COMPETITIVE STRATEGIES USED BY AAR INSURANCE KENYA LIMITED IN COPING WITH CHALLENGES OF COMPETITION IN THE INSURANCE INDUSTRY IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

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DEDICATION

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ABSTRACT

Competitive advantage is achieved by the ability of a firm to create value for its buyers which should be more than the cost that is put in when creating it. Superior value stems from either offering low prices that offsets the foregone benefits offered by the competitors or by offering the unique attributes that would enable the firm to charge premium prices. Insurance industries world over play a crucial role in the economic development of every nation by cushioning individuals, organizations and governments against unforeseen risk thereby contributing a great deal to a Country’s GDP. In the last two decades, a lot has changed in the Insurance industry in Kenya. These include the industry growth, emergency of new players, collapse and mergers of some players and concerted efforts by the government to enhance regulation especially competition, harmonize products dispensation and protect the consumers of the insurance products. These changes have created a very turbulent environment that has forced many players to change their strategies and focus in order to remain in business. The objective of this study was to establish how one of the players in the industry has been able to overcome the various challenges and remain in business for a period of more than three decades at a period in which some players have pulled out of the market or scaled down. The research was conducted in form of a case study in which long serving employees were interviewed through a questionnaire. The data collected was combined with other information collected from the organization website, publications and also the IRA website and analysed qualitatively. The research was able to establish among other findings that some organizations have opted to merge with other players for synergies while others would shy away from some insurance products and services or close shop altogether. Others like AAR have chosen to diversify and innovate on new products and services in order to attract and retain policyholders while rewarding them with no-claim discounts depending on their claims history. These strategies among others have ensured it remains competitive in the market and stay ahead of some major competitors especially in terms of growth, client’s retention and profitability and the recommendation is for the company to continue innovating on products as it focus on strategies on claims control and clients retention since these strategies are working. Even though the findings on the research were sufficient to draw a conclusion, time factor could not allow the researcher to gather more information with a larger group of employees especially outside Kenya. In this case, further research should be undertaken on the role of strategy in the growth of AAR in the East African region and how it relates with the strategies applied by other players in the region.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Every organization must put in place strategies that will keep it ahead of other players in the market. As competition intensifies, there has been a concerted effort by many organizations to differentiate themselves from competitors (Porter, 1980). Strategies are measures put in place and followed by organizations in order to achieve specific objectives. A high turbulence and uncertainty for firms has been brought about by economic restructuring, increased competition, regulation by governments, and changes in technology. Since survival and prosperity of a firm is brought about by good strategies (Grant, 2005), then implementation of competitive strategies help organizations fulfil stakeholders expectations. Porter's theory of competitive advantage provides a sophisticated tool for analyzing competitiveness with all its implications (Porter, 1980). Its core, however, focuses upon individual industries, or clusters of industries, in which the principles of competitive advantage are applied. In order to gain competitive advantage, it’s therefore important for organizations to fully understand their external environment.

Environment dependence theory emphasizes on organizations being environment serving and environment dependent for both their inputs and outputs. They do not exist in a vacuum and are perceived to be environment dependent and environment serving (Dauda & Ismaila, 2013). Strategic management relates to the act of positioning a firm to both its internal and external environment in a way that will ensure continued success through the application of various principles and techniques (Passemard & Calantone, 2000). Every organization can only prosper if it is well aligned with the environment especially the
external environment. This is especially important since it has some control of its internal environment but has little or no control over the external environment. When its external environment changes, then the firm must change accordingly or risk being left behind. According to Dauda and Ismaila, (2013), the external environment refers to all those factors outside the firm that either impact directly or indirectly to the firm’s operations, product development and packaging, market targets and profitability. These factors include change in technology, demographic and cultural trends, economic status, legal and political conditions and specific international events.

AAR started operating in 1984 and its primary business was evacuation of medical and accident casualties, both by road and air. As the membership increased, so did the needs of clients, creating more opportunities to comprehensively provide healthcare packages for clients. AAR is today among the largest and most successful private healthcare and insurance companies with a footprint in the East African region. AAR Healthcare has 32 health centers spread over Kenya, Uganda and Tanzania through which it provide preventative and curative healthcare to clients including all AAR insurance policy holders. It also offer rescue and evacuation services to members from anywhere in the region and evacuation in and out of the region. With a current membership of close to 100,000, AAR is not only leader in healthcare but is also the preferred provider of healthcare and insurance for both the public and private sectors in East Africa.

1.1.1 Concept of Strategy
The main objective of an organization strategy is to identify the business areas to engage in order to maximize its long run profitability. Johnson and Scholes (2005) view strategy as the direction and scope of an organization over the long term, which achieves
advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholders’ expectations while Goldsmith (2005) puts it as the actions employed to meet a firm’s long-term objectives. According to Pearce and Robison (2005) consistency of strategy with current environment conditions, taking advantage of existing and emerging opportunities and minimizing impacts of major threats are critical ingredients for strategy to be successful.

The interest in strategy is as a result of the realization that firms environment has become increasingly subject to change, unpredictable and different from the past experience making objectives alone insufficient as a guiding factor in the firms strategic positioning towards challenges, threats and opportunities. According to Tan and Litschert (1994) competitive methods used by firms in positioning themselves in a particular market is what constitutes strategy and it reflects the firms short and long term responses to challenges and opportunities presented by the business environment. It’s therefore evaluated on the effectiveness of its performance in meeting the overall vision, mission and objectives of the organization.

1.1.2 The Concept of Competitive Advantage

The ability of a firm to derive abnormal profits through a strategy not implemented by any competitor in a competitive industry is the easiest way to describe competitive advantage (Aaker, 1991) and according to (Porter, 1985), it’s only sustainable when competitors are unable to duplicate the benefits of the strategy.
Sustainability of competitive advantage suggests that a firm can achieve competitive advantage through the core-capabilities possessed by the firm (Grant, 2005), according to the capability-based theory. A distinctive capability assures competitive advantage is developed consciously and systematically through the choices made by the leaders in the organization and is defined as the firm’s capacity to deliver in a manner beyond the ability of other organizations.

1.1.3 Overview of the Insurance Industry in Kenya

A report by Insurance Regulatory Authority (2017) indicates that the Insurance industry in Kenya has 55 registered and licensed insurance companies, 216 insurance brokers, 4 Claims settling Agents, 123 insurance investigators, 98 motor assessors, 8,698 insurance agents, 27 insurance surveyors and 31 loss adjusters. All these players are registered by the regulator and must renew their licences annually after paying the required fee and upon approval by the regulator of their compliance with the industry practice.

The insurance industry is highly competitive part of the financial services industry. Insurance is the business of undertaking liability by way of insurance (including reinsurance) in respect of any loss of life and personal injury and any loss or damage, including liability to pay damages or compensation, contingent upon the happening of a specified event (Insurance Act, CAP 487). The insurance regulatory authority (IRA) has the key responsibility of industry regulation and compliance. Though recently created, the genesis of the authority goes as far back as 1987 when the government with a view to maintaining stability in the sector established a regulatory agent, the commissioner of insurance, resident in a department in the ministry of finance to oversee operations and management of the insurance sector.
1.1.4 AAR Insurance Kenya

AAR started operating in 1984, with a specific objective on emergency evacuation of medical and accident casualties. However, the number of members increased and in effect their needs too creating an opportunity to provide comprehensive healthcare packages and products. It is the flexibility, innovation and readiness to respond to the needs of the clients that have today placed AAR among the leading health insurance providers in East Africa. Other milestones achieved by the company include the opening of branches in Uganda and Tanzania, attracting investors and mergers that created synergy and financial strength and accelerate growth. In 2012, the company was split into two companies, AAR Health Care and AAR Insurance Kenya to provide healthcare and insurance services respectively.

