ASSESSMENT OF ATTRACTIVENESS OF KENYA'S INSURANCE INDUSTRY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

November 2008

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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Industry Attractiveness

All organizations operate in a macro environment consisting broadly of the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors, and the company's immediate industry and competitive environment (Thompson and Strickland, 2003). Therefore, managers are not prepared to decide on a long-term direction or a strategy until they have a keen understanding of the company's strategic situation, that is, the exact nature of the industry and competitive conditions it faces and how these conditions match up with its resources and capabilities.

With the liberalization of the economy, more and more foreign firms have been able to establish industries, therefore intensifying the competition and forcing firms to adopt strategies to survive this competitive environment. As the environment is constantly changing it has become imperative for firms to continuously adapt their activities in order to be assured of survival (Porter, 1980; Aosa, 1997). The economic character of industries varies according to a number of factors, namely: the overall size and market growth rate; the pace of technological change; the geographic boundaries of the market; the number and sizes of buyers and sellers; whether products are virtually identical or highly differentiated; the extent to which costs are affected by economies of scale; and the type of distribution channels used to access buyers (Pearce and Robinson, 2005).

According to Porter (1980), an industry’s economic features are important because of the implication they have for strategy. For example, in capital intensive industries where investment in a single plant can run into millions, a firm can spread the burden of high fixed costs by pursuing a strategy that promotes high utilization of fixed assets. Porter continues to say that an industry’s economic traits and competitive conditions and how they are expected to change determine whether its future profit prospects will be poor, average or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits while even weak companies in attractive industries can report good performances. Hence, the firms must understand competition and the core of the firm’s business environment, which is formed by its relationship with customers, suppliers, competitors and the firm’s industry environment.

The environment, especially the industry environment, has a great influence on the profitability of a firm; it must seek strategies to survive in the competitive markets. According to Ohmae (1982), to survive and prosper in an industry, a firm must meet two criteria: first it must supply what customers want to buy and second, it must survive competition. The firm must craft an appropriate strategy but after determining the prevailing industry conditions.

The emergence of strategy has led to a new thinking in the area of industry analysis. Porter (1979) developed the five-force industry analysis model which has a theory that there are five forces that determine competitions in an industry. These forces form the basic characteristics of competition in an industry and determine its attractiveness. According to Cockburn et al (2000), a 'five forces' analysis is essentially a structural map of the underlying economics of an industry:

a map of the degree to which competitors, entrants, substitutes, and vertical bargaining power exert pressure on the margins of a firm in a particular industry. Cockburn et al further argue that a firm operating in an industry in which there are substantial returns to scale coupled with opportunities to differentiate, that buys from and sells to perfectly competitive markets and that produces a product for which substitutes are very unsatisfactory, is likely to be much more profitable than one operating in an industry with few barriers to entry, and a large number of similarly sized firms who are reliant on a few large suppliers and who are selling commodity products to a few large buyers.

Like any other industry, the performance of the insurance industry is determined by a host of factors: competition among the various firms in the, the role the government through the industry regulator and relationship with suppliers, brokers and customers among others. It has become increasingly important for firms in the industry to understand the industry and develop effective strategies to compete and develop competitive advantage.

Structural analysis is a powerful tool for understanding why a particular strategic action (e.g., branding or investment in complementary product areas) may be associated with supranormal returns, but in and of itself says nothing about the role of senior management-or the process of strategic choice-in determining profitability. A structural analysis provides concrete insight into why it is so difficult for most firms to make supranormal returns in some industries (Cockburn, 2000). Thompson and Strickland (2003) point out that one important component and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. Hax and Majluf

(1996) assert that in order to select the desired competitive position of a business, it is necessary to begin with the assessment of the industry to which it belongs. To accomplish this task, managers must understand the fundamental factors that determine the firm's long-term profitability prospects because this indicator embodies an overall measure of industry attractiveness.

1.1.2 Kenyan Insurance Industry

Part one Section 2(1) of the Insurance Act, Cap 487 of the Laws of Kenya defines insurance business as business of undertaking liability by way of insurance (including reinsurance) in respect to any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon the happening of a specified event … in return for payment of one or more premiums. Insurer means a person, whether registered under the Act or not, who carries on insurance business and includes reinsurer.

Basher (2002) observes that insurance is the most important form of risk management and defines it as the transfer of risk from one person (or party) to another for a specified premium. Insurance, he notes, plays an important role in political, social, and economic development of a society by offering diverse benefits to individuals, groups, countries, and the world in general.

Insurance in the modern form has been practiced in Europe for well over one thousand years with the earliest form being the marine insurance. However, like elsewhere in Africa, insurance in its modern form was unknown in Kenya until the early part of the 20th century. The early European settlers introduced modern insurance in Kenya. In 1904, the London and Lancashire Insurance Company appointed agents for fire business in Nairobi. In 1922, Royal Exchange

Assurance opened a full branch office in Kenya and was followed by the commercial Union in 1929 (Wanjohi, 2002).

Until the late 1970s, the insurance industry in Kenya, which date back to the establishment of the colonial rule, operated in a rather stable environment. Then, there was little demand for services, the products offered were quite standardized, government supervision was minimal, and competition was relatively low. Little technological development was witnessed. However, following the issuance of the government directive in 1978 which required all foreign insurance companies to be incorporated in Kenya by 1980 and the introduction of the Insurance Act Cap 487 of the Laws of Kenya, the industry has since experienced tremendous challenges.

The number of insurance companies has continued to increase. Many new companies sprung up in the 1980s which exhibited entrepreneurial behavior and many more companies were incorporated in the 1990s following the liberalization of the economy. This move has seen the number of registered companies grow from 15 in 1978 to 39 in 2001 and now more than 40. This, together with the collapse of the giant state owned Kenya national Assurance in 1996 has intensified competition in the industry. Further, indications of severe threats to insurers' existence are rife. The industry suffered a big blow in the year 2005 when a key player, United Insurance with a Passenger Service Vehicle (PSV) stake of 45%- collapsed. Other firms that have since gone on receivership in mysterious circumstances include Stallion Assurance, Lakestar Insurance, and Liberty Insurance. Moreover, the industry was on the spot when leading medical insurers- Mediplus (2003) and Strategis (2005), folded up in controversial circumstances.

Competition has further been aggravated by the springing up of many micro-insurance companies such as the Health Management Organizations (HMOs) and Pension Administration Schemes that provide services that traditionally were the domain of the insurers. Following the opening up of the Tanzania and Uganda insurance markets and the increased emphasis on globalization and regionalization, the industry now also faces greater competition from its neighbors. Further still, due to the unfavorable economic conditions prevailing in Kenya and lack of awareness of insurance as a substantial market, it is still not fully tapped. Mwaniki (2001) notes that the propensity to save among most Kenyans is eroded while the number of insurance companies continues to increase as others are placed under statutory management.

The introduction of the Retirement Benefits Act. 1997 has not spared the industry. It has allowed new competitors and increased regulation in the insurance industry. Under the Act, insurance companies were required to increase their paid up capital to safeguard the large sums of money in pensions. Further, the Act also stipulates that other than the fund administrator, pension schemes have to appoint a fund's manager and custodian, thus causing the cost of running the schemes to go up considerably. Consequently, small pension schemes have had to wind up. This is a loss of business to insurance companies.

1.1 Statement of the Problem

An industry's economic traits and competitive conditions and how they are expected to change determine whether its future prospects will be poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits while weak companies in attractive industries can report good performances (Porter, 1980; Thompson and Strickland, 2003; Pearce and Robinson, 2005).

Following the liberalization of the economy over two decade ago, the Kenyan insurance industry has witnessed a number of developments that could not be comprehensively explained superficially. The increase in the number of registered insurance companies, the springing up of micro-insurance companies, the introduction of the Retirement Benefits Act (1997), the sudden collapse of key players in the industry, the placement of receivership of others, and the recent launch of the Insurance Regulatory Authority are some of key happenings that have characterized the industry. These phenomena present a case that may be accorded varied, yet unsubstantiated interpretations with respect to the attractiveness of the Kenyan insurance industry.

Studies focusing on industry analysis have been documented (Waithaka, 2001, Oluoch, 2003; Gakombe, 2004; Ngobia, 2004; Karari, 2006; Nyale, 2007). However, the studies have focused on different contexts with different conceptual orientations. For instance Waithaka looked at the analysis of the funeral industry in which she adopted a modified Porter's Five Forces Model which included three other forces that defined the structure of the industry, that is, the government, logistics, and power play. In her study, Oluoch applied the modified Five Forces Model to assess the perceived attractiveness of the Freight and Forwarding Industry while Gakombe, Ngobia, and Karari respectively delved into the analysis of the industry forces and the strategic choices adopted by private hospitals; the basis of competition in the Mobile Phone Industry in Kenya; and an application of Porter's Diamond Model to analyze competitiveness of

Kenya's Tourism Industry. Nyale's study focused on application of Porter's five-force model in the structural and competitive analysis of the mobile telephony industry.

While Oluoch's study focused on the perceived attractiveness of the Freight and Forwarding Industry and applying Porter's modified model, no known study that has focused on the analysis of the insurance industry's attractiveness and applying Porter's Five Forces Model. It is the purpose of this study to apply the Five Forces Model to assess the attractiveness of the industry in order to bridge the inherent knowledge gap. Specifically, the study intends to address the question: Given the mixed happenings in the insurance industry, what is the perceived attractiveness of the industry?

1.2 Objective of the Study

The objective of the study will be to assess the attractiveness of the insurance industry in Kenya.

1.4 Significance of the Study

The findings of the study will benefit the following:

i. Policy makers both in government regulatory authorities and private sector will be able to utilize the findings of the study in informing their decisions regarding the way forward in the insurance industry.

ii. The management and interested investors in the insurance industry can use the findings of the study in crafting viable strategies with respect to investment and other aspects in their organizations.

iii. Lastly, the study will be use by researchers in both academic and business, as a reference tool in evaluating the competitiveness and/or attractiveness of the insurance industry in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Industry Structure

An industry can be defined as a group/collection of firms offering products or services that are close substitutes for one another (Porter, 1980; Pearce and Robinson, 2005). Individual industries may differ from each other according to the degree of competition among various buyers and sellers in each market (Lipsey, 1987). Kotler (1998) states that there are four forms of competition among firms: offering similar products and services to the same customer at similar prices; industry competition among firms making the same product or class of products; form competition among firms manufacturing products that supply the same service; and generic competition among all the firms competing for the same consumers' disposable income.

