

**THE INFLUENCE OF CORPORATE STRATEGY ON  
PERFORMANCE OF INSURANCE COMPANIES IN KENYA**

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## **DECLARATION**

This research project is my original work and has not been submitted anywhere for a degree in this University or any other University/College for academic purposes.

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## **ABBREVIATIONS AND ACRONYMS**

AIB	Association of Insurance Brokers
AKI	Association of Kenya Insurers
GDP	Gross Domestic Product
GWP	Gross Written Premiums
IRA	Insurance Regulatory Authority
MIP	Medical Insurance Providers
RBV	Resource Based View
SPSS	Statistical Package for Social Sciences

## ABSTRACT

The objectives of the research were to find out the association between corporate strategy and performance of the Kenyan insurance companies. The questionnaire was the major tool of enquiry that collected primary data while secondary data from regulatory authority was incorporated to supplement the data collected by questionnaires. The data were analysed through regression analysis and it was established that corporate strategy adopted had an influence on the firm performance as measured by both financial and non-financial metrics and it was also established that more companies are adopting strategic alliances and partnerships in order to increase and maintain respective market shares. The research recommends that government through its various agencies should put in place the right policies which support the insurance firms as a way of increasing the contribution to the economy. Further studies are recommended to establish the effect of competitive advantage on the survival of insurance companies and how portfolio mix influence the adoption of generic corporate advantage strategy by insurance companies in Kenya. It was established that corporate strategy enhances competitive advantage of the organization over its rivals. It is evident that the ever increasing competition and entry of new firms in the insurance sector makes it mandatory for corporate strategies to guarantee better and enhanced performance so as to gain a competitive edge. To determine the influence of corporate strategy on firm performance of the Kenyan Insurance companies. The study was based on the following theories; agency theory and resource-based view theory. The study adopted the descriptive research design. The study population constituted 55 insurance companies that were in operation in Kenya as at 31<sup>st</sup> December, 2016. Data collection involved self-administered questionnaires as the main instrument for data collection. The data collected was then be edited for completeness, coded and entries fed into the SPSS computer package The study concludes that, though at a low rate, there has been continuous increase in the average sales turnover, organization's Net Income after Tax and Return on Investment has been on increase since 2013. The study model had an average adjusted coefficient of determination ( $R^2$ ) of 0.5944 and which implied that 59.4% of the variations in performance of Insurance firms in Kenya are explained by corporate strategies, Sustainable Strategies and Competitive advantage Strategies. The calculated value was greater than the critical value ( $2.8509 > 2.32$ ) an indication that Corporate strategies, Sustainable Strategies and Competitive advantage Strategies all have a significant effects on performance of the Kenyan Insurance firms. The study therefore recommends that all cooperate strategies be put in place to enable the insurance firms have a very high growth.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

In the business environment, an organization needs to have a strategy which will enhance its competitive advantage over its rivals. It is evident that the ever increasing competition and entry of new firms in the insurance sector makes it mandatory for corporate strategies to guarantee better and enhanced performance so as to gain a competitive edge. Corporate strategy varies from operational and competitive strategies since corporate strategy defines the strategic intentions of the firm and the nature in which a firm needs to be structured (Auma, 2013). Corporate strategy implies to a series of consistent and logical decisions made by a firm over a span of time at the firm's corporate level which integrate the major; policies, goals, and action sequences of an organisation into a logical perspective (Arasa & K'Obonyo, 2012). Corporate strategy does not function as an independent factor but comprises other constructs so as to function effectively. Corporate strategy influences the performance of business units which indirectly influences firm performance. Competitive strategies basically implies to the means used by a firm in an industry to increase its competitiveness (Porter, 1985).

This study will be based on the resource-based view theory and agency theory according to Mitnick (2015) agency theory is an instrumental theory which views corporate social responsibility as a wealth creation instrument. This supposition tries to explain the link between principals and agents in an enterprise. On the other hand the resource-based view theory developed by (Wernerfelt, 1984) that shows the bundles of assets that the organization can utilize to gain a competitive advantage over its competitors in the business environment.

Strategy is a platform adopted by organization to cope in different business environment with a set of corporate capabilities (Ongore & Owoko, 2011). Insurance firms in Kenya seeking to survive competitive and achieve high firm performance have to expect what their customers need and at the same time determine if they are satisfied with the firm's goods. Additionally, there are difficulties in the marketplace which includes the increase in competition, updating the customer requirement. However the company needs stronger

market presentation which comprises of innovation on marketing practices which enables in the survival of competitiveness. Therefore organisation needs to manage their main markets more effectively and efficiently compared to their competitors. This means that business entities need to adjust their operations continuously so as to seize opportunities in the market as well as vend of any business challenges that will affect the business strategies.

As the Kenyan insurance industry continued to grow, insurance product remain low at 3% of the GDP in 2016 (AKI Report, 2016). This is still low as compared to the previous year where the penetration was estimated at 2.9% of the GDP in 2014, 3.44% of the GDP in 2013 and 3.16% of the GDP 2012. In Kenya context, there is little information on studies done to ascertain the influence of corporate strategy on the firm performance of insurance sector. Koijen and Yogo (2016) identified many shortcomings in disclosure, consistency and accuracy in the reporting of financial information of the insurance companies in his compliance review of the 2015 financial statements of insurance companies. The findings from the study by the collapse of insurance companies and centre of corporate governance shows that insurance companies really need to adopt corporate strategy.

### **1.1.1 Concept of Corporate Strategy**

Corporate strategy is a step taken by an organization in order to accomplish its goals with the aim of attaining superior performance (Purce, 2014). It is concerned with how companies create value across different businesses. The development of a successful corporate strategy entails creation of value and kind attention in three vital fields. The core function of corporate strategy is ensuring that at all time, the enterprises' value exceeds the sum of its components. Corporate level strategy is mainly concerned with the strategic decisions made by a business which influence the organization as a whole. Mergers and acquisitions, financial performance, resource allocation and human management of the personnel are elements of corporate level strategy. An effective corporate strategy should aid effective resource allocation to bring the best investment opportunities, enhances the competitive position of a firm, add value beyond the sum of

its parts and drive raise expectations of the firm both internally and externally (Ansoff, 1965).

Grinblatt and Titman (2016) recommend that a corporate strategy coincide with the competitive environment requirements. It also must make use of present and emerging opportunities and diminish the effects of major threats, placing realistic terms on the company's resources. Purce (2014) stipulates that corporate strategy must be developed and acted upon to reinforce set goals by a firm's business policy. It sets to answer questions such as, what set of businesses should the company be in? 'More specifically, a corporate strategy is a company's way of creating value through the configuration and coordination of its multi-business corporation. A corporate strategy differs from a business strategy, which focuses on building a competitive advantage in the specific business or market of operation and hence can be considered as part of corporate strategy. Therefore a corporate strategy describes an organization's overall direction towards growth through investment in diversification, vertical integration, mergers and acquisition, turnaround, strategic alliances and outsourcing. With increased complexities in terms of uncertainties, threats and constraints in the business world, corporate strategy helps to keep at pace with the business dynamic and fast changes, minimizes competitive disadvantage and competition (Porter, 1985).

### **1.1.2 Corporate Strategy**

There is no standard criterion for the selection of the most suitable performance indicator since performance measurement could be performed for different reasons and each performance measurement is carried out for a specific reason. Firm performance entails the comparison of an organisations' actual output against the intended output. To boost performance, an organisation's governing body and managers formulate programs ascertain the organisations current level of performance and comes up with ideas for improving the infrastructure and behaviour of the organisation which are then implemented to attain higher yield. Simple forms of measurements are used to determine performance at organisational level such as conducting surveys on customer satisfaction upon which qualitative information regarding performance could be obtained from the customers' point of view (Liu *et al.*, 2013). According to Kaplan and Norton (2008)

recent of performance using a Balanced Scorecard that integrates both the financial and non-financial internal business processes, the customers' needs and learning and growth.

The insurance industry the uses financial performance indicators such, profitability, return on investment, customer satisfaction and market share (Kipkurui, 2011). Different performance indicators are required by different stakeholders to aid the formulation of the best business decisions.

Long (2013), takes note of that such assessment is done in a casual way and advantages more from the orderly approach. Making unequivocal the accessible learning on performance markers and how they are connected is an underlying stride towards a change around there. This not just adds to the plan and examination of associations and the assessment of their performance additionally empowers re-utilize, trade and arrangement of learning and exercises between organizations. According to Purce (2014) firm performance is the ability of the organisation to achieve its goals through efficient and effective use of resources. It is determined by efficiency of the firm in the management of its internal resources and adjustment to the external environment and further shows the degree to which a firm has obtained its growth goals and strategic objectives. The performance measurement in the insurance industry is based return on investment, customer satisfaction and increase in profitability.

### **1.1.3 Corporate Strategy and Firm Performance**

Thompson (2007) defines a strategy as a long term plan which seeks to ensure that the organisations' goals are attained. A good strategy is put in place after a proper consideration of the strengths and weaknesses of the organisation in comparison to those of its rivals (Porter, 1998). According to Robinson and Pierce (2007), there strategy levels exist: business, corporate or operational and functional level. In the corporate strategy level, the vision, firm's culture and corporate philosophy and goals are defined. The a bridge between functional and corporate strategy is made possible by the business strategy level which involves decisions such as market segmentation, plant location and distribution channels while the functional level is concerned with the implementation.

In formulating a strategy, a firm must choose unique ways of doing things different from those of its competitors which enables them to offer more value to its customers and make it different from the competitors thus giving it a competitive edge over its rivals (Porter, 1996). A competitive advantage thus makes it possible for firms to create more value for its customers and attain more profits (Porter, 1998). Porter (1980) postulates two ways through which a firm can attain a competitive edge over its competitors: Through supplying a similar product as that of the competitor at a lower price or sell a commodity that is highly differentiated such that the buyer is motivated to purchase the product at a price that is higher than the additional production cost.

Like all other companies, listed companies on the NSE operate in a very competitive environment. To survive the competition and thrive to achieve their set targets, listed companies require formulating strategies that differentiate them and create competitive advantage over their rivals. This study therefore examined whether corporate governance is an effective tool that listed companies could use to different themselves, create a competitive advantage and therefore improve their performance. The key strategic areas that the study examined to determine the degree to which listed companies are influenced by the practice of corporate governance include production and operations; marketing strategies; financial planning and budgeting; product development; human resource strategies; expansion strategies; and procurement strategies.

