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# **Influence of competitive strategies on performance of insurance firms in Kenya**

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**INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF  
INSURANCE FIRMS IN KENYA**

**By**

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**061398**

**Submitted to the**

**School of Management and Commerce**

**in partial fulfilment of the requirements for the Degree of**

**Master of Commerce**

**Strathmore University**

**Nairobi, Kenya**

**June, 2017**

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I declare that this thesis is my original work and has not been presented to any other university for a ward of a degree. Any work done by other people has been duly acknowledged. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person. It has been examined by a board of Examiners of the Strathmore University

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Mutisya, Charles Mukya

.....

7<sup>th</sup> June 2017

## APPROVAL

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## ABSTRACT

The key objective of this study was to investigate the influence of the competitive strategies on the performance of insurance companies in Kenya. The study examined the effect of the three generic competitive strategies (cost leadership, differentiation and focus strategies) on the performance of insurance companies within the Kenyan market. The study was based on Porter's generic theory and the resource based theory. Descriptive cross-sectional design was utilized which covered the 55 registered insurance companies. Using the questionnaire, primary data was collected and analyzed. The study also used descriptive statistics and correlation analysis to show the relationship between the dependent and the independent variables. The study established that cost leadership, differentiation and focus strategies influence the performance of insurance companies positively. Though the cost leadership strategy did not register significant influence on the performance of the insurance, the companies that pursued the differentiation strategy and the focus strategy reported the greatest influence on organizational performance compared to those that do not. Therefore, the study recommended that the insurance companies need to pursue focus strategy since it seemed to have the greatest influence on performance of the insurance companies. The study also recommended that insurance companies can benefit through the lessons learnt so as to tailor their products, focus on the right target market, among others. In this way, they are assured of improving the organizational performance and therefore stand in a better position to serve their intended clients in the best way possible. The limitation of the study was that it only focused on the insurance companies and yet there are other players in the industries such as the agents, brokers and the reinsurance companies. Future studies could therefore focus on the wider coverage in order to assess the effect of the competitive strategies applied by all the players on the overall performance of the insurance industry.

## TABLE OF CONTENTS

DECLARATION .....	i
ABSTRACT.....	ii
TABLE OF CONTENTS.....	iii
LIST OF FIGURES .....	vi
LIST OF TABLES.....	vii
ACKNOWLEDGEMENT .....	viii
DEDICATION.....	ix
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the study .....	1
1.1.1 Competitive Strategies .....	2
1.1.2 Organization Performance .....	3
1.1.3 Overview of the Insurance industry in Kenya.....	4
1.2 Problem Statement .....	5
1.3 Research Objective.....	7
1.3.1 Specific Objectives.....	7
1.4 Research Questions .....	7
1.5 Scope of the Study .....	7
1.6 Justification of the Study.....	7
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9
2.1 Introduction.....	9
2.2 Theoretical Review .....	9
2.2.1 Porters Theory of Competitive Advantage .....	9
2.2.2 Resource Based Theory.....	12
2.3 Empirical Review .....	13
2.3.1 Cost Leadership and Organizational Performance.....	13

2.3.2 Differentiation Strategy and Organizational Performance.....	16
2.3.3 Focus Strategy and Organizational Performance.....	18
2.3.3 Focus Strategy and Organizational Performance.....	19
2.4 Conceptual Framework.....	20
2.6 Gaps in Research and Chapter Summary .....	23
CHAPTER THREE .....	25
RESEARCH METHODOLOGY.....	25
3.1 Introduction.....	25
3.2 Research Design .....	25
3.3 Population of the Study.....	26
3.4 Sampling design.....	26
3.5 Data Collection Methods .....	27
3.6 Data Analysis and Presentation .....	27
3.7 Research Quality.....	29
3.7.1 Reliability Tests .....	29
3.7.2 Validity of the Study.....	29
3.8 Ethical Consideration.....	29
CHAPTER FOUR.....	31
DATA ANALYSIS AND PRESENTATION .....	31
4.1 Introduction.....	31
4.2 Response Rate.....	31
4.3 Demographic Information.....	32
4.3.2 Years of work.....	33
4.3.2 Product and services offered by the Insurance companies.....	34
4.3.3 Positions held in the organization .....	34
4.3.4 Level of Education .....	35
4.5 Influence of Cost Leadership on Performance of insurance Companies in Kenya .....	35
4.6 Influence of Differentiation Strategy on Performance of insurance Companies in Kenya .....	37
4.7 Influence of Focus Strategy on Performance of Insurance Companies in Kenya .....	39

4.8 Summary of Mean Scores.....	40
4.9 Organizational Performance .....	40
4.10 Inferential Statistics .....	43
4.10.1 Correlation Analysis.....	43
4.10.2 Regression Analysis.....	45
CHAPTER FIVE .....	48
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS .....	48
5.1 Introduction.....	48
5.2 Discussion of Findings.....	48
5.2.1 The extent to which cost leadership strategy affects performance of insurance companies in Kenya .....	48
5.2.2 The extent to which differentiation strategy influences performance of insurance companies in Kenya .....	49
5.2.3 The extent to which focus strategy affects performance of insurance companies in Kenya .....	50
5.3 Conclusion .....	51
5.4 Recommendations.....	52
5.4.1 Managerial Implications.....	52
5.4.2 Policy Implication .....	52
5.5 Limitations of the Study and Further areas of Research.....	52
REFERENCES .....	54
APPENDICES .....	60
Appendix A: Introductory Letter .....	60
Appendix B: Research Questionnaire.....	61
Appendix C: List of Insurance Companies in Kenya .....	67

**LIST OF FIGURES**

Figure 2.1 Competitive Strategies ..... 10

Figure 2.2: Conceptual Framework ..... 21

Figure 2.3 Operationalization of Variables ..... 22

Figure 4.4: Response Rate ..... 32

Figure 4.5: Years of work..... 33

**LIST OF TABLES**

Table 4.1: Response Rate .....31

Table 4.2: The Nature of insurance .....32

Table 4.3: Years of work .....33

Table 4.4: Products offered by the Insurers.....34

Table 4.5: Positions held in the organization .....35

Table 4.6: Level of education .....35

Table 4.7: Cost leadership and organizational performance .....36

Table 4.8: Differentiation and Organizational Performance .....38

Table 4.9: Focus strategy and Organizational Performance.....39

Table 4.10: Summary of Mean Scores .....40

Table 4.11: Organizational Efficiency .....41

Table 4.12: New products.....42

Table 4.13: Sales Turnover.....43

Table 4.14: Correlation Analysis.....44

Table 4.15: Model Summary .....45

Table 4.16: ANOVA Results.....46

Table 4.17: Regression Coefficients.....47

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## **DEDICATION**

To my lovely parents, Titus Mutisya and Pauline Mutisya my siblings: Mary, Stephen, Joan, Martin and Caroline. Thank you for your prayers and continuous support during this journey.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

As a result of volatile and dynamic environment, managers of various organizations are forced to adjust appropriately keeping in mind the end goal to guarantee their organizations stay important in the market (Jackson, 2016). This has come about owing to the increased rivalry which applies weight on organizations to formulate aggressive competitive strategies that will ensure necessary measures are taken on drastic variations in the business environment (Rainbird, 2004). As indicated by Pearce and Robinson (2007), the market condition has progressively turned out to be competitive hence compelling different companies to formulate strategies for them to remain relevant in the market.

As indicated by Michael (1980) firms employ competitive strategies which assist them to gain competitive edge in the industry. Ireland, Hoskisson and Hitt (2008) noted that successful strategy is devised around four elements in particular; the comprehension of the market, the long haul objectives, accessibility of assets, viable selection and strategy execution.

The insurance industry is one of the major sectors in Kenya which enhances the economy of the country. In 2014 the insurance industry reported an increase in its assets from Kshs 358.0 billion to Kshs 426.3 billion. This is a key contribution to the gross domestic product and therefore more focus to its growth and performance cannot be ignored (Cytonn, 2015).

The penetration of the insurance industry into the market has remained a major problem in Kenya yet the opportunity for growth is high. Compared to the other countries in Africa which have embraced insurance covers, the insurance penetration in Kenya is three percent. (Kavulunze, 2015). This is a clear indication that Kenya has remained under-tapped in insurance especially for the middle class earners. In addition, only six percent of the Kenya's population have insurance cover with close to ninety one percent never purchased insurance cover. Therefore, for the insurance companies to increase market share and enhance performance, they have to pursue competitive strategies (Muriira, 2014).

The influence of the competitive strategies on organizational performance has been a major topic in research (Akingbade, 2014). The researchers have discussed different reasons why organizations need to formulate strategies to improve their performance. Porter (2005) deduced that organizations that successfully employ competitive strategies report an increase in their performance and by extension stand a better chance to compete in the market.

The Kenyan insurance sector has been confronted by many difficulties that prevent them from performing competitively as well as maintaining their competitive advantage. This has posed a challenge to the insurance industry due to increased number of insurance companies competing for the Kenyan market, lack of clearly differentiated insurance products and failure to make use of current innovation to achieve a sizeable market share (Kavulunze, 2015). Consequently, the insurance companies need strategy intervention to curb this challenge, enhance their performance and acquire sustainable competitive advantage.

### **1.1.1 Competitive Strategies**

According to Thompson and Strickland (2010), competitive strategy comprises of the moves that an organization takes to attract customers, outdo its competitors and achieve a market share. They help the organization to understand the business environment and decide the industries to compete (Lester, 2009). Porter (2004) described competitive strategies in two ways: a supply side which encompasses the strategic scope and the demand side which involves the strategic strength. Eventually, Porter summarized this phenomenon into the three competitive strategies in particular, the differentiation strategy, the focus strategy and the cost leadership strategy. Johnson et al. (2008) on the other hand, discussed competitive strategies from a business level perspective and believed that it is the achievement of competitive advantage by a business unit in its particular market. They advocated for a hybrid strategy which provides a market-facing element to Porter's model in the form of price as a new dimension and its combination with differentiation. This study adopted Porter's competitive strategy definition as the "plan of how a firm will compete, formulated after evaluating how its strengths and weaknesses compare to those of its competitors.