According to Porter (2008), industry structure grows out of a set of economic and technical characteristics that determine the strength of competitive forces in an industry. Porter says that industry structure drives competition and profitability, not whether an industry is emerging or mature, high tech or low tech, regulated or unregulated. There are certain characteristics of a market in which a firm operates that are likely to affect a firm's behavior and performance. To decide who is competing with whom and in what sense they compete, it is necessary to distinguish between the behavior of individual firms and the type of market in which the firms operate. Economists use the term *Market Structure* to refer to the latter concept (Lipsey, 1987).

The degree of competitiveness of the market structure refers to the degree to which individual firms have power over that market- power to influence the price or other terms on which their product is sold. Factors that have been used to classify industries because they influence behaviors and therefore performance of firms include the number of sellers; the degree of product differentiation; presence or absence of entry, mobility, exit, and shrinkage barriers. Others are cost structure, degree of vertical integration, and degree of globalization (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce and Robinson, 2005).

These market characteristics give rise to four known industry structure types namely, pure monopoly, oligopoly, monopolistic competition, and perfect competition. Pure monopoly exists when only one firm provides a certain product or service, that is, whenever an industry is in the hands of a single producer. At the opposite extreme of monopoly is perfect competition is in which many competitors offering the same product and service (homogeneous). Oligopoly is an industry structure in which a small number of (usually) large firms compete with each other and produce products that range from highly differentiated to highly standardized, while monopolistic competition consists of many competitors able to differentiate their offers in whole or part (Kotler, 1998; Lipsey, 1987; Brown, 1995).

The structure of the industry determines whether firms are price takers (pure competition) or price makers (all other market structures), whether they engage in advertising (firms in pure competition markets do not), whether there is competition or cooperation among different firms and so on. The important point is that the conduct is associated with structure. Finally, conduct determines performance. Three of the most important elements of performance are profitability, economic efficiency, and consumer welfare. The various market structures are assumed to perform differently. For example, there are no long-run economic profits under pure competition and monopolistic competition; efficiency exists only under pure competition; and so on (Lipsey, 1987). Porter (2008) contends that a healthy industry structure should be as much a competitive concern to strategists as their company's own position and understanding industry structure is also essential to effective strategic positioning. This is the concern of industry analysis.

2.2 Industry Analysis

Rowe et al. (1994) define industry analysis as an environmental scan to determine what forces in a firm's external environment have direct impact on its competitive position and what competitor actions need to be taken to achieve a sustainable competitive advantage. According to Hax and Majluf (1996), industry analysis is an orderly process that attempts to capture the structural factors that define the long-term profitability prospects of an industry, and to identify, and characterize the behavior of the most significant competitors. Pearce and Robinson (2005) say that industry analysis is the basis of intelligent planning. It is a systemic process of gathering and analyzing information about an industry on a domestic and global scope. The information gathered would be on economic trends, social and political trends, changes in technology and the rate of change. The analysis helps in determining the true areas in which firms compete, defines what firms consider to be competition, and helps determine key factors for success as they pursue various opportunities. It provides a basis upon which firms evaluate and decide about their corporate goals and helps to develop insight into developing appropriate strategies.

Since the 1930s and 1940s, the traditional approach to analysis of industries was the Structure-Conduct-Performance (SCP) model (Brown, 1995). As the name implies, the SCP approach holds that there is an important relationship structure, conduct, and performance. According to this approach, firm and industry behavior depend on industrial structure, so once industrial structure is classified, conduct and performance can be readily deduced. The key components of an industrial structure are the number of firms in an industry, entry and exit conditions, and degree of product differentiation. Other important aspects are the extent of vertical integration, the amount and quality of information available to firms, and the amount of risk.

In the 1960s and 1970s, however, a number of economists began to find problems with the SCP approach leading to the birth of the new industrial economics. The most serious problem with the SCP approach is what has been referred to as the endogeneity question. “Endogenous” means determined within the system. In the context of the SCP approach, the endogeneity question concerns whether industrial performance is completely determined by industrial structure. The basic premise of SCP approach is that performance depends on conduct and structure. However, conduct is assumed to be dependent on structure and this implies that performance is determined by structure alone. The premise that industry structure determines industry performance implies the industry structure is predetermined (“exogenous”) and that managers and entrepreneurs only passively respond to the industrial environment. This is inconsistent with what is known about business people. They are constantly trying to shape the industrial environment to fit their needs. For example, large firms may try to drive rivals out of business by offering goods for abnormally low prices, a strategy known as predatory pricing.

Another problem with SCP approach is that it does not say very much about the evolution of industrial markets. This is a key problem because competition is an evolutionary and historic process. By treating industrial structure as given, SCP analysis cannot take into account strategy and the multiple interactions among firms. According to Brown (1995), perhaps the key difference between SCP and the new industrial economics is the focus on strategy versus determinism. Traditional industrial economists believe that existing firms, markets, and production methods are a reasonable approximation of the most efficient adaptation of the existing technology that could be imposed by external order. The important point is that this approximation comes about automatically without any intervention from policy makers, so there is little role for strategic behavior by businesspeople. New industrial economists hold a much different world view: instead of being driven by a deterministic force, the market economy evolves through the interplay of firms and policy makers, who try to control economic evolution-they innovate rather than yield to the industrial environment.

Porter (1980) argues that the every firm competing in an industry has a competitive strategy, whether explicit or implicit, and that the essence of formulating a competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Porter (2008) observes that understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time.

According to Porter (2008), good industry analysis looks rigorously at the structural underpinnings of profitability. He argues that one of the essential tasks in industry analysis is to distinguish temporary or cyclical changes from structural changes. A good guideline for the appropriate time horizon is the full business cycle for the particular industry. Accordingly, the point of industry analysis is not to declare the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability. He further observes that the strength of the competitive forces affects prices, costs, and the investment required to compete; thus the forces are directly tied to the income statements and balance sheets of industry participants. Finally, Porter argues that good industry analysis does not just list pluses and minuses but sees an industry in overall, systemic terms.

In a nutshell, the purpose of conducting industry analysis is mainly to understand the forces behind industry performance in order to match strategy to industry conditions. This involves the identification of the opportunities and threats posed by the state of the industry so as to come up with the appropriate strategy, to determine what competitors are doing, what threats and opportunities exist, and whether the firm should enter, remain or exit an industry (Porter, 1980); hence the question of industry attractiveness.

Thompson and Strickland (2003) quote Kenich Ohmae as saying that “analysis is the starting point of strategic thinking”. Thompson and Strickland then add that thinking strategically leads to good strategic choices based on a comprehensive strategic analysis. The analysis uses a tool kit of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry’s profit outlook. This leads to drawing conclusions about whether the industry represents an attractive investment for company funds.

2.3 Industry Attractiveness

The industry's attractiveness explains the value generated by the economic activity of it as well as the ability to share the wealth created. The most widely used framework to understand the industry attractiveness is based on Porter's five-force model. The model provides an assessment of the potential for a business to attain a superior profitability by examining the industry structure through the five forces. These forces determine industry profitability because they influence the prices, costs and required investment of firms in an industry.

According to Porter (1980), industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by the five forces of competition. These include threat of new entrants, rivalry within the industry, threat of substitute products, bargaining power of suppliers, and bargaining power of buyers. The collective strength of these five competitive forces determines the ability of firms in any industry to earn profits and these five forces vary from industry to industry.

These five forces delimit prices, costs, and investment requirements, which are the basic factors that explain long-term profitability prospects, and henceforth, industry attractiveness. Consequently, three points are worthy observing with regard to the impact of industry structure on the profitability of a firm. First, different industries achieve different levels of average profitability; therefore, the attractiveness of an industry is a factor that is critical to understanding the performance of a firm. Second, there is a great degree of variability observed in the profitability levels among firms competing in a given industry. Thus, the ability of a firm to deploy resources and develop capabilities to achieve a superior performance, are also very important. And third, industry behavior seems to change dramatically across time so much so that industries that enjoyed high levels of profitability in yesteryears face either mediocre or poor profitability during current times (Hax and Majluf, 1996). Porter (1980) points out that the purpose of conducting industry and competitive analysis, therefore, is mainly to understand the forces behind industry performance in order to match strategy to industry conditions.

This study will adopt and apply the Five Forces Model albeit with contextual modifications as suggested by different scholars and researchers. Pearce and Robinson (1997) built upon Porter's theory and postulated that designing viable strategies for a firm requires a through understanding of the firm's industry and competition which involves defining the industry boundaries and structure, competitive analysis and operating environment. They define industry structure as comprising of the industry concentration, which is the extent to which industry sales are dominated by only a few firms. It also involves the economies of scale, which are the savings that companies in the industry can achieve due to increased volumes, product differentiation or the extent to which customers perceive products/services offered by different firms in the industry as different from one another, and barriers to entry. Barriers to entry are tangible or intangible obstacles that a firm must overcome in order to enter the industry.

In Kenya, studies have been conducted that have focused on the application of Porter's Five Forces Model in some industries. In her study of the funeral industry attractiveness, Waithaka (2001), adopted the modified model advanced by Aosa (1997), which included three other additional forces (government, logistics, and power play) that were found to define the structure of the funeral industry. The same modified model has been applied by Oluoch (2003) in studying the perceived attractiveness of the freight and forwarding industry. The studies substantiate the view advanced by Osigweh, 1989; Hussey, 1990; Austin, 1991; and Aosa, 1997) that management is sensitive to the context in which it is practiced and that strategic management models advanced in developed countries where strategic management originated may not be directly applicable in developing African countries, Kenya inclusive.