With a current membership of close to 100,000 AAR is not only among the leaders in healthcare but is also the preferred provider for both the public and private sectors in East Africa. AAR is committed to fulfilling its vision of being the partner that protects Africa’s future and is continuously on the lookout for opportunities on the continent. Its mission is delivering value by empowering people to take control of things that matter most with core values as Empowerment, Flexibility, Efficiency, Ethics and Legacy.

1.2 Research Problem

Competitive strategy provides an organization with an exclusive position that assures the company success and profitability (Porter, 1980). This concept applies to all set of organizations and helps a firm to focus scarce resources to the benefit of the firm’s activities. The external environment is a major factor in the performance of all kinds of
businesses and impacts different organizations in different ways by assisting companies improve their service, quality of product, cost reduction and increase in rate of response to customer enquiries. The major challenge of choosing the right competitive strategy is identifying and integrating knowledge to share among all organizational members (Grant, 2005). As markets become big and organizations expand the boundaries of their regional operations, the organizations must also change their orientation in order to exploit the opportunities provided by the bigger markets and larger territorial presence. This is so because their new outfit will require them to enhance their capacity in terms of manpower, employed capital, distribution channels and other factors of production. This also means that the organizations’ current strategies might not work effectively and hence the need to change their strategies to conform to their new outfit.

The increased number of insurance companies in the business has necessitated the need for companies to come up with competitive strategies in order for them to survive. Licensed insurance companies are competing for limited market share with insurance uptake being very low in Kenya. There is poor uptake of insurance with insurance covers being mostly on motor, fire industrial and personal accident (mainly group medical cover) classes. This shows that there is negative attitude towards insurance from Kenyans (Mbogo, 2010). This study will focus on competitive strategies adopted which lead an organization in becoming successful in an industry with low penetration.

Local studies have been undertaken on the field of competitive strategies and organizational performance on different firms. Oyeila (2011), dwelt on competitive strategies and performance of commercial banks and observed that strategies adopted
such as agency banking and mobile banking has led to increased networking and customer base; Adhiambo (2009) studied competitive positioning and performance of commercial banks and observed that firms must repackage their products, be innovative and move with technology for survival in the so dynamic world of business; Obiero (2008) looking at strategies adopted by cement manufacturing firms in Kenya observed that pricing of products, low cost of materials and proximity to customers were among the key competitive strategies adopted. Within the industry, Mwikali (2011) researched on innovative strategies and processes within insurance companies in Kenya. The outcome of the study was that insurance companies have similarities in innovation processes.

The studies done focused on surveys within the insurance industry and did not give an in depth study on why a specific insurance company would adopt specific competitive strategies and how the strategies would fit into the organizations and enable them to effectively operate in a very competitive business environment. This study will seek to address and bridge the gaps by focusing on competitive strategies used by AAR insurance Kenya Limited in coping with challenges of competition. What are the competitive strategies used by AAR insurance Kenya Limited in coping with challenges of competition in the insurance industry in Kenya?

1.3 Research Objective

The objective of this study was to identify competitive strategies used by AAR insurance Kenya in coping with challenges of competition.
1.4 Value of the Study

The study will be important to enable AAR insurance Kenya to evaluate the strategies they can adopt in the face of high competition in the insurance industry. In addition the study will be an invaluable source to other firms especially in the insurance sector as it highlights competitive strategies employed. The study will also create a monograph which could be employed by other companies. Most importantly, this research is further aimed at offering some practical suggestions on the strategies to be put in place in order to gain competitive advantage in the face of the changing external environment particularly as regards competition.

It will provide knowledge to policy makers on health insurance sector dynamics and the appropriate competitive strategies giving them guidance to design appropriate policies that are relevant in regulating the sector. Scholars in future may use for referencing the results of the study. The findings of this study can be compared with competitive strategies in other sectors to draw conclusions on various ways a service provider can respond to competitive forces within its environment.

It will also benefit consultants who endeavour to provide assistance to successful running of organizations in developing and sustaining a competitive edge. Without doubt, this study adds onto the wide literature on competitive strategies adopted by firms, specifically, the focus on health insurance industry will be an invaluable reference source to academicians on the same topic.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter analyses various ideas expounded by various authors in the field of competitive advantage practice and particularly underscores their ideas regarding the concept of competition, the competitive strategic process and competitive strategies.

2.2 Theoretical Foundation
Two theories will guide this study, that is competitive advantage theory and resource based theory.

2.2.1 Competitive Advantage Theory
Competitive advantage provides a sophisticated tool for analysing competitiveness with all its implications (Porter, 1980) and it contributes to the understanding of competitive advantage but focuses upon individual industries building up to the economy as a whole because its basic unit for analysis for understanding competition is the industry, the arena in which the competitive advantage is won or lost.

The theory suggests that organizations must pursue policies that create quality goods and services selling at high prices in the market, and they will be said to have competitive advantage if they are implementing a strategy that is not being implemented by any other player at the same time (Clulow et al., 2003). If successfully implemented, the unique strategy will put the organization in to superior performance and competitive advantage hence outperforming all the other players (Passemard & Calantone, 2000).
2.2.2 Environment Dependence Theory

Environment dependence theory emphasizes on organizations being environment serving and environment dependent for both their inputs and outputs. Organizations world over do not exist in a vacuum because they are environment dependent and environmental serving (Dauda & Ismaila, 2013). The framework for the environment is in the form of a matrix of connections which are processes, influence, transactions and communication that exist within it.

According to Stoffels (1994) this model demonstrates that the firm is a part of the environment, the firm interacts with the environment both as a receptor of signals from the environment and a transmitter of signals to it and the character of the environment the firm faces is importantly shaped by interdependencies and transactions that occur entirely outside the domain or realm of influence of the organization.

2.2.3 Resource Based Theory

Organizational economics is the root upon which this theory is based in which theories of profit and competition according to the writings of Schumpeter (1934) focus on the internal resources of the organization as the major determinant of competitive success. An organization’s success over its competitors according to the focus on resources is due to the joint resources and capabilities it posses because the higher the amount of resources owned by the organization over its competitors, the more competitive it would become. However, it does not put in to consideration the diseconomies of scale and diminishing marginal returns.
The resource based view of an organization focus on the organization’s internal environment as the driver for competitive advantage especially the resources the organization has developed to compete in the environment. At early stage of strategy development phase of Hoskisson’s account on strategic thinking (Hoskisson et al., 1999), the focus was on the internal factors of the organization but researchers putting resource based view in to consideration argue that only strategically important resources and competencies should be considered as source of competitive advantage (Barney, 1991). These resources are the assets difficult to imitate, are scarce, specialized and tailor made to provide the organization a competitive advantage (Amit & Shoemaker, 1993).

2.3 Forces of Competition

Five force theory of industry analysis identified the five forces that define industry competition (Gupta, 2013). The classical five forces have over the years been expanded to nine forces with the intention of giving a holistic view and a better understanding of the forces within and outside of the industry in which an organization operates. The nine forces combine the macro environment analysis and the industry analysis to provide a holistic perspective of organizations competitiveness. For an organization to be successful it has to not only understand the industry forces, but also the external macro environment forces (Koumparoulis, 2013).