Porter's generic strategies have been one of the most researched fields of strategic management. However, empirical findings are inconsistent as to their performance implications. Some studies support Porter's assertion that performance of firms pursuing either cost leadership, differentiation or focus strategies are superior than those firms stuck-in-the-middle (Powers & Hahn, 2004) while others reported better performance for hybrid strategies (Leitner & Guldenberg 2010; Pertusa-Ortega et al. 2009). In addition, Baack and Boggs, (2008) and Song, Kim and Nam (2007) found that not all generic strategies are associated with high performance in a specific industry. For instance, differentiation strategy is best route for e-business to achieve higher performance (Koo et al., 2007) while Baack and Boggs (2008) argue that cost leadership strategy implementation by developed countries multinational companies is rarely effective. This study focused on differentiation, focus strategies and cost leadership because they are the commonly used strategy dimensions in the literature (Dess & David, 1984).

### **1.1.2 Organization Performance**

Organizational Performance is a crucial concept in Strategic management research. The organization is judged according to its performance. The success of an organization is determined by its performance. The concept of linking competitive strategy and performance was introduced by Barney (2002). It differentiates the successful organizations from their rivals which was the reliable path in which they implement their strategies and maintain the competitive advantage. However, the influence of the competitive strategies on organizational performance is a controversial and unresolved matter in strategic management (Pearce et al. 2007). O'Regan et al. (2011) additionally affirm that the drivers of organization performance and sources of sustained competitive advantage have been at the centre of strategic management research for a long time but no consensus has been reached as to what works best.

The current study adopted an subjective performance measure of sales turnover similar to previous studies by Griffin (1997); Aragón-Correa, García-Morales and Cerdón-Pozo (2007) and Oke et al. (2007). The study assessed the change in sales turnover for the period between the financial years of 2014 and 2016 as within this period a nationwide campaign on the exploration of innovation as a tool for improving the performance of insurance

industry in Kenya was initiated (AKI Report, 2014). Other performance measures that were used in this study include the number of new products introduced and the organizational efficiency.

### **1.1.3 Overview of the Insurance industry in Kenya**

The key players in the Kenyan insurance sector are insurance agents, insurance companies, insurance brokers, reinsurance companies and risk managers or loss adjusters and other service providers (Insurance Regulatory Authority, 2017). The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the Ministry of Finance.

There are 55 insurance companies, 3 reinsurance companies, 198 insurance brokers, 4 reinsurance brokers and 5,155 insurance agents in Kenya (IRA,2017). Insurance business can broadly be classified into general and life or long term. Despite this classification, the different classes of insurance businesses can be viewed as lines of business along the profit center concept. According to the Kenya Insurance Survey (2004), the following lines of business drive the General insurance industry business in Kenya: Motor- Commercial, motor-private, fire-domestic, aviation, Fire- Industrial and Engineering, theft, workmen's compensation, Motor- Private and Personal Accident, engineering liability, marine, and miscellaneous. The life insurance industry is mainly driven by the following lines of business: Ordinary Life and Superannuation, which includes Group Life Insurance and Deposit Administration i.e. industrial life and bond investment (Kenya Insurance survey, 2004).

In the year 2014, the insurance industry went through several regulatory changes. For instance, the revised Insurance Act which sought to introduce new capitalization requirements for the (re) insurance companies in Kenya and the minimum paid-up-capital was set at Sh600 million, Sh400 million, Sh1 billion and Sh500 million for the general, long term, general business reinsurance and long term business reinsurance (Cytomn, 2015).

In overall, the insurance industry has continued to post significant growth. The Insurance balance sheet stood at Sh455.5 billion as of June 2015. The balance has recorded a 16.1%

year-on-year growth compared to June 2014. Increased investment into the insurance sector, driven by mergers and acquisitions and capital injection has been the key driver for the balance sheet growth.

Total gross premium stood at Sh88 billion at June 2015, with general business accounting for 66.4% of the total gross written premium. Life business has registered a much stronger growth in premium, posting a 20.2% 4-year Compound Annual Growth Rate (CAGR) compared to 18.8% growth in general business. The much stronger growth in Life business is majorly driven by the increased uptake of insurance, particularly in the middle to upper income levels, a bracket that continues to support the overall insurance sector growth. The industry retention ratio for the life business stands 92.1% while the general business stands at 73.7%. Gross reinsured premium accounts for 10.5% of the total industry written premium (Insurance Regulatory Authority, 2014).

Gitau (2013) noted that the competition in the insurance industry is high, with 50 insurers in 2015 fighting for business that only constitutes 3.0% of the market. Until recently, the insurance industry in Kenya operated in a stable environment. The products offered were standardized and competition was relatively low. However, with the increase in the number of players in the industry, from 15 in 1978 to 39 in 2001 to 50 as at end of 2015, pressure has been exerted on insurers to formulate successful strategies that facilitate proactive response to these changes in the competitive environment and increase the performance of the industry. The study current study sought to investigate the influence of competitive strategies on the performance of insurance industry in Kenya.

## **1.2 Problem Statement**

According to the AKI (2014) the business environment in Kenya today is dynamic and volatile. The prosperity of any business in such an environment depends entirely on its ability to respond to environmental change. The insurance industry in Kenya has undergone a number of changes through financial reforms, advancement of communication and information technologies, globalization of financial services and economic development. These changes have had a considerable effect on productivity efficiency, and market structure and have given rise to a highly competitive environment that now affects the

performance of insurance companies leading to the industry seeking for strategies competitiveness. The main goal of competitive strategy is to achieve sustainable competitive advantage (Stalk & Lachenauer, 2004).

The findings obtained in previous studies on competitive strategies are inconsistent. Some authors (Dess & Devis, 1984; Hall, 1980; Hambrick 1983; Kim & Lim, 1988) found that most of the profitable firms had either differentiated position or low cost which goes along way with Porter's position. Nonetheless, other studies have posited that Porter's generic strategies do not represent ways to achieve a higher performance well (Dawes & Sharp, 1996; Parker & Helms, 1992) and that hybrid strategies are the ones entailing improved performance (Gopalakrishna & Subramanian, 2001; Spanos, Zaralis & Lioukas, 2004). Whereas the cited studies focused on competitive strategies and how they are implemented in various organizations, the studies were majorly case study. This study therefore sought to widen the scope and examine the influence of competitive strategies on the performance of the insurance companies. This study used the descriptive cross-sectional survey research design and assessed the influence of these competitive strategies on the performance of the entire insurance industry which is a highly competitive sector with both local and foreign market players. This study focused on cost leadership, differentiation and focus strategies.

Studies on competitive strategies and performance have also been carried out by a number of scholars in Kenya. For example, Kungu et al. (2014) assessed the effectiveness of competitive strategies by commercial banks. The study found that there was a positive correlation between competitive strategy effectiveness; and innovation, customer focus, bench marking and differentiation which were found to be statistically significant..

Though studies on insurance industry have been carried out, there was limited literature on studies carried on or related to the effect of the competitive strategies on the performance of companies within the insurance industry. This study therefore aimed to bridge this existing gap in the literature.

### **1.3 Research Objective**

The main objective of the study was to determine the influence of competitive strategies on the performance of insurance companies in Kenya.

#### **1.3.1 Specific Objectives**

The study was guided by the following specific objectives:

1. To determine the extent to which cost leadership strategy affects performance of insurance firms in Kenya.
2. To examine the extent to which differentiation strategy influences performance of insurance firms in Kenya.
3. To establish the extent to which focus strategy affects performance of insurance firms in Kenya.

### **1.4 Research Questions**

1. To what extent does cost leadership affects performance of insurance firms in Kenya?
2. To what extent does differentiation strategy influences performance of insurance firms in Kenya?
3. To what extent does focus strategy affects performance of insurance firms in Kenya?

### **1.5 Scope of the Study**

The scope of the study was the insurance sector in Kenya. As at 21<sup>st</sup> February 2017, there were 55 registered insurance companies (AKI, 2017).

### **1.6 Justification of the Study**

The findings of this study will be valuable to researchers and academicians in providing knowledge on the effect competitive strategies on performance. The study further serve as an empirical source for future research and stimulate future research in the area in an effort to build adequate literature on the subject. This study also made contributions to the already existing literature on competitive strategies and strategic management.

This research will be beneficial to insurance firms in Kenya .The top management of the insurance companies will borrow a leaf from this study on the best competitive strategies to employ in order to achieve better performance

Insurance industry is an essential element of a vibrant economy hence the outcome of this research may provide policy-makers with information that can be used as inputs for policy development which are focused on insurance sector development. The sector performance is also of national interest since the sector contributes substantially to the nation's economic growth, job creation, generate foreign exchange and attract foreign direct investment.

This study will also form a good basis for the policy maker in the regulatory authority to enact new policies and regulation geared towards enhancing the performance of insurance industries through adoption of competitive strategies.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

In this chapter, the researcher reviewed previous research on competitive strategies and performance. The chapter is separated into two wide-ranging sections: theoretical and empirical reviews. The theoretical review expounds on two key theories: the Porter's competitive advantage theory and the resource based theory. This research's foundation is laid on the Porter's theory of competitive advantage. On the other hand, the empirical review examined past studies on cost of leadership, focus strategies and differentiation. On overall, the research gap was highlighted and the conceptual framework of the study as well as the operationalization of the study variables was explained.

#### **2.2 Theoretical Review**

This section explored the theoretical underpinning of the study mainly focusing on Porter's theory of competitive advantage and resource based theory.