Wiseman and Macmillan (1997) accepted Porter's model but grouped the five forces into three categories, namely: suppliers, customers and competitors. This new classification did not alter Porter's propositions. Wheeler and Hunger (1990) also agreed with Porter but wanted to include the sixth force, 'other stakeholders'. They argued that this new category would incorporate the relative power of unions, government, and other interested parties not specifically mentioned in Porter's model. In addition, though Porter had included government as a potential entry barrier under threat of new entrants, they argued that government was very powerful and merited special mention as a separate strategic force. Porter (2008) agrees that no structural analysis is complete without a diagnosis of how present and future government policy at all levels will affect structural conditions

The work of McFarlan (1984) also added an information technology (IT) dimension to the model by exploring the way that IT could be used to exploit or counter any of the forces. It was suggested that, by adding to products an IT content, which would create added value or reduce cost, it could make it more difficult for new entrants or substitute products to be successful. Also, using IT to forge links with suppliers and customers would increase the power of the organization within the market.

In his reaffirmation, Porter (2008) defends and extends the framework by clarifying that it is important to avoid common pitfall of mistaking certain visible attributes of an industry (e.g.

industry growth rate, technology and innovation, government, and complementary products and services) for its underlying structure, and remains categorical that the underlying structure of an industry reflected in the strength of the forces should be distinguished from the many short-run factors that can affect competition and profitability in a transient way. Following is a detailed description of the five forces as fronted by Porter (1980) and defended in 2008.

The threat of entry exists when there is potential for new entrants into an industry. The new entrants bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. If barriers are high and/or the new comer can expect sharp retaliation from entrenched competitors, the threat of entry is low and vice versa. The major sources of barriers to entry include economies of scale; product differentiation; capital requirements; switching cost; access to distribution channels; cost disadvantages independent of scale; and government policy. Conditions that signal the likelihood of strong retaliation to entry and hence deter it include among others a history of vigorous retaliation; established firms with substantial resources to fight back; established firms with great commitment to the industry and highly illiquid assets employed in it; and slow industry growth which limits the ability of the industry to absorb a new firm without depressing the sales and financial performance of established firms

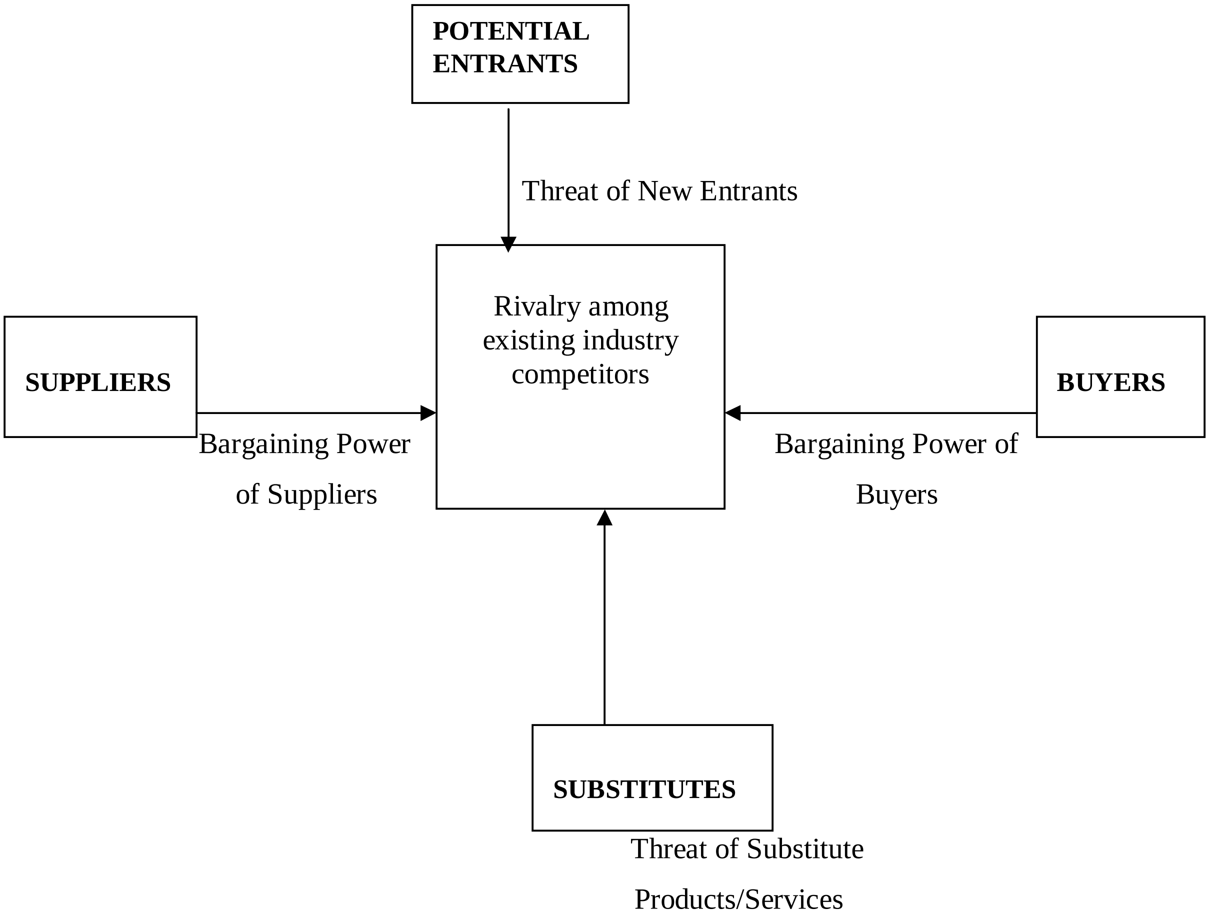
Intensity of rivalry among existing competitors takes the familiar form of jockeying for position-using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Rivalry in some industries is characterized by such phrases as "warlike", "bitter", "cutthroat", whereas in other industries it is termed "polite" or "gentlemanly". Intense rivalry is the result of a number of interacting structural factors namely: numerous or equally balanced competitors; slow industry growth; high fixed or storage costs; lack of differentiation or switching costs; capacity augmented in large increments; diverse competitors; high strategic stakes; and high exit barriers among others.

With respect to pressure from substitute products, all firms in an industry are competing, in a broader sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternatives offered by substitutes, the firmer the lid on industry profits and vice versa. Identifying substitute products is a matter of searching for products that can perform the same function as the product of the industry. Substitute products that deserve the most attention are those that are subject to trends improving their price-performance tradeoff with the industry's product, or are produced by industries earning higher profits.

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. The power of each industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business. A buyer group is powerful if the following conditions hold true, otherwise it is not: it is concentrated or purchases large volumes relative to seller sales; the product it purchases from the industry represent a significant fraction of the buyer's costs or purchase; the product it purchases from the industry are standard or undifferentiated; it faces few switching costs; it earns low profits; buyers pose a credible threat of backward integration; the industry's product is unimportant to the quality of the buyer's products/services; and the buyer has full information among others.

Lastly, the power of suppliers is exhibited when suppliers exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The conditions making suppliers powerful tend to mirror those making buyers powerful. A supplier group is powerful if the following conditions apply, otherwise it is not: it is dominated by a few companies and is more concentrated than the industry it sells to; it is not obliged to contend with other substitute products for sale to the industry; the industry is not an important customer of the supplier group; the suppliers' product is an important input to the buyer's business; the supplier group's products are differentiated or it has built up switching costs; and the supplier group poses a credible threat of forward integration among others. The model has been summarized as shown in figure 2.1

Fig. 2.1 The Five Forces Industry Analysis Model



Adapted from Porter, E. M. (2008), “The Five Competitive Forces that Shape Strategy”, *Harvard Business Review*, Pp. 79-93.

From the model, the relative attractiveness of an industry can be ascertained and a decision made on whether to remain, enter or exit the industry. According to Thompson and Strickland (2003), the use of the model further enables organizational managers ask a number of critical questions whose answers will be indicative of industry attractiveness. The questions include: what are the industry's dominant economic features?, what is competition like and how strong are each of the competitive forces?, what is causing the industry's competitive structure and business environment to change?, which companies are in the strongest/weakest positions?, what strategic moves are rivals likely to make next?, what are the key factors for competitive success?, and therefore, is the industry attractive and what are the prospects for above-average profitability?

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a census survey research design. This is because the study targeted all the insurance companies. Therefore, the cross-sectional approach was applied in which same information about all insurance companies was sought in a snapshot.

3.2 Population for the Study

The study targeted all the insurance companies operating in Kenya as at July 2008 according to records at the industry regulator, the Insurance Regulatory Authority (IRA) (Appendix II).

3.3 Data Collection Method

The study used primary data which were mostly quantitative and descriptive in nature. Therefore, a structured questionnaire was designed for this purpose. The questionnaire was designed to solicit data on forces that shape insurance industry structure and its attractiveness as perceived by the respondents. The questionnaire was administered through drop and pick method. The respondents were Chief Executive Officers or Corporate Strategy Managers of the companies. However, where such positions do not exist, General Managers, Marketing Managers, and/or Managers in charge of strategic planning in the companies will be targeted.

3.4 Data Analysis

Due to the nature of data that were collected, the study used descriptive statistical tools of analysis (frequencies, percentages, and mean scores) to analyze the data. These tools are considered appropriate in determining the forces that shape the industry structure and their perceived strength. It was also possible to establish the perceived attractiveness of the industry. To achieve these objectives, frequencies and percentages were used to indicate the status proportion of respondents indicating the extent to which they perceive the strength of the forces in the industry. On the basis of frequencies, mean scores were calculated to indicate the degree of attractiveness of the industry as perceived by the respondents. Analyzed data were presented in tables to summarize the findings for ease of interpretation and reporting.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The study was designed to achieve one objective: to assess the attractiveness of the insurance industry in Kenya. To achieve this objective, corporate strategy managers and/or chief executive officers in all the insurance companies were targeted to provide the data. Out of the forty-three insurance companies that were targeted, all of which were served with the questionnaire, only twenty-nine responded by willing to fill and return the questionnaires. This formed 67.4% response rate, which was considered adequate for analysis. Others either declined to receive questionnaires citing various reasons while others received but never responded.

