

**A SURVEY OF ENVIRONMENTAL DEVELOPMENTS AND  
FIRMS' RESPONSES IN THE HEALTH INSURANCE  
SECTOR IN KENYA**

**By**

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of the requirements for the award of Master of Business  
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## TABLE OF CONTENTS

DECLARATIONS.....	I
DEDICATION.....	II
LIST OF TABLES.....	III
ACKNOWLEDGEMENTS.....	IV
ABSTRACT.....	V
LIST OF ABBREVIATIONS.....	IV
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background.....	1
1.2 Statement of the Problem.....	6
1.3 Objectives of the Study.....	8
1.4 Significance of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction.....	10
2.2 Strategic Management.....	10
2.3 Health Insurance.....	15
CHAPTER THREE: STUDY METHODOLOGY.....	20
3.1 Population of Interest.....	20
3.2 Data Collection.....	20
3.3 Data Analysis.....	22
3.4 Scope of the Study.....	23

**CHAPTER FOUR: THE RESEARCH FINDINGS.....24**

**4.1 Introduction.....24**

**4.2 Organizations’ Profiles.....25**

**4.3 Business Environment.....35**

**4.4 Challenges Facing the sector.....39**

**4.5 Strategic Responses.....44**

**CHAPTER FIVE: CONCLUSIONS.....48**

**5.1 Summary and Recommendations.....48**

**5.2 Limitations Of The Study.....50**

**5.3 Suggestion For Further Study.....50**

**APPENDICES**

**APPENDIX I: Sample of Letter of Introduction**

**APPENDIX II: Questionnaire**

**APPENDIX III: List of Organizations Targeted (Population of interest)**

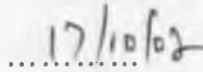
**BIBLIOGRAPHY**

## DECLARATION

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



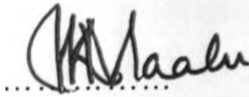
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Date

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This project has been submitted for examination with my approval as University Supervisor



Jackson Maalu



Date

Lecturer,

Department of Business Administration

University of Nairobi

## DEDICATION

To my family, and more particularly my wife Rose and children.

## LIST OF TABLES

<u>Table</u>	<u>Page</u>
<b>TABLE 1: Population Of Study.....</b>	<b>24</b>
<b>TABLE 2: Ownership/Controlling Share.....</b>	<b>25</b>
<b>TABLE 3: Responses On Staff Establishment.....</b>	<b>26</b>
<b>TABLE 4: Responses On Capital Base.....</b>	<b>27</b>
<b>TABLE 5: Responses On Branch Network.....</b>	<b>28</b>
<b>TABLE 6: Responses On Extent Of Delegation Of                     Authority And Responsibility.....</b>	<b>28</b>
<b>TABLE 7: Responses On Extent Of Use Of IT.....</b>	<b>29</b>
<b>TABLE 8: Responses As To Whether They Have                     Mission Statements.....</b>	<b>31</b>
<b>TABLE 9: Responses On The Planning Horizon.....</b>	<b>31</b>
<b>TABLE 10: Factors Influencing Strategic                     Planning And Strategy Formulation.....</b>	<b>32</b>
<b>TABLE 11: Responses On Forms Of Strategy.....</b>	<b>33</b>
<b>TABLE 12: Factors Contributing To The Firms'                     Successful Performance.....</b>	<b>36</b>
<b>TABLE 13: Responses On State Of Competition.....</b>	<b>37</b>
<b>TABLE 14: Responses On Approaches To                     Environmental Analysis.....</b>	<b>38</b>
<b>TABLE 15: Responses On Challenges.....</b>	<b>40</b>

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May Almighty God bless you all.

## ABSTRACT

Environmental turbulence is a phenomenon facing organizations globally and locally as they strive towards achieving their set objectives and goals. The environmental changes cut across different contexts and sectors. Kenya organisations are no exception to this.

This study focused on environmental developments in the health insurance sector in Kenya, the main objectives being to establish the challenges facing the sector and the strategic responses by the organisations affected.

The study employed a census survey methodology to collect the relevant data. The population of interest was 25 organisations i.e 13 private insurance companies, 11 HMOs and 1 social health insurance scheme. These are the organisations in the business of health insurance in Kenya.

A Questionnaire was designed and used to collect data through personal interview and drop and pick approaches later. A response rate of 60% (i.e. 15 respondents) was attained.