The industry forces include the threat to entry, threat from substitute products, bargaining power of suppliers, bargaining powers of buyers, and finally rivalry within the industry. These forces define the industry competition and form criteria for analyzing a particular industry with the view of selecting a suitable competitive strategy (Koumparoulis, 2013). In understanding the above forces, the organization should focus not only on the present
but also be able to forecast changes in the factors. The macro environmental forces effects are determined by carrying out a PEST analysis as pioneered by Aguiler (1967). PEST is an acronym for the four macro environment factor namely Political, Economic, Social, and Technological factors (Gupta, 2013).

Firstly, we have industry forces; Threat to entry defines how hard or easy it is for new players to enter the industry. Entry barriers may be in the form of huge capital outlays required at start up, economies of size, intellectual property, high switching costs, established brands, government standards, and expected retaliation from existing firms. The other industry force is the bargaining power of buyers. Buyers exert this power by demanding lower prices thus reducing profits in the industry and increasing competition (Ho, 2014). Buyers define competition within an industry by demanding low prices, expecting higher quality and setting up competitors against each other (Porter, 1980). Bargaining power of suppliers is another industry force which determines attractiveness; here the suppliers may reduce profit potential through increasing or threatening to increase prices of inputs or lowering the quality.

The threat of substitute products is another force that defines industry competition. Substitute products limit industry returns by placing price ceilings that firms can charge in an industry Substitute products limit the profitability of an industry by fixing price ceilings on a firm’s products in an industry (Porter, 1980). Finally, rivalry amongst industry players determines the competitiveness of an industry and the extent to which firms within an industry put pressure on others determines the rivalry. This may be in the form of price wars, promotions, introduction of new products, and advertisement battles.
The larger the number of firms in a particular industry, the higher will be the degree of rivalry amongst them; similarly rivalry will be high if the players are of equal size in term of market share.

Secondly, we have the macro environmental forces. These are forces external to the organization and beyond its control. Political factors influence the organizations through the actions of the government in the form of legislation, market regulations, lobbying efforts, taxes and tax regimes, trade agreement and through public policy (Waters, 2006).

These policies and regulatory frameworks may prove to be hurdles for a player wishing to join or operating within the industry as compliance will normally be required. Many organizations end up not taking off because of their inability to fulfil the regulatory frameworks set out by the government. Economic factors are the second element of the macro environment factors affecting organizations. Economic climate dictates to a large extent how organizations transact. High interest rate for example, denies organizations and consumers access to lines of credit and may stifle the growth of an industry. International activities such as terrorism, prices of crude oil and performance of some international currencies may affect the economic climate and subsequently the industry and the organization.

Social cultural attitudes may be determined by the demographics, lifestyle, education, and values. Some industries are susceptible to social cultural factors. Upwards social mobility means more of the population have the finances and hence the ability to consume more of a certain organization’s products whereas changes in the population structure such as low birth rates means there is less demand for an organization’s products (Tailor & Tailor, 2016).
Technology is the other macro environment factor that has greatly changed the way organizations operate. It is a source of opportunity to many organizations but can also present a great challenge. Shifts in technology may render some industries more attractive than others. An industry where technology keeps changing more so often may be less attractive than one in which it is stable.

2.4 Competitive Strategies

Competitive advantage is achieved by the ability of a firm to create value for its buyers which should be more than the cost that is put in when creating it. Superior value stems from either offering low prices that offsets the foregone benefits offered by the competitors or by offering the unique attributes that would enable the firm to charge premium prices (Porter, 1985).

Competitive advantage is often a single element which places a firm beyond what the competitors have (Ehmke, 2008). A sustainable competitive advantage requires continuous monitoring of the environment and the realignment of the strategic direction of the firm in order to ensure a strategic fit with the changes. This continuous process requires effort as noted by Ehmke (2008), without effort the competitors may duplicate the advantage thus eroding the edge the firm had on them. Competitive strategy is the means through which an organization seeks to gain a sustainable competitive advantage in a dynamic business environment.

Porter (1980) identified three broad generic strategies which an organization may choose from in order to realize competitive advantage in the industry in which it operates. These strategies are, Cost leadership, differentiation, and focus.
In the cost leadership strategy, the organization seeks to be the low-cost producer in the industry thereby ensuring it offers products to the customers at lower prices compared to the competitors. The products are therefore likely to be standard and produced on large scale to benefit from economies of scale. Low cost advantage stems from a company being able to keep its cost of production lower than the competition through efficient operations. Efficient operation can be achieved through the value chain analysis. Value chain analysis captures the activities of the organization and links them to its competitive position. The ability to perform and manage particular activities efficiently creates a source for competitive advantage, (Porter, 1985). A firm pursuing cost leadership competitive strategy must seek and exploit all cost advantages. Being able to achieve sustained overall cost leadership in an industry enables a firm to offer its products at lower prices than competitors or at near the industry average which translates to higher returns. There are several sources of cost advantage depending on the industry which may include; economies of scale, having sole rights to technology, and ease of access to raw materials that other rivals do not enjoy (Porter, 1985).

In differentiation strategy, the organization seeks to be unique in a certain dimension which is valued by consumers and positions itself to meet this need. A firm identifies a unique attribute that is perceived by most of the consumers in the market as being of importance, and positions itself to meet this attribute, (Porter, 1985). For differentiation to be successful the unique attribute has to be seen as valuable to the customer and the price premium generated has to exceed the added cost of being unique, (Porter, 1985). Some of the dimensions that an organization can choose to differentiate itself may include; durability, service delivery, branding, packaging, location of facilities, or
product features. Differentiated products are unique, non-standard and retail at a premium price than those of the competition. It is however possible to develop competitive advantage even in conditions where no actual quality exists across products (Barone & DeCarlo, 2003). They argued that traditional view of creating competitive advantage through differentiating a product based on attributes of importance and relevance to customers does not present viable options for firms in industries with commodities that do not have a physical product for differentiation.

The focus strategy has two narrow dimensions of either cost focus or differentiation focus in which the company narrows its offerings to a targeted segment of the industry. Whereas the other two strategies focus on a broader scope of the industry, focus strategy targets a narrow field within the industry. In cost focus the firm positions itself as the low cost producer within a targeted small segment of the industry whereas in differentiation focus it seeks differentiation within the targeted segment (Porter, 1980).

There have been several critiques of the three generic competitive strategies as discussed above with most stemming from Porter’s assertion that the three generic strategies were distinctly different and an organization had to choose either one or risk being stuck in the middle. Dickson & Ginter (1987) defined a differentiated product as one which is perceived by the customer as different from that of the competition on any physical or non-physical attribute which could as well be price.

Based on this definition, Mintzberg (1988) viewed cost leadership as a differentiation strategy where the product is not differentiated on the basis of higher quality but lower price. He thus argued that, business strategy has only two dimensions: differentiation and
scope. Speed (1989) concurred with Mintzberg (1988), and argued that cost leadership should not be considered a strategy at all since a cost leader has to have some degree of differentiation, same for a differentiator, he has to keep costs reasonably close to the competition if he is to enjoy sufficient profits. Having a cost advantage only enables differentiation on price (Sharp, 1991) thus not a separate strategy. Further criticism was evidenced by Hill (1988), he argued firstly that differentiation can be a means by which a firm achieves low cost leadership and that cost leadership and differentiation are not mutually exclusive, there exist many cases in which organization have to pursue both low cost and differentiation strategies since in many industries there does not exist a unique low cost position. Porter (1985) acknowledged that, even as a firm differentiates, it should not lose focus of the costs.