In carrying out the survey, respondents were required to respond to general organizational demographic characteristics and then presented with statements describing different forces that determine profitability in the insurance industry. They were then required to score on a 1 to 5 likert scale indicating the extent to which they perceived the statements apply in the insurance industry. This would indicate the extent to which the insurance industry is attractive for both the incumbents and the new entrants.

4.2 Organizational Information

The study sought information about respondent organizations on aspects that were considered to be descriptive of the insurance companies. The aspects were with respect to the companies' ownership structure, their size, and scope of operations. Seeking this information was considered necessary to lay ground for understanding the characteristics of the insurance industry.

4.2.1 Ownership Structure

Insurance companies in Kenya could exhibit different organizational characteristics which will have impact on the overall structure of the industry. Such characteristics could in turn be determined by ownership structure. The study intended to establish the ownership of the insurance companies that were targeted and the findings are presented in Table 1

Table 1: Ownership Structure

	Frequency	**Percent**
Local	18	62.1
Both Local and Foreign	11	37.9
Total	29	100.0

Source: Research Data

The findings of the study in Table 1 above indicate that out of the twenty-nine insurance companies that participated in the study, 62.1% of them are locally-owned while 37.9% are both locally and foreign owned. These findings imply that players in the Kenyan insurance industry are fully Kenyan owned while others are partly owned. Therefore, such ownership structure indicates the extent to which locals find the insurance industry attractive.

4.2.2 Organizational Size

Different parameters are used to measure an organization’s size. These include the volume of sales, number of branches, asset base, and number of employees among others. This study used the number of employees to establish the size of insurance companies that were targeted. The findings of the study are presented in Table 2.

Table 2: Organizational Size

	Frequency	Percent
Less than 500	22	75.9
501-1000	4	13.8
Over 1501	2	6.9
Missing System	1	3.4
Total	29	100.0

Source: Research Data

From the findings, it was established that 75.9% of the insurance companies that participated in the study have less than 500 employees, 13.8% have between 501 and 1000 employees while those with over 1501 represented 6.9%. One company representing 3.4% of the companies provided no answer. It is therefore expected that this aspect will be reflective of other parameters that are used to measure size. The study findings indicate that the insurance industry in Kenya is dominated by firms which are fairly small in size, which in turn could have an impact in the kind of competition expected in the industry.

4.2.3 Scope of Operations

The study considered that the scope of an organization’s activities is a reflection of that organization’s ability to serve a wider market. This also puts pressure on the need to adopt a variety of competitive strategies to be able to meet needs of diverse market segments and be able to sustain competitive advantage. The findings of the study on the scope of operations of the insurance companies that participated in the study are presented in Table 3.

Table 3: Scope of Operations

	Frequency	Percent
National (within Kenya)	23	79.3
Regional (within East Africa)	5	17.2
Global (worldwide)	1	3.4
Total	29	100.0

Source: Research Data

The study findings in Table 3 indicate that majority of the insurance companies (79.3%) operate within Kenya followed by those that operate regionally at 17.2%. Only one insurance company (3.4%) operate globally. These findings imply that the structure of the insurance industry in Kenya will be defined by the nature of dominant economic features that are mostly Kenyan.

4.3 Attractiveness of the Insurance Industry

The objective of the study was to assess the attractiveness of the insurance industry in Kenya. The industry's attractiveness explains the value generated by the economic activity of it as well as the ability to share the wealth created. The study adopted Porter's (1980) Five-Force Model as a framework to understand the attractiveness of the insurance industry. The model provides an assessment of the potential for a business to attain a superior profitability by examining the industry structure through the five forces (barriers to entry/threat of entry, intensity of rivalry among existing competitors, bargaining power of buyers, bargaining power of suppliers, and pressure from substitute products). The government was also considered as a separate force that could determine industry attractiveness. These forces determine industry profitability because they influence the prices, costs and required investment of firms in the industry.

4. 3.1 Barriers to Entry/Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect. It was the intention of the study to determine whether or not players in the industry perceive entry of new firms poses a threat to their existence. Consequently, respondents were asked to state whether or not barriers existed in the insurance industry. The findings of the study are presented in Table 4.

Table 4: Presence of Barriers to Entry

	Frequency	Percent
Yes	24	82.8
No	5	17.2
Total	29	100.0

Source: Research Data

From the study findings presented in Table 4. above, majority of respondents (82.8%) indicated that there exist barriers to entry into insurance industry while 17.2% indicated there are no such barriers. Support or otherwise of these findings is presented in Table 5 below, which shows the extent to which respondents rated the various entry barriers with respect to their presence or otherwise in the insurance industry.

Table 5: Entry Barriers

Entry Barrier	Response	Frequency	Percent	M.S	S.D
Economies of scale	Negligible	3	10.3	3.04	1.18
	Low	5	17.2		
	Moderate	9	31.0		
	High	6	20.7		
	Very High	3	10.3		
	Missing System	3	10.3		
	Total	29	100.0		
Proprietary product differences	Negligible	3	10.3	2.88	1.13
	Low	6	20.7		
	Moderate	9	31.0		
	High	5	17.2		
	Very High	2	6.9		
	System	4	13.8		
	Total	29	100.0		
Brand equity	Negligible	2	6.9	3.32	1.18
	Low	4	13.8		
	Moderate	7	24.1		
	High	8	27.6		
	Very High	4	13.8		
	Missing System	4	13.8		
	Total	29	100.0		
High operating costs	Low	2	6.9	3.92	.93
	Moderate	6	20.7		
	High	10	34.5		
	Very High	8	27.6		
	Missing System	3	10.3		
	Total	29	100.0		
Capital requirements	Low	2	6.9	4.00	.98
	Moderate	6	20.7		
	High	8	27.6		
	Very High	10	34.5		
	System	3	10.3		
	Total	29	100.0		
Price wars	Low	2	6.9	3.73	.92
	Moderate	9	31.0		
	High	9	31.0		
	Very High	6	20.7		
	System	3	10.3		
	Total	29	100.0		

Source: Research Data

In establishing the extent to which various entry barriers were perceived by the respondents to be strong in the insurance industry, the study used frequencies and percentages to show the status proportion of respondents who indicated various degrees of strength. It is out of the frequencies and percentages that mean scores were obtained to be used as measure of strength. A mean score of below 3.00 indicate that a particular entry barrier was found to be weak while the one with a mean score of between 3.00 and 3.99 indicate that it was found to be strong. An entry barrier with a mean score of 4.00 and above was considered to very strong.

According to the research findings in Table 4 above, it was established that a large proportion of entry barriers that were presented to the respondents were strong. These entry barriers have a mean score of between 3.00 and 3.99. They include: high operating costs, price wars, brand equity, government regulation and/or policy, and economies of scale. The entry barriers that were found to be weak include: expected retaliation, technology, proprietary product differences, and existing partnership by competitors. These have means scores that are below 3.00. It was, therefore, established that only one entry barrier was perceived to be very strong in the insurance industry, that is, the amount of capital required investing and operating in the insurance industry.

The above findings imply that players in the industry do not face a high threat from new entrants into the industry. This is because most of the barriers to entry into the industry were found to be strong. Therefore, from the point of view of a new entrant, it is not very

Table 6: General rating of threat to entry

Response	Frequency	Percent	Mean Score	Std. Dev.
Negligible	1	3.4	3.03	0.79
Low	4	13.8		
Moderate	18	62.1		
High	5	17.2		
Very High	1	3.4		
Total	29	100.00		

Source: Research Data

profitable to invest in the insurance industry. However, it should be observed that there were variations on the part of respondents, as indicated by the standard deviations, with respect to the strength of each of the barriers to entry. The variation ranged from a low of 0.89 standard deviations to a high of 1.29 standard deviations for expected retaliation and existing partnership by competitors respectively. This implies that in as much as the study findings indicated that it could be difficult for new entrants to enter the insurance industry, there is variance of the degree to which this is so.

Consequently, respondents were asked to rate the threat by new companies coming in to directly compete with their companies in the future. Research findings on this aspect as presented confirm the above observation. The findings indicate that 62.1% of the respondents moderately rated new entrants as posing a threat to industry players, while 17.2% and 3.4% of the respondents highly and very highly rated new entrants as a threat respectively. It is therefore evident that threat of new entrants as a force to contend with in the industry is fairly strong as indicated by the mean score of 3.03 in Table 6

Further, as a contending competitive force, respondents were asked to indicate the extent to which new entrants are a threat to their companies' profitability. The findings of the study are presented in Table 7

Table 7: Extent to which new entrants are a threat to companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	2	6.9	2.83	.85
Less extent	7	24.1		
Moderate extent	14	48.3		
Large extent	6	20.7		
Total	29	100.0		

Source: Research Data

The findings in Table 7 indicate that, generally, new entrants are not a major threat to the already existing insurance companies. This is indicated by the proportion of respondents who rated the threat as not at all, less extent, and moderate extent, that is, 6.9%, 24.1%, and 48.3% respectively. However, the proportion of those who rated it as large extent (20/.7%) could not be underrated. With the mean score of 2.83 and 0.85 standard deviations, it was evident from the study that threat of new entrants into the insurance industry does not contribute significantly into shaping competition in the industry. Therefore, for those still in the industry, the force was found to be weak, but for the new entrants, the force was found to be moderately strong. This is evident from the study findings on the respondents' overall assessment of the entry barriers in the insurance industry in Kenya shown in Table 8

Table 8: Overall assessment of the entry barriers in the insurance industry in Kenya

Response	Frequency	Percent	Mean Score	Std. Dev.
Very weak	1	3.4		
Weak	1	3.4		
Moderate	13	44.8		
Strong	11	37.9	3.43	.84
Very strong	2	6.9		
Missing System	1	3.4		
Total	29	100.0		

Source: Research Data

The study findings presented in Table 8 show that respondents' overall assessment of the entry barriers in the insurance industry in Kenya was reflective of the observations made in Table 8 above. From the findings above, majority of the respondents assessed entry barriers to be moderate and strong at a combined proportion of 82.7% and mean score of 3.43 with 0.84 standard deviations. The findings therefore imply that one would be indifferent in describing the strength of the threat of new entrants as a contending competitive force that shapes firms' strategies in the insurance industry.