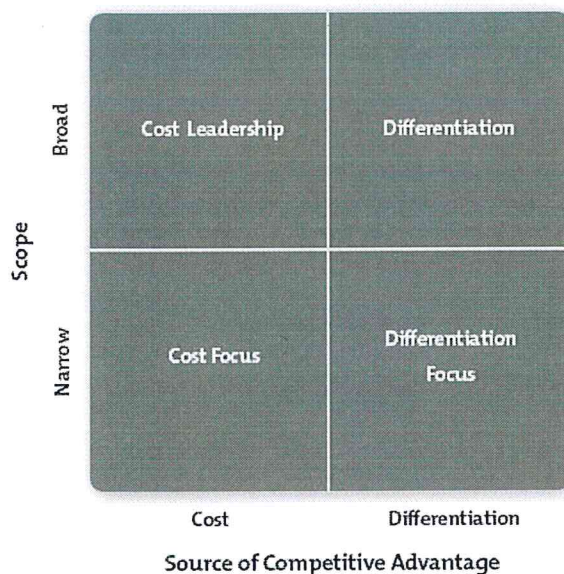
##### **2.2.1 Porters Theory of Competitive Advantage**

According to Porter (1980), strategy is an indispensable component of any effectual business plan. Embracing an efficient competitive strategy helps an organization to find its industry niche and in understanding the organization's customers. According to Porter (1985), there are three key businesses strategies: cost, differentiation and focus. Companies perform best when they concentrate on a single strategy. So as to gain a competitive edge, companies need to select a strategy that best aligns with company goals and objectives (Surowiecki, 1999). Even though the generic strategies identified by Potter (1980) can give a company a competitive edge and ensure long-term profitability, a choice must be made between the generic strategies in order to avoid ending up being "stuck in the middle".

Over the years, different authors such as Chrisman et al. (1988) and Miles and Snow (1978) have identified several organizational strategies. However, the generic strategies advanced by Porter top the list. They are also the most recognized in major strategic management textbooks and literature (David, 2000). Porter's theory asserts that competitive advantage arises from competitive strategies that an organization adopts to deal with its internal and

external environment. The choice of a competitive advantage and competitive scope determines a firm's relative position in any industry. Competitive scope is what differentiates firms which target wide segments in the industry as well as those which focus on narrower segments. The usefulness of competitive strategies lies in their ability to characterize strategic positions at the broadest as well as the simplest levels. Achieving competitive advantage calls on an organization to decide on the type and scope of its competitive advantage (Porter, 1980). Each of the generic strategies has different risks inherent in it. However, according to Porter (1985), an “all things to all people” approach is a sure way to mediocrity and often leads to getting “stuck in the middle”.

**Figure 2.1 Competitive Strategies**



Source: Porter (2005)

In cost leadership, firms set out to become the low cost producers in their industries. There are various sources of cost advantage depending on the structure of the industry. These include proprietary technology, pursuit of economies of scale, preferential access to raw materials among other factors. Low cost producers must find and exploit all possible sources of cost advantage. The ability of a firm to achieve and sustain the overall cost leadership implies that the firm is an above average performer in its industry, as long as it is able to command prices at or near the industry's average (Porter, 1985).

In a differentiation strategy, firms seek to position themselves uniquely in their industries along some dimensions that buyers widely value. Differentiation strategy targets the entire market; it is pursued to add customer added value, rather than the reduced cost, lower price of a cost leadership strategy. Differentiation can be actual and real or merely perceived by the customer. Real differentiation occurs when the company products or services are different and distinctive from others in the market.

In the case of differentiation focus, a firm seeks to differentiate itself in a target segment while for a cost focus strategy it seeks a cost advantage. Both variants of a focus strategy lie on differences that exist between a target segment and other segments in that industry. However, buyers with unusual needs must exist in a target segments or the production system and delivery system that best serves the target segment must be different from that of other industry segments. Cost focus exploits the cost behavior differences that exist in some segments. Differentiation focus on the other hand exploits the special needs that buyers in certain segments have (Porter, 1985).

In conclusion, researchers have widely accepted the Porter's generic strategies. However, there are also critics of these generic strategies in the literature, other than the assertion that Porter's generic strategies are mutually exclusive. A number of scholars argue that pursuing a single generic strategy may result in lower performance (Spanos, Zaralis&Lioukas, 2004; Kim, Nam & Stimpert, 2004).

According to Grimm (2005), one of the problems of Porter's framework is its view of competitive advantage as sustainable and industries as in equilibrium. Nonetheless, the business environment is volatile and thus the organizations are required to persistently revise their strategic positions and implement effective strategies which enhance their performance. Therefore, some researchers have contented against using the Porters theory of competitive advantage with the motive of long term commitment as it may result in poor positioning of organization and below average performance.

In relation to the current study, the insurance firms in Kenya have to some extent adopted Porter's element of competitive strategies. Nevertheless, the findings revealed that majority of the insurance firms in Kenya have adopted these strategies simultaneously unlike

Porter's assumption of exclusive application of these strategies. According to Muriira (2014), the focus and niche strategy is employed most with majority of the products being tailor made to customer needs. In addition, due to fierce competition in the insurance sectors the market development is employed in a bid to open up new markets for the firms and the Insurance industry at large. Therefore it is evident that most of the insurance firms prefer to use focus strategy compared to that of cost leadership and differentiation respectively.

### **2.2.2 Resource Based Theory**

The resource based theory is based on the idea that the effective and efficient application of all useful resources that a company possesses helps determine its competitive advantage, and by extension, its performance (Barney, 1991). Pearce and Robinson (1998) assert that RBV as a method is used to analyze and identify an organization's strategic advantages on the basis of assessment of its unique combination of skills, assets, intangibles and capabilities in insurance company. Grant (1991) alluded that firms vary from each other since they have a distinct blend of resources which include tangible assets, intangible and organizational capabilities to utilize the assets. Consequently, organizations that invest on their distinct skills, capabilities and resources are in a position to control and/or develop which can be the basis of distinct and sustainable competitive edge and hence boost their performance.

The resources of an organization determine its ability and increase performance of the insurance companies. According to the resource-based theory, an organization is able to maintain its competitive edge if it can generate economic rent sustainably via its ability to identify and develop as well as showcase and preserve specific resources and differentiate these from its competitors.

According to Peteraf, Amit and Schoemaker (1993), the supporters of the resource based theory emphasizes that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it. Knowledge has become a direct competitive advantage for companies selling ideas and relationships. Armstrong and Baron (2005) argued that the challenge to insurance organizations is to

ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need. The resource-based theory has come under criticism with claims that it takes long to develop competences and that environments dynamically change inferring that a favorable match between the competences of an organization and environments would most likely be fortuitous or accidental and not an outcome of a planned actions (Hannan & Freeman, 1988).

According to Burgelman (2003), while RBV is among important strategic management theories, it disregards the role played by entrepreneurial abilities and strategies as critical sources of organizational performance. Additionally, it does not support the connection between organization culture and customer service, and performance of insurance companies. According to Priem and Butler (2001), the possible primary source of differences in organizational performance amongst firms is the internal organizational resources instead of its external environment.

Grant (1991) further posited that the resource-based theory links competitive strategies and capabilities to value creation. He argues that not only do capabilities need to be considered as the base to develop competitive strategy but they also need to be renewed and maintained by strategist. Thus the resource based theory is crucial to understand that value may be created from strategic alignment of resources and competitive strategies. In developing their competitive strategies the insurance firms in Kenya may pay attention to the resources existing within the firm so as to be able to create value for its customers.

## **2.3 Empirical Review**

This section reviewed existing literature on three competitive strategies: differentiation strategy, cost leadership strategy and focus strategy as well as their influence on the organizational performance.

### **2.3.1 Cost Leadership and Organizational Performance**

Cost leadership is a strategy that involves an organization offering the lowest cost in the industry. The main cost drivers that assist the organization to be a cost leader include: economies of scale, input cost, efficiency, product/process, parity with competitors in service features or product and feature proximity to competitors (Johnson et. al., 2013).

Johnson et al. (2013) asserts that cost leadership strategy is a set of integrated actions which are taken to produce goods and/or services with features acceptable to customers and at the lowest cost possible relative to competitors'. "Heavy up-front capital investment in state-of-the-art equipment" is a key requirement of the cost leadership strategy.

Cost leadership requires a stronger focus on market supply as opposed to market demand Day and Wensley(1988) and is more competitor-oriented than is customer-oriented Frambach, et. al, (2003). In effect, a firm that seeks a cost leadership strategy must continuously benchmark against competitors so as to determine its relative market cost hence profitability. According to Porter (1980), a firm that seeks cost leadership strategy enjoys a low cost position via emphasis on spirited construction of efficient facilities, tight cost and overhead control, strong pursuit of cost reductions, avoiding marginal customer accounts as well as minimizing cost in such areas as research and development, sales force, services and advertising.

A study by Aulakh et al. (2000) aimed at developing a framework to examine the export strategies of different firms from emerging economies as well as their performance in foreign markets—Brazil, Chile and Mexico—discovered that cost-based strategies improve export performance in developing nations. They also suggested that export performance is also enhanced via adapting marketing mix variables to the specific needs of markets of developed country. Their conclusion was that there is a no significant influence of the diversification strategy on the performance exporting companies.

In addition, the implementation of the cost leadership strategy has been a success in Japan. An example is the system of the Toyota Company. The company has superior competitiveness in quality, cost reduction and delivery time which has provided the momentum for a shift towards increasing efficiency via cost cutting strategies across the world. In Japan, the definition of customer service is somewhat different to that in the West. This explains its inclusion in this makeup of cost leadership (Allen and Helms, 2006).

Birjandi et al. (2014) in their empirical study also investigated the consequence of cost leadership strategy on ROA and also future performance. They collected the research data from a list of 45 firms in the Tehran Security Exchange—TSE, Iran, between 2009 and 2013.

The outcome indicated that there were positive relationships between the ratio of sale to capital the expenditure with growth in sales and that the relationships between the ratio of sale to assets and that of staff to assets with ROA as well as the long-term financial performance and the short-term economic performance were negative.

Sora (2015) studied 131 firms obtained from 12 main industrial subsectors within Nairobi and its environs to investigate the effect of cost leadership strategy on the performance of manufacturing companies in Kenya. The findings of the study indicated that cost leadership strategy significantly influenced the performance of manufacturing firms leading to a conclusion by the author that management of manufacturing firms should adopt the cost leadership strategy in order to increase their performance and competitiveness.

Similarly, a study by Josiah and Nyagara (2015) to examine the influence of cost leadership strategy on performance of LPGCs in Eldoret revealed that cost leadership does influence the performance of LPGCs and enables the firm to reduce its price which results in high sales volume vs. profit margin and reduced operational costs, less return inwards, reduction of service delivery and increase in service delivery.