#### **1.1.4 Insurance Companies in Kenya**

Insurance means to a promise to compensate a client in the event of a loss upon which the client places periodic payments. It mainly seeks to provide financial protection and increase the risk management capabilities of businesses and individuals. The two main types of insurance are Life insurance and Non-Life insurance (Mwangi & Murigu, 2015). Non-life insurance enables protection against risks that lead to loss or damage to property. Life insurance facilitates long-term savings that ensure that a reasonable amount is accumulated to meet financial needs of the policy holder at the various phases in life. Life insurance also acts as a long term investment tool whose core goal is to accelerate the rate of growth of capital. Growth of the insurance industry in Kenya is tremendous in today's dynamic environment. The saddening fact is that some insurance



companies have been placed under statutory management or collapsed (Fadun, 2013). The Insurance Act was enacted in 1984 to stimulate and govern the sector. Insurance in Kenya operates under the association of Kenya insurer (AKI) which is an umbrella body which was founded in 1987. Its core objectives are to boost major business practices, create public awareness and expand the Kenya's insurance sector.

The Kenyan insurance industry is governed by the insurance Act, Chapter 487 of the laws of Kenya which empowers the insurance regulatory authority (IRA) to regulate and coordinate insurance practices in Kenya. The insurance industry is aided by the Association of Kenya Insurers (AKI) which provides advisory and consultancy services by aiming to promote the awareness of insurance services and products and enhances professionalism and reasonable business environment. The insurance industry continues to face some challenges including but not limited to undercutting of premium rates, delays in claims settlement, fraudulent claims and delays in the collections of premiums (Wambua, 1996).

#### **1.1.5 The Insurance Sector in Kenya**

Initially, the Kenyan insurance industry was dominated by Foreign Insurance companies that provided the insurance services before Kenya attained independence in 12th December 1963. The insurance industry in Kenya have shown a gradually growth in its development due to high demand of insurance services. According to Insurance Regulatory Authority directory (2017) the insurance industry in Kenya has 55 insurance companies, 186 insurance brokers which operates under the umbrella of Association of Insurance Brokers (AIB), 29 medical insurance providers (MIP, 126 investigators, 108 motor assessors and 5155 insurance agents. According to Swiss Re annual reports (2014), the insurance industry in Kenya, is the fastest growing industry in Kenya. Kenya insurance sector have a consumer penetration rate of 2.94% in comparison to the total gross domestic products which ranked it to be position five in Africa after South Africa, Namibia, Mauritius and Morocco (Swiss Re, 2017).

There are many opportunities in the insurance industry in Kenya to be exploited while also curbing the shortcomings in which the operations of the insurance company have been subjected to. The insurance industry have experienced mergers, acquisitions and

increased foreign investor's interest. The Total Gross Written Premiums (GWP) during the year 2014 which amounted to KES 157.21 Billion representing an industry growth of over 20%. The development of new products, improved regulation, increased public awareness and automation of business processes among others have been the drivers of the growth in the insurance industry. However, the industry doesn't possess the required capitalization levels to write major and emerging risks such terrorism and sabotage, political violence and covering of mega infrastructural projects.

The insurance companies play a vital role in financial system by indemnifying financial risk in the economy. They serve as institutional investors for both capital and money market instruments. There are more than 55 registered insurance companies in Kenya. The Insurance Regulatory Authority (IRA) was established by the Kenyan government to regulate the activities of the Kenyan insurance companies (Fadun, 2013). This body is expected to ensure there is effective; supervision, administration, regulation, controls and reinsurance of the insurance business in Kenya and the formulation and enforcement of insurance and reinsurance standards in Kenya.

Many Kenyan individuals do not have trust in the insurance companies as a result of many un-paid claims within the market. Majority of the claims are pending due to prolonged investigations which discourages potential customers to join the industry (Arasa & K'Obonyo, 2012). However, the insurance sector in Kenya have to deal with issues of fraud and have to pay huge as a result of dishonesty either by the intermediaries to the customers or vice versa. Timely payment of premiums is mandatory for insurance claims to be honoured. A higher number of claims against declining payment of premiums reduce profit margins. Some insurance companies have adopted several distinctive features to counter competition and elevate them among other industry players. The use of technology, especially the mobile phone to disseminate information and facilitate premium and claim payments is particularly rife. Other insurance companies have customized certain services and products to meet the individual needs of their clients, as well as being open to new channels of distribution of insurance like banc assurance that bring them closer to their target markets. Therefore, this study is interested by establishing whether the corporate strategy adopted by Insurance companies in Kenya has any influence on firm performance.

## 1.2 Research Problem

Several theoretical and empirical studies have been done on the influence of corporate strategy on superior firm performance. Each insurance firm seeks to attain a corporate performance measurement referred to as persistent superior firm performance besides the use of competitive strategies a competitive advantage which is sustainable (Ombaka *et al.*, 2015). Different theories argue that the factors contributing to superior firm performance are greatly confined within the firm and a good example is corporate strategy.

The concept of corporate strategy is vital in the strategic management of an insurance firm. There are many varying definitions of corporate strategy which have greatly distorted the corporate strategy boundaries which has brought contradictions within the practitioner and academic fields of study. This makes the concept of corporate strategy to be viewed as internally incomplete and inconsistent.

In Kenyan, corporate strategy has a vital effect to the increase of the insurance company performance (Mbaabu, 2010). Strategy research seeks to unveil firm performance' determinants. The corporate strategy is heterogeneous to firms' performance. Corporate strategy is used to compare the performance of various insurance firms. The main objective of this research study is to establish the existence of corporate strategy literature and make fundamental contributions literature on corporate strategy regarding its possible effects on the consistence of ideal insurance performance of the firm. Several concerns pertaining the effectiveness of the concept of corporate strategy exist, since most of this literature is based either on specific corporate strategies or diversified organisations. Therefore, there is a need to determine the influence corporate strategy has on the firms' performance of the Kenyan insurance companies.

Various studies related corporate strategy and firm performance has been done. Awaluddin *et al.*, (2016), did a study in Indonesia on effect of corporate strategy to company performance. The study revealed that corporate strategy significantly improves the performance of a company. The dominant aspects that reflects corporate strategy were found to be portfolio strategy, directional strategy and finally the parenting strategy. Further, Monroe (2006) investigated the contribution of corporate strategy to

performance of the large firms' in the United States. The study established that decision making at corporate level explains this empirical evidence and the use of corporate level decisions by the best performing firms enable them to simplify the decision making process with regard to resource governance. Gill (2012) studied the effect of corporate strategy and capital structure on the performance of the small business firms in Western, Canada. The non-experimental and co-relational research designs were applied in the study and the findings demonstrated that that both the capital structure and corporate strategy affect the performance of manufacturing firms in Canada.

Kiragu (2016) established the Influence of Innovation on performance of the Insurance companies in Kenya. The findings revealed that product innovation positively and significantly influences organizational performance. The results also showed that the innovation process was the most predominant in the insurance industry in Kenya. Njeru (2013) studied Market orientation, external environment marketing practices and performance of the Kenyan tour firms. The results of this insight revealed that performance is influenced by market orientation. Results also showed that the external environmental factors directly influence performance and also moderate association between market orientation and firm performance. In addition, the outcome stipulated that the marketing practices intervene the relationship between market orientation and firm performance. Further, Okoth (2015) did a study on strategic positioning and performance of the Kenyan insurance firms. It was established from this study that well positioned firms are closely aligned to the needs of their target segments, both current and emerging. The effect of positioning strategies on performance is that it leads to improvement on market share, customer satisfaction, customer brand loyalty, growth in customer base and improvement in profitability. Strategic positioning was also reported to influence customer's perceptions, the expectations, the benefits and the value which they are prepared to pay for.

Kamomoe (2016) studied on the strategic responses and financial performance of the Kenyan insurance firms, the study employed descriptive cross-sectional study, it established that product and technology innovation strategy and expansion strategy , mergers and acquisitions strategy, cost and differentiation strategy and strategic alliances

strategy were statistically significant on the financial performance of the insurance industry, thus having a higher strategic response on the financial performance of the Kenyan insurance firms.

Therefore, there have been few studies in Kenya on corporate strategy and insurance performance. This creates an avenue to fill the gap that other researchers have left. The study focused on the effects of corporate strategies on the firm performance of Insurance companies in Kenya which will lead to the question; what is the influence of corporate strategy on the firm performance of Insurance companies in Kenya?

### **1.3 Research Objective**

To assess the influence of corporate strategy on firm performance of Insurance companies in Kenya.

### **1.4 Value of the Study**

The outcome of this study will be beneficial in the management of the insurance firms and other institutions. The results of the study will create further gaps which will act as a basis for research in scholarship and further analysis. The insurance firms' management will use the findings of the study as a point of management reference for corporate strategy being implemented.

This study's findings will benefit the insurance firms' management to participate in effective corporate strategy that will strategically position the institution in the market. The findings will also be vital to the government and its regulatory and policy frameworks. It will also enable the government to come up with effective regulations and policies that will help the insurance companies to mitigate challenges and ensure that there is conducive policy and regulatory framework for the development of the insurance sector. This is only possible under a well thought and negotiated regulation and policy to steer growth in the insurance sector.

The findings will also be used as input in the design of the policy and regulatory framework. The academic community will also benefit from the study through the added knowledge acquired through training which will act as basis or further research. It will

also fill the existing knowledge gap which will add knowledge to all academicians with regard to corporate strategy.

The study will contribute to the body of knowledge in terms of theory required to understand the influence of corporate strategy and performance of insurance firms in Kenya. It will also provide a basis for referencing to other scholars who would wish to conduct similar studies in developing countries

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter entails the theoretical review showing the inter-relationship between the variables in the research study and discussion of empirical studies related to corporate strategies and firms' performance. It also provides the conceptual framework and the review of variables which seeks to establish whether a relationship exists between the parameters stated.

#### **2.2 Theoretical Foundation**

This part outlines the theories used to give more details to the study on the impact of corporate strategy on insurance firm performance. The study was based on the following theories; agency theory and resource-based view theory.

##### **2.2.1 Agency Theory**

The agency theory was brought into perspective by Jensen and Meckling (2015). Mitnick (2015) asserts that agency costs are brought about by the misunderstanding between the managers and the company's shareholders. Agency costs are referred as the sum of monitoring paid by the principal, the bonding costs paid by the agent, and the overall residual loss. Good performances are often witnessed under situations of low agency costs which come with higher firm values keeping all other factors constant. This theory further states that the owners and management have varying interests. Agency conflicts arise when companies separate the functions of management and ownership. They further demonstrate that the agency costs are bared by the stake holders regardless of the person making the monitoring expenditures. Higher interests are charged by debt holders anticipating monitoring costs. Higher likelihoods of monitoring costs lead to high interest rates and lower firm value to its shareholders keeping all other factors constant (Mitnick, 2015). The financial insurance performance could be explained using three types of agency costs. The asset substitute effect asserts that a rise in debt to equity increases the incentive of the management to undertake more risky projects. All the benefits accruing from successful projects benefit the shareholders whereas the unsuccessful projects debt negatively influences the debt holders.