4. 3.2 The Degree of rivalry in the Insurance Industry

In any industry, and where market conditions are largely reflective of perfect competition, players in the industry adopt strategies that are motivated by the need to acquire superior competitive position in the industry. The competitive behavior can also occur because one or more competitors either feels the pressure or sees the opportunity to improve position. As a result, firms engage in a form of jockeying for position using tactics like price competition, advertising battles, new product introductions, and increased customer service or warranties. The study intended to determine the degree of rivalry in the insurance industry in order to establish its strength in shaping strategy in the insurance industry and ascertain its impact on the attractiveness of the industry. Consequently, respondents were presented with determinants of rivalry and asked to rate them as whether or not they are major determinants of competition. The findings of the study are presented in Table 9

Table 9: Determinants of Rivalry

Source: Research Data

Determinant	Response	Frequency	Percent	Mean Score	Std Dev.
Number and size of Firm	Negligible	2	6.9	3.69	1.20
	Low	3	10.3		
	Moderate	5	17.2		
	High	11	37.9		
	Very High	8	27.6		
	Total	29	100.0		
Industry growth	Negligible	3	10.3	3.66	.98
	Low	11	37.9		
	Moderate	8	27.6		
	High	7	24.1		
	Very High	29	100.0		
	Total	3	10.3		
Brand Identity	Negligible	1	3.4	3.83	1.10
	Low	2	6.9		
	Moderate	8	27.6		
	High	8	27.6		
	Very High	10	34.5		
	Total	29	100.0		
Product Differences	Negligible	2	6.9	3.17	1.17
	Low	6	20.7		
	Moderate	11	37.9		
	High	5	17.2		
	Very High	5	17.2		
	Total	29	100.0		

Determinant	Response	Frequency	Percent	Mean Score	Std Dev.
Informational Complexity	Negligible	1	3.4	3.07	1.03
	Low	8	27.6		
	Moderate	11	37.9		
	High	6	20.7		
	Very High	3	10.3		
	Total	29	100.0		
Switching costs	Negligible	4	13.8	2.97	1.32
	Low	9	31.0		
	Moderate	4	13.8		
	High	8	27.6		
	Very High	4	13.8		
	Total	29	100.0		
Exit Barriers	Negligible	6	20.7	2.76	1.24
	Low	6	20.7		
	Moderate	8	27.6		
	High	7	24.1		
	Very High	2	6.9		
	Total	29	100.0		
Diverse competitors	Negligible	Negligible	1	3.31	1.17
	Low	Low	8		
	Moderate	Moderate	6		
	High	High	9		
	Very High	Very High	5		
	Total	Total	29		

In establishing the extent to which respondents perceived various determinants of rivalry to be major motivators of competitive rivalry, the study used frequencies and percentages and mean scores as in barriers to entry. Therefore, a mean score of below 3.00 indicate that a particular determinant of rivalry was found to be a minor motivator while the one with a mean score of between 3.00 and 3.99 indicate that it was found to be a moderate motivator. A rivalry determinant with a mean score of 4.00 and above was considered to a major motivator of competitive rivalry.

According to the research findings in Table 9 above, it was established that a large proportion of rivalry determinants that were presented to the respondents were moderate motivators of competitive rivalry. These rivalry determinants have a mean score of between 3.00 and 3.99. They include: brand identity, number and size of firms, industry growth, product differences, diverse competitors, and informational complexity. Determinants that were found to be minor motivators include: switching costs and exit barriers. These have means scores that are below 3.00. It was, therefore, established that no one determinant was perceived to be a major motivator of competitive rivalry among firms in the insurance industry.

The above findings imply that competitive rivalry in the insurance industry is not very fierce. This is because most of the rivalry determinants were found to be moderate motivators. Therefore, players in the industry do not engage in aggressive competitive wars. However, it should be observed that there were variations on the part of respondents, as indicated by the standard deviations, with respect to the strength of each of the determinants of rivalry. The variation ranged from a low of 0.98 standard deviations to a high of 1.32 standard deviations for industry growth and switching costs respectively. This means that in as much as the study findings indicated there could be no fierce competition in the industry, there was variance of the degree to which respondents indicated so.

The above observation was evident from the findings of the study in Table 10 with respect to the intensity of competition in the insurance industry.

Table 10: Intensity of competition in the insurance industry

Response	Frequency	Percent	Mean Score	Std Dev.
Negligible	1	3.4	4.07	0.84
Moderate	3	10.3		
High	17	58.6		
Very High	8	27.6		
Total	29	100.0		

Source: Research Data

The findings in Table 10 show that majority (58.6%) of the respondents perceived the intensity of competition in the insurance industry to be high while 27.6% of them perceived it as very high. These findings reflect the fact that rivalry in the insurance industry is quite high, slightly contrary to earlier findings which indicated that most of the determinants to competition were found to be moderate motivators. With a mean score of 4.07 and 0.84 standard deviations, the findings indicate that rivalry among the players in the industry is a contending competitive force; hence it has the power to shape strategy. This also implies that the industry might not be such attractive to new entrants.

Consequently, respondents were asked to indicate the extent to which rivalry in the industry has an effect on their companies' profitability. The study findings are as presented in Table 11

Table 11: Extent of the effect of competition on companies' profitability

Response	**Frequency**	**Percentage**	**Mean Score**	**Std. Dev.**
Not at all	1	3.4		
Less Extent	2	6.9		
Moderate Extent	10	34.5		
Large extent	9	31	3.61	1.03
Very Large Extent	6	20.7		
Missing system	1	3.4		
Total	29	100		

Source: Research Findings

Research findings as shown in Table 11 indicate that, overall, competition in the insurance industry has a fairly great effect on the companies' profitability. This is in spite of indications by some respondents that competition has no effect at all or has effect to less extent. An aggregate proportion of those who indicated moderate, large and very large extents show a high of 86.2%. The mean score of 3.61 with 1.03 standard deviations indicates that competition affects companies' profitability to a fairly large extent albeit with significant variation of the extent on the strength of the effect.

4. 3.3 Buyer Bargaining Power

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. It was the study's intention to establish whether or not consumers and/or buyers of the insurance products exert any influence on the industry players. The study findings as presented in Table 12 below show the respondents' answer to this phenomenon.

Table 12: Existence of Buyer Bargaining Power

	Frequency	**Percent**
Yes	18	62.1
No	11	37.9
Total	29	100.0

Source: Research Data

From the study findings, 62.1% indicated that buyers have bargaining power over the insurance companies while 37.9% indicated otherwise. To further seek more explanation to this phenomenon, respondents were presented with determinants of buyer power and were asked to rate with respect to the extent to which they drive buyer bargaining power. Research findings are presented in Table 12

Table 13: Determinants of Buyer Bargaining Power

Buyer information about what other firms are offering	Low	2	6.9	3.95	.94
	Moderate	3	10.3		
	High	9	31.0		
	Very High	6	20.7		
	Total	20	69.0		
	Missing System	9	31.0		
	Total	29	100.0		
Substitute products/services	Negligible	2	6.9	3.26	1.19
	Low	3	10.3		
	Moderate	4	13.8		
	High	8	27.6		
	Very High	2	6.9		
	Missing System	10	34.5		
	Total	29	100.0		
Price Vs total volume of business	Negligible	1	3.4	3.60	1.05
	Low	2	6.9		
	Moderate	4	13.8		
	High	10	34.5		
	Very High	3	10.3		
	Missing System	9	31.0		
	Total	29	100.0		
Buyer profits	Negligible	3	10.3	2.68	1.06
	Low	5	17.2		
	Moderate	6	20.7		
	High	5	17.2		
	Missing System	10	34.5		
	Total	29	100.0		
Product differences	Negligible	3	10.3	2.90	1.33
	Low	6	20.7		
	Moderate	4	13.8		
	High	4	13.8		
	Very High	3	10.3		
	Missing System	9	31.0		
	Total	29	100.0		
Brand identity	Negligible	1	3.4	3.60	1.10
	Low	1	3.4		
	Moderate	8	27.6		
	High	5	17.2		
	Very High	5	17.2		
	Missing System	9	31.0		
	Total	29	100.0		

Determinants of buyer power (cont'd)

Determinant	Response	Frequency	Percentage	M. S.	S.D.
Buyer Concentration (number and size)	Negligible	2	6.9	3.32	1.16
	Low	2	6.9		
	Moderate	5	17.2		
	High	8	27.6		
	Very High	2	6.9		
	Missing system	10	34.5		
	Total	29	100.0		
Buyer Volume (Volume of business)	Negligible	1	3.4	3.95	1.28
	Low	3	10.3		
	Moderate	1	3.4		
	High	6	20.7		
	Very High	9	31.0		
	Missing system	9	31.0		
	Total	29	100.0		

Source: Research Data

The findings in Table 13 show that most of the determinants of drive buyer bargaining power to a moderate extent. Majority of the driving factors had a mean score of between 3.00 and 3.99. These include: buyer volume (volume of business), buyer information about what other firms are offering, price versus total volume of business, brand identity, buyer concentration (number and size), and substitute products/services. Those that were found to drive bargaining power to a less extent include: product differences, and buyer profits. These have mean scores that are less than 3.00. Just as other previous findings of the study, findings with respect to buyer bargaining power indicate that responses were at variance with respect to the extent to which the various determinants drive buyer bargaining power. This variation ranges from a low of 0.94 standard variations for buyer information about what other firms are offering to a high of 1.33 standard deviations for product difference

Table 14: Overall bargaining power of customers over insurance companies

Response	**Frequency**	**Percentage**	**M. S.**	**S.D.**
Negligible	5	17.2	2.83	1.14
Low	5	17.2		
Moderate	10	34.5		
High	8	7.6		
Very High	1	3.4		
Total	29	100.0		

Source: Research Data

The findings of the study further indicate that not all respondents provide answers to this question because the answers were dependent on the answer to previous question.