A study by Kimani and Wagoki (2015) to assess strategies for gaining a competitive advantage among insurance firms in Thika town revealed that the Porter's three generic strategies had strong influence on insurance firms' performance. To conclude, they recommended adoption of all the strategies—leadership, differentiation and focus—by insurance firms in Thika Township in addressing the sector's competition.

### **2.3.2 Differentiation Strategy and Organizational Performance**

John et al. (2013) defined differentiation strategy as an integrated set of actions which go into producing goods and services—at an acceptable cost—which customers view as different in ways important to them.

Whereas cost leaders have a typical customer whom they serve in an industry, differentiators usually target those customers for whom they create value via the way in which the products of the firm differ from those that are produced and marketed by competitors. For cases in which the differentiated features of a product are produced at non-competitive costs, the product's price can exceed what the firm's target customers are willing and able to pay. According to Johnson et al.(2013), the differentiation strategy can effectively help a firm to obtain above-average returns given a thorough understanding of what the firm's target customers value, the relative importance that they attach to the satisfaction they obtain for their different needs and what they are willing to pay as premium. The differentiation strategy helps a firm to produce unique products for those customers who attach a greater value on differentiated products than the they value low-cost.

According to Dean and Evans (1994), firms that utilize differentiation strategy seek to create a perception in their customers' minds that their products and/or services possess superior features that are unique from those of their competitors in terms of design features and quality, image and reputation, and reliability. Additionally, Miller (1986) also argued that firms create this perception via the incorporation of real qualitative difference in their products and services. The firms engage in marketing techniques, advertising programs and charge premium prices.

The infrequency of a differentiation strategy relies on the individual firms' ability to creatively come up with new products (Barney and Hesterley, 2006). Whenever competitors attempt to imitate the "last differentiation move" of these firms, creative firms will have embarked on fresh strategic plans in order to remain ahead of competitors. To add on to that, Barum et al. (2001) argued that firms that implement the differentiation strategy often strive to offer high quality and innovative products in order to achieve the greatest growth.

On the other hand, Spencer et al. (2009) investigated the mediating role of both financial and non-financial performance measures in the relationship between organizational performance of firms and a differentiation orientation. Spencer et al. (2009) adopted a path-analytical model using questionnaire data from Australian manufacturing firms. The findings of the study suggested organizations that adopted differentiation strategy reported greater organizational performance.

A study by Akbolat and Isik (2012) to investigate whether hospitals in Turkey had competitive strategy and examine the relationship between performance and competitive strategies revealed that hospitals with a competitive strategy performed better than their counterparts which did not have a strategy. However, hospitals with competitive strategies did not show any statistically significant difference in performance.

In their study, Dirisuet et al. (2013) investigated the impact of product differentiation as a tool for achieving competitive advantage in the organizational performance of manufacturing companies. Unilever Nigeria Plc was used as a case study. The inference of the study was that there is a positive relationship between organizational performance and product differentiation.

Kinyuira (2014) investigated the impact of Porter's generic competitive strategies on the performance of SACCOs—savings and credit cooperatives in Murang'a county. The findings of the study revealed that there exists a significant positive effect of differentiation, cost leadership and focus strategies on the performance of Saccos. The author thus concluded that the Saccos that embrace generic strategies can realize superior performance as compared to those that do not.

Consequently, in many cases, firms that pursue differentiation strategies put their emphasis on the level of service and support. Whereas imitating a basic level of service and support may be easy, an increment in these levels beyond the basic level involves substantial amount of training. In addition to that, it reflects in the employees' attitude towards customers which in turn is entrenched in the culture of the organization and is difficult to duplicate. According to Treacy and Wiersema (1993), a company that excels in developing close customer relationship builds long term customer loyalty which Heskett and

Schlesinger (1994) claim enables firms to reach sustainable financial performance in the long run.

### **2.3.3 Focus Strategy and Organizational Performance**

The focus strategy can be defined as a set of integrated actions effected to produce goods and/or services for serving the needs of a particular competitive market segment. Hence, according to Jonhson et al. (2013), a focus strategy is used by firms utilizing their core competencies in serving the needs of a particular industry market segment or niche to the exclusion of others.

According to Porter (1998), in focus strategy, firms concentrate on few target markets—a strategy also called niche strategy. The hope is that, by focusing marketing efforts on one or two small market segments and then tailoring a firm's marketing mix to the particular specialized markets one can better satisfy the needs of the particular target market segment. Firms typically look to a competitive advantage via effectiveness instead of efficiency. The focus strategy can be used to choose targets less vulnerable to substitutes— or in cases where a competition is weakest—to earn an above average return on investments. On the other hand, cost focus takes advantage of the differences that in cost behavior that exist in some segments while a differentiation focus takes advantage of special needs of buyers in some segments. The implication of such difference is that the segments are poorly served by broad-targeted competitors serving them jointly with others.

A low-cost based focus strategy depends on the existence of a buyer segment with less costly needs to satisfy than the rest of the market on the basis of their income levels. On the other hand, a differentiation based focus strategy depends on the existence of a buyer segment demanding unique services and unique product attributes. A public university, for example, targets a specific market segment in a focus strategy (Porter, 1998).The market focus strategy's demerit is that it might endanger an organization should the focused segment be too small to be economical or if it declines. This strategy differs from the others mainly in one main aspect: whilst cost and differentiation strategies appeal to wide fractions of customers, organizations that use a focus strategy prefer appealing to a certain

geographical area or fraction of customers. In order to capture those markets, organizations may consider using either cost focus or differentiation focus strategies.

Yasar (2010) investigated the impact of competitive strategies on organizational performance in Gaziantep carpeting. The findings of the study suggested that there was no significant relationship between firm performance and competitive strategies in Gaziantep carpeting industry. As a result, the author suggested that in order to better firm performance and get sustained competitive advantage in international markets, the resolute use of competitive strategies and simultaneous implementation of differentiation and cost strategies by decision makers was paramount. Additionally, Abidin et al. (2011) also warned that using focus strategy hinders firm movement in case the firm envisions internationalizing.

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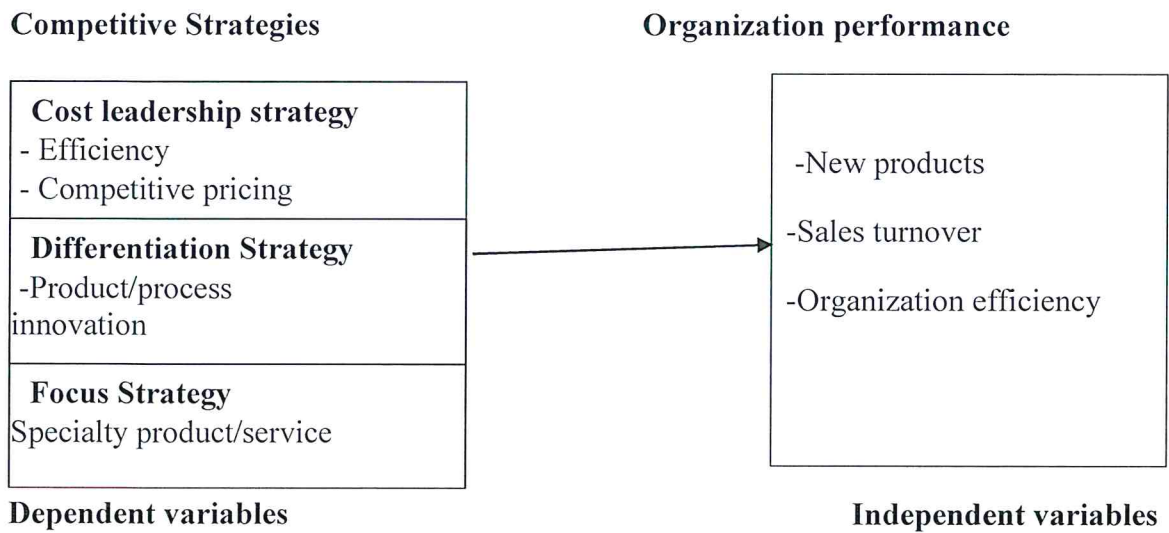
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## **2.4 Conceptual Framework**

The relationship between performance and competitive strategies is outlined in the conceptual model in Figure 2.1 below.

**Figure 2.2: Conceptual Framework**



Source: Researcher (2017)

### 2.5 Operationalization of Variables

The main areas of focus in this research are the competitive strategies which have been adopted by insurance firms in Kenya and their effect on performance. The effect of competitive strategies adopted by insurance firms was investigated; organization performance indicators included sales turnover, new products and organization efficiency. Figure 2.3 showed the operationalization of variables.

**Figure 2.3 Operationalization of Variables**

<b>General Variable</b>	<b>Specific Variable Type</b>	<b>Variable Indicators</b>	<b>Measurement of the variables</b>	<b>Supporting Literature</b>
Dependent Variable	Organization Performance	<ul style="list-style-type: none"> <li>• New products</li> <li>• Sales turnover</li> <li>• Organization efficiency</li> </ul>	Five point Likertscale was used to measure the variables	Rachel (2016), Arasa and Gathinji (2010).
Independent Variable	Cost Leadership	<ul style="list-style-type: none"> <li>• Efficiency</li> <li>• Competitive prizing</li> <li>• Keeping overheads lower than competitors</li> <li>• Keeping charges lower than competitors</li> </ul>	Five point Likert scale was used to measure the variables	Gathinji ( 2014) Atikiya (2015)
	Market focus	<b>Specialty product/service</b> <ul style="list-style-type: none"> <li>• Offering high quality service</li> <li>• Introducing new services in Market</li> <li>• Offering services not offered by competitors</li> </ul>	Five point Likert scale was used to measure the variables	Gathinji ( 2014) Atikiya (2015) Afande (2015)
	Differentiation	<ul style="list-style-type: none"> <li>• Product/process innovation</li> </ul>	Five point Likert scale was used to measure the variables	Gathinji ( 2014) Atikiya (2015)

## **2.6 Gaps in Research and Chapter Summary**

According to Sora (2015), majority of studies investigating the influence of competitive strategies on organizational performance have been carried out in developed countries such as China, Japan, Brazil, Mexico and Chile. In order to fill this gap and also confirm existence of such a relationship in the context of developing economies such as Kenya, conducting such a research in developing economies was inevitable. Several other studies have been undertaken with mixed results such as those of Akbola and Isik (2012), and Yasar (2010) which suggest that competitive strategies have no significant effect on performance while studies by Sora (2015), Dirisu et al. (2013), Kinyuira (2014), and Kimani and Wagoki (2015) suggested existence of a significant positive relationship between organizational and Porter's generic strategies. This study therefore sought to investigate this phenomenon and find out if adoption of the competitive strategies will result in improved firm performance in insurance industry with a focus on Porter's generic strategies.