The undertaking of projects increases the probabilities of wealth transfer from debt holders to shareholders and a decline in firm value. Risky debts often benefit the debt holders instead of the shareholders which lead to the problem of underinvestment. The management therefore has the mandate to reject projects with positive net present value despite their higher potential to increase firm value. It is also mandatory that the investors are given free cash flow failure to which the firm are allowed to destroy firm value through perks and empire building.

Complete protection requires exemplary enforcement costs and extreme covenant specifications. As the residual firm owners, it is the responsibility of the stock holders to ensure that monitoring costs are held low up to some levels. The optimal amounts of debt that could be issued by a firm is limited by monitoring costs. There is higher likelihood that the monitoring levels needed by the debtors rise with the outstanding levels up to some levels. Lenders engage in limited monitoring when the levels of debt are limited. There are substantial costs associated with protective covenants and increase as the debt financing levels increase. The monitoring costs incurred by the shareholders seek to ensure that the actions of the managers are based on optimizing the value of the firm. Pouryousefi and Frooman (2017) assert that higher costs associated equity and debt and optimal combination of both debt and equity reduces total agency costs.

### **2.2.2 Resource-Based View**

The Resource-Based View (RBV) was developed by Wernerfelt (1984) and Barney (2001) who contended that the bundles of assets at the firms' disposal and how they can be extended for different uses in order to gain a competitive advantage. It is a strategic management theory that assumes the heterogeneity of the firms' abilities and resources (Nicolai, 1998). Theory holds that unique capabilities and resources are essential in creating an ideal strategy for the firm in order to remain sustainable in a competitive environment.

A firms' resources and capabilities determines sustainable firms' performance since it provides inherent and superior competitive advantage over other firms in the industry. The resource-based theory (RBV) also extends to a level of creating strategies, products and functions that cannot be duplicated by the competitors (Gimeno, 1999). This enables



the firm to have ideal resources like human resources, technological resources and capital resources that competitors find it difficult to match hence allowing the firm to be the leader in the market over a period of time.

Having an ideal performance rate is as a result of the unique skills and resources a company utilizes in its operations (Day & Wensley, 2008). This superiority of skills and resources is as a result of strategies implemented in the firm which improves the competitive position and sustainability. And in order for the firm to continue enjoying the superiority of the skills and resources, there is need to develop and implement strategies that are favourable to the development of the unique resources and capabilities (Wensley, 2008)

### **2.3 Corporate Strategy Adopted in the Insurance Industry**

Corporate strategy consists of the organisation's long-term vision that seeks to create corporate value and aid the formulation of the most suitable steps by the management that will enable it to meet the needs of their customers. Corporate strategy is also a continuous process upon which the company is compelled to work tirelessly so that the investors are convinced that their money is being effectively utilised thus increasing the equity of the company (Babafemi, 2015). An insurance company that succeeds in the delivery of customer value are those that regularly revise their corporate strategy so as to improve the sectors that do not yield the desired output. Corporate strategy deals with three areas in the corporation as a whole. These areas are, corporate strategies, sustainable advantages and corporate advantages.

#### **2.3.1 Corporate Strategies**

Corporate strategy contributes to making the organization become integrated as one body through the addition of value in comparison to it acting as separate grouped components; it's made of four categories namely managing portfolio-practise, change of structure, skill movement, and sharing of knowhow. The creation of shareholder value through diversifying the firms portfolio depends on other mechanism as the factors can't be mostly exclusive mutually. Portfolio –practice and restructuring doesn't need connection but skill movement and knowledge sharing depends on communication through an established connection. In the present situation more practicability is displayed by others

although majority of them have brought success in the best situations. The ignorance of any of them can be a receipt to failing (Porter, 1980).

Strategy at the corporate level deals with decisions that have big impact on the entire organization. Performance on finance, and when business merge and acquire, management of human capital and the process of resource distribution happens at the corporate level. Strategies at the corporate levels can be employed in three types (Jeremy, 2009).

Businesses can strive to fight out competition to add its market share by using value-adding strategies. It's from using the above strategy that organizations are able to progress in value addition by taking advantages of capacity and capital endowed to its self and share them throughout the organization to lower cost and create effectiveness. Diversifying is attributed as among the forms used in creation of value to organizations.

The lack of distributing capital and human resource in a market by and an organization forms the value-neutral strategy, its main work is to increase the organization operations. Reduction-value strategies come up when organizations shareholders of a large organization feel it's going opposite it core business and also feel its only the strategic management who are gaining in diversifying. The main purpose for this strategy is to reposition the targeted clients to curb unplanned and distractive expansion.

### **2.3.2 Sustainable Competitive Strategies**

Sustainability of a competitive strategy refers to the ineptness of competitors to initiate or adopt a distinct strategy that will render the focus companies competitive strategy redundant (Carlopio & Harvey, 2012). This relates to the effectiveness longevity of the strategy in edging the competitors in the market. When the imitative actions have come to an end without affecting the firm' competitive advantage, then the firm's strategy is said to be sustainable. Porter 2012 pioneered thinking in the field of strategy when he proposed four types of generic strategies which can be utilized by a company to attain a competitive advantage. This consists of, cost focus, overall cost leadership, differentiation focus and differentiation.

The strategies determine the level to which the scope of the business activity are narrow versus broad and the level to which the products of the business are differentiated. Cost

leadership and differentiation strategies find competitive advantage in the industry segment or a variety of markets. By contrast, cost focuses and differentiation focuses are adopted both in the broad and narrow market.

### **2.3.3 Sustainable Competitive Advantage**

Organizations are there to exist and remain successful and hence the need to have a long term sustainable competitive advantage (Sacheva, 2009). Several authors have come up with the study of sources and types of strategies capable of attaining competitive advantage.

Porter (1985) came up with the term competitive advantage when discussing the basic forms of firm's competitive strategies that a firm can adopt to attain competitive advantage. He maintained that it was possible to achieve SCA through low cost and differentiation approaches. He defined sustainable competitive advantage as the position where a value generating strategy is created by a firm which the competitors have no knowledge about noting that the competition would at that particular time be unable to duplicate the benefits of the said strategy.

Porter (1985) identified low-cost and differentiation as SCA strategies while Wesley and Day (1988) defined superior resources as the potential SCA sources. Mitchell (2007) put emphasis on skills and resources by arguing that firms should consolidate skills and resources into competences that enable them to adapt quickly to varying opportunities.

Resource based competences provide internal avenue for sustainable competitive advantage. Wenerfelt (1984) defines resources as a firm's strength or weakness. More specifically, the, resource based competences consist of the fundamental assets and non-human assets, both intangible and tangible that makes the performance of the firm higher than that of the competitors over a relatively long period. A firm needs to create synergies between the various the specific resources and capabilities so as to acquire the resource based competencies.

From the foregoing, it is evident that firms have to position themselves and what they offer in a specific market. It is equally important that firms enhance their competences in distribution as Strategy Corporate Advantage sources by effective utilization of resources

and development of viable strategies. These competences are practically formulated and developed through a series of strategic decisions and the actions of those within the firm. The development of sustainable competitive advantage forces the firm managers to improve on the unique competencies of the firm that generates strength out of their weaknesses. It is therefore important for firms to adopt strategies that are hard to imitate as this guarantees them continuous competitive advantage.

## **2.4 Corporate Strategy and Performance**

Organizations continuously measure their performance given the unpredictable business environments in which the firms operate in. This enables such firms to identify those factors that could hinder their performance and to take precautions earlier enough in order to meet and exceed the set objectives. According to Kipkurui (2011) firms' performance considers profits, return on assets, return on investments as the measure of firms' performance; sales volumes and market share as measures of product market performance and economic value addition as measure of shareholders' returns. Firms' performance considers all non-financial and financial results of an organizations and it's not restricted to economic outcomes. Insurance company's performance is measured by measuring premium and investment income, underwriting results and overall operating performance.

High organizational performance results when all the organization resources are focused towards specific goals and objectives (Kiragu, 2016). The results of organizational performance are measurable in terms of the value addition to customers. The resources are: strategic goals and objectives, organizational framework, business performance indicators, resource allocation and aligned processes, values, culture and guiding principles, and performance and reward structures. Strategic goals and objectives provide the direction in which all organization resources must be focused on. Organizational structure defines how various activities within the organization are directed towards the attainment of the set goals and objectives. The structure in place must support the strategy just as the strategy must be aligned to the structure.

Grinblatt and Titman (2016) notes that, the success with which a firm's business strategy in place addresses its industry's critical success requirements will determine its strategic

performance and competitive positioning; therefore, performance is as a result of strategy specifically sustainable competitive strategies. Business performance indicators represent the measures by which each area of the organization will be evaluated. No single set of performance measures is universal to all organizations. Performance must be consistently measured to monitor progress towards the set goals and ensure operational success.

## **2.5 Empirical Review and the Research Gap**

Studies have been done by different researchers relating to corporate strategy, firm performance and market orientation. Ogbonna and Ogwo (2013) studied on corporate performance and market orientation of insurance firms in Nigeria. The survey research methodology was adopted in the study and the hypothesis was tested using multiple regression, partial correlation and spearman's Rank correlation coefficient. The outcome of the study posits that the market information system and the age of the firm have weakly moderate associations. The result also proves that good performances were recorded by the insurance firms that practised market orientation whereas low performances were experienced by firms that did not apply this strategy.

Tornyeva and Wereko (2012) also conducted a study in Ghana on corporate governance and firm performance. The primary data used in the study was gathered through the administration of questionnaires whereas the national insurance commission was used to extract secondary data. Data analysis was executed using the panel data methodology. The study findings indicated that board skill, large board size, experienced CEOs, management skill, audit committee independence, foreign ownership, institutional tenure, dividend policy and annual general meeting have a positive linkage with the financial performance of the Ghanaian insurance companies. Thus insurance companies were advised to adopt good practices of corporate governance so as to attain better financial performances and safeguard the shareholders' interests.

A study on corporate governance and insurance company growth was carried out by Fadun (2013) in Nigeria. The study used an empirical research design and data was collected from 112 respondents using a structured questionnaire. Data analysis and testing of hypothesis was performed using the Pearson product coefficient of correlation. The research findings state that desirable corporate governance promotes effective

supervision, sound insurance practices promotes superior corporate governance for the insurance industry in Nigeria which has enhanced growth in the sector. Kipkurui (2011) studied on the association between financial performance and corporate governance of the Kenyan insurance companies, and established that a negative association exists between the Board size and non-executive directorships exist with return on Asset.