The study reveals that 60% of companies studied are fully locally owned, 53.03% have a capital base of less than Kshs 1 billion, over 66% of companies studied indicated limited delegation of authority and responsibility and 93.3% do have mission statements. There was consensus that premiums and claims have been going up over the last 5 years.



The results of the study reveals that organisations in the business of health insurance in Kenya faces a number of challenges and the escalating healthcare costs leads them all. It was also revealed that in coping with these challenges, various strategies are pursued. All the organisations revealed they do carry out the scanning of the business environment, formulate strategies that will enable the firms cope with changing environment, and develop capacities that matches the developed strategies to the firms' activities.

The findings indicate that trends in the business environment leads forces influencing strategy formulation i.e with a mean score of 4.47 which tends towards the most important score which is 5. It was further revealed that of the companies that responded 73.3% pursue a combination of both emergent and planned strategies.

Escalating healthcare costs was revealed to be a major challenge. It cut across the respondents that Networking and cooperation amongst the players in the sector is the most preferred approach to tackle most of the challenges they are facing.

The study focused mainly on the health insurance sector. There is need for a further study to be carried out to examine the developments and responses in the broader scope of healthcare management to which health insurance is just part of.

## **LIST OF ABBREVIATIONS**

- CEO:** CHIEF EXECUTIVE OFFICER
- GOK:** GOVERNMENT OF KENYA
- HIS:** HEALTH INFORMATION SYSTEMS
- HMOs:** HEALTH MAINTENANCE ORGANIZATIONS
- IT:** INFORMATION TECHNOLOGY
- MoH:** MINISTRY OF HEALTH
- NGO:** NON- GOVERNMENTAL ORGANIZATION
- NHIF:** NATIONAL HOSPITAL INSURANCE FUND
- CoV:** COEFFICIENT OF VARIATION

## **CHAPTER ONE:INTRODUCTION**

### **1.1 Background**

The health insurance sector touches on two industries namely, the healthcare and the insurance industries. The desire to have good health is common to all mankind. No normal person wishes to be sick. Nevertheless people fall sick and because of the contemplation of the possibility of ill health at one time or the other, man takes health cover to facilitate his healthcare in an event of occurrence of ill health.

Healthcare system is diverse. The healthcare providers deliver many different kinds of services in a wide variety of settings; in-patient general hospitals, speciality hospitals, freestanding ambulatory clinics, surgical centres, nursing homes e.t.c.(Porter 1979). Healthcare services in Kenya are delivered through similar settings as those pointed out by Porter.

The Kenyan health sector comprises of the public health system with major players being the Ministry of Health and the Ministry of Local Authorities. Other players are NGOs, Mission and the Private Sector. The health services are delivered through a network of 4214 health facilities i.e. GOK – 2149, NGO-845, and private-1220 with the public system accounting for 51% of the total (HIS, MOH 1999).

In the policy Framework (1994), the MoH's vision is "to support the creation of an enabling environment for the provision of sustainable quality health care that is acceptable, affordable, and accessible to all Kenyans.

In 1996, the total health expenditure in per capita terms was estimated at US\$ 6.2 per capita, much of which was tied in hospital based health care leaving very little for essential primary level healthcare (Mwangi 1996)

Owino and Korir (1997), in their study of the public health sector efficiency in Kenya reveals that inefficiency in the delivery of health services accounts for 30% of wastage of resources in the public health sector and that improve the quality of services provided significantly.

Over the last 10 years, macro-economic forces have led to inadequate financial resource flows to the health sector. These factors include low economic growth, inflation and devaluation of the Kenya shilling. The rise in poverty levels in an increase in the burden of disease resulting from phenomena such as AIDS/HIV/TB and strains of malaria that are resistant to conventional treatment have further strained the financial resources. The decline in real earnings has direct negative implications on household expenditures on health (MoH, 1999).

In other industries, the consumer makes the purchase decisions, pays for the product or service, but in healthcare the purchase decision payment and receipt of services are separated. The simple economic law; demand rises when prices fall or when quality at a given price increases do not apply in healthcare, (Porter 1979).

The lack of relevant, comparative information based on meaningful medical outcome measures leaves hospital and physicians to compete based on what is observed- the hospital pleasing physical environment, high technology

equipment, wide array of services, the physicians comforting bedside manner, or even high prices, (Porter 1979).