Similar researches undertaken in Kenya such as those by Arasa and Gathinji (2010), and Kungu (2014) are sector-specific. They also adopted a case study type of research design and therefore may not be generalized as to be fairly representative of this study. As a result, it was paramount to undertake a study in insurance sector using other methodology. This study thus uses survey research design. Other studies such as those by Kavulunze (2015), Ilovi (2011) and Ilovi (2011) examined the competitive strategies adopted by the Kenyan insurance sector to evaluate the relationship between performance and competitive strategies.

The literature review chapter illustrated the theoretical background and conceptual framework. First and foremost, from the literature reviewed there seemed to be no agreement on one single theory that is most suitable in achieving competitive advantage as well as improved performance. For Instance Grimm (2005) aver that one problem with Porter's framework is that it tends to view industries as in equilibrium and competitive advantage as sustainable. However, today's environment is fast changing and dynamic. Companies need constantly to reassess their strategic position and adapt their strategies decrease. On the other hand the RBV has also its limitations in that it underestimated

entrepreneurial strategies and abilities and critical foundations of organizational performance (Burgelman, 2003). Additionally, it did not support the connection between organizational culture and customer service, and organizational performance. Therefore these pertinent issues required further theoretical and empirical attention which will form the basis of the gap with which the current study will seek to fill.

From this chapter, it was also evident that majority of the studies indicate that there is positive effect of competitive strategies on the organizational performance. The researcher examined the way in which competitive strategies may be used to attain competitiveness and improve organizational performance in the insurance industry. This led to the suggestions that insurance firms intending to achieve competitiveness and improve their performance should pursue competitive strategies of cost leadership, differentiation and focus either exclusively or simultaneously in order to achieve better performance.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter described the methodology that was used in the research. It covered the research design that was used for the current research, the target population and sampling procedures, described how the data was collected and measured. The method of data analysis that was used was described in the fourth section. Research quality, which is reliability and validity of the study, was explained in the subsequent section. Finally, the ethical considerations taken were then expounded.

#### 3.2 Research Design

According to De Vause (2001) research design refers to the structure of an enquiry and it ensures that evidence collected enables one to answer questions as unambiguously as possible. Similarly, Polit and Hungler (1999) describe the research design as a blueprint, or outline, for conducting the study in such a way that maximum control will be exercised over factors that could interfere with the validity of the research results. The research design is the researcher's overall plan for obtaining answers to the research questions guiding the study. This study adopted a cross-sectional descriptive survey research design. The aim of a survey is to explore and describe a phenomenon. According to Cooper & Schindler (2006) a descriptive study is concerned with finding out who, what, where, when, or how, of a research study. Mugenda and Mugenda (2003) added that a survey research seeks to obtain information that describes existing phenomena by asking individuals about their attitude, behavior or values. Mills (2008) posit that a descriptive study is mostly concerned with finding out what is, and rely on observation and survey methods to collect descriptive data.

Kothari (2009) elucidated that surveys are more efficient and economical. They help the researcher to understand more about opinions, and attitudes of the respondents. In addition, Mugenda and Mugenda (2003) aver that a survey attempts to collect data from members of a population in order to determine the current status of that population with respect to one or more variables.

### **3.3 Population of the Study**

Mugenda and Mugenda (2003) defined a population as the combination of elements that have similar characteristics or behavior. The target population for the current research was be 55 insurance companies operational in Kenya as at 21<sup>st</sup>February, 2017 (IRA, 2017).

The Insurance companies in Kenya are faced with many challenges that hinder them from not only performing competitively but also sustaining their competitive positions. This has posed a major marketing challenge to the insurance firms due to high number of insurance companies competing for the Kenyan target market, lack of clearly differentiated insurance products and inadequate utilization of modern technology to reach their markets (Kavulunze, 2015). To deal with this challenge and achieve superior performance insurance companies in Kenya require strategy intervention hence the choice of the insurance sector whereby the data was collected from 55 insurance companies operational in Kenya as at 21<sup>st</sup> February, 2017.

### **3.4 Sampling design**

A sample is a set of observations drawn from a population by a defined procedure. Samples are collected and statistics are calculated from the samples so that one can make inferences or extrapolations from the sample to the population. According to Mugenda and Mugenda (2003), there are different types of sampling techniques which are applicable in sampling such as simple random sampling, stratified sampling, purposive sampling, among others. Sampling involves drawing of a target population for observation. It is appropriate when it is not feasible to involve the entire population under study.

The current study adopted a judgmental sampling technique whereby the respondents were be selected from the heads of business development, senior sales executives and functional heads for both underwriting and claims departments among other top executives of the firms who are deemed to have the knowledge on the competitive strategies adopted by the respective insurance companies and the performance of the organization. Judgmental sampling is a sampling technique which involves selection of an informant who possess specific knowledge that the researcher is looking for. It does not need to be backed up by theories (Tongco ,2007) .The researcher only makes up his mind on what needs to be

known and looks for the respondents who can voluntarily give information by the fact they have experience, skill and knowledge in the area under research.

The population for the current study comprised the registered insurance companies in Kenya. According to the insurance regulatory authority there were 55 registered insurance companies as at 21<sup>st</sup> February 2017. The current study targeted one key informant from each insurance firm giving a sample size of 55. A letter of introduction was availed to aid in reaching the targeted respondents.

### **3.5 Data Collection Methods**

The current study used only primary data. The data was collected by way of using the questionnaire which will have both closed and open-ended questions. The questionnaires were administered using the drop-and-pick later method. The use of questionnaire was deemed appropriate for the current study given that it has the advantages of a structured format and its ease and convenience to respondents (Sekaran, 2005).

### **3.6 Data Analysis and Presentation**

Quantitative data was analyzed through descriptive statistics and inferential statistics which enhanced meaningful distribution of scores or measurement using indices and statistics.

Orodho (2008) suggests that the merit of descriptive statistics is that they enable the researcher to use one or more numbers (for example mean and standard deviation) to indicate the average score and variability of scores of a sample.

The data analysis techniques used include means, standard deviations and correlation analysis. This data was used to make comparisons, examine relationships and explore the research questions of the study. The software that will be used for quantitative data analysis will be SPSS Version 22.

The study used multiple regression model below to test the relationship between the dependent and independent variables:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where: Y: Firm performance

$X_1$ : Cost Leadership

$X_2$ : Differentiation

$X_3$ : Focus strategy

$\alpha$ : constant

$\beta$ : coefficient of independent variables

$\varepsilon$ : error term

The table below analysis how the different objectives will be measured.

**Table 3: 2 Measuring the objectives**

<b>Item</b>	<b>Data analysis</b>
<b>Objective 1</b> To determine the extent to which cost leadership strategy affect performance of insurance firms in Kenya	Descriptive statistics, Correlation analysis and regression analysis
<b>Objective 2</b> To examine the extent to which differentiation strategy influence performance of insurance firms in Kenya	Descriptive statistics, Correlation analysis and regression analysis
<b>Objective 3</b> To establish the extent to which focus strategy affects performance of insurance firms in Kenya	Descriptive statistics, Correlation analysis and regression analysis

**Source: Survey data (2017)**

### **3.7 Research Quality**

To ensure research quality both the reliability and validity tests were done.

#### **3.7.1 Reliability Tests**

Polit and Hungler, (1999) defines reliability as the degree of consistency with which the instrument measures an attribute. It further refers to the extent to which independent administration of the same instrument yields the same results under comparable condition. The tendency toward consistency found in repeated measurements is referred to as reliability (Creswell, 1994)

Gliem and Gliem, 2003 notes that Cronbach's alpha is used to determine the internal consistency of items in a survey instrument to gauge its reliability. To test the specific internal reliability cost leadership strategy, focus strategy and differentiation were used .A Cronbach's alpha of 0.60 was used to confirm whether the internal reliability of the instrument is reasonable (Zikmund, 2003).

#### **3.7.2 Validity of the Study**

Validity as defined by Mugenda, (2003) refers to how accurately the data obtained capture what they were designed and purported to measure. To ensure content validity, the questionnaires were subjected to a pilot test to check for any weaknesses in design and development. A sample of individuals was selected and invited to take the survey as a pilot. They respondents were asked for feedback on the questions and the time required for completion.

### **3.8 Ethical Consideration**

The study was conducted ethically. The participation of the respondents was noncompulsory and anonymous, and the respondents were free to withdraw from participating in the study at any point. The aim of the research was made known to all the respondents so as to ensure that any consent given were informed.

The data collected from the current survey will only be for education and research purposes only and the information will be confidential to ensure that the participants face no personal risk upon participating in the study.

The researcher liaised with the Human Resource functions of respective insurance companies to seek permission to conduct the survey in the respondents' premises. This allowed the facilitation of the data collection process based on clear rules, guidelines and ethical considerations of the organizations under study. The questionnaire was accompanied by an introductory letter from the Strathmore University which described the researcher's full name, institution of study and the purpose of the survey.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This chapter presented the research findings. It is structured beginning with the response rate and results from demographic data collected. It further outlined the predominant types of competitive strategies as well as results of the influence of focus strategies, differentiation and cost leadership on organizational performance. The chapter also covered inferential statistics used by the study.