The findings imply that buyers of the insurance industry products could exert their influence on the insurance companies especially when the buyers purchase the services in large volumes and when they have information about what other providers are offering. However, the overall bargaining power of buyers over insurance companies was found to be rated lowly as shown in Table 14

From Table 14 above, the findings indicate an almost uniform distribution of the proportions of respondents across the response options. However, the larger proportion (34.5%) of the respondents indicated that the overall bargaining power of buyers over insurance companies is moderate. The spread of the responses across all the options was indicated by the low mean score of 2.83 and variation of 1.14 standard deviations among the respondents. It is therefore expected that insurance companies will wedge a little bit more bargaining power over the buyers.

Research findings on the magnitude of insurance companies' power over buyers are shown in Table 15

Table 15: Insurance companies' power over buyers

Response	Frequency	Percent	Mean Score	Std. Dev.
Negligible	2	6.9	3.24	1.02
Low	3	10.3		
Moderate	13	44.8		
High	8	27.6		
Very High	3	10.3		
Total	29	100.0		

Source: Research Data

The findings in Table 15 indicate that insurance companies also have some bargaining power over their customers. This is indicated by the 44.8%, 27.6% and 10.3% of the respondents who stated that insurance companies' power over buyers is moderate, high, and very high respectively. Therefore, the bargaining power of buyers is balanced out and as far as being a contending competitive is concerned, it is not a very strong force. However, this does not rule out its potential impact on insurance companies' profitability.

It was, however, revealed that buyer bargaining power has a considerable effect on the insurance companies' profitability. According to the study findings, 20.7% and 48.3% of the respondents indicated that buyer bargaining power has an effect on companies' profitability to a moderate extent and large extent respectively. This is shown in Table 16

Table 16: Extent of effect of buyer bargaining power on insurance companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Not at all	2	6.9	3.10	1.01
Less extent	7	24.1		
Moderate extent	6	20.7		
Large extent	14	48.3		
Total	29	100.0		

Source: Research Data

The findings in Table 16 imply that in as much as insurance companies were found to have some bargaining power over buyers; the buyers' bargaining power seemed to have a significant effect on the profitability of insurance companies. The findings therefore signify that buyers' move could greatly impact on the industry's long term profitability.

4.3.4 Supplier Bargaining Power

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The study first sought to establish existence of supplier power in the insurance industry. Research findings as shown in Table 17 below indicate that the power of suppliers is minimal.

Table 17: Existence of Supplier Power

	Frequency	Percent
Yes	7	24.1
No	22	75.9
Total	29	100.0

Source: Research Data

The findings in Table 17 above indicate that majority of the respondents (75.9%) were of the view that there is non existence of supplier power in the insurance industry. However, there were those who indicated that such power exists (24.1%). These findings affected the findings on the subsequent sections on supplier bargaining power. Respondents' responses on the various determinants of supplier power reflected this scenario to some extent. The findings are presented in Table 18

Table 18: Determinants of Supplier Power

Determinant	Response	Frequency	Percentage	Mean	Std. Dev.
Supplier Differences	Negligible	4	13.8	2.65	1.07
	Low	6	20.7		
	Moderate	7	24.1		
	High	6	20.7		
	Missing System	6	20.7		
	Total	29	100		
Presence of substitute supplies	Negligible	3	10.3	2.78	1.04
	Low	5	17.2		
	Moderate	10	34.5		
	High	4	13.8		
	Very High	1	3.4		
	Missing System	6	20.7		
	Total	29	100		
Supplier concentration (Number and size)	Negligible	1	3.4	3.22	0.90
	Low	2	6.9		
	Moderate	13	44.8		
	High	5	17.2		
	Very High	2	6.9		
	Missing System	6	20.7		
	Total	29	100		
Importance of volume of business to supplier	Negligible	1	3.4	3.30	1.06
	Low	5	17.2		
	Moderate	5	17.2		
	High	10	34.5		
	Very High	2	6.9		
	Missing System	6	20.7		
	Total	29	100		
Impact of supplies on cost (Low/High)	Negligible	3	10.3	3.23	1.23
	Low	3	10.3		
	Moderate	4	13.8		
	High	10	34.5		
	Very High	2	6.9		
	Missing System	7	24.1		
	Total	29	100		
Switching costs(Low/High)	Negligible	4	13.8	2.91	1.24
	Low	3	10.3		
	Moderate	10	34.5		
	High	3	10.3		
	Very High	3	10.3		
	Missing System	6	20.7		
	Total	29	100		

The findings in Table 18 show that majority of the responses concentrate on the lower sides of the scale (negligible, low, moderate) and on the “missing system” option. This implies that very few respondents were of the view that suppliers have bargaining power over insurance companies. However, a look at the mean scores indicate that 50% of the determinants that were presented to the respondents had between mean scores of 3.00 and 3.99 while the other 50% have mean scores that are below 3.00. Accordingly, suppliers to the insurance industry exhibit moderate bargaining power on the basis of some determinants but very low on others. The findings indicate that supplier power in the insurance industry is manifested to a moderate extent with respect to supplier concentration (number and size), importance of volume of business to the supplier, and impact of supplies on costs (low/high). Therefore, as a contending competitive force, supplier power does not significantly shape companies strategy and hence could not affect the industry’s attractiveness.

It was further established that the overall supplier bargaining power over insurance companies, the extent of effect of supplier bargaining power on insurance companies’ profitability, and the insurance companies’ power over suppliers are all reflective of the above findings. Research findings on these aspects are presented in Table 19

Table 19 Aspects of supplier power

Aspect	Response	Frequency	Percent	Mean Score	Std Dev.
Overall supplier bargaining power over insurance companies	Negligible	5	17.2	2.65	1.07
	Low	6	20.7		
	Moderate	11	37.9		
	High	4	13.8		
	Very High	2	6.9		
	Missing System	1	3.4		
	Total	29	100.0		
Extent of effect of supplier bargaining power on insurance companies' profitability	Negligible	5	17.2	2.78	1.04
	Low	6	20.7		
	Moderate	11	37.9		
	High	4	13.8		
	Very High	2	6.9		
	Missing System	1	3.4		
	Total	29	100.0		
Insurance companies' power over suppliers	Negligible	1	3.4	3.22	.90
	Low	3	10.3		
	Moderate	14	48.3		
	High	8	27.6		
	Very High	2	6.9		
	Missing System	1	3.4		
	Total	29	100.0		

Source: Research Data

The research findings presented in Table 19 indicate that overall supplier bargaining power over insurance companies is not strong. According to research findings, majority of the respondents indicated that it is moderately strong. Consequently, the same is reflected on the extent of effect of supplier bargaining power on insurance companies' profitability with majority of the respondents (51.7%) indicating that supplier power affect the companies' profitability to a moderate extent. This is balanced with the power insurance companies have over the supplier as indicated by the respondents. However, in all the above aspects, the degree to which bargaining power was perceived by the respondents on either side varied across board as indicated by the standard deviations.

4.3.5 Threat of Substitutes

All firms in an industry are competing, in a broader sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternatives offered by substitutes, the firmer the lid on industry profits and vice versa. The study intended to establish the extent to which substitute products pose a threat to the insurance companies' profitability. The findings of the study are presented in Table20

Table 20: Threat of substitutes' effect on insurance companies' profitability

Response	Frequency	Percent	Mean Score	Std. Dev.
Less extent	8	27.6	3.21	1.01
Moderate extent	11	37.9		
Large extent	6	20.7		
Very large extent	4	13.8		
Total	29	100.0		

Source: Research Data

The research findings as presented in Table 20 show that the effect of threat of substitute products on the companies' profitability ranges from a less extent to a very large extent with the moderate extent having larger proportion (37.9%). The combined proportion of respondents who indicated large extent and very large extent (34.5%) is more than those who indicated less extent.

Therefore, the threat of substitute products is a contending competitive force in the insurance industry and has a potential of shaping competitive strategy of the industry players. The threat of substitutes is determined by various factors. The combined strength of the factors indicates the strength of threat that substitutes pose to the survival of firms that are already in the industry. The study set to establish the extent to which various determinants contribute to the strength of the power

of substitute products as a contending competitive force. The findings of the study are presented in Table 21

Table 21: Determinants of threat of substitutes.

Determinant	Response	Frequency	Percent	Mean Score	Std Dev.
Relative price of substitutes	Negligible	3	10.3	3.36	1.19
	Low	3	10.3		
	Moderate	7	24.1		
	High	11	37.9		
	Very High	4	13.8		
	Missing System	1	3.4		
	Total	29	100.0		
Switching costs by buyers	Negligible	4	13.8	2.93	1.30
	Low	8	27.6		
	Moderate	6	20.7		
	High	6	20.7		
	Very High	4	13.8		
	Missing System	1	3.4		
	Total	29	100.0		
Buyer propensity to substitute	Negligible	2	6.9	3.21	1.23
	Low	6	20.7		
	Moderate	10	34.5		
	High	4	13.8		
	Very High	6	20.7		
	Missing System	1	3.4		
	Total	29	100.0		

The findings in Table 21 show that relative prices of substitutes and buyer propensity to substitute were found to be determinants of threat of substitutes. They were rated with mean scores of 3.36 and 3.21 respectively. Even though switching costs by buyers had a mean score of 2.93, there were proportions of respondents who indicated that its determining capacity of the threat of substitutes is moderate, high and very high (20.7%, 20.7%, and 13.8% respectively). Similarly, even though relative price of substitutes and buyer propensity to substitute were rated as having a high and very determining capacities to the threat of substitutes, there respondents who indicated that these two determinants have negligible and low capacity to determine the threat of substitutes.