Mbaabu (2010) further studied on the link between corporate governance, ownership structure and financial performance of the Kenyan insurance companies. The study comprised 41 licensed insurance companies. The findings revealed that the average number of board members in Kenyan insurance companies was either 6 or 7 with non-executive directors being in the range of 5 and 6. The results showed a positive return on assets however, when ownership was considered, the results became negative. The results further showed that board size and constitution and financial leverage have a significant impact on both return on equity and return on assets. Auma (2013) also studied on the association between portfolio holding and the Kenyan insurance firm's financial performance. The descriptive research design was adopted in the study, secondary data was used and multiple regression analysis was conducted. It was noted from the study, that apposite association between portfolio management and financial performance of the insurance companies existed.

## **2.6 Summary of the Chapter**

A limited number of researches have been carried out relating to corporate strategy and insurance firm performance both globally and in Kenya. From the literature review it has emerged that most of the researches carried out have dwelled on impact of corporate governance on the financial performance. It has emerged too that very little has been exploited on the influence of corporate strategy on firm performance of the Kenyan Insurance companies. Thus this research tends to fill the gap by examining the influence of corporate strategy on the firm performance of Insurance companies in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter entails the methods and processes that were followed in completing the research study. These include research design, target population and methods of data collection. The chapter further outlines the methodology that was used in data analysis.

#### **3.2 Research Design**

The study adopted the descriptive research design. A descriptive study involves data collection so as to test hypothesis or answering research questions regarding the subject under study (Mugenda & Mugenda, 2003). It will be useful because the research focused on more than one insurance company. The criterion in which data collection and analysis is structured is so as to obtain the objectives of the research. Thus empirical evidence is referred to as the research design (Cooper & Schindler, 2006).

Cross sectional research design is observational in nature and helps the researcher to record the information that is available in a population. It is also used to describe characteristics that exists in a population and to make inferences about possible relationship that supports further research and experimentation (Kombo & Tromp, 2006)

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

This refers to the entire collection of units or cases used by a researcher to draw some insights. The main milestone in the formulation of a research design is the definition of the population based on the study objectives. The specific population upon which the desired information is derived is referred to as the target population. The population comprised 55 insurance companies that were in operation in Kenya as at 31<sup>th</sup> December, 2016. (Appendix II) These companies are the key in the provision of insurance services in the Kenya. All the insurance companies were considered hence a census.

#### **3.4 Data Collection**

Data collection involved self-administered questionnaires as the main instrument for data collection. Questionnaires were considered as it is cheaper in terms of cost, requires a smaller time span and collects more detailed information (Mugenda & Mugenda, 2003).

The primary data was collected from the strategic manager or the equivalent of the insurance companies using the questionnaires. The questionnaires were semi-structured in nature, with both close-ended and open questions to collect both the qualitative data and quantitative respectively.

The questionnaire was divided into four sections with Part one meant to get the general information about the insurance company, Part two intended to gather information on corporate strategies within the firms whereas Part three was dedicated to get data on sustainable competitive strategy and part four got data on corporate competitive advantage. Part five on the other hand helped to analyse Insurance Performance. The questionnaires were administered through drop and pick later method due to the target respondent's busy schedule.

### **3.5 Data Analysis**

The data collected was then be edited for completeness, coded and entries fed into the SPSS computer package. This ensured that the collected data is uniformly entered, accurate, consistent with other information, properly arranged to simplify the coding and tabulation process and complete. The descriptive statistics were used to analyse the data such as mode, mean and frequencies tabular analysis using average which was used to identify the influence of corporate strategies. The following regression model was developed to check the association between corporate strategy and firms' performance.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Y = Firm Performance

X<sub>1</sub> = Corporate strategies

X<sub>2</sub> = Sustainable Strategies

X<sub>3</sub> = Competitive advantage Strategies

β<sub>0</sub> = the intercept term (constant)

ε is the random error term accounting for all other variables that influence firm Performance but not captured in the model.



## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This Chapter presents the researcher's findings and discussion from the collected data through semi-structured questionnaires on the influence of corporate strategy on firm performance of the Kenyan Insurance companies. The data is collected to capture the research objectives for the study. Both open and closed ended questionnaires were utilized during data collection. The collected data was then analyzed using the Statistical Package for Social Sciences computer software. Research findings were presented in charts and tables.

#### **4.2 Response Rate**

**Table 4.1: Response Rate**

<b>Questionnaires</b>	<b>Frequency</b>	<b>Percent (%)</b>
Response	110	100
Non-response	0	0
<b>Total</b>	<b>110</b>	<b>100</b>

**Source: Survey data, 2017**

#### **Discussion of the data in 4.1**

The target population for the study was 110 managers. These included two managers from each of the insurance companies in Kenya. The sample was picked on the basis of the Central Limit Theorem in statistical theory which implies that any sample equal to or greater than 30 is representative enough irrespective of the population size. The study classified the companies by organizational types by classifying insurance companies into composite (those carrying out life and non-life insurance business); life business only insurance companies; and those carrying out non-life business only. The sample size excluded insurance firms currently under statutory management and those that have been closed down. The sample size was taken to be 93 all of which returned fully filled giving a response rate of 100%. Mugenda & Mugenda (2003) argues that a 50% response rate is

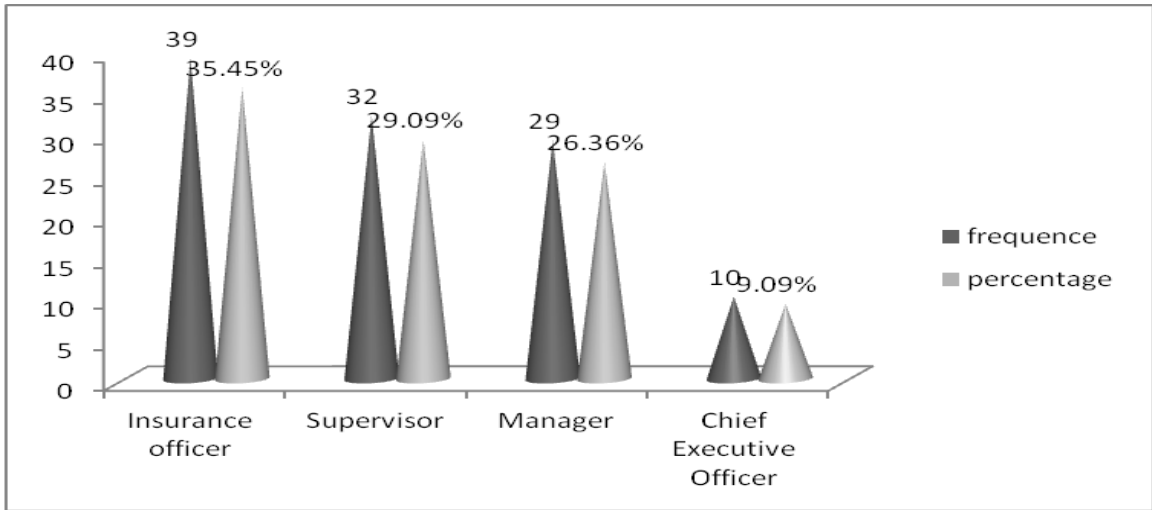
adequate, 60% is good and 70% and above is excellent. Thus a response rate of 100% was suitable for the study.

### 4.3 Background Information

This section captures the responses by respondent’s position, level of education, length of service at Insurance Industry amongst others.

#### 4.3.1 Position held by the Respondent

The researcher sought to investigate the distribution of the respondents in terms of the Position Held by the Respondent. The results are as presented on the figure 4.1.



Source: Primary Data (2017)

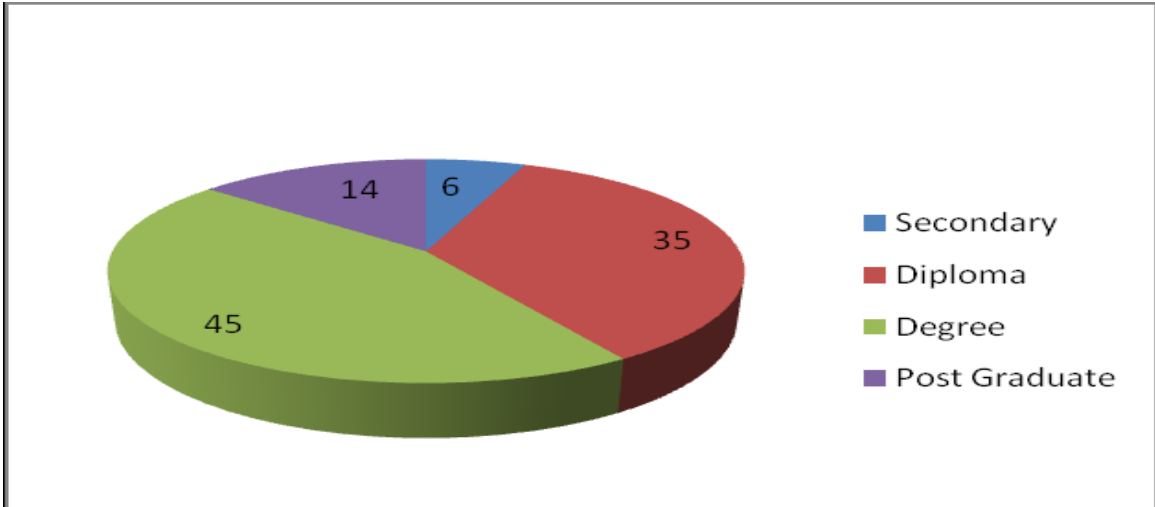
Figure 4.1: Position Held by the Respondent

#### Discussion of the Data in Figure 4.1

From the findings in the figure 4.1, 35.45% of the respondents indicated that they were insurance officers, 29.09% indicated that they were supervisors, 26.36% were managers with only 9.09% being chief executive officers.

#### 4.3.2 Level of Education

In addition the researcher sought to know the respondents' distribution in terms of the education levels. The results are as indicated in figure 4.2.