#### 4.2 Response Rate

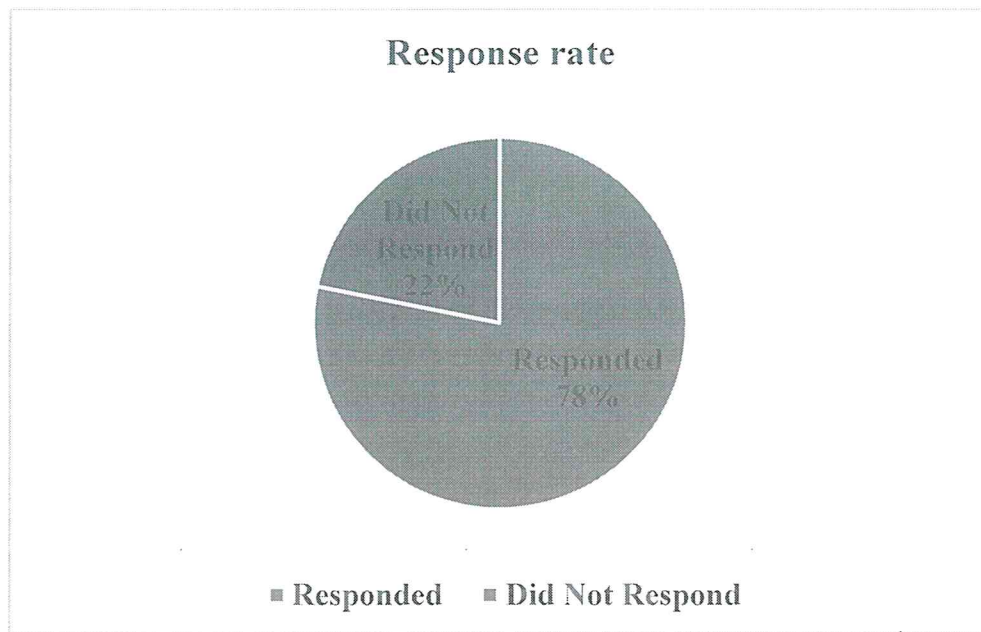
A total of 43 completed and useable questionnaires out of 55 were obtained from respondents for the current study. This represented a 78% response rate and a non-response rate of 22% (Table 4.1). A sample of 70% and above is rated as excellent, 60% and above rated as good while 50% and above is considered sufficient for doing analysis. This study considered the response rate of 78% adequate for analysis. The non-response rate was attributed to non-cooperation in some insurance companies in filling the questionnaire notwithstanding that it was accompanied by an official communication from the University on the purpose of the study.

**Table 4.1: Response Rate**

	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Responded</b>	43	78.18
<b>Did Not Respond</b>	12	21.82
<b>Total</b>	55	100.00

**Source: Survey data (2017)**

**Figure 4.4: Response Rate**



**Source: Survey data (2017)**

### **4.3 Demographic Information**

The respondents were required to provide general information such as the nature of insurance company, years of work, product offered, position their hold in the company and their academic qualification.

**Table 4.2: The Nature of insurance**

Type of company	Frequency	Percentage (%)
<b>Insurer</b>	28	65.12
<b>Broker</b>	5	11.63
<b>Agent</b>	8	18.60
<b>Investigator</b>	2	4.65
<b>Total</b>	43	100.00

**Survey data (2017)**

The nature of the insurance table shows that most of the respondent worked in the insurance as were insurers.

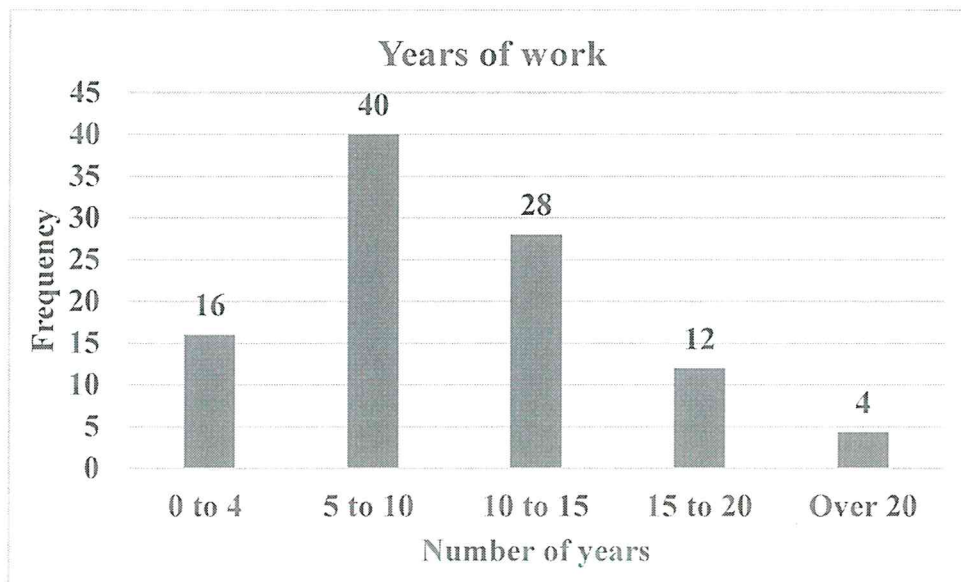
### 4.3.2 Years of work

The study indicated that most of the respondents had worked for between 5 years and 10 years accounting for 39.53 percent with 27.91 percent having worked for 10 to 15 years, 16.28 percent had worked for 0 to 4 years while 11.63 percent had worked for 15 to 20 years, and 4.65 percent had worked for over 20 years in the insurance company. This was a clear indication that majority of the respondents had been working in organization long enough to understand its operations.

**Table 4.3: Years of work**

Years of work	Frequency	Percentage (%)
0 to 4	7	16.28
5 to 10	17	39.53
10 to 15	12	27.91
15 to 20	5	11.63
Over 20	2	4.65
Total	43	100.00

**Figure 4.5: Years of work**



Source: Survey data (2017)

### 4.3.2 Product and services offered by the Insurance companies

When the respondents asked to indicate the product and services the insurance companies offered in the questionnaire administered the responses pointed out that 46.5 percent of insurers offered short term (general) insurance, 18.6 percent had long term (life) insurance while 34.88 percent had both life and general insurance products (Table 4.4). The low focus on life insurance as compared to general insurance is due to the fact that many Kenyans now prefer alternative investment products in the market that they believe offer higher returns than those offered under life insurance.

**Table 4.4: Products offered by the Insurers**

<b>Product</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Short-term (General)</b>	20	46.51
<b>Long-term (Life)</b>	8	18.60
<b>Both Life and General</b>	15	34.88
<b>Total</b>	43	100.00

**Source: Survey data (2017)**

### 4.3.3 Positions held in the organization

It is evident from the data collected that majority of them were managers (53.49 percent). The other people who responded were heads of departments (business development and functional heads for both underwriting and claims departments) 18.60 percent ,top executives of the firms accounted for 20.93 percent of the respondents while there were other employees like the finance team ( 6.98 percent) who participated in the survey. The managers in this case represented the majority of the respondent since they are deemed to have the knowledge on the competitive strategies adopted by the respective insurance firms and the performance of the organization. Their responses are shown in Table 4.5.

**Table 4.5: Positions held in the organization**

Positions held	Frequency	Percentage (%)
Senior managers	9	20.93
Heads of department	8	18.60
Managers	23	53.49
Others	3	6.98
Total	43	100.00

Source: Survey data (2017)

#### 4.3.4 Level of Education

The data collected shows that most of the respondents had attained their first degree (58.14 percent), 27.91 percent had a master's degree, 11.63 percent had a diploma or a professional qualification. Only 2.33 percent of the respondents had a doctoral qualification. Given that most of the respondents had a first degree, they were in a position to understand to impact of competitive strategies on the performance of the organization. The findings are presented in Table 4.6.

**Table 4.6: Level of education**

Academic Qualification	Frequency	Percentage (%)
PhD Level	1	2.33
Masters Level	12	27.91
First degree	25	58.14
Diploma or Professional Qualification	5	11.63
Total	43	100.00

Source: Survey data (2017)

#### 4.5 Influence of Cost Leadership on Performance of insurance Companies in Kenya

The study used a 5-point Likert scale where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree and respectively to find out the extent to which the respondent agreed with various statements relating to cost leadership strategy in relation to organizational performance employed by insurance firms.

we always charge lower price than our competitors and thus positive impact on our sales	10	23	8	19	15	35	6	14	4	9.3	2.674	1.248
Cost leadership strategy has greatly improved our profit	8	19	8	19	10	23	15	35	2	4.7	2.884	1.219
We always strive to reduce cost in administration activities	4	9.3	10	23	15	35	13	30	1	2.3	2.93	1.009
We offer products in lower prices market segments to increase our market share	9	21	10	23	9	21	13	30	2	4.7	2.744	1.236
Charging low costs results to increase in sales turnover	9	21	10	23	10	23	12	28	2	4.7	2.721	1.221
Cost leadership strategy has significantly improved our overall performance	10	23	6	14	13	30	10	23	4	9.3	2.814	1.296
<b>Mean score</b>											<b>2.715</b>	<b>1.2</b>

**Source: Survey data (2017)**

The findings presented in the Table 4.7 shows that 41.86 percent of the respondents disagreed that the insurance firms do not charge lower price than their competitors.34.88 percent were indifferent on the issue of charging lower while only 23.26 percent agreed. The mean of 2.88 explains that Insurance firms cost leadership strategy does not greatly improve their profits. Nevertheless, it is clear that insurance company showed that they reduce on their administrative activities as accounted for by 32.56 percent.

The respondents indicated that they do not offer products in lower prices market segments

policies offered by the insurance companies is stipulated by the regulation of the Insurance regulatory authority.

#### **4.6 Influence of Differentiation Strategy on Performance of insurance Companies in Kenya**

The respondents were required to indicate the extent to which differentiation strategy influences organizational performance. A scale of 1-5 was used where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree respectively. The results are summarized in table 4.8.