The threat of substitutes also has a potential of having an effect of an industry's profitability. Study findings on the extent to which substitutes have effect on insurance companies' profitability are presented in Table 22

Table 22: Extent of the effect of substitutes on insurance companies' profitability

Response	Frequency	Percent
Not at all	1	3.4
Less extent	8	27.6
Moderate extent	11	37.9
Large extent	4	13.8
Very large extent	4	13.8
Missing System	1	3.4
Total	29	100.0

Source: Research Data

According to research findings presented in Table 22, the government is a contending force that insurance companies would be forced to handle. The findings indicate that government policies have effect on the insurance companies' operations to a large extent and very large extent at 34.5% and 17.2% respectively. Further, 37.9% of the respondents indicated that the nature of the government's impact is positive while 13.8% felt that it has a negative impact. However, majority of the respondents (48.3%) indicated that the nature of government's impact is both positive and negative.

The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

The findings in Table 22 show that substitutes have an effect to insurance companies' profitability to different degrees. 37.9% of the respondents indicated that substitutes affect profitability to a moderate extent, 13.8% each indicated that they affect profitability to large extent and very large extent respectively. The results imply that the threat of substitutes is a strong force to contend with in the insurance industry.

4.3.6 Government Policies

The government is a major stakeholder in any industry because of its role in defining the legal framework to guide and regulate the conduct of business. The government also plays a key role public policy formulation and implementation. It was the study intention to establish the extent to which government activity forms a separate contending force in the insurance industry. Study findings on the extent to which government polices have effect on operations of companies in the insurance industry and the nature such effect are presented in Table 23.

Table 23: Extent of effect of government policies and nature of the impact

	Response	Frequency	Percent
Extent of effect of government policies on insurance companies' operations in Kenya	Not at all	3	10.3
	Less extent	4	13.8
	Moderate extent	7	24.1
	Large extent	10	34.5
	Very large extent	5	17.2
	Total	29	100.0
Nature of government's impact on the companies' operations	Positive	11	37.9
	Negative	4	13.8
	Both (50-50)	14	48.3
	Total	29	100.0

Source: Research Data.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study set out to achieve one objective: to assess the attractiveness of the insurance industry in Kenya. Based on this objective and variables drawn from available literature, a questionnaire was developed and used to gather the data. The data collected were analyzed using frequencies, percentages, mean scores, and standard deviations. In this chapter, the findings of the study are summarized and conclusions drawn. This chapter also includes sections on limitations to the study and suggestions for further research.

5.2 Summary

Ascertaining industry attractiveness forms the basis decision making on whether firms should enter, remain or exit an industry. Industry attractiveness is measured by the level of profitability in an industry, which is a derivative of the nature of the economic features and key success factors of the industry. In ascertaining the attractiveness of an industry, forces that determine the level of profitability form the basis for industry analysis. These forces have been presented by Porter (1980) as Five-Force Industry Analysis Model. The study adopted this model with a slight modification to assess the attractiveness of the Kenyan insurance industry. These forces include: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, rivalry among existing industry competitors, and threat of substitute products/services. The study also included government as a sixth force.

The study findings showed that the forces that were used to assess the attractiveness of the Kenyan insurance industry manifested different degrees of strength. Research findings with respect to the threat of new entrants revealed that a large proportion of entry barriers that were presented to the respondents were strong. They include: high operating costs, price wars, brand equity, government regulation and/or policy, and economies of scale. The entry barriers that were found to be weak include: expected retaliation, technology, proprietary product differences, and existing partnership by competitors. These findings imply that players in the industry do not face a high threat from new entrants into the industry. Therefore, from the point of view of a new entrant, it is not very profitable to invest in the insurance industry.

However, it should be observed that there were variations on the part of respondents with respect to the strength of each of the barriers to entry. This implies that in as much as the study findings indicated that it could be difficult for new entrants to enter the insurance industry, there is variance of the degree to which this is so. Research findings on threat by new companies coming in to directly compete with insurance companies in the future indicated that 62.1% of the respondents moderately rated new entrants as posing a threat to industry players, while 17.2% and 3.4% of the respondents highly and very highly rated new entrants as a threat respectively. It is therefore evident that threat of new entrants as a force to contend with in the industry is fairly strong.

Research findings with regard to the degree of rivalry in the insurance industry in the insurance industry indicated that a large proportion of rivalry determinants that were presented to the respondents were moderate motivators of competitive rivalry. They include brand identity, number and size of firms, industry growth, product differences, diverse competitors, and informational complexity. The findings imply that competitive rivalry in the insurance industry is not very fierce. Therefore, players in the industry do not engage in aggressive competitive wars. However, it should be observed that there were variations on the part of respondents with respect to the strength of each of the determinants of rivalry. This means that in as much as the study findings indicated there could be no fierce competition in the industry, there was variance of the degree to which respondents indicated so.

Slightly contrary to the above findings, further research findings revealed that majority (58.6%) of the respondents perceived the intensity of competition in the insurance industry to be high while 27.6% of them perceived it as very high. These findings indicate that rivalry among the players in the industry is a contending competitive force; hence it has the power to shape strategy. This also implies that the industry might not be such attractive to new entrants. The study results indicated that overall, competition in the insurance industry has a fairly great effect on the companies' profitability. This is in spite of indications by some respondents that competition has no effect at all or has effect to less extent.

Findings regarding buyer bargaining power showed that 62.1% of the respondents indicated that buyers have bargaining power over the insurance companies while 37.9% indicated otherwise. The findings further showed that most of the determinants drive buyer bargaining power to a moderate extent. These include: buyer volume (volume of business), buyer information about what other firms are offering, price versus total volume of business, brand identity, buyer concentration (number and size), and substitute products/services. Those that were found to drive bargaining power to a less extent include: product differences and buyer profits.

The findings imply that buyers of the insurance industry products could exert their influence on the insurance companies especially when the buyers purchase the services in large volumes and when they have information about what other providers are offering. However, the overall bargaining power of buyers over insurance companies was found to be lowly rated with a larger proportion (34.5%) of the respondents indicating that the overall bargaining power of buyers over insurance companies is moderate.

The findings on supplier power revealed that majority of the respondents (75.9%) were of the view that there is non existence of supplier power in the insurance industry. However, there were those who indicated that such power exists (24.1%). Accordingly, suppliers to the insurance industry exhibit moderate bargaining power on the basis of some determinants but very low on others. The findings indicate that supplier power in the insurance industry is manifested to a moderate extent with respect to supplier concentration (number and size), importance of volume of business to the supplier, and impact of supplies on costs (low/high). Therefore, as a contending competitive force, supplier power does not significantly shape companies strategy and hence could not affect the industry's attractiveness.

Threat of substitutes was another contending competitive force that was studied. Research findings indicated that the effect of threat of substitute products on the companies' profitability ranged from a less extent to a very large extent. Therefore, the threat of substitute products is a contending competitive force in the insurance industry and has a potential of shaping competitive strategy of the industry players. The threat of substitutes was found to be determined by various factors. The findings indicated that relative prices of substitutes and buyer propensity to substitute were found to be determinants of threat of substitutes. They were rated with mean scores of 3.36 and 3.21 respectively. Even though switching costs by buyers had a mean score of 2.93, there were proportions of respondents who indicated that its determining capacity of the threat of substitutes is moderate, high and very high (20.7%, 20.7%, and 13.8% respectively). Similarly, even though relative price of substitutes and buyer propensity to substitute were rated as having a high and very determining capacities to the threat of substitutes, there respondents who indicated that these two determinants have negligible and low capacity to determine the threat of substitutes.

Finally, research findings on the role of government revealed that the government is a contending force that insurance companies would be forced to handle. The findings indicated that government policies have effect on the insurance companies' operations to a large extent. Further, majority of the respondents (48.3%) indicated that the nature of government's impact is both positive and negative. The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

5.3 Conclusions

The findings of this research have brought to light an understanding of the competitive forces that shape strategy in the insurance industry and the extent to which these forces affect the attractiveness of the industry. The overall conclusion that could be drawn from the findings of this study is that the insurance industry is not very attractive for the new entrants. Consequently, from the point of view of the companies already in the industry, most of the forces were found to be weak. The companies do not face any serious threat from either new entrants or substitutes. In spite of this, the findings did indicate some consistency with respect to respondents' ratings of the strength of the forces with most of the determinants of each force being moderately rated as motivators of the strength of the forces.

However, in as much as the findings indicated that the industry is not very attractive; there were variations among the respondents with respect to the degree to which a particular force is strong. These variations indicated that different proportions of respondents were of different views regarding the extent to which the various factors determined the strength of the forces. Despite these variations, the study generally revealed that almost all the forces have an effect on the companies' profitability. Therefore, the attractiveness of the insurance industry is dependent on whether one is looking at from the point of view of a player in the industry or a potential entrant. From the point of the player in the industry, the industry is fairly attractive but largely unattractive for new entrants.

5.4 Limitations to the Study

The findings of this study should be interpreted with the following limitations in mind.

First, it was not possible to get 100% response rate due to the busy schedule for some of the respondents who never found time to fill and return back the questionnaires while some refused to participate in the study.

Secondly, there is a limitation of authenticity of the data received. It was not easy to establish whether or not the targeted respondents were the ones who participated in offering the data that was analyzed. Given that the questionnaires were delivered to respective insurance companies, it was not possible to be present to ensure that the right respondents participate in the study.

Thirdly, the study was limited to the use of Porter's Industry analysis model to assess the attractiveness of the industry. This model has of late come under scrutiny that it may not be applicable to developing country contexts. Therefore, all aspects of the model as originally developed (within developed country context) could not have been considered in the study.

5.5 Recommendations.

In connection with further research, the researcher recommends the following:

First since this study adopted the use of Porter's Five Force industry analysis model to assess the attractiveness of the insurance industry, the same model could be used for the industry's structural and competitive analysis.

It is also recommended that studies focusing on the individual competitive forces be carried out in the insurance industry. For instance a study focusing on the relationship between determinants of competitive rivalry and competitive strategies adopted by the insurance companies could be done to shed more light on that particular force.