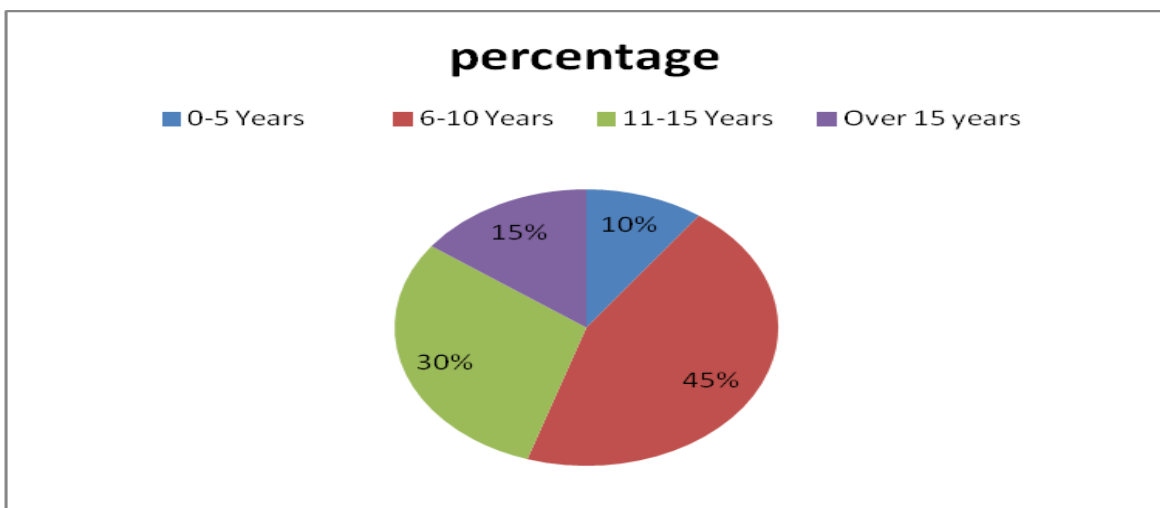
**Figure 4.2: Level of Education**

**Discussion of the Data in Figure 4.2**

The chart show that 6.0 % of the total respondents were O level certificate holders, 14 % post graduate, 35.0% Diploma holders while 45% were degree holders from the studies, it can be concluded that most of the respondents had attained degrees which was a good performance indicator as personnel with high qualifications must be employed by the organisation so as to progress forward.

**4.3.3 Length of Service in Insurance Industry**

The chart below demonstrates the duration in years with which the respondents had been working with in the different insurance firms.



**Figure 4.3: Length of Service in Insurance Industry**

### Discussion of the Data in Figure 4.3

The study also examined the duration of which the respondents have been providing service in the insurance sector. The findings indicate that 45% of the respondents had worked for a period between 6 to 10 years. 30 % had worked for 11 to 15 years. 15% stated that they had delivered for over 15 years while 10% between 0-5 years.

#### 4.3.4 Ownership Structure

The researcher also examined the ownership of the insurance companies in Kenya. The results are displayed in Table 4.2.

**Table 4.2: Firm Ownership**

	<b>Frequency</b>	<b>Percent</b>
Foreign	16	30.19
Local	24	45.28
Hybrid of foreign & local	13	24.53
Total	53	100

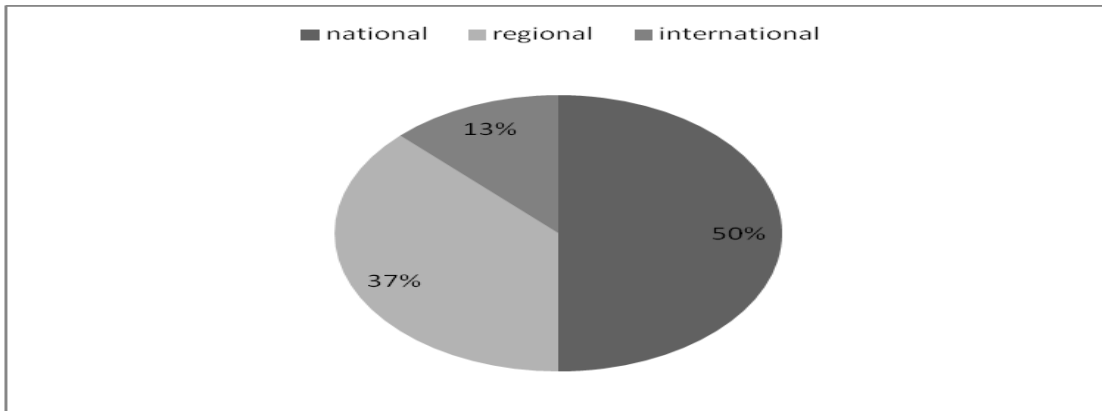
**Source: Survey data (2017)**

### Discussion of the Data in Table 4.2

The results in table 4.2 show that, 45.28% of the respondents stated that the ownership of the insurance companies was predominantly local, 30.19% of the respondents indicated that the ownership of the insurance companies was predominantly foreign while 24.53% of the respondents indicated that the ownership of the insurance companies was balanced between foreign and local. The recent mergers and acquisitions witnessed in the insurance industry in 2014 and 2015 have seen the number of insurance companies in Kenya co-owned by both local and foreign entities increase.

#### 4.3.5 Geographical Spread of the Insurance Companies

The research aimed to find out the geographical distribution of the insurance firms. The results from the analysis are presented in the figure 4.4.



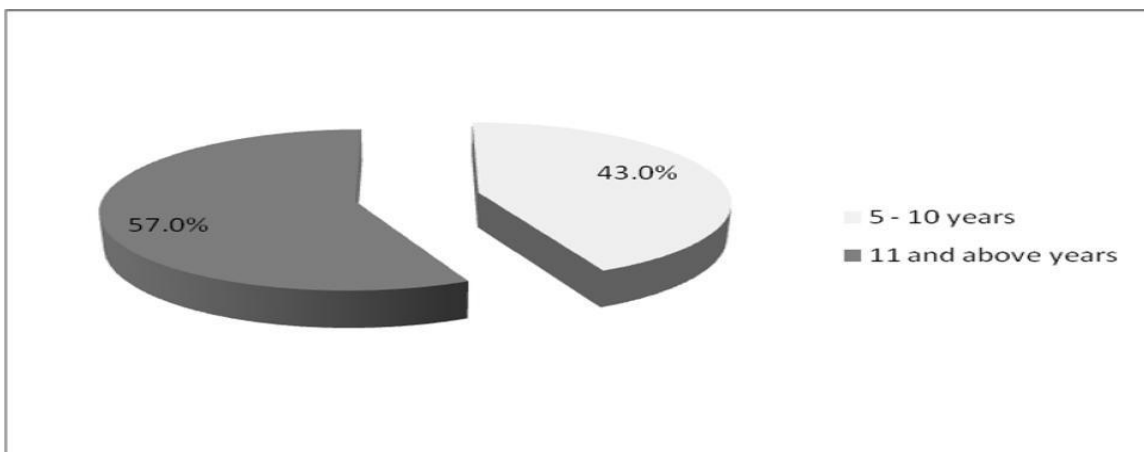
**Figure 4.4: Geographical Spread of the Insurance Company**

**Source: Primary Data (2017)**

From the analysis of findings, a most of the respondents (50%) recorded that their insurance firms were operating nationally. Closely after were respondents (37.5%) who indicated that the geographical spread of their insurance firms was regional. The least 12.5% was of respondents who indicated that the geographical spread of their organizations was international.

#### **4.3.6 Years of Operation**

The results on the number of years the organization had operated in results are Kenya. The results are in figure 4.5.



**Figure 4.5: Years of Operation**

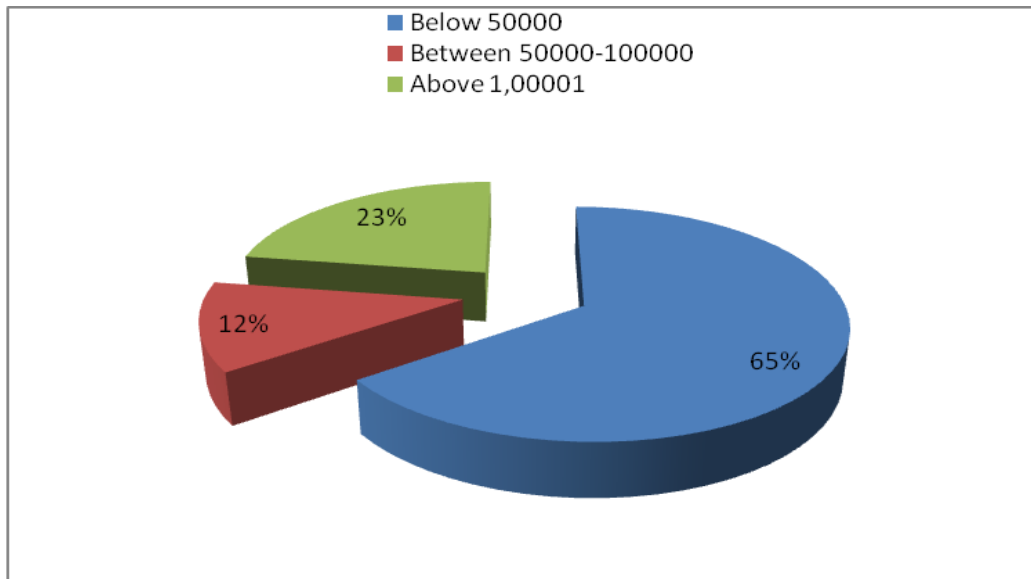
**Source: Primary Data (2017)**

#### Discussion of the Data in Figure 4.5

From the findings, 57% of the respondents indicated that their respective organizations have been operating in Kenya between 5-10 years while 43% indicated that organization has been operating in Kenya between 10-15 years.

#### 4.3.7 Size of the Insurance Firm in Terms of the Customer Base

Further respondents sought to know Size of the Insurance Firm In Terms Of the Customer Base. The results are depicted in Figure 4.6.



**Figure 4.6: Size of the Insurance Firm In Terms Of the Customer Base**

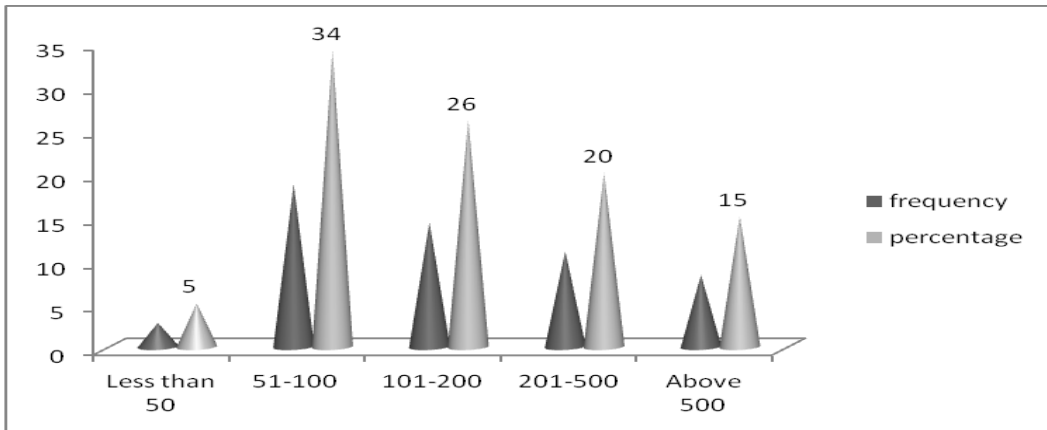
**Source: Primary Data (2017)**

#### Discussion of the Data of Findings 4.6

From the table above, 65% have below 50,000 customers, 22.5% have more than 100,001 customers, 17.5% have less than 10,000 customers and 12.5% have between 50,001 and 100,000 customers. The percentages show that the various insurance companies are striving to increase their clientele and more strategies need to be put in place to spur this growth.

