and conducive working environment (Severoni, 2023). The reason 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). When employers invest in employee welfare, workers can mostly demonstrate commitment, higher productivity and reduced turnover (Cropanzano & Mitchell, 2005).

1.1.3 Corporate Liquidation in Kenyan Insurance Companies

Corporate liquidation, typically started when a firm cannot meet its financial obligations, is a critical process aimed at safeguarding the interests of stakeholders (Mwangi, 2018). Regulatory agencies in the financial and insurance sectors help in maintaining market stability and enforcing compliance (World Bank, 2020). However, employee welfare is often overlooked, despite workers being a vital component of the organization. Employees 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 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.

Over the last decade, Kenya has witnessed the liquidation of several insurance firms due to insolvency, mismanagement, and inadequate capital reserves, which include Resolution Insurance, Invesco Assurance, Blue Shield Insurance, and Concord Insurance. For example, Resolution Insurance went into statutory management in 2022 and into liquidation in 2023, where KSh 82

million had been paid to policyholders, while employees were given little support in job placement. Similar cases have resulted in the collapse of Invesco Assurance and Blue Shield Insurance, where compensation has been granted to policyholders, but employees have been left to their fate. In all these cases, there is a loss of hundreds of jobs, delays in salary payment, or no terminal benefits being paid. While human resources is a key ingredient to sustaining the industry, the practice of liquidation has mainly neglected the needs of employees when an insurance firm goes under, pointing to a growing protection gap in terms of employee protection and post-liquidation reintegration in Kenya's insurance sector.

1.2 Research Problem

The stability of financial institutions in a country depends on how well various factors interact, including profitability, liquidity, leverage, the quality of governance, capital adequacy, and firm sizes. Solid profitability undergirds liquidity, while prudent leverage fosters financial flexibility, enabling firms to fulfill obligations and continue solvent. Yet, there are also negative interactions between the aforementioned factors. For instance, a decline in profitability may lead to lower liquidity, while excessively high leverage increases debt-servicing costs, thereby making insurance companies vulnerable to financial distress and collapse. In the insurance industry, such factors directly impact the ability of firms to pay claims, observe regulatory requirements for solvency, and retain the confidence of the public. These pressures ultimately affect both operational stability and overall industry health.

In Kenya, these challenges have been reflected in the liquidation of insurance companies that were hitherto reputable, such as Blue Shield Insurance, Concord Insurance, Invesco Assurance, and Resolution Insurance. Their collapse demonstrates how firms can be weakened by inadequate capital bases, poor investments, market fluctuations, and regulatory gaps. Such demise destroyed public confidence in the insurance segment, disrupted employees' livelihoods, and exposed policyholders to unprotected losses. This is a situation of dual crisis: policyholders lose faith in insurance promises, while workers are confronted with losses and income uncertainty. This also underlines the relevance of analyzing liquidations of insurance firms in Kenya and their implication for corporate survival and individual employee welfare.

Several studies have been conducted that touch on financial distress and employee welfare in various contexts. Globally, Amini (2022) examined U.S. firms and found that better employee welfare practices significantly decreased the likelihood of firm exit, underscoring the role of human capital protection in lessening the negative consequences of financial distress. Regionally, Jombe and Pretorius (2022) analyzed business rescue cases in South Africa and reported that restructuring processes had positive influence on the retention of employees and continuity of their income, albeit with different outcomes depending on the firm's financial and managerial capacity. In Kenya, Kisaka (2022) investigated the protection of rights of employees under corporate insolvency and observed that while applicable legal frameworks like the Insolvency Act, 2015 provide some level of protection, employees still stand the risk of delayed payments and job loss in the event of liquidation. Similarly, Bowmans Law (2022) has pointed to practical challenges facing workers in Kenyan firms undergoing insolvency, emphasizing that severance pay and other entitlements are mostly not taken care of, thus leaving employees financially exposed. Notwithstanding these insights, there is still not enough empirical evidence regarding how financial distress actually affects the welfare of employees in the liquidation process at insurance companies in Kenya. The question that follows then is: To what extent does financial distress impact the welfare of employees during the liquidation process in Kenyan insurance companies?