Grand strategies encompass detailed plans of essential action plans through which a firm intends to meet its objectives (Pearce & Robinson, 1997). There are several grand competitive strategies that a company can choose from. They include integration strategies, intensive strategies and diversification strategies.

Integration may be vertical or horizontal. Vertical integration is where a company produces its inputs or disposes of its own output. Where a firm produces its input is termed as backward integration while disposing own products referred to as forward integration. Horizontal integration involves acquisition or merging with competitors.

Market development, market penetration, and product development are some of the intensive strategies available to organizations. Market penetration seeks to sell more to the existing customers. Its aims at increasing the products market share, dominating
market share and driving out competitions. In market penetration a firm seeks to increase sales without changing its original product-market strategy. Under market development, the firm creates new markets for its existing products. This can be achieved through selling in new geographical locations, using resizing of the product or packaging, opening new distribution channels or creating new market segments. Finally, product development involves introduction of new products into the market.

Diversification involves a complete departure from the present product-market structure. It is more capital intensive since it requires new skills, new techniques and facilities. Diversification involves both product development and expanding into new markets and is the most risky of the grand strategies (Doyle, 1997). Most of the time an organization seeks diversification with the aim of managing risk by minimizing potential harm in the event of economic down turn. Diversification may be related or unrelated. Related diversification occurs where a firm diversifies into the same line of business, whereas unrelated diversification occurs where a firm diversifies into a new line of business altogether. Diversification by acquisition is mostly pursued by large mature organizations since most require a degree of financial leverage. As organizations grow they tend to diversify and create more divisions (Mintzberg & Quinn, 1992) in order to spread risk.

2.5 Competitive Strategies and Competitive Advantage

Porter (1990) identifies that cost is one type of competitive advantage a firm may possess. Generic strategies include cost leadership, differentiation, and focus and organizations usually pursue only one of the above generic strategies. Competitive advantage, results mainly because a big proportion of costs is hidden and cannot be easily quantified. Suppliers and buyer cost behaviour are important in assessing cost and
effectiveness of strategies. The costs in the value chain are assessed and refinements done towards eliminating unnecessary costs. This suggests that firms should manage their activities to maximize their sensitivity to the type of scale in which the firm has the greatest advantage over its competitors (Porter, 1990).

Differentiation is another source of Competitive advantage. Firms try to pursue uniqueness. At times customers attach different values to the organisation which are not cost related. That said, Porter (1990) points to all departments to be sources of differentiation and not from customers feedback alone. This excites the feeling that the firm is the best placed entity to drive differentiation as opposed from the common norm that it is the customer need. Competitors, though perceived as a threat, serve as a standard of comparison, (Porter, 1990). This is by enhancing ability to differentiate, absorb demand fluctuations and provide a cost umbrella that makes the low-cost firm to have a sustained competitive advantage.

In focus strategy the organization concentrates on specific target market and it’s also called niche strategy. By focusing all marketing activities towards one or two specific market segments tailor made with specialized marketing mix, the believe is that the organization will meet the needs of that market in a better way by focusing on effectiveness rather than efficiency (Pearce and Robinson, 2005). The strategy can be used by any organization but its more suitable for relatively smaller firms and in order to earn above average return on investment, the strategy can be used to select markets with weak competition and less vulnerable to substitutes.
2.6 Empirical Studies and Research Gaps

Research has shown that though strategy implementation is an important aspect to any firm a lot of scholars and firms have concentrated on strategy formulation as compared to strategy implementation process. Over the decades some of the studies done on competitive strategies include; Kogut (2005) studied the Types of information technologies and their role in competitive advantage

Recently the idea of competitive differentiation through Information Technology (IT) has been challenged; this study contrasts the traditional thinking about competitive advantage with the resource-based view. Specifically, it is argued that by demarcating specific types of capabilities, there can be contribution to better understanding of the sources of IT-based competitive advantage. Though IT can be seen as a way of gaining competitive Advantage, as a strategy there is gap on the how IT resources are being utilized and also the challenges in the use of IT to gain competitive advantage especially in insurance. When studying one insurance company then the gap can be filled by finding out how that company uses IT in order to gain competitive advantage.

Muriira (2014) studied Competitive Strategies adopted by insurance companies in Kenya. The study focused on the following competitive strategies; differentiation, cost leadership, focuses and niche, diversification, product development, market development and market penetration. The findings were that most organizations within the Industry tend to lean towards differentiation and product development. There is a gap in the study done since though many companies are seen to adopt differentiation and product development we still cannot tell if the strategies make them more competitive.
Kitua (2009) studied the internet as a source of competitive advantage for insurance firms in Kenya. He however focused on internet and did not put into consideration other competitive strategies that organizations can adopt in order for them to gain competitive advantage. The internet can therefore be defined as a source of competitive advantage though other strategies need to be adopted for organizations to be competitive. There is a gap in this study as the scholar did not mention the challenges of using the internet as a source of competitive advantage. In summary though there have been studies in different areas on competitive strategy and there is a contextual gap identified by the studies on how and why the competitive strategy is being used and the challenge that the organization has faced during implementation. There is also a gap on how the strategy being used has helped the organization in gaining competitive advantage over other organizations within the industry.

According to Morris and Jones (1994), external environment is everything outside the organization which includes technology, economic status, regulation, competition, customers, suppliers, distributors and social dimensions, which are very dynamic, complex and threatening the survival of any organization. In order for organizations to be successful, they must develop capabilities to manage these threats and exploit available opportunities before they fall in the hands of emerging players since they are dependent on the environment for resources and discharge of their outputs.

Each organization must find what strategic responses to adopt for survival in the environment. Peters and Waterman (1982) assert that innovative companies respond to environmental changes on continuous basis such that when the environment changes, they are able to adopt and operate under the new changes and the organization
performance is optimum if the aggressiveness of its strategy matches the environmental turbulence. The character of environment the firm faces is importantly shaped by interdependencies and transactions that occur entirely outside the domain and realm of influence of the organization.

Changes in the environment create pressure for change in the affected organizations. These organizations must adapt their internal operations to reflect the new external realities (Ansoff, 1957). Porter (1985) argues that firms that do not adapt to keep pace with the changing environment are likely to suffer and become irrelevant. The external environment of organizations has been described as turbulent over time changing constantly and in a discontinuous way.

Yasar (2010) focused on analyzing the competitive strategies and the firm performance of a carpeting sector in Beijing. The research annulled any relationship between competitive strategy and the firm’s performance in the carpeting industry. The research found out that competitive strategies are outlived by transient management theory which holds that competitive advantage may not be sustainable in the long run hence not suitable to influence performance on a carpeting industry.

Jonsson & Devonish (2009) did an exploratory study of competitive strategies among hotels in Malaysia. The study identified that firms that correctly applied competitive models of strategy experienced superior performance compared to those that didn’t have clear competition models of strategy. The research confirmed existence of a relationship between organizational performance, client satisfaction and improved competitive position of a company’s activity.
Arasa and Gathinji (2014) focused on the correlation between competitive strategies and firm performance in Telecommunication industry in Kenya. The study outlines that competition was steep in the mobile telecommunication sector and only firms that developed competitive strategies that focused on cost leadership and differential tactics will survive the steep competition in the sector.

Ilovi (2011) examined how to sustain a competitive advantage in reference to the insurance industry in Kenya. The study recommended that players in the insurance sector should constantly evaluate their strategies with the aim of outdoing competition. In light of the foregoing, the author suggested adoption of cost reduction strategies, focus strategy and investing in resources as some of the measures of addressing issues of competition in the industry.