The above table shows that 47% of the respondents strongly agreed that they make the necessary effort to differentiate their products from those of their rivals in the insurance firms. Similarly 47% of them strongly agreed that they offer unique and superior products which has improved their profit over the years. They also concurred that they are always the first to introduce new products before their as accounted by a mean 3.698. When the responded were asked whether they regularly deal with broad product serving wider market products than their competitors, 42 % strongly agreed while 40 % agreed that they frequently develop new products. Majority of them agreed that they ensure that their products are different from those of their rivals in the insurance companies therefore gaining a competitive advantage in the market. This was accounted for by 40% and 37 % strongly concurred with this statement.

products which has improved our profit over the years	2	4.7	1	2.3	7	16	13	30	20	47	4.116	1.074
Our organization regularly emerges as the pioneer of offering new services and products to the market	1	2.3	3	7	14	33	15	35	10	23	3.698	0.989
We regularly deal with broad product serving wider market	0	0	3	7	5	12	17	40	18	42	4.163	0.898
Our organization strive to ensure that our products are different from our rivals in order to gain a competitive edge in the market	0	0	1	2.3	9	21	17	40	16	37	4.116	0.823
Differentiation strategy has greatly improved our overall performance	0	0	0	0	5	12	18	42	20	47	4.349	0.686
<b>Mean Score</b>											<b>4.101</b>	<b>0.92</b>

**Source: Survey data (2017)**

The mean score of the different parameter used to measure differentiation strategy and organization performance shows that their mean ranged between 4.116 to 4.349 as shown in Table 4.8 above. This suggested that most of the responded concurred with the parameters. However, only one parameter with a mean of 3.698 this may be as a result of the respondents not being sure whether the insurance firms regularly emerges as the pioneer of offering new services and products to the market since there may be no sufficient information available to them to respond to the question. On the other hand, The findings presented illustrates that the different parameters' standard deviation ranged between are

Focus Strategy	SD		D		N		A		SA		Mean	S.D
	F	%	F	%	F	%	F	%	F	%		
We offer high quality services to our customers this has significantly improved our sales	1	2.3	0	0	4	9.3	21	49	17	40	4.233	0.812
Focus strategy has improved our profit significantly	2	4.7	0	0	2	4.7	24	56	15	35	4.163	0.898
We always meet our customers' needs more than our competitors	1	2.3	3	7	11	26	14	33	14	33	3.86	1.037
We offer tailored services/product which have the ability to win consumers	2	4.7	1	2.3	3	7	21	49	16	37	4.116	0.981
We quickly respond to changes in demand of our customers and this to has influence our market share positively	2	4.7	3	7	5	12	21	49	12	28	3.907	0.996
Focus strategy largely contribute to our overall performance	2	4.7	0	0	5	12	19	44	17	40	4.14	0.966
<b>Mean Score</b>											<b>4.07</b>	<b>0.948</b>

**Source: Survey data (2017)**

Findings on the final objective illustrates that 49 percent of the insurance companies agreed that they offered high quality services to their customers and thus their sales increased significantly. Forty percent of them strongly concurred with this statement while only 2.3 percent seemed to differ. In addition, 56 percent of the respondents conceded that the focus strategy has improved the organization performance and 35 percent agreed that the focus

concluded with the statements given. Similarly the standard deviation similarly ranged between 0.8 – 1.0 which suggested that the responses were not much dispersed from each other hence converged towards the expected response.

#### **4.8 Summary of Strategies**

Looking at the three competitive strategies assessed during the study, differentiation strategy had the highest mean of 4.101 which showed that there was a strong agreement level, and in the second position was the focus strategy which was accounted for by a mean of 4.070 followed by cost leadership strategy with a mean of 2.795 showing neutral agreement (Table 4.10).

**Table 4.10: Summary of Strategies**

	<b>Mean</b>	<b>Standard deviation</b>
<b>Focus Strategy</b>	4.070	0.948
<b>Differentiation strategy</b>	4.101	0.92
<b>Cost leadership strategy</b>	2.795	1.2

**Source: Survey data (2017)**

#### **4.9 Organizational Performance**

The respondents gave their opinions with regard to organizational performance measurement on a five 5-Likert scale. The results of the study indicated 47 percent of the

Our organization offers optimal mix of products given the stipulated prices to meet the expenses	2	4.7	1	2.3	6	14	22	51	12	28	3.953	0.975
Our organization has reached the optimal size for its industry	1	2.3	10	23	9	21	13	30	10	23	3.488	1.162
The overall organizational efficiency has increased	1	2.3	3	7	7	16	20	47	12	28	3.907	0.971
<b>Mean Score</b>											<b>3.828</b>	<b>0.970</b>

**Source: Survey data (2017)**

When asked to rate the performance of the new product, 40 % strongly agreed that the new products increased. The mean of the question whether the overall number of new products increased was 3.884 while 12% of the respondents strongly agreed that the insurance companies reported an increase in the number of new products in last three years.

margins goals	0	0	2	4.7	14	33	18	42	9	21	3.791	0.833
The new products met the quality guidelines	0	0	6	14	5	12	22	51	10	23	3.837	0.949
The overall number of new products has increased	0	0	3	7	11	26	17	40	12	28	3.884	0.905
<b>Mean Score</b>											<b>3.815</b>	<b>0.897</b>

**Source: Survey data (2017)**

On sales turnover, 35 % of the respondents strongly agreed that the gross written annual premium increased while 60 % agreed that their company's premium increased. This was also accounted for by a mean of 4.256 .In addition, 30 % of the responded strongly agreed that the overall financial performance has of their organizational performance increased over the last three year. This was accounted for by a mean of 4.07.

In conclusion, 56% of the insurance indicated that their organizational overall performance improved as illustrated in table 4.13. This is supported by the previous study by Kinyuira , (2013),Sora (2015), Kimani and Wagoki ,(2015) and Dirisu et. al. (2013) who deduced that competitive strategies have a strong correlation with organizational performance. Therefore, the researcher concluded that competitive strategies have a strong influence on performance of insurance firms in Kenya.

annual premium have not changed	21	49	18	42	2	4.7	2	4.7	0	0	1.651	0.783
The overall financial performance has of our organization increased	0	0	4	9.3	2	4.7	24	56	13	30	4.07	0.856
The overall financial performance of our organization has decreased	21	49	17	40	0	0	4	9.3	1	2.3	1.767	1.020
<b>Mean Score</b>											<b>2.89</b>	<b>0.789</b>

**Source: Survey data (2017)**

#### 4.10 Inferential Statistics

The link between independent and dependent variable was assessed by use of the inferential statistics. It also compared the two variables and answered the research questions that the study sought to provide solutions to the problems in the insurance sector.

The researcher used SPSS software to analyze the quantitative data.

##### 4.10.1 Correlation Analysis

The correlation coefficient changes over a range of positive one through zero to negative one. This implies that when the coefficient of determination ( $r$ ) is positive (+ve), the regression line has a positive incline. However, when the coefficient of determination ( $r$ ) is negative (-ve), regression line has a negative slant. The findings are presented in Table 4.14 illustrates the link between the variables under study and indicates a +ve correlation between insurance companies performance and cost leadership strategy ( $r=0.084$ ,  $p$ -

			Cost leadership	Differentiation	Focus	Organization performance
Spearman's rho	Cost leadership	Correlation Coefficient	1.000	-.157	.188	.084
		Sig. (2-tailed)		.315	.228	.593
		N	43	43	43	43
	Differentiation	Correlation Coefficient	-.157	1.000	.438**	.331*
		Sig. (2-tailed)	.315		.003	.030
		N	43	43	43	43
	Focus	Correlation Coefficient	.188	.438**	1.000	.510**
		Sig. (2-tailed)	.228	.003		.000
		N	43	43	43	43
	Organization performance	Correlation Coefficient	.084	.331*	.510**	1.000
		Sig. (2-tailed)	.593	.030	.000	
		N	43	43	43	43

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

**Source: Survey data (2017)**

Regression equation:

$$Y = \beta_0 + \beta_1 \text{cost strategy} + \beta_2 \text{differentiation strategy} + \beta_3 \text{focus strategy} + \varepsilon$$

Whereby:

Y = dependent variable

$\beta_0$  = regression constant,

$\beta_1, \beta_2, \beta_3$  are regression coefficients

$\varepsilon$  is the regression model error term.

The regression results for the model are summarized below:

**Table 4.15: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.610 <sup>a</sup>	.372	.324	.64140

a. Predictors: (Constant), cost leadership strategy, differentiation strategy and focus strategy

b. Dependent Variable: organizational performance

**Source: Survey data (2017)**

Residual	16.044	39	.411		
Total	25.547	42			

a. Dependent Variable: Organization performance

b. Predictors: (Constant), cost leadership strategy, differentiation strategy and focus strategy

**Source: Survey data (2017)**

The analysis of variance (ANOVA) as shown in Table 4.14 tests the significance of the model at 5% level of significance.

The results of the study shows the F calculated was greater than the F critical of 7.699. Further, the p value of 0.000 (less than 0.05) confirmed that the overall model is significant. This implied that focus strategy differentiation strategy and cost leadership strategy are significant predictors at explaining the insurance companies performance and that the model is significantly fit at 5% level of significance.

The study model showed statistically significant relationship that exist between performance ( $\beta=0.014$ ,  $t=0.137$ ,  $p<0.05$ ) and cost leadership, a statistically significant positive relationship between differentiation strategy ( $\beta=0,063$ ,  $t=0.420$ ,  $p<0.05$ ) and organizational performance and an insignificant positive relationship between performance ( $\beta=0.545$ ,  $t=3.925$ ,  $p<0.05$ ) and focus strategy.

Focus (X3)	.545	.139	.577	3.925	.000	.745	1.341
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a. Dependent Variable: organizational performance

**Source: Survey data (2017)**

From the regression model, the following regression equation was derived:

$$Y = 1.036 + 0.14X_1 + 0.063X_2 + 0.545X_3$$

From the regress results presented in table 4.17, it is evident that focus strategy had the greatest beta coefficient of 0.577, followed by differentiation with a beta coefficient of 0.061 and finally cost leadership strategy with a beta coefficient of 0.018. The results of the study also showed that taking all other independent variables at zero, a unit increase in cost leadership strategies will result to a 0.14 increase on organizational performance. Similarly, a unit increase in differentiation strategies will lead to a 0.064 increase in effect on organization's performance; a unit increase in focus strategies will lead to a 0.545 increase in effect on organization's performance. In summation, the regression analysis results indicate that the relationship between the three generic competitive strategies and organizational performance at 95% confidence level is statistically significant. The most significant factor was market focus strategies with p value of 0.00. This implied that market focus strategies contribute more to the performance of the insurance firms while cost leadership contributes the least.

research as per the findings are also explained.