In most industries, customers can compare product performance and price with competing products e.g. buyers of automobiles can go on test-drives, compare prices at different dealers, draw on their own past experience, and consult publications that provide information on costs, margins, ratings of quality and reliability. However in healthcare patients and referring doctors do not have readily available measures of quality or the relationship between price and quality for a given physician, procedure, course of treatment, or hospital. Since many healthcare purchases are one-time events, patients cannot draw on past personal experiences, they only receive expert opinion from a doctor.

There are various possible sources of financial healthcare or ways in which people pay for health care. These can be classified into Government financing, direct out of pocket payments by service user, self-funded schemes and risk pooling through insurance payment mechanisms. These options are explained below;

**Government financing** is done through government allocation to health sector. This is through the recurrent and development expenditure budget spending of Ministry of Health. This subsidizes the cost of health care in the health public facilities.

**Direct payment of service users:** These are payments made directly by the households in form of fees and over the counter for purchase of drugs.

**Self-funded schemes:** In this plan no form of cover is purchased, but rather the employer sets aside a fund for payment of medical expenses incurred by staff members. The fund may be administered by either the client directly or by a scheme administrator for a management fee. Scheme benefits and limitations are determined by the employer.

**Risk pooling through insurance payment mechanisms:** It is important to note here that health insurance is the insurance that provides for payment of benefits as a result of sickness or injury (Bennet, et al 1983, pg 248). This can take various forms i.e. social health plan, mutual health organization plan, and private/commercial health insurance plan. These plans are explained as follows: -

*Social health plans:* Here contributions are based on ability to pay but access to services depends on need. These plans have no profit objective. An example here is the Kenyan's National Hospital Insurance Fund scheme which came into existence in 1966 July through an act of parliament Cap 255 laws of Kenya to take care of the majority of the Kenyan population.

*Mutual health organization plans:* These are non-profit making and are based on solidarity between members. Premiums are usually rated so that risk is shared across the pool of individual rather than assigned based on risks of individuals. This plan tend to have a strong community focus and especially in the informal sector. These plans are not common in Kenya.

*Private/Commercial health insurance plans:* These plans are operated for profit and are based on market principles. It is actuarial based where

premiums are based on the calculated risks of particular individuals incurring health costs such that those with higher risks pay more. In Kenya there are 40 private insurance companies out of which only 17 offer health packages, (annual report of the commissioner of insurance, 2001). Their scope, operations, and practices are regulated by the commissioner of insurance, (Ikiara 2001). Also in this category of plans are the Health Maintenance Organizations. These organizations offer health cover but are not subjected to the regulatory framework of commissioner of insurance. They have no medical reimbursement options and have restricted medical outlets. Unlike the conventional private insurance companies, they have their own outlets/facilities.

In Kenya the government has remained the major source of funding to the health sector accounting for 48% of the total expenditures in the sector, i.e. MoH-42%, other Government including donors-6%, Households/NGOs/Private sector including donors-47%, while NHIF and other insurances accounts for 5%. The main mechanism to-date to collect additional revenue for public and private care has been user fee and reimbursement from NHIF. Together these two makes up the national cost-sharing programmes (Current estimates: the Health Sector Reform 'Secretariat 1999).

As already pointed out, there are various players in the health care financing in general and the health insurance sector in particular. It is also clear that from above that there are various ways of financing healthcare and risk pooling through insurance payment mechanisms is one of them.

This study focused on the health insurance sector i.e. on organizations in the health insurance business in Kenya. The main focus was the environmental developments in the sector in the wake of the changing environment.

It is important to note that strategic management is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically. To survive, all organizations must be capable of astutely identifying and adapting to change.

## **1.2 Statement of the problem**

The health insurance sector in Kenya has not been spared by the effects of environment turbulence. The environment has not been static but rather dynamic, hence the sector like the others faces certain challenges and updating of management approaches is necessary. There is need for alignment and realignment i.e. organizations must match their activities, and strategies to the changing environment, and capabilities must be developed to match the strategies.

The prime task of strategic activities is thinking through the overall mission of business--- that is of asking the question "What is our business? This leads to the setting of objectives, the development of strategies and the making of today's decisions for tomorrow's results". Increasingly strategic management must address the dynamics of markets, systems and behavior and in particular information technology.