#### 4.3.8 Number of Permanent Employees

The study further sought to determine number of permanent workers in the Kenyan insurance firms. The results are presented in Figure 4.7



**Source: Primary Data (2017)**

**Figure 4.7: Number of Permanent Employees**

**Discussion of the Data of Figure 4.7**

Based on the findings the majority (34%) of the permanent workers were around 51 to 100. 26% of the permanent workers were 101 to 200 in number, 20% of the permanent workers were 201 to 500 in most of the insurance firms in Kenya. Respondent indicated that only 15% of the permanent workers were above 500 in number.

In addition 50% of the respondents further indicated that they had more than ten insurance Brokers, 30% however indicated they had more than 10 Medical Insurance Providers working under their company, 80% indicate that they had more than 10 Insurance Agents working under their company. 20% indicated that they had more than 10 Insurance Loss Adjusters working under their company. 80% had more than 10 Insurance Products offered by their company under general insurance business and 40% only had more than 10 insurance products under Life insurance business.

**4.3.9 The Major Challenges Facing the Insurance Industry in Kenya**

Respondents indicated that there are many challenges facing the Kenyan insurance sector which have resulted in serious loses and closure of many insurance firms, thus damaging the reputation of insurance firms among clients. Among the highlighted challenges are : Failure by the insurance firms to accept genuine claims thus killing the confidence of the clients on the insurance firms; increased number of false claims being advanced by fraudulent clients; Little knowledge possessed by the insurance firms concerning market

dynamics due to inadequate research; Poor PR strategies and marketing that have not adequately reached out to potential markets for insurance; holders ;The matter of price undercutting in the sector is mainly being perpetrated by the middlemen/ brokers; Middle men and brokers have significantly contributed to stagnation in growth of the insurance sector; Majority of the Kenyans not taking medical cover as a priority and Poor pricing of medical products.

#### **4.3.10 Reasons for the Slow Penetration of Insurance Business in Kenya**

As indicated by the respondents there has been little penetration into this markets by the insurance companies compared to others which are more developed due to several factors among them low levels of disposable incomes for a significant population of the population and poor savings culture among Kenyans. At present, about half of Kenyans live below the poverty line and experience challenges in acquiring basic needs like shelter, water, food and health care. Other factors include: limited knowledge to the industry's products, psychological lack of trust in the industry, the perception that insurance is expensive, its limited reach to the informal sector and the high costs attributed to servicing of an insurance policy greatly influence full adoption of this service.

#### **4.4 Corporate Strategy**

The researcher sought to investigate the level to which the respondents concurred with the following statements on Corporate Strategy and performance of insurance companies in Kenya. Given a Likert scale 5=strongly agree, 4 = Agree, 3 =Neutral; 2= Disagree, 1 = strongly Disagree as shown in Table 4.3



**Table 4.3: Corporate Strategy**

<b>Corporate Strategy</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>C.V (%)</b>
A corporate strategy acts as vessel which steers the insurance company through both turbulent and calm times	4.1509	.79412	19.131
Lack of a corporate strategy, make companies to lose track of their objectives	4.0943	.79091	19.317
A corporate strategy maintains the companies' strategic focus as they expound on the products and services offered to customers and revenue	4.0755	.61548	15.102
Corporate strategies makes a business to grow vertically or horizontally	4.1321	.94131	22.780
<b>Average mean</b>	4.1132		

**Source; Primary Data (2017)**

Results in Table 4.3 shows that most of the respondents agreed to a great extent that Corporate Strategy affect the Kenyan insurance companies' performance as revealed by the mean average of 4.1132. specifically respondents agreed that: A corporate strategy is a vessel that steers the insurance company through turbulent and calm times (m= 4.1509, SD= .79412), Lack of a corporate strategy makes companies to lose track of their objectives (m=4.0943, SD= .79091), A corporate strategy maintains the companies' strategic focus as they continue to grow both products and services offered to customers and revenue (m= 4.0755, SD= 0.61548) and Corporate strategies makes a business to grow vertically or horizontally (m= 4.1321, SD=.94131).

#### **4.5 Sustainable Strategies**

The researcher in addition sought to investigate the extent to which the respondents agreed with the following statements on Sustainable Strategies and performance of insurance companies in Kenya. Given a Likert scale 5 = Strongly agree, 4=Agree; 3= Neutral 2= Disagree 1=Strongly disagree.

**Table 4.4: Sustainable Strategies**

<b>Sustainable Strategies</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>C.V (%)</b>
All the investors have easy and quick access to all the necessary market information	3.7547	.95888	25.538
The sustainable strategy follows efficient market theory, which argues that it is hard to beat market averages consistently.	4.0000	1.00000	25.000
Sustainable strategy employs the conceptual theories regarding rational allocation of funds and analytical techniques of analysis	4.0000	.96077	24.019
Sustainable strategy is based on the notion that a certain style of management or analysis could yield returns that can outshine others in the market.	4.1509	.79412	19.131
<b>Average mean</b>	<b>3.9764</b>		

**Source: Primary Data (2017)**

Further respondents agreed that Sustainable Strategies affects the Kenyan insurance firm's performance as revealed by a mean average of 3.9764. Specifically they agreed that: All the investors have easy and quick access to all the necessary market information (m=3.7547, SD=.95888), the sustainable strategy follows efficient market theory, which argues that it is hard to beat market averages consistently (mean= 4.0000, SD= 1.00000), Sustainable strategy employs the conceptual theories regarding rational allocation of funds and analytical techniques of analysis (mean=4.0000 SD=.96077) and that sustainable strategy is based on the notion that certain style of management or analysis could yields returns that can outshine others in the market. (mean= 4.1509, SD=.79412).

#### **4.6 Corporate Advantage Strategy**

The researcher further sought to investigate the extent to which the respondents were in agreement with the following statements on Corporate Advantage Strategy and

performance of insurance companies in Kenya. Given a Likert scale, 5= strongly agree, 4 =Agree, 3= Neutral, 2 = Disagree, 1=strongly Disagree.

**Table 4.5: Corporate Advantage Strategy**

<b>Corporate Advantage Strategy</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>C.V (%)</b>
Corporate advantage strategy creates more value in business units through enabling the creation of better strategic decisions as opposed to those of independent business units as existing within the capital markets	4.1321	.94131	22.780
Selection of the appropriate degree of strategic guidance is critical for the performance of insurance companies since a misleading choice could undermine entrepreneurship or lead to detrimental strategic advice	4.3736	.99308	22.706
Selection of the appropriate level of strategic guidance is essential for the performance of the insurance company since an appropriate choice can lead to harmful strategic advice	3.7547	.85273	22.711
Corporate parent ensures an effective planning process or a clear strategic focus for the execution of strategic activities.	3.5094	1.17051	33.353
<b>Average mean</b>	<b>3.94245</b>		

**Source: Primary Data (2017)**

On Corporate Advantage Strategy respondents also agreed that it affected the performance of the insurance firms in Kenya as revealed by average mean of 3.94245. specifically the respondents agreed that: Corporate advantage strategy creates more value in business units through enabling the creation of better strategic decisions as opposed to those of independent business units as existing within the capital markets (mean= 4.1321, SD=.94131), Selection of the appropriate degree of strategic guidance is critical for the performance of insurance companies since a misleading choice could undermine entrepreneurship or lead to detrimental strategic advice (mean=4.3736, SD.99308), Selection of the appropriate level of strategic guidance is essential for the performance of

the insurance company since an appropriate choice can lead to harmful strategic advice (mean=3.7547 SD=.85273) and Corporate parent ensures an effective planning process or a clear strategic focus for the execution of strategic activities (mean=3.5094, SD=1.17051).

#### **4.7 Performance of Insurance Firms**

##### **4.7.1 Sales Turnover**

Respondents were requested to provide their organization average sales turnover for the last four years. The results are as tabulated below.

**Table 4.6: Sales Turnover**

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Turnover in Kshs. (million)</b>	23.42	25.3	26.4	26.7
	billion	billion	billion	billion

**Source; Primary Data (2017)**

Based on the finding there has been continuous increase in the average sales turnover for in majority of insurance firms in Kenya since 2013.

##### **4.7.2 Return on Investment**

Respondents were further requested to provide the average Return on Investment by their organization in the last four years. The results are as tabulated below.

**Table 4.7: Return on Investment**

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>%</b>	31.5	39.5	41.5	45.6

**Source: Primary Data (2017)**

In addition the average Return on Investment has also been on increase since 2013.

##### **4.7.3 Organization's Net Income after Tax**

Respondents were further requested to provide organization's Net Income after Tax in Kshs for the last three years by ticking appropriately. The results are as tabulated below.

**Table 4.8: Organization’s Net Income after Tax**

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Less than Zero	0	0	0	0
0-150 Million	5	2	4	2
151-300 Million	10	12	6	6
301-450 Million	15	10	10	8
Over 450 Million	70	76	80	84

More than 70% of the respondents indicated that on average organization’s Net Income after Tax has been also increasing since 2013.

Respondents were further requested to give their opinion on how organization performance can be measured along various indicators; Key: 5- Very large extent 4- Large extent 3- Moderate extent 2- Less extent 1- Not at all as shown in Table 4.8

**Table 4.9: Measure of Organizational Performance**

	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>C.V (%)</b>
Improvement of internal procedures for increased efficiency	4.7547	.75888	15.961
Improvement of professionalism due to sustainable competitive strategies to achieve corporate goals	4.4321	.91131	20.561
Continuity improvement in customer loyalty due to sustained competitive advantage	4.5736	.89308	19.527
Continuity improved public image of the company due to its leadership in the market	4.6547	.75273	16.171

**Source: Primary Data (2017)**

From the findings, it was observed that to a great extent, the respondents agreed that: Improvement of internal procedures for increased efficiency (mean=4.7547, SD=.75888), Improvement of professionalism due to sustainable competitive strategies to achieve corporate goals (mean=4.4321, SD=.91131), Continuity improvement in customer loyalty

due to sustained competitive advantage (mean=4.5736, SD=.89308), Continuity improved public image of the company due to its leadership in the market (mean=4.6547, SD=.75273).