The above empirical studies present an avenue for this research to fill in an important segment of information regarding an insurance company’s strategic methodologies, Strategies Adopted to ensure a competitive position in an industry that is faced with lower penetration, prejudice from potential customers and public perception and internal deterrents like fraud, slow claims processing and limited market opportunities.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the study was approached. It thus outlines the research design, data collection method and how it was analysed in order to generate findings of the study.

3.2 Research Design

The research was done through a case study. The reason for this was because there is only one unit of study. A case study is an in depth analysis of a particular phenomenon. It was preferred in this case as it places much emphasis on the application of the concept under study and other interrelations. Descriptive case study approach was used to achieve the objectives. According to Yin (1984) a descriptive study is a process in which data is collected from members of a population to determine the current status of the subject under study with respect to one or more variables.

It is a popular form of qualitative analysis involving analysis and careful observation of a social unit, a person, family, an institution, a cultural group or even the entire group (Kothari, 2004). The study looked at an in depth analysis of the competitive strategies used by AAR insurance Kenya Limited in coping with the challenges of competition in the insurance industry in Kenya.

3.3 Data Collection

The study focused on the primary data obtained directly from the field. Secondary data in form of past interviews and publications was also used to supplement the primary data collected. Welmann and Kruger, (2000) defined secondary data as data that consists of
information that already exists in form of videos, journals or publications which was previously collected for another purpose whereas primary data can be defined as original data gathered for a specific purpose.

The data collected for study was primary data which was collected by use of an interview guide. The interview guide used open ended questions which enabled the researcher to get sufficient data directly from the respondents. The ten respondents interviewed were departmental staff and managers. The departmental staff and managers were viewed to bear the information about various strategies used by their firm and how effective they are perceived. This data was collected using the interview guide (Appendix I). The interviewer obtained permission to conduct the interviews.

3.4 Data Analysis

Qualitative data collected was analysed using content analysis. Krippendorff (1980) defines content analysis as a process of providing new insights and knowledge by making valid inferences from data to their context. According to Mugenda and Mugenda (2003) they state that existing information can be used to explain specific phenomenon by use of content analysis. Content analysis is therefore important in analysing data that has been collected so as to make inferences from the data in order to provide an insight into specific phenomenon

The responses from the different interviewees was compared and summarised according to the objective of the study. Content analysis was the best method to use due to its flexibility and objectivity. It has been successfully used by other scholars such as Nyamai (2011), due to its ability to give a descriptive and qualitative analysis of data collected.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The findings of the data in this chapter have been analyzed qualitatively. The data being analyzed was gotten through the use of the interview guide developed in line with the study objective which was to identify competitive strategies adopted by AAR insurance Kenya in coping with challenges of competition in the insurance industry in Kenya.

To collect the requisite data, a total of ten managers were targeted for interview. All the targeted managers did respond to the interview representing a one hundred percent response rate which was determined to meet the satisfactory threshold deemed critical in using the data to draw conclusions. To analyze the data collected from each interviewee, content analysis was used as it was found to be the most appropriate tool.

4.2 Respondents Profile

To meet the set out study objective, ten senior and middle level AAR insurance managers were interviewed. These were managers for Business Development, Underwriting, Human Resource, Customer Service, Operations, Finance and Legal, Marketing, Brand Management and IT departments. Of the ten managers, three had over 15 years of experience, six had between 5 and 10 years experience while only one had less than 5 years of experience in the Insurance industry. From the study objective, staff experience was deemed critical in ensuring the desired organisational goals were delivered.

Additionally, staff experience was considered advantageous since it endowed the respondents with a good command of the strategies and responsibilities that are critical in the identification of the competitive strategies adopted by AAR insurance Kenya in
coping with challenges of competition. Similarly, staff experience was believed and emerged as critical in dealing with routine issues fast on account of confidence gained from having dealt with new and emerging issues previously. Overall, the AAR insurance top managers were found to be highly qualified and experienced in addition to projecting high levels of competence in their work which would go a long way in explaining the market leadership position AAR currently occupies not only in Kenya but in the region as well especially on retail medical insurance.

4.3 Competitive Strategies Adopted by AAR

Findings from the interviewees indicate that the respondents are employees who are clear on the competition. They pointed out to 14 medical insurance providers as being the leading competitors to AAR in the market. The respondents were unanimous in view that AAR operates in a very highly competitive industry that is also highly regulated. As such, the environment in which AAR insurance operates and for which it needs to develop competitive strategies is very dynamic but with a very high potential for growth in the face of the myriad of challenges that exist. AAR is being forced by changes in the external and operating environment to align the business to these changes by crafting appropriate strategies.

External factors with significant impact on the strategies adopted by AAR include the stringent requirements developed by the Insurance Regulatory Authority (IRA). These requirements affect the liquidity and solvency requirements, reporting deadlines that have been made stricter and the minimum capital required for each insurance company. Additionally, the respondents did point out that, the entry of new players in the industry
has resulted in the new players eating into the old players’ market share. Ultimately, with the insurance penetration in the region at less than 3% for a long time, the old players’ in the insurance industry have seen the overall share of the market dwindle. These facts notwithstanding, AAR insurance has managed to maintain its market leadership especially in the retail medical insurance far ahead of the major players in the industry.

From the study, the respondents did point to AAR insurance using differentiation, cost leadership and firm focus as strategies in responses to competition. The use of these strategies has resulted in AAR insurance maintaining and growing its market share and position. AAR insurance has widely used the cost leadership strategy. To achieve this, AAR has partnered with specific providers and suppliers willing to negotiate the cost of healthcare to minimize claims and make the premiums acceptable. Additionally, AAR has cut-down and in some cases completely discarded non-core staff and assets. To address the areas that were the responsibility of the non-core staff, AAR insurance has chosen to outsource Security, Courier and cleaning services to reliable external partners who are able to deliver on the quality standards already established by the company. As a result of this strategy, the cost of employment has significantly reduced.

To further consolidate the cost leadership strategy, AAR insurance has structured products that offer a no-claim discount and cash-back as a reward to those members who don’t claim a lot during their membership year. The company has also fully embraced ICT within the organisation and in its operations that have brought significant cost reductions with regards to communication, paper work, filling, claims settlement, customer service and feedback and efficient and all round service delivery to the
customers. Additionally, the use of mobile telephony and the applications supported by mobile telephony like M-Pesa and Airtel Money, the internet and mobile phones have made transactions cost reduce significantly. AAR insurance has also embraced the use of CCTV cameras and biometric access within the offices for security purposes. This on one side has made employees feel more secure while at the work stations in addition to minimizing if not totally eradicating equipment theft. AAR insurance has also made it mandatory to deal with and only procure from cost effective and reliable suppliers of goods and services.

AAR insurance has also adopted differentiation strategy. This strategy involves creating products perceived unique or of superior value to the customer and therefore, attracts customer loyalty pricing notwithstanding. The additional costs of differentiating the products could require a premium pricing strategy there by increasing the fortunes of the firm.

The study additionally found out that the new expanded individual medical covers, with a product that offer cash back to members and encourages health living, plus Home Owners Cover, professional indemnity for doctors among others are some of the differentiated products. In addition, the findings also indicated that no competitor has been able to copy the AAR traditional product as currently structured. AAR stands out among its peers and competitors for its strong creativity and innovativeness coupled with careful scanning of the environment, changing customer preference and feedback to maintain its market share. These factors have made it possible for AAR to develop tailor made products that are differentiated for specific market targets and groups.
AAR has also placed significant emphasis on focus strategy as a way of responding to the environmental conditions. Focus strategy encompasses the selection of a few market segments. To some point, AAR insurance does focus on the specific rather than the general client needs. AAR insurance has products for corporate clients, the family, individuals and high-end clients. It also has products for home owners, Landlords and Doctors. All these are specific market niches.