Development have taken place in Kenya which have certain implications to the health insurance sector. Some of these developments and implications include the following;

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- a) The rising entry of health insurance provider institutions that are not regulated e.g. the HMOs. These organizations like the insurance companies offer health packages but they are not regulated by the Commissioner of Insurance, hence no level playing ground with the private insurance companies. The implication here is increased competition.
- b) Resurgence of old diseases such as tuberculosis and malaria and emergence of new ones such as HIV/AIDS has impacted on the capacity and health care financing in general. This situation has been brought about by frequent hospital visits and long hospital stays by patients, which in turn implies shooting up of health care costs.
- c) Increasing malpractices, numerous accidents, e.t.c. imply that the insurance companies receive more claims than anticipated hence rising expenditure on medical claims.

There has been debate on the other areas of the insurance industry e.g. in relation to motor industry, the 2-cheque system e.t.c. However, health insurance has been and is missing in public and professional debates i.e. it has not received much attention. In addition no study has been done to examine the developments in this sector and their implications in the health insurance business.

The trends globally and locally indicate an ever-changing business environment and this poses various threats and opportunities to the players in various industries, the health sector being no exception. There was/is need to carry out this study to examine the developments in the Kenyan health insurance sector thereby seeking answers to the questions:

- What are the challenges faced by those in the business of health insurance provision in Kenya in the wake of the turbulent business environment? And
- What has been/are the strategic response to these challenges/developments?

### **1.3 Objectives of the study**

- ❑ Establish the challenges facing the sector
- ❑ Establish strategic responses by the organizations affected.

### **1.4 Significance of the study**

**To the payers i.e. Insurance Companies and HMOs:** The finding will be used to understand the dynamics of recent developments in the environment i.e. to understand the nature of competitive environment, nature of the market, e.t.c. This will help them develop effective strategies for their respective organizations in dealing with the emerging issues.

**To the government:** Can use the findings to help put in place the relevant or strengthen legislations regulating the sector & information of policies on healthcare financing.

**To the researchers and academicians:** In understanding the nature of the industry in Kenya & build on it for further research work.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

Organizations do not exist in a vacuum. They operate in an environment from where they get inputs (in form of physical assets, capital, labor, raw materials and technology), and to which they provide outputs (in form of products, services, employment etc). Therefore there exists a relationship between business and environment and it is important that effective strategies are in place in managing such a relationship, hence the concept of strategic management.

### **2.2 Strategic Management**

The history of strategic management dates back to early 1950s in the US. Peter Drucker (1954), looked at the issue of strategy formulation as an approach to managing organizations. His concern was primarily with identifying the business of the company.

Chandler (1962), defined strategy as the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out those goals. These ideas were further developed by Ansoff (1965) and Andrews (1971).

Andrews (1971), asserts strategy as a pattern of decisions in a company that determine and reveal its obligations, purposes or goals, produces the principle policies and plans for achieving these goals and defines the range

of business the company is to pursue, the kind of economic and human organization it is or intends to be and the nature of economic and non-economic contribution it intends to make to its shareholders, employees and communities.

Quinn (1980), looked at strategy as pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. It is deciding what has to be done in order to safeguard the firm's survival and how this has to be done taking into account the firm's resources, environment, values, norms and ethics. It is defining desirable future, the company business and mission.

According to Ansoff and McDonnell (1990), strategy aligns the organization with its external environment and seeks to bridge the gap between current position of the organization to its future intended direction. They assert that environmental changes have become more complex and novel and as the future becomes more complex, novel, and less flexible, systems become correspondingly more sophisticated and managing such situations requires creativity, novelty, flexible and entrepreneurial approach.

Thompson and Strickland (1998), define strategy as a game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers, and achieving good business firm.

Aosa (1992), defined strategy as solving strategic problem, which is a mismatch between the internal characteristics of an organization and its environment.

Koch Richard (1995), looks at strategy as the commercial logic of a business that defines why a firm can have a competitive advantage. He goes on to say that it is what a company does and how it actually positions itself commercially and conducts the competitive battle.

Strategy is the direction and scope of an organization over the long-term that achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfil stakeholder expectations, (Johnson & Scholes 1999). They go on to argue that all companies, not least insurers, are involved with the management of strategy. This might involve decisions affecting the strategic 'fit' in matching activities to the operation environment. Those decisions may also involve 'stretching' the resources of a company to create new opportunities in the search for advantage over competitors.