#### 4.8 Regression Analysis

The correlations among the variables were tested in this study using the multiple regression analysis. SPSS version 20 was employed in coding, entering and computing the multiple regressions measurements.

**Table 4.10: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771	.59444	.586	.08413

**Source : Primary Data (2017)**

The model of fit was evaluated using the coefficient of determination. The coefficient of multiple determinations ( $R^2$ ) is the variance percentage of the dependent variable explained jointly or uniquely by the independent variables. The ( $R^2$ ) in the model was 0.5944 implying that 59.4% of the performance variations of Insurance firms in Kenya are due to Corporate Strategies (measured by Corporate strategies, Sustainable Strategies and Competitive advantage Strategies).

The ANOVA technique was also applied to test the significance of the model. The findings are tabulated in Table 4.11.

**Table 4.11: Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.222	3	5.41	2.1578	.0038b
	Residual	1289.5	55	23.45		
	Total	477.8	52			

**Source : Primary Data (2017)**

Critical value = 2.19

It can be concluded from the ANOVA statics that the significance level of the study's regression model was 0.29% which indicated that the data was suitable for making

deductions on the different parameters of the population as the significance value (p-value) was < 5%. The critical value was more than the calculated value (2.8509 > 2.32) a sign that Sustainable Strategies, Corporate strategies and Competitive advantage Strategies all significantly influence the Kenyan insurance firm's performance. The model was also found to be significant and this was indicated by a < 0.05 significance value.

**Table 4.12: Regression Model Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	0.366	0.495		0.739	0.006
	Corporate strategies,	0.257	0.16	0.0411	1.6	0.010
	Sustainable Strategies	0.239	0.152	0.0363	1.572	0.024
	Competitive advantage Strategies	0.233	0.114	0.0266	2.044	0.002

**Source : Primary Data (2017)**

The SPSS output generated in the above table suggests that, ( $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$ ) will become:

$$Y = 0.366 + 0.257X_1 + 0.239X_2 + 0.233X_3$$

The regression model above suggests that a unit change in corporate strategies under ceteris paribus would result in performance increment by an index of 0.257, under ceteris paribus; a unit change in Sustainable Strategies would result in a performance increment by an index of 0.239. Similarly, holding all other factors constant, a unit increase in Competitive advantage Strategies will result in a country's performance increment by an index of 0.233.

This analysis was executed within a 5% level of significance. The significance of the predictor variables in the model was undertaken through comparison of the value of the

derived probability and  $\alpha = 0.05$ . The predictor value was only considered significant if its probability value was less than  $\alpha$ . All of the models' predictor variables were thus considered significant as they had less than  $\alpha = 0.05$  probability values.

#### **4.9 Discussion**

From the ANOVA statics, the significance level of the regression model was 0.29% suggesting that the data was appropriate for reaching reasonable deductions regarding the population parameters as the p-value was  $< 5\%$ . The critical value was less than the calculated value ( $2.8509 > 2.32$ ) an indication that corporate strategies, Sustainable Strategies and Competitive advantage Strategies all have a significant impacts on performance of the Kenyan insurance firms. The value of significance was  $< 0.05$  demonstrating that the model was significant.

These findings are in line with Auma (2013) who found that the strategies determine the level to which the scope of the business activity are narrow versus broad and the level to which the products of the business are differentiated. In addition according to Sacheva, (2009) Organizations are there to exist and remain successful and hence the need to have a long term sustainable competitive advantage. Several authors have come up with the study of sources and types of strategies capable of attaining competitive advantage. Kiragu, (2016) further supports the findings by indicating that high organizational performance results when all the organization resources are focused towards specific goals and objectives. Grinblatt and Titman (2016) also concur with the findings. They notes that, the success with which a firm's business strategy in place addresses its industry's critical success requirements will determine its strategic performance and competitive positioning; therefore, performance is as a result of strategy specifically sustainable competitive strategies.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The summary of the research findings, the deductions derived from the findings and the suggested recommendations. The recommendations and conclusions were deduced so as to address the research objective of determining the corporate strategies adopted by the Kenyan insurance companies and to establish the influence of strategies on sustainable performance.

#### **5.2 Summary**

The findings indicate that majority 35.45% of the respondents indicated that they were insurance officers. 45.0% of the total respondents were degree holders. The fact that most of the respondents had attained degrees was a good performance indicator as personnel with high qualifications must be employed by the organisation so as to progress forward. The findings also indicate that 45% of the respondents had worked for a period between 6 to 10 years. From the findings, 45.28% of the respondents stipulated that the ownership of the insurance companies was predominantly local. From the analysis of findings, a majority of the respondents (50%) recorded that their insurance firms were operating nationally. In addition, the findings indicate that, 57% of the respondents demonstrated that their respective organizations have been operating in Kenya between 5-10 years while 43% showed that organization has been operating in Kenya between 10-15 years. 50% of the respondents further indicated that they had more than ten insurance Brokers, 30% however indicated they had more than 10 Medical Insurance Providers working under their company, 80% indicate that they had more than 10 Insurance Agents working under their company. 20% indicated that they had more than 10 Insurance Loss Adjusters working under their company. 80% had more than 10 Insurance Products offered by their company under general insurance business and 40% only had more than 10 insurance products under Life insurance business.

Respondents indicated that there are many challenges facing the Kenyan insurance sector which have resulted in serious loses and closure of many insurance firms, thus damaging

the reputation of insurance firms among clients. Among the highlighted challenges are : Failure by the insurance firms to accept genuine claims thus killing the confidence of the clients on the insurance firms; increased number of false claims being advanced by fraudulent clients; Little knowledge possessed by the insurance firms concerning market dynamics due to inadequate research; Poor PR strategies and marketing that have not adequately reached out to potential markets for insurance; holders ;The matter of price undercutting in the sector is mainly being perpetrated by the middlemen/ brokers; Middle men and brokers have significantly contributed to stagnation in growth of the insurance sector; Majority of the Kenyans not taking medical cover as a priority and Poor pricing of medical products.

Respondents agreed to a great extent that Corporate Strategy affect performance of insurance companies in Kenya as revealed by the mean average of 4.1132. Further respondents agreed that Sustainable Strategies affects performance of insurance companies in Kenya as revealed by a mean average of 3.9764. On Corporate Advantage Strategy respondents also agreed that it affected the performance of the insurance firms in Kenya as revealed by average mean of 3.94245. Based on the finding there has been continuous increase in the average sales turnover for in majority of insurance firms in Kenya since 2013. In addition the average Return on Investment has also been on increase since 2013. More than 70% of the respondents indicated that on average organization's Net Income after Tax has been also increasing since 2013.

The model of fit was evaluated using the coefficient of determination. The coefficient of multiple determinations, ( $R^2$ ) is the variance percentage of the dependent variable explained jointly or uniquely by the independent variables. The ( $R^2$ ) in the model was 0.5944 implying that 59.4% of the performance variations of Insurance firms in Kenya are due to Corporate Strategies (measured by Corporate strategies, Sustainable Strategies and Competitive advantage Strategies).

From the ANOVA statics, the significance level of the regression model was 0.29% suggesting that the data was appropriate for reaching reasonable deductions regarding the population parameters as the p-value was  $< 5\%$ . The critical value was less than the calculated value ( $2.8509 > 2.32$ ) an indication that corporate strategies, Sustainable

Strategies and Competitive advantage Strategies all have a significant impacts on performance of Insurance firms in Kenya. The value of significance was  $< 0.05$  demonstrating that the model was significant.

### **5.3 Conclusion**

Corporate strategy contributes to making the organization become integrated as one body through the addition of value in comparison to it acting as separate grouped components; it's made of four categories namely managing portfolio-practise, change of structure, skill movement, and sharing of knowhow. The study concludes that, though at a low rate, there has been continuous increase in the average sales turnover, organization's Net Income after Tax and Return on Investment has been on increase since 2013.

From the findings, it was concluded that the limited growth of the insurance companies Kenya is attributed to several factors such as poor inaccessibility to insurance distribution channels, lack of knowledge and awareness of the products on offer by the targeted consume and products that do not meet the consumers' need. Complete closure and serious losses have been witnessed in the Kenyan insurance companies due to serious challenges including; Failure by the insurance firms to accept genuine claims thus killing the confidence of the clients on the insurance firms; increased number of false claims being advanced by fraudulent clients; Little knowledge possessed by the insurance firms concerning market dynamics due to inadequate research; Poor PR strategies and marketing that have not adequately reached out to potential markets for insurance; holders; The matter of price undercutting in the sector is mainly being perpetrated by the middlemen/ brokers; Middle men and brokers have significantly contributed to stagnation in growth of the insurance sector; Majority of the Kenyans not taking medical cover as a priority and Poor pricing of medical products.

### **5.4 Recommendations**

The average adjusted coefficient of determination ( $R^2$ ) of the study was 0.5944 implying that 59.4% of the Kenyan insurance firms' performance variation are Sustainable Strategies, explained by corporate strategies and Competitive advantage Strategies. The critical value was less than the calculated value ( $2.322 < .8509$ ) indicating that Corporate

strategies, Sustainable Strategies and Competitive advantage Strategies all have a significant effects on performance of the Kenyan Insurance firms. The study therefore recommends that all cooperate strategies be put in place to enable the insurance firms have a very high growth.

It can be concluded from the study's findings that both the individual Insurance companies and insurance regulatory authorities must combine their efforts in implementing corporate strategies so as to curb the challenges identified above. There is also a great need for increased innovativeness by the insurance companies to as to come up with ideal methods of adequately addressing the consumer's needs. Public education should also be intensified in the Kenyan insurance sector so as to increase awareness insurance risk management and benefits so as to replace the traditional conflict resolution techniques with upfront risk management methods.

### **5.5 Limitations of the Study**

The study emphasized more on the insurance companies and neglected the consumers and the general public who are the actual consumers of the products being offered. Therefore, there is existence of the low insurance uptake could be as a result of not taking these groups into consideration.

### **5.6 Suggestions for Further Study**

The study dwelled more on the influence of corporate strategy on firm performance of the Kenyan Insurance companies. Other studies should be done to investigate influence of corporate strategy on firm performance of other industries such as banks, micro financial institutions among others.