The respondents indicated that though there have been challenges during implementation of competitive strategies so far there has been no total failure experienced in strategies that have been adopted. AAR Insurance Kenya is usually involved in environmental scanning before coming up with competitive strategies that they want to adopt. They will study the customer behaviour and also other products in the market and this enables them to come up with competitive strategies that fit the competitive environment in which they operate in. Some of the factors in the current environment that the organization considers include; similar products in the market, the behaviour of the target market, the market response rate on new products that are introduced in the market and the time when the strategy is most applicable.

The respondents indicated that the successful implementation of competitive strategies can be attributed to research done on similar products in the market, the experience of the management on similar competitive strategies in the market and the lessons learnt on other strategies that have been adopted by the organization. The organization also ensures that the competitive strategies are in line with the organization culture by ensuring that when setting up goals and objectives of the company then they will also be relevant to the
strategies that will be adopted. The organization tries to ensure that all employees will be involved in implementation by including all strategies and objectives as part of their departmental objectives which is then passed down to employees during their performance appraisal. The competitive strategies adopted by AAR Insurance Kenya are as discussed below;

4.3.1 Product Differentiation Strategy

The organization main aim is to be the first in introducing unique products to the market. AAR Insurance Kenya identifies a product that is different and targets a certain market audience. A good example of product differentiation is the introduction of products like AAR Platinum and AAR Gold medical covers with cover limits of 40 Million and 20 Million respectively. These products are tailored differently so as to attract the high-end and upper middle class in the industry. With majority competitors offering products with a maximum cover limit of 5 Million annually, AAR has exclusively captured the high end clients who can use their membership cards to seek services from providers of choice including personal doctors locally and abroad. These unique products have helped grow AAR medical insurance market share to 14.70% with a gross premium of 5.65 Billion according to IRA 2017 industry report.

AAR insurance Kenya also uses the claims experience to determine what and how it needs to be improved. The claims experience involves ensuring that acceptable maximum loss ratio is below 70%. They also use feedback from clients, like market intelligence and they repackage or remodel their products sometimes based on the market intelligence and customer feedback and other times it’s based on the claims experience.
The study also sought to find out which of the two; affordability or quality is more important in product development at AAR insurance Kenya. According to the respondents quality is of more importance and clients and prospective customers are given solutions based on their needs without compromising the quality of their products. The high quality products and fast claim settlement have resulted to referrals from providers such as hospitals and insurance intermediaries.

4.3.2 Focus and Niche Strategy

The organization uses focus and niche as another competitive strategy by tailoring products according to certain market segments. AAR insurance Kenya targets and has products for the high-end, the middle class employed and self-employed individuals. The target market for the online products is the young employed and self-employed technologically savvy individuals who want to get their insurance at the comfort of their homes. This can be attributed to increased use of social media by organizations as a platform to market their products and customers searching the internet for their desired products and services. The products are tailor made and advertised so as to capture the middle class employed individuals who are in need of medical insurance.

4.3.3 Cost Leadership

AAR Insurance Kenya aims at being a cost leader in the market so as to gain competitive advantage within the industry. At AAR Insurance Kenya, insurance is usually paid in premiums and to make it easier for payment and comparison, plans sold to individuals are grouped in standardized tiers. The AAR medical insurance cover has six major plans namely: Platinum, Gold, Silver, Silver plus, Bronze and Cover Me. The company’s aim is
to minimize cost to the clients in case of admission or visit to a doctor. This is done by providing members with a plan of a specified cover limit during the membership year which is renewed annually. The provided cover limits range from 500,000 to 40 Million inpatient cover and 50,000 to 250,000 for outpatient.

Medical insurance solution for groups are usually tailor made according to the requirement by the group in which they only need to specify their budget and the desired benefits from which an appropriate premium is designed for them. They are given health education especially on how to avoid lifestyle and chronic conditions and how to live a healthy life. The members in the long run are able to avoid getting sick and putting their claims and premiums at the minimum. Other products by AAR insurance Kenya that takes the lead compared to competitors include Personal accident and Group personal accident cover which pays the specified sum insured in case of accidental death or disability, Travel insurance, Doctors professional indemnity cover, Home owners’ insurance solutions, School insurance solutions and Work injury benefits act solutions.

4.3.4. Product Development

The study found out that product development is also a competitive strategy used by AAR Insurance Kenya in gaining competitive advantage. The organization ensures that they develop new products annually depending on the needs of their customers. The aggressive advertising and marketing campaigns done when new products are introduced leads to exposure of the company to the customers. AAR Insurance Kenya introducing new products as the first company in the market enables the company gain recognition and therefore competitive advantage.
Product development helps AAR insurance Kenya to sustain competitive advantage as customers see the company as being innovative. By being recognized as one of the most innovative insurance companies when it comes to product development, AAR Insurance Kenya has been able to gain popularity in the industry. The industry is now recognizing AAR Insurance Kenya as being a market leader in medical insurance for registering an annual growth in written premium from 3.6 Billion in 2015 to about 6 Billion in 2017 with an average market share of 15%.

The findings indicated that AAR insurance Kenya engages in both product innovation and improvement of existing products mainly influenced by market research. They identify a need or gap in the market, for instance in the medical insurance sector, most providers don’t offer individual dental, optical and maternity covers because they are expensive and an additional premium has to be paid if the benefit is desired since they cannot leverage on the law of large numbers. AAR insurance Kenya has repackaged their medical products to include these benefits as part of the main cover with a sublimit.

4.3.5 Market Penetration

The respondent indicated that market penetration is another competitive strategy that is used in order to gain competitive advantage. AAR Insurance Kenya engages in market penetration by having aggressive advertising of the products especially when they introduce new products to the market. The advertisements done in the local TV stations and local radio stations are aimed at making the clients aware of the features and availability of any products introduced in the market. AAR Insurance Kenya has a wide network of agents and brokers that ensures their presence in most parts of the country and hence making them able to easily penetrate most parts of the country.
The agents and brokers are given incentives and are managed by relationship officers to ensure that their needs are met. AAR Insurance Kenya is increasing its branch network in the market which leads to increased premiums since they bring the insurance services closer to the clients. The marketing team is usually engaged in marketing activities in different parts of the country that ensures that the presence of AAR Insurance Kenya as an Insurance company is felt. During the marketing activities customers will be given free check up on vitals including blood pressure and weight and branded items that they can now associate with the organization.

Continuous training of agents, brokers and employees on new and improved products also ensures that market penetration is achieved since now the trained individuals are able to sell the products with more knowledge on the product features. This has seen a growth in business and increased competitive advantage. Competitive advantage has been gained by using market penetration as it ensures that the company and its products are well known in the industry. By increasing the branch network this has led to increased premium since the new branches are now bringing in new business.

4.3.6 Use of Technology

The respondents also stated that AAR Insurance Kenya ensures that it uses technology in order to gain competitive advantage. By use of various systems in administering and offering services to their clients they are able to improve on the communication between them and the clients. The technology helps in reducing the time in which processing can be done as well as ensuring that the clients are served without delays for example by using online system to sell products and real-time logging of claims as they are incurred the company is able to sell more and process claims payments fast at the convenience of the customer.
The organization also uses an Enterprise Resource Planning (ERP) system that ensures real time processing of transactions and printing of documents. By using the ERP the company can serve more customers and process the transaction end to end without any hitches. Use of management systems helps in maintaining clients since they are able to get their documents on time which is helped by maintaining all clients’ records in one place. Faster processing of claims is also ensured when systems are used.