The essence of strategy formulation is copying with competition (Porter 1980). According to him, competition compels companies to deliver increasing value to customers and the fundamental driver of this continuous quality improvement and cost reduction is renovation.

According to Pearce and Robinson (1977), strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.

Taylor (1995), points out that strategic management is about managing radical change to achieve dramatic improvement in performance. According to him it is the key to survival in a turbulent business environment. He points out some elements for successful strategies i.e a strategy has to be simple, consistent and have long-term objectives; there needs to be a good understanding of the competitive environment; there is need for objective appraisal of the company resources; and effective implementation.

Most important environmental factors that influence and determine the success of competitive strategies adopted by an organization are found within the competitive environment, which constitutes the industry within which an organization operates (Johnson and Scholes 1999).

Grant (1998) observes that the prerequisite to effective environmental analysis is to distinguish the vital from the merely important. Pearce & Robinson (1997) concurs with these sentiments when they argue that, the strongest competitive forces determine the profitability of the industry and so are of the greatest importance in strategy formulation. Thus designing effective strategies requires a thorough understanding of the firm's industry.

Environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between the company and its environment (Heene, 1997).

In understanding the environment or industry within which an organization is operating, Porter (1980), provides five-forces model as a tool for carrying out the analysis. These forces are threat of new entrants, rivalry within the

industry, threat of substitute products, bargaining power of supplies and bargaining power of buyers. Collective strength of these forces determines the industry attractiveness or profitability.

Rod Anstee (2001), in his survey of the UK commercial general insurance concluded that; Product differentiation through quality and added value is a strategic marketing objective in the search for new business and, the role of relationship marketing is a way of attractively retaining the customers and establishing a competitive advantage.

Various studies in Kenya have concurred with the above observations. The health insurance sector can borrow from some of them since some issues of strategic responses or management can be generalized across different contexts or industries.

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Njau (2001) researched on the strategic responses adopted by East African Breweries in the face of the changed industry competition. He observed that forces that determine industry attractiveness change from time to time and organizations need to change their strategy in recognition of this phenomenon.

Bett (1955), in his study of the dairy industry observed that strategic decisions made by the dairy firms are affected by the turbulence of the environment and therefore understanding of the industry environment is crucial if effective strategies are to be developed.



Kiliko (2001), investigated strategic planning with NGO's in Kenya with emphasis on factors influencing strategy formulation and observed that in an environment of constant changes like Kenya, NGO managers need to learn to become managers of change and this will require formal strategic planning with constant monitoring and redefining of objectives.

### **2.3 Health Insurance**

There is relatively little literature in this area and especially so on the Kenya health sector. However what has been said on this field in other countries is relevant to our Kenyan context.

Porter (1979) contends that the health insurance industry is complex, unique, and requires a lot of professional judgment. According to him, the industry consists of a multiple tier of customers and these customers have different interests i.e. employers, who purchase cover for their employees. They have incentives to pay the lowest premiums in respect of employees; Insurance companies/HMOs, who want to spend less on patient care than was received in premiums; Patients, who want the best healthcare regardless of cost and Doctors, who have incentives to order for more services.

Porter (1979), surveying the American healthcare system, observed that there has been an upward trend in outpatient cases as inpatient cases decline and he attributes this to restricted reimbursement for inpatient care and the development of diagnostic therapeutic procedures which do not require inpatient settings.

For a firm that competes on the basis of the services it provides for example insurance-there is no physical product. Here competitive advantage is likely to much more relate to the extent to which customers value less tangible aspects of the firm e.g. soundness of advice given, attitude of staff, the ambience of offices, the swiftness of service e.t.c (Johnson and Scholes 1999).

Irons (1999), observes that like all financial organizations, insurance companies previously protected position is being eroded and the customers perceive the insurance companies as part of the problem and not the solution when they have a crisis. He points out that a development of a service culture, which delivers and demonstrates care and concern for customers, intermediaries and staff is essential.

The contents of health insurance should be simplified to reduce disputes over claims (Porter 1979). Generally there is lacking information and knowledge on the part of the insured. Normally the premiums are affordable and so many clients buy a policy without proper information search, a comparison between different companies or even the basic effort to read and appreciate the policy document before signing it. Normally when the