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APPENDICES

Appendix I: Research Questionnaire

PART A: ORGANIZATIONAL PROFILE

1. Name of the Company____
2. Year of establishment_____________________________
3. Ownership (tick as appropriate)

   Local [ ] Foreign [ ] Both Local and Foreign [ ]

   Other (specify)
4. Scope of operation

   Local (within Nairobi) [ ]

   National (within Kenya) [ ]

   Regional (within East Africa) [ ]

   Global (worldwide) [ ]
5. Number of employees

   Less than 500 [ ]

   501-1000 [ ]

   1001-1500 [ ]

   Over 1501 [ ]
6. Areas of business(insurance products offered) –List

   i.

   ii.

   iii.

   iv.

   v

7. How many years have been with the company and in the current position?

   ____

PART B: ATTRACTIVENESS

Barriers to Entry/Threat of New Entrants

8. Do you think there are barriers in Kenya which prevent potential investors from entering the insurance industry?

   Yes [ ]   No [ ]

9. How would you rate the following aspects as being barriers to entry into the insurance industry in Kenya? Use the scale provided.

   1-Negligible; **2-**Low; **3-**Moderate; **4-**High; **5-**Very High

a.	Economies of scale	[1]	[2]	[3]	[4]	[5]
b.	Proprietary product differences	[1]	[2]	[3]	[4]	[5]
c.	Brand identity	[1]	[2]	[3]	[4]	[5]
d.	High operating costs	[1]	[2]	[3]	[4]	[5]
e.	Capital requirements	[1]	[2]	[3]	[4]	[5]
f.	Price wars	[1]	[2]	[3]	[4]	[5]
g.	Government regulation/policy	[1]	[2]	[3]	[4]	[5]
h.	Technology	[1]	[2]	[3]	[4]	[5]
i.	Expected retaliation	[1]	[2]	[3]	[4]	[5]
j.	Existing partnership by competitors	[1]	[2]	[3]	[4]	[5]

10. How would you rate the **Threat** by new companies coming in to directly compete with your company in the future? (tick as appropriate)

    Negligible [ ]   Low [ ]   Moderate [ ]   High [ ]   Very High [ ]

11. To what extent would you say the new entrants are a threat to your company's profitability? (tick as appropriate)

    Not at all [ ]
    Less extent [ ]
    Moderate extent [ ]
    Large extent [ ]
    Very large extent [ ]

12. What is your overall assessment of the entry barriers in the insurance industry in Kenya?

    Very weak [ ]

    Weak [ ]

    Moderate [ ]

    Strong [ ]

    Very strong [ ]

Rivalry among Competitors

13. How many companies does your company compete with?____________
14. Which companies do you consider as the main competitors in the insurance industry? (list them is the space below)

    ____

    ____

    ____

    ____

    ____

15. How would you rate the following as being the **Major Determinants** of competition in the industry? Use the scale below.

    1-Negligible; **2-**Low; **3-**Moderate; **4-**High; **5-**Very High

    a. Number and size of firms [1] [2] [3] [4] [5]
    b. Industry growth [1] [2] [3] [4] [5]
    c. Brand identity [1] [2] [3] [4] [5]
    d. Product differences [1] [2] [3] [4] [5]
    e. Informational complexity [1] [2] [3] [4] [5]
    f. Switching costs [1] [2] [3] [4] [5]
    g. Exit barriers [1] [2] [3] [4] [5]
    h. Diverse competitors [1] [2] [3] [4] [5]

16. How would you rate the **Intensity** of competition in the insurance industry?

    Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

17. To what extent does competition have an effect in your organization's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

Bargaining power of Buyers

18. Do you think your clients have a bargaining power over your company?

Yes [ ] No [ ]

19. If Yes in (18) above, how would you rate the following aspects as being the determinants of buyers'/clients' bargaining power? Use the scale below.

1-Negligible; **2-**Low; **3-**Moderate; **4-**High; **5-**Very High

a.	Buyer concentration (number and size)	[1] [2] [3] [4] [5]
b.	Buyer volume (volume of business)	[1] [2] [3] [4] [5]
c.	Buyer switching costs (low/high)	[1] [2] [3] [4] [5]
d.	Buyer information about what other firms are offering	[1] [2] [3] [4] [5]
e.	Substitute products/services	[1] [2] [3] [4] [5]
f.	Price Vs total volume of business	[1] [2] [3] [4] [5]
g.	Buyer profits	[1] [2] [3] [4] [5]
h.	Product differences	[1] [2] [3] [4] [5]
i.	Brand identity	[1] [2] [3] [4] [5]

20. How would you rate the overall bargaining power of your customers over you?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

21. To what extent does buyer bargaining power have an effect in your organization's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

22. How would you rate your power over the customers/buyers/clients?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

Bargaining Power of Suppliers

23. Whom would you identify as the company's major suppliers (those who supply it with products/services that enable it operate)?

____

____

____

____

____

24. Do the suppliers mentioned above (if any) have any power over the company?

Yes [ ] No [ ]

25. To what extent do the following factors determine suppliers' power over you? Use the scale below.

1- Not at all **2-** Less extent **3-**Moderate extent **4-**Large extent 5**-**Very large extent

a. Supplier differences [1] [2] [3] [4] [5]

b. Presence of substitute supplies [1] [2] [3] [4] [5]

c. Supplier concentration (number and size) [1] [2] [3] [4] [5]

d. Importance of volume of business to the supplier [1] [2] [3] [4] [5]

e. Impact of supplies on costs (low/high) [1] [2] [3] [4] [5]

f. Switching cost of suppliers (low/high) [1] [2] [3] [4] [5]

26. Overall, how would you rate the power of suppliers over your company?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

27. To what extent does supplier bargaining power have an effect in your organization's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

28. How would you rate your power over your suppliers?

Negligible [ ]; Low [ ]; Moderate [ ]; High [ ]; Very High [ ]

Threat of Substitutes

29. To what extent does the threat of substitutes have an effect on your company's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

30. How would you rate the following factors as determinants of substitute threat? Use the scale below.

1-Negligible; **2-**Low; **3-**Moderate; **4-**High; **5-**Very High

a. Relative price of substitutes [1] [2] [3] [4] [5]

b. Switching costs by buyers [1] [2] [3] [4] [5]

c. Buyer propensity to substitute [1] [2] [3] [4] [5]

31. To what extent do substitute products have an effect in your organization's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

Government

32. To what extent do you think government policies affect your company's operations in Kenya?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

33. What is the nature of government's impact on the company's operations?

Positive [ ] Negative [ ] Both (50-50) [ ]

34. Which aspects of government regulatory role that affect your company's profitability?

____

____

____

____

____

35. To what do the above mentioned aspects affect your company's profitability?

Not at all [ ]

Less extent [ ]

Moderate extent [ ]

Large extent [ ]

Very large extent [ ]

36. Do you think the government policies favor some of the insurance companies?

Yes [ ] No [ ]

37. If Yes in (36) above, why?

____

____

____

____

38. Which other aspects of government regulation/policies do you think affect your firm's business operations?

    ____

    ____

    ____

    ____

    ____

    ______

Thank You for Your Cooperation

Appendix II: List of Insurance Companies

NAME	**PHYSICAL LOCATION**

Africa Merchant Assurance Company	Transnational Plaza, Mama Ngina Street
AIG Insurance Company	ALICO Hse, Mamlaka Rd
Apollo Life Assurance Company Ltd	Hughes Building, Kenyatta Avenue
Blue Shield Insurance Company Ltd	Raghbani House, Tom Mboya Street
British American Insurance Company	Mara/Ragati Roads
Cannon Assurance Company (K) Ltd	Cannon House, HaileSelassie Avenue
CFC Life Assurance company	CFC House (Formerly Alico House)
Concord Insurance Company Ltd	Yaya Centre Building, Argwings Kodhek Road
Co-Operative Insurance Company Ltd	CIC Plaza Mara Rd Upperhill
Corporate Insurance Company Ltd	Corporate Place, Kiambere Road upperhill
Directline Assurance Company	Hazina Towers, 17th fl, Monrovia Street
Fidelity-Shield Insurance Company Ltd	Rank Xerox 4thfl Parkland Rd,
First Assurance Company Ltd	Clyde gardens off Gitanga Road Lavington
Gateway Insurance Company Ltd	Gateway Place, Milimani Road
Geminia Insurance Company Ltd	Agip House, HaileSelassie Avenue
General Accident Insurance Company Ltd	General Accident House, Ralph Bunche Rd
Heritage A.I.I Insurance Company Ltd	CFC House (Formerly Alico House)
Insurance Company of East Africa Ltd	ICEA Building, Kenyatta Avenue
Intra Africa Assurance Company Ltd	Williamson House, 4th Ngong Avenue
Jubilee Insurance Company Ltd	Jubilee Insurance Hse, Wabera Street.
Kenindia Assurance Company	Kenindia House, Loita Street
Kenya Orient Insurance Company Ltd	Capital Hill Towers, Cathedral Road
Kenyan Alliance Insurance Company Ltd	Chester House, Koinange Street
Lion of Kenya Insurance Company Ltd	Williamson House,4th Ngong Avenue
Madison Insurance Company Ltd	Madison Hse off Upper Hill Road
Mercantile Life & General Assurance Co. Ltd	Fedha Towers, Muindi Mbingu Street
Occidental Insurance Company Ltd	PostBank House, Market Street
Old Mutual Life Assurance Company Ltd	Old Mutual Building, Mara/Hospital Road
Pan African Life Assurance Company Ltd	Pan Africa House, Kenyatta Avenue

Pacis Insurance Company Ltd	Centenary Hse, Off Ring Rd Westlands.
Phoenix of East Africa Assurance Company Ltd	Ambank House, University Way
Pioneer Assurance Company Ltd	Pioneer House, Moi Avenue
Royal Insurance Company of E.A Ltd	Royal Ngao House, Hospital Road
Tausi Insurance Company Ltd	Tausi Court, Mikinduri Road, Westlands
The Monarch Insurance Company Ltd	Prudential Building, Wabera Street
Trident Insurance Company Ltd	Capital Hill Towers, Cathedral Road
Trinity Life Assurance Company Ltd	Reinsurance Plaza, Taifa Road
UAP Provincial Insurance Company Ltd	Bishop’s Garden Towers, Bishop’s Road