Advertising has also been made easier through social media platforms like Twitter and Facebook. Customer service is also improved by use of online web based systems as well as real time chat which is available on the AAR Insurance Kenya website and AAR Insurance Kenya web portals. The company is therefore gaining competitive advantage by use of technology since it is able to pass information on new products faster to their clients through social media. Competitive advantage is also gained on the customer service front with the number of Kenyans now in social media increasing daily with Facebook and Twitter being highly used in the country. Selling through online systems also helps in tapping a market of people who purchase their insurance at home or at work.

4.4 Discussion of Findings

The respondents to the interview identified some specific challenges that AAR insurance faces and has to overcome in its operations on a continuous basis. The external environment emerged as one of the most influential of the factors that are a source of the biggest challenges. Within the environment, competition poses the greatest challenge to AAR insurance. Competition is a challenge when considering the emergence and development of new competitor products, unethical business acquisition, competitor staff poaching, aggressive advertising and competitor price undercutting. Similar issues
associated with competitors that also emerged as major source of challenges for AAR insurance included innovations by competitors, regional and international players and the entry of non-traditional insurance stakeholders like banks into the industry.

When considering competition as a challenge to AAR insurance, the findings of Smart & Vertinsky (2006) are important to consider. They carried out a study on the relationship between the strategic response that an organisation adopts and the type of change in the external environmental conditions in which the firm operates. Smart & Vertinsky (2006) just like in this research identified the major issues in competition as aggressive advertising and price undercutting. However, their research did not see regional and international players and conversion of insurance providers and agencies into fully fledged insurance companies as a competitive challenge.

Another challenge identified and expressly pointed out by the respondents as posing a significant challenge to AAR insurance was changing customer preferences and tastes. When considering this, the respondents were generally in consensus on the key issues that included prompt claim settlements, short-term quality products and quality personalized services. On the same breadth, other issues that also emerged as being of significance included improved customer care, prompt resolution of customer complaints and sufficient timeframe for renewal advice and notification. A review of existing literature points on changes in the preference and taste of customers playing a significant role in the challenges facing firms. A case in point was the study into Fidelity Insurance where it emerged that changing customer needs when considered as an environmental condition, as being a source of challenge to the firm (Miriti, 2010). Similarly, these views have been supported by Awino (2007), Mwarania (2003) and Abdullahi (2000) in their various works.
Another challenge identified by the respondents was the rapid changes being experienced with regards to technology. These were especially pointed out as being critical for AAR insurance to continue to prosper in the medium to long term. Some of the technological challenges identified included use of electronic payments and mobile phone enabled payments channels like Mpesa and Airtel money. The availability of these services and the convenience they afford users has made consumers demand that firms incorporate them in their transaction cycles. Other significant technological changes posing a challenge to AAR insurance were the increased use of internet to provide services, increased use of SMS and social media as a means of communication and feedback to customers, the demand for web based transactions, Skype, video conferencing and e-banking.

The respondents also pointed out the challenges of the economic environment the firm operated on were similarly having a significant impact. AAR insurance has to contend with exchange rate fluctuations, fluctuating wage rates, weakened investor power, ever rising taxation rates, unpredictable inflation and increased fraud in the industry, all of which eat into consumers’ purchasing power. The importance of technology as a challenge facing firms is also brought out by Mogeni (2008) and Bryson (1995).

Another challenge that AAR insurance faced as identified by the respondents was the political and regulatory environment. These two challenges were assessed as one since it was determined that both are driven by the same force. Specifically, the regulators’ (IRA) influence coupled with changes in legislation focusing on insurance. The regulators influence was especially clear with regards to periodic and regular issuance of guidelines and prudential regulations, while presidential and parliamentary elections are the most
significant changes that take place regularly thus the need to manage the cycle. These
together with the differing objectives between the regulator and the regulated erode
investor confidence besides interfering with insurance business prospects. The others
include planned change in NHIF and NSSF Acts, regional conflicts like Somalia and
previously South Sudan as well as the imminent terrorism threats. Implementation of a
new constitution in 2010 that brought in a new governance structure by introducing
counties as devolved units brought new challenges to AAR insurance and how it run its
business operations and new business acquisition. The increased regulatory controls by
KRA, IRA and CBK continue to pose a challenge to AAR insurance. It is important that
the management be able to focus on these changes and offer the leadership required to
address each comprehensively.

Ecological changes were also identified as posing significant challenges to AAR
insurance and its long term survival. Climate change and unpredictable weather patterns
and as a result of informal settlements, garbage damping, deforestation and global
warming that result into poor sanitation and diseases are some of the ecological changes.
These have the effect of witnessing an increase in insurance claims compensation as the
health of the insured population is affected due to worsening morbidity and mortality
rates. Environment dependence theory emphasizes on organizations being environment
serving and environment dependent for both their inputs and outputs. Organizations
world over do not exist in a vacuum because they are environment dependent and
environmental serving (Dauda & Ismaila, 2013). The framework for the environment is
in the form of a matrix of connections which are processes, influence, transactions and
communication that exist within it.
The respondents similarly did point out that, unstable inflationary trends especially those fuelled by fluctuating petroleum prices, high taxation, fluctuation of commodity prices and increased wages as environmental changes that pose an indirect but significant challenge to AAR insurance. These factors individually or collectively have the effect of undermining insurance consumers’ purchasing power as is the case with other goods and services in the economy. In support of this view is Keranga (2010) who did research on the responses of the Government of Kenya printing Press to the challenges in the external environment. Keranga (2010) identified the rising inflation, low incomes and escalating fuel prices as a great challenge to the government as it tries to deal with public satisfaction.

The respondents pointed out to the contribution of the demographic composition to the socio-cultural environment and the challenge this poses to AAR insurance. With a majority of the population being below the age of 35 years and significantly not being employed thus having a weakened consumption power; uptake of insurance is severely undermined. Similarly, to be considered are gender issues and an increasing number of older citizens in need of healthcare. As a result, all these challenges combine to make the business environment complicated as a result of the resultant increase in poverty levels. With the modern AAR insurance customer demanding short-term insurance products, expect expert presentations, require online or e-transactions and personalized service, among other changing customer preferences and tastes pose a unique and significant challenge to AAR insurance.
The study established that AAR has responded to the environmental changes through such initiatives as new product development to widen the product portfolio, diversification and expansion to new regions, organizational restructuring, investment in human resources, customer service improvements, adoption of new Information Technology, and involvement in corporate social responsibility and timely claims settlement. Similarly, Resource based theory supports the concept of resources (Wernefelt, 1984). Barney (1991) first formalized the term RBV perspective into a theoretical framework while clarifying the understanding of the impact of a firm’s environment on firm performance (Newbert, 2007). Barney 1991 defined resources as “assets, capabilities, processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness”. Amit and Schoemaker (1993) placed firm resources into three different categories namely physical capital resources, human capital resources and organizational capital resources. The RBV theory makes two assumptions, which jointly allow for differences in firm resources endowments to both exist and persist over time (Newbert, 2007). First that resources are heterogeneous distributed among firms across firms and secondly that these resources are imperfectly mobile (Barney, 1991).
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter captures a summary on data findings, conclusions drawn and the recommendations made. These conclusions and the recommendations have been arrived at in line with the research question and the objectives of the research and it’s therefore a summary of the findings, conclusions, recommendations for policy and practice, limitations of the study and suggestions for further research.