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# APPENDICES

## Appendix I: Letter to Introduction



### UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
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P.O. Box 30197  
Nairobi, Kenya

DATE... 22/09/2017

#### TO WHOM IT MAY CONCERN

The bearer of this letter ... THOMAS RATEMO OIRA

Registration No... 2061179104/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

**PATRICK NYABUTO**  
SENIOR ADMINISTRATIVE ASSISTANT  
SCHOOL OF BUSINESS



## Appendix II: Research Questionnaire

### Section A: Demographic information

1. What position do you hold in the organization?  
Insurance officer [ ]    Supervisor [ ]    Manager [ ]    Chief Executive Officer [ ]
2. Please indicate your level of education  
College Diploma [ ]    Under Graduate Degree [ ]    Post Graduate [ ]    PhD [ ]  
Others (specify) .....
3. How long have you worked at Insurance Industry?  
0-5 Years    [ ]  
6-10 Years    [ ]  
11-15 Years    [ ]  
Over 15 years [ ]
4. How was your company incorporated?  
Locally owned    [ ]  
Locally owned with government shares    [ ]  
Fully owned internationally    [ ]  
Local and internationally owned    [ ]
5. Does your company have branches outside the country?  
Yes [ ]    No [ ]
6. How is your insurance business spread across the global?  
Nationally [ ]    Regionally (Within E.A. Communities) [ ]    Regionally  
(Within Africa) [ ]    Internationally [ ]
7. Please indicate how old is the insurance firm?  
0-5 Years    [ ]  
6-10 Years    [ ]  
11-15 Years    [ ]  
Over 15 years [ ]
8. What is the size of the insurance firm in terms of the customer base?  
Below 500,000    [ ]

- Between 500,000-1000000 [ ]
- Above 1,000,001 [ ]

9. Please indicate the number of permanent employees in your company?

- Less than 50 [ ]
- 51-100 [ ]
- 101-200 [ ]
- 201-500 [ ]
- Above 500 [ ]

10. Please indicate the number of Insurance Brokers working under your company?

.....

11. Please indicate the number of Medical Insurance Providers working under your company?

.....

12. Please indicate the number of Insurance Agents working under you company?

.....

13. Please indicate the number of Insurance Loss Adjusters working under your company?

.....

14. Please indicate the number of Insurance Products offered by your company under general insurance business?

.....

.....

.....

15. Please indicate the number of insurance products under Life insurance business?

.....

16. (i) Has your company launched any new product or service in the last three years?

- Yes [ ]
- No [ ]

(ii) If Yes, how many in total .....

**Section B: Corporate strategies**

17. What are the major challenges facing the insurance industry in Kenya?

.....  
 .....  
 .....

18. How does IRA assist the Insurance Companies to solve these challenges?

.....  
 .....  
 .....

19. What has contributed to the slow penetration of insurance business in Kenya? What could be the main reasons to this?

.....  
 .....  
 .....

20. What can be done to improve insurance business in Kenya?

.....  
 .....  
 .....

21. For each of the following statements, please tick the extent in which you agree with the given Likert scale. 5= strongly agree; 4=Agree; 3=Neutral; 2= Disagree; 1=strongly Disagree.

<b>Corporate Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
A corporate strategy acts as vessel which steers the insurance company through both turbulent and calm times					
Lack of a corporate strategy, make companies to lose track of their objectives					
A corporate strategy maintains the companies' strategic focus as they continue to grow both products and services offered to customers and revenue					

Corporate strategies makes a business to grow vertically or horizontally					
<b>Sustainable Strategies</b>					
All the investors have easy and quick access to all the necessary market information					
The sustainable strategy follows efficient market theory, which argues that it is hard to beat market averages consistently.					
Sustainable strategy employs the conceptual theories regarding rational allocation of funds and analytical techniques of analysis					
Sustainable strategy is based on the notion that particular style of management or analysis could generate returns that can outshine others in the market.					
<b>Corporate Advantage Strategy</b>					
Corporate advantage strategy creates more value in business units through enabling the creation of better strategic decisions as opposed to those of independent business units as existing within the capital markets					
Selection of the appropriate degree of strategic guidance is critical for the performance of insurance companies since a misleading choice could undermine entrepreneurship or lead to detrimental strategic advice					
Selection of the appropriate level of strategic guidance is essential for the performance of the insurance company since an appropriate choice can lead to harmful strategic advice					
Corporate parent ensures an effective planning process or a clear strategic focus for the execution of strategic activities.					

**Section C: Performance of Insurance Firm**

22. Please provide your organization sales turnover for the last four years.

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Turnover in Kshs. (million)</b>				

23. Please provide the average Return on Investment by your organization in the last four years

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>%</b>				

24. Please provide your organization’s Net Income after Tax in Kshs for the last three years by ticking appropriately.

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Less than Zero				
0-150 Million				
150-300 Million				
300-450 Million				
Over 450 Million				

25. Please provide the reduction in cost achieved by your organization (%) for the last three years by ticking appropriately.

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Less than Zero (%)				
0-5 (%)				
5-10 (%)				
Above 10 (%)				

26. Organization performance can be measured along various indicators; to what extent has your organization achieved improvement along the below terms; Key: (5) Very large extent (4) Large extent (3) Moderate extent (2) Less extent (1) Not at all.

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Improvement of internal procedures for increased efficiency					
The employee turnover has reduced due to competitive strategies					
Improvement of professionalism due to sustainable competitive strategies to achieve corporate goals					
Continuity improvement in customer loyalty due to sustained competitive advantage					
Continuity improved public image of the company due to its leadership in the market					

### Appendix III: List of Insurance Companies in Kenya 2017

1.	AAR Insurance Kenya Limited	PO Box 41766 - 00100, Nairobi
2.	AIG Kenya Insurance Co Ltd	PO Box 49460 - 00100, Nairobi
3.	Africa Merchant Assurance Co. Ltd	PO Box 61599 - 00100, Nairobi
4.	Allianz Insurance Co of Kenya Ltd	PO Box 66257- 00800, Nairobi
5.	APA Insurance Limited	PO Box 30065 - 00100, Nairobi
6.	APA Life Assurance Limited	PO Box 30389 - 00100, Nairobi
7.	Barclays Life Assurance K Ltd	PO Box 1140 - 00100, Nairobi
8.	Britam General Ins. Co. (K) Ltd.	PO Box 40001 – 00100, Nairobi
9.	British-American Insurance Co. Ltd.	PO Box 30375 – 00100, Nairobi
10.	Cannon Assurance Ltd	PO Box 30216 - 00100, Nairobi
11.	Capex Life Assurance Limited	PO Box 12043 - 00400, Nairobi
12.	CIC General Insurance Limited	PO Box 59485 - 00100, Nairobi
13.	CIC Life Assurance Ltd	PO Box 59485 - 00100, Nairobi
14.	Continental Reinsurance Ltd	PO Box 76326 - 00508, Nairobi
15.	Corporate Insurance Co. Ltd	PO Box 34172 – 00100, Nairobi
16.	Directline Assurance Co Ltd	PO Box 40863 - 00100, Nairobi
17.	EA Reinsurance Company Ltd	PO Box 20196 - 00200, Nairobi
18.	Fidelity Shield Insurance Co Ltd	PO Box 47435 - 00100, Nairobi
19.	First Assurance Company Ltd	PO Box 30064 - 00100, Nairobi
20.	GA Insurance Limited	PO Box 42166 - 00100, Nairobi
21.	GA Life Assurance Ltd	PO Box 42166 - 00100, Nairobi
22.	Geminia Insurance Company Ltd	PO Box 61316 - 00200, Nairobi
23.	ICEA LION General Insurance Co Ltd	PO Box 30190 - 00100, Nairobi
24.	ICEA LION Life Assurance Co Ltd	PO Box 46143 - 00100, Nairobi
25.	Intra Africa Assurance Co Ltd	PO Box 43241 - 00100, Nairobi
26.	Invesco Assurance Company Ltd	PO Box 52964 - 00200, Nairobi
27.	Kenindia Assurance Co Ltd	PO Box 44372 - 00100, Nairobi
28.	Kenya Orient Insurance Ltd	PO Box 34530 - 00100, Nairobi



29.	Kenya Orient Life Assurance Ltd	PO Box 34540 - 00100, Nairobi
30.	Kenya Reinsurance Corp Ltd	PO Box 30271 - 00100, Nairobi
31.	Liberty Life Assurance Kenya Ltd	PO Box 30364 - 00100, Nairobi
32.	Madison Insurance Company Ltd	PO Box 47382—00100, Nairobi
33.	Mayfair Insurance Company Ltd	PO Box 45161 - 00100, Nairobi
34.	Metropolitan Cannon Life Ass Ltd	PO Box 46783 - 00100, Nairobi
35.	Occidental Insurance Co Ltd	PO Box 39459 - 00623, Nairobi
36.	Old Mutual Life Assurance Co Ltd	PO Box 30059 - 00100, Nairobi
37.	Pacis Insurance Company Ltd	PO Box 1870 - 00200, Nairobi
38.	Pioneer Life Assurance Company Ltd	PO Box 20333 - 00200, Nairobi
39.	Pioneer General Insurance Ltd	PO Box 20333 - 00200, Nairobi
40.	Phoenix of EA Assurance Co Ltd	PO Box 30129 - 00100, Nairobi
41.	Prudential Life Assurance K Ltd	PO Box 25093 - 00100, Nairobi
42.	Saham Assurance Company K Ltd	PO Box 20680 - 00200, Nairobi
43.	Sanlam General Insurance Ltd	PO Box 60656 -00200, Nairobi
44.	Sanlam Life Assurance Ltd	PO Box 44041 – 00100, Nairobi
45.	Tausi Assurance Company Ltd	PO Box 28889 - 00200, Nairobi
46.	The Heritage Insurance Company Ltd	PO Box 30390 - 00100, Nairobi
47.	Trident Insurance Company Ltd	PO Box 55651 - 00200, Nairobi
48.	Resolution Insurance Company Ltd	PO Box 4469 - 00100, Nairobi
49.	UAP Life Assurance Limited	PO Box 23842 - 00100, Nairobi
50.	UAP Insurance Company Limited	PO Box 43013 - 00100, Nairobi
51.	Takaful Insurance of Africa Limited	PO Box 1811- 00100, Nairobi
52.	The Jubilee Insurance Co. Ltd	PO Box 30376 – 00100, Nairobi
53.	The Monarch Insurance Co. Ltd.	PO Box 44003 - 00100, Nairobi
54.	The Kenyan Alliance Insurance Co Ltd	PO Box 30170 - 00100, Nairobi
55.	Xplico Insurance Limited	PO Box 38106 - 00623, Nairobi