The study sought to establish the effect of competitive strategies on the organizational performance of insurance firms in Kenya. The specific objective was to determine the extent to which cost leadership strategy affect insurance firms performance in Kenya, to assess the extent to which differentiation strategy influence insurance firms performance in Kenya and finally to determine the extent to which focus strategy affects of insurance companies performance.

## **5.2 Discussion of Findings**

This section presents a discussion of the findings as per the specific objectives of the study.

### **5.2.1 The extent to which cost leadership strategy affects performance of insurance companies in Kenya**

This study sought to determine if these implications are held true for insurance companies pursuing cost leadership strategy. Based on the results of this study, cost leadership strategy affects the insurance firm performance though the impact is not very significant since the pricing of the insurance products and services are set by the IRA and therefore the insurance firm do not have full charge of the costing. However, the insurance firms can manage their administration costs to ensure that overall organization performance improves.

According to Sora (2015), the main objective of an organization in employing cost

differentiation strategy influences organizational performance of insurance firms in Kenya. It was evident from the study that differentiation influences organizational performance and showed a significant positive relationship between the two variables ( $\beta=0.063$ ,  $t=0.420$ ,  $p<0.05$ ). The findings of the current study supports previous studies in literature that alluded that differentiation strategy influences organizational performance. For instance, Barney and Hesterley (2006) purported that the infrequency of a differentiation strategy depends on the ability of individual firms to be creative in finding new ways to differentiate their products. As competitors try to imitate these firms' "last differentiation move", creative firm will already be working on new moves and therefore always remain one step ahead of competition.

Furthermore, Baum et. al. (2001) asserts that firms implementing differentiation strategies strive to offer innovative and high-quality products to achieve the highest growth. Spencer et. al. (2009) examined the mediating role of both non-financial and financial performance measures in the relationship between a differentiation strategic orientation and organizational performance of firms'. A path-analytical model was adopted using questionnaire data from Australian manufacturing firms. The findings indicated that, firms pursuing a differentiation strategy used non-financial as well as financial performance measures. These performance measures were associated with higher organizational

market. It involves market segmentation and specialization in the chosen segment which is useful in gaining competitive advantage. The organization which pursue focus strategy prefer to appeal to a certain geographical area or a certain fraction of customers. This study sought to determine whether this assertion is held true.

The results of regression analysis between focus strategy and organization performance of insurance firms in Kenya established that focus strategy had a positive significant relationship with organization performance. This means that an increase in use of focus strategy increase organization performance. The study findings further revealed that 23% of the insurance firms in Kenya pursued focus strategy. This means that some of insurance firms in Kenya focus on narrow competitive scope within the insurance industries and tailors its strategy to serving them to the exclusion of others.

The findings of the current study are supported by previous studied like Porter (1998) who alludes that in focus strategy the firm concentrates on few target markets. This strategy is also referred to as niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. Focus strategy may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments.

that cost leadership as used by insurance firms was not a very statistically significant factor in relation to organization performance. Nevertheless, the study established that 43 % of the insurance firms improved their performance though not very significant by reduce cost in administration activities.

The current study concluded that differentiation strategy is statistically significant factor in determining the performance of insurance firms in Kenya. Differentiation strategy has the most statistically significant performance than cost leadership in the insurance industry. Therefore, it is very crucial for insurance who want to achieve superior performance to employ differentiation strategy identified in this study.

Further, the insurance companies pursuing differentiation strategy should strive to create and market unique and superior products for varied customer group. The aim should be to create a superior fulfillment of customer needs in one or several product attributes in order to develop customer satisfaction. On differentiation measures adopted by insurance companies in Kenya, offering of broad products than those of competitors, offering unique and superior products influenced positively the performance of the insurance companies.

The results of multiple regression analysis indicated that focus strategy had significant effect on performance of insurance firms. The focus strategy, whether anchored on low-

differentiation strategy and focus strategies as it has been proven to have the highest significant influence on insurance performance.

The study also recommends that insurance companies can benefit through the lessons learnt so as to tailor their products, focus on the right target market, among others. In this way, they are assured of improving the organizational performance and therefore stand in a better position to serve their intended clients in the best way possible.

Finally, the study recommends a constant drive by Insurance companies to open new branches in the wake of competition. To players in the industry; the study gives the management of insurance firms and owners an understanding of the various resources and competitive strategies that they could adopt in order to gain an advantage in the market.

#### **5.4.2 Policy Implication**

This study will provide knowledge to the policy maker on different insurance industry dynamics and various ways on which they should salvage the insurance industry which remained stagnant with low penetration in the market. In addition, the study will also give guidance to the policy makers in making better policies and procedures that will help the insurance industry to improve its performance and increase the contribution to the gross domestic product in Kenya.

#### **5.5 Limitations of the Study and Further areas of Research**

players in insurance industry on the overall performance of the insurance industry.

In addition, this study only focused on the competitive strategies and assessed their influence on the performance of the insurance companies. Further study should be consider factors that affect the influence the performance of the insurance.

Finally, the study only focused on Kenyan industry, further study should be carried out to identify the influence of the generic competitive strategies on the influence of the insurance industry in other countries in Africa and compare the results.

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of this master degree, I am supposed to carry out a research intended to solve a problem within my area of specialization. I intended to conduct a research towards assessing the effect of competitive strategies on performance of insurance firms in Kenya.

There is no personal risk involved as a result of your participation in this survey. The data collected from this survey will be used for education and research purposes only. The information will be CONFIDENTIAL. Your participation is to be completely NONCOMPULSORY and ANONYMOUS. Non-participation will not result in penalty or loss of any kind.

Once you complete the questionnaire, please return it to the person who provided the questionnaire or to the person at the counter.

If you have any further questions about this study, please contact the principal researcher, Charles Mutisya, a Masters Candidate in the School of Management and Commerce, Strathmore University (email: [cmutisyah@gmail.com](mailto:cmutisyah@gmail.com)). You may also contact my supervisor Dr. Tabitha W. Waithaka at [twaitthaka@strathmore.edu](mailto:twaitthaka@strathmore.edu)

Thank you very much for your time and cooperation.

Sincerely,

Charles Mutisya

**2. How many years have you worked in the company (Please tick as appropriate?)**

0-4  5-10  10-15  15-20  Over 20

**3. Products and services you sell to the public (Please tick(✓) as Appropriate)**

i) Short term insurance

ii) Long term insurance

iii) Both Short and Long term insurances

iv) Others

Please specify.....

**4. What position do you hold in the company?(Please tick as Appropriate)**

i) Senior managers

ii) Head of department

iii) Managers

Other (specify).....

**5. Academic/Professional Qualifications (Please tick as Appropriate)**

PhD Level , Masters Level , First Degree , Diploma,

Professional qualification: ACII , AIIK , CPA (K) , CIM ,

Others specify

i	We always charge lower price than our competitors and thus positive impact on our sales					
ii	Cost leadership strategy has greatly improved our profit					
iii	We always strive to reduce cost in administration activities					
iv	We offer products in lower prices market segments to increase our market share					
v	Charging low costs results to increase in sales turnover					
vi	Cost leadership strategy has significantly improved our overall performance					

Please specify any other below

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i.	Our organization strive to ensure that our products are different from our rivals and this has greatly increased our sales					
ii.	We offer unique and superior products which has improved our profit over the years					
iii.	Our organization regularly emerges as the pioneer of offering new services and products to the market					
iv.	We regularly deal with broad product serving wider market					
v.	Our organization strive to ensure that our products are different from our rivals in order to gain a competitive edge in the market					
vi.	Differentiation strategy has greatly improved our overall performance					

Please specify any other below

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ii	Focus strategy has improved our profit significantly					
iii	We always meet our customers' needs more than our competitors					
iv	We offer tailored services/product which have the ability to win consumers					
v	We quickly respond to changes in demand of our customers and this to has influence our market share positively					
vi	Focus strategy largely contribute to our overall performance					

Please specify any other below.

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	<b>New product</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
i.	The new products was accepted by the customers					
ii.	The new product attained profitability goals					
iii.	The new products attained the margins goals					
iv.	The new products met the quality guidelines					
v	The overall number of new products has increased					

	<b>Organizational efficiency</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
i.	Our organization minimizes costs for a given quantity of output					
ii.	Our organization maximizes its profits for a given combination of inputs and outputs.					
iii	Our organization offers optimal mix of products given the stipulated prices to meet the expenses					
iv.	Our organization has reached the optimal size for its industry					

iii.	Our organization gross written annual premium have not changed					
iv.	The overall financial performance has of our organization increased					
v.	The overall financial performance of our organization has decreased					
vi.	Any other:					

10. Please indicate other competitive strategies that enhance performance of your organization.....  
.....  
.....

Thank you.

7	Barclays Life Assurance Kenya Limited
8	Britam General Insurance Company (K) Limited
9	Britam Life Assurance Company (K) Limited
10	Cannon Assurance Company Limited
11	Capex Life Assurance Company Limited
12	CIC General Insurance Company Limited
13	CIC Life Assurance Company Limited
14	Continental Reinsurance Limited (Kenya)
15	Corporate Insurance Company Limited
16	Directline Assurance Company Limited
17	East Africa Reinsurance Company Limited
18	Fidelity Shield Insurance Company Limited
19	First Assurance Company Limited
20	GA Insurance Limited
21	GA Life Assurance Limited
22	Geminia Insurance Co. Limited
23	ICEA Lion General Insurance Company Limited
24	ICEA LION Life Assurance Company Limited
25	Intra Africa Assurance Company Limited
26	Invesco Assurance Company Limited
27	Kenindia Assurance Company Limited
28	Kenya Orient Insurance Limited
29	Kenya Orient Life Assurance Limited
30	Kenya Reinsurance Corporation Limited
31	Liberty Life Assurance Kenya Limited

45	Sanlam Life Assurance Company Limited
46	Takaful Insurance of Africa Limited
47	Tausi Assurance Company Limited
48	The Heritage Insurance Company Limited
49	The Jubilee Insurance Company of Kenya Limited
50	The Kenyan Alliance Insurance Company Limited
51	The Monarch Insurance Company Limited
52	Trident Insurance Company Limited
53	UAP Insurance Company Limited
54	UAP Life Assurance Company Limited
55	Xplico Insurance Company Limited

**Source: AKI Report (2017)**