5.2 Summary of the Findings

The researcher interviewed ten senior management and departmental heads and the data collected was sufficiently adequate in meeting the study objectives. All the respondents with an exception of one had over 5 years experience in the insurance industry. The researcher also confirmed that the insurance industry was very turbulent with several challenges making the industry to be very competitive. AAR has responded to the environmental changes through such initiatives as new product development to widen the product portfolio, diversification and expansion to new regions, organizational restructuring, investment in human resources, customer service improvements, adoption of new Information Technology, and involvement in corporate social responsibility and timely claims settlement.

Additional competitive strategies adopted by AAR insurance to counter competition in the industry included cost leadership, product and service differentiation and focus strategies. AAR insurance has deliberately re-engineered and restructured its business
processes with an aim of cutting down on overall cost of doing business. Additionally, within the cost leadership strategy, AAR insurance has adopted the use of latest IT technology and use of social media in its business operations. With respect to product differentiation, AAR insurance has modified specific product characteristics in addition to branding them in order to suit the different market segments. Consequently, AAR insurance has segmented its markets into middle income, high income and body corporate. The focus strategy emerges when you consider how AAR insurance has developed products targeting niche markets. They have products that encourage health living, offer cash back and no-claim discounts.

AAR has also had to contend with increased competition from existing competitors who use unethical practises on their customers. Some of the unethical practices identified included price undercutting, propaganda, fraud and customer incentives. In the industry, 14 companies were identified as being in direct competition with AAR insurance on account of their target market and product portfolio.

Changes in technology, such as e-mobile, mobile internet and website marketing also called on AAR insurance to change in tandem with the changing times. The research findings indicate that AAR insurance has embraced the use of mobile telephony and customers can now pay online through M-pesa and use mobile internet to communicate with management and customer service.
5.3 Conclusion

AAR insurance would be best served if it put in place a Research and Development department which will be charged with not only gathering and analysing competitor intelligence information but also exploring new markets and new products. R & D will also be charged with innovations and environmental monitoring and possibility of more investment. The firm should also consider rolling out additional products especially non-medical products like motor, livestock and agriculture insurance in order to serve well the new markets created by County Governments.

Opening more offices in all major towns in the country besides Nairobi, Mombasa, Kisumu, Nakuru, Nyeri and Eldoret would also come in handy because all its major competitors have presence in all the counties. This should be followed with development and introduction of products and services that suit those particular markets especially livestock and agriculture insurance for the county markets followed by aggressive advertisement, product promotion and potential customer education for the new markets.

5.4 Implications of the Study

The company should review technology needs, conduct more in-house group and individual training, improve and encourage a learning culture and reward and implement innovations. At the same time the company needs to be more aggressive in media advertising both print and electronic. More fundamentally, all employees should be turned into marketers of the firm.
Also, more short term products in general insurance especially personal accident and professional indemnity should be sold on-line. IT improvement such as teleconferencing and working from outside the official office should be encouraged as well as empowerment of employees to work from wherever they are. Above all performance management for efficiency whereby employees' performance is pegged on surpassing key performance indicators should be prioritized.

5.5 Limitations of the Study

This research was not without limitations. Firstly, the time was a limiting factor. The researcher is in full time employment and travels most of his time and did not have adequate data collection time. Equally, the top management to whom the interview guide was directed is a very busy category and did not have adequate time at their disposal to adequately respond to the issues raised in the interview guide.

At the same time, the general unwillingness of the interviewees to supply the right response was another limitation factor. The interviewees were suspicious that such study could expose their competitive advantage to their competitors who may have access to this research paper as it may become a public document.

Also there were limited resources on the part of the researcher. The researcher lacked adequate funding for conducting the research in detail and carry out adequate comparisons with other researches done by other scholars. Due to limited finances and time, the study could not be carried on the other branches of AAR Insurance. Never the less, the researcher minimized this by conducting the interview at the company’s
headquarters since it is where strategies are formulated and rolled out to other branches for implementation. Further, data from the top ten managers was insufficient to be used to answer the research objectives sufficiently.

This was a case study of one company and the data obtained may differ from that found in other insurance companies since they use different strategies to respond to the challenges posed by the competitive environment. This is because each company is unique and would therefore employ different strategies to distinguish it from its competitors. However, the researcher made an effort to construct an effective research instrument that sought to elicit general and specific information on the strategic responses that companies adopt to match the changing environment.

The researcher faced difficulties while obtaining the data since the information required on the organizations strategies was considered more sensitive and the management were unwilling to share it with an outsider. The employees were granted permission to respond to the interview questions by focusing on the general view. The limitation was reduced by looking for other sources of data like secondary sources from the internet and related links and comparing the data with the information provided. The researcher believes that a lot of information specific to how the organization strategically responds to competitive changes in the environment would be obtained if the study is conducted by someone within the organization.
5.6 Suggestions for Further Research

Given the above limitations, the research did not cover the study objectives exhaustively. Firstly, research should also be undertaken on the nature of competition posed by other AAR Insurance markets outside Kenya where it has expanded to in its regional market diversification.

Last but not least, further research should be undertaken on the role of strategy in the growth of AAR Insurance business given that it is now among the dominant insurance players in East Africa.
REFERENCES


Appendix I: Letter of Introduction to Respondents

Francis Ngwiri Karori
University of Nairobi student

Dear respondent,

RE: REQUEST FOR ASSISTANCE IN RESEARCH PROJECT

I am a student pursuing a Master of Business Administration degree at the University of Nairobi and currently undertaking a research project on ‘Competitive Strategies used by AAR Insurance Kenya in Coping with the Challenges of the External Environment’. This interview guide is for academic purposes only. I’m requesting you to assist me by providing responses to a few questions which shall provide data for analysis. Any response you give shall be held confidential.

Your assistance in making this exercise a success will be highly appreciated.

Thank you

Regards,

Francis Karori
Appendix II: Interview Guide

This Interview guide is designed to collect data on competitive strategies used by AAR insurance Kenya limited in coping with challenges of the external environment. The data shall be held confidential and used for academic purposes only.

SECTION 1: RESPONDENT’S BACKGROUND

1) What is your designation in the company?
2) What’s your academic qualification?
3) When did you start working for AAR insurance Kenya?
4) Which department do you work for?

SECTION II: COMPETITIVE STRATEGIES

5) List the major competitors of AAR insurance Kenya
6) Which competitive strategies does AAR insurance Kenya use to cope with the challenges of the external environment?
7) Which of the strategies mentioned above do you think are most effective in response to competition? Briefly explain why.
8) Does AAR insurance Kenya Limited focus more on adoption of new products/services as a competitive strategy? Briefly explain why.
9) What is the effect of innovation as a competitive strategy in AAR insurance
SECTION III: CHALLENGES

10) What challenges do you face from competition? Name at least five.

11) What impact have the challenges mentioned above posed to your business?

12) Do you think there are any precautionary measures AAR would have taken to avoid any of the challenges mentioned above? If yes, which ones? If not, why?
Appendix III: Leading Medical Insurance Providers

1. AAR Insurance Kenya
2. APA Insurance - Part of Apollo Investments Company
3. Britam
4. CIC General Insurance
5. GA Insurance Company
6. Kenindia Assurance Company
7. Madison Insurance Company Kenya
8. Pacis Insurance Company
9. Real Insurance Company
10. Resolution Insurance Company
11. Heritage Insurance Company
12. Jubilee Insurance Company Limited
13. UAP-Old Mutual Insurance Company
14. Saham Insurance -