Despite an 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 and thus offers limited insights into emerging markets like Kenya, where regulatory capacity, capital markets, and institutional resilience differ substantially. Theoretically, the prevailing models are based on the assumptions of stable market conditions and efficient regulatory oversights, yet the insurance sector in Kenya has to operate in an environment characterized by volatility and regulatory shortcomings. Methodologically, most studies rely on quantitative models such as Z-score or regression analysis; these capture financial metrics but often exclude qualitative perspectives that might reveal how employees on the ground are affected by distress and liquidation. 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-scoremodel, 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 hoe financial distress emerges in Kenyan insurance companies, which often face challenges in maintain 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 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 not fully capture the realities of emerging markets like Kenya, where there data inconsistencies and structural market weaknesses remain prevalent. Lastly, the Trade-off theory assumes that managers makes rational decisions and that markets operates efficiently, conditions that rarely hold in practice, especially in emerging economies such as Kenya (Myer, 2001). Lastly, these frameworks tends to overlook institutional governance and behavioral factors that also plays 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 Odero (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

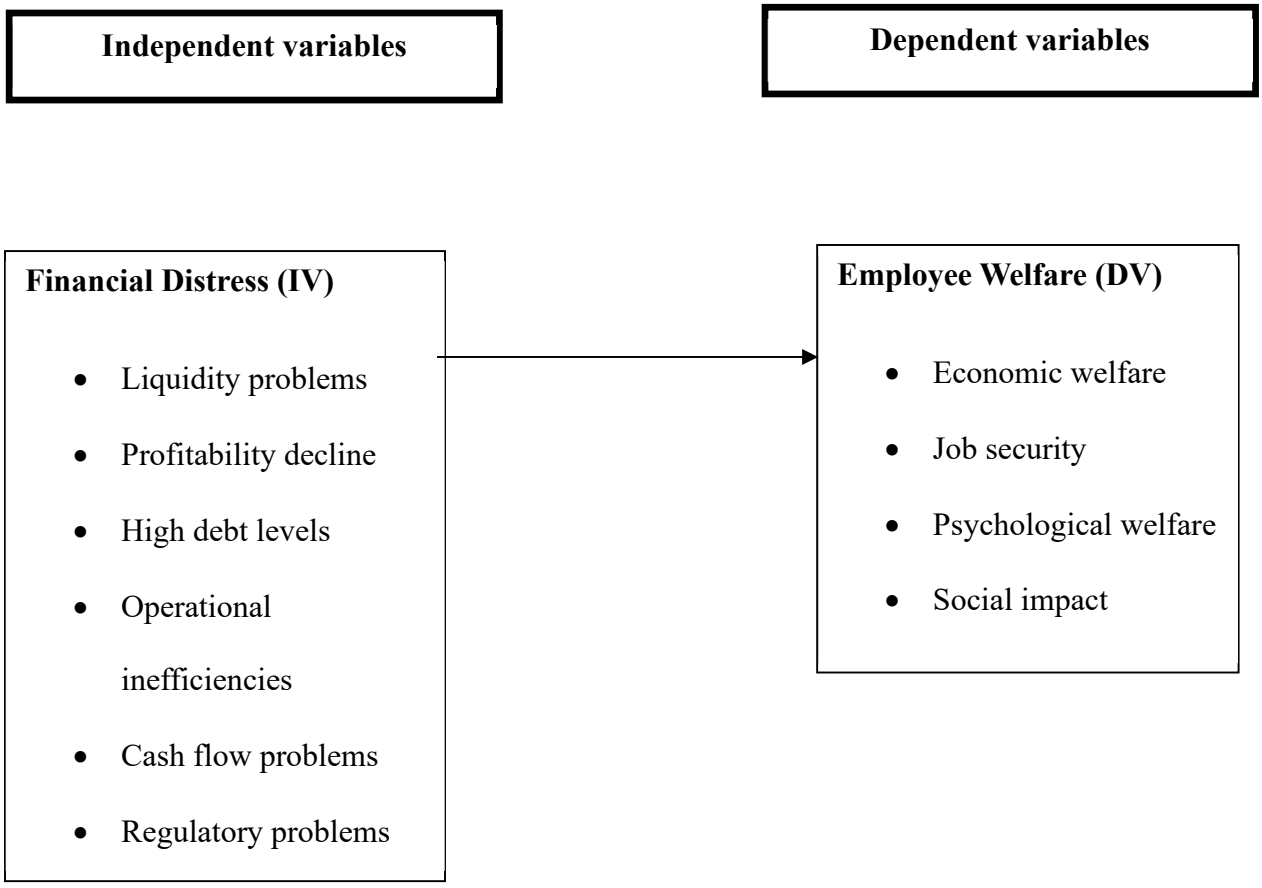

Figure 2.1: Conceptual framework

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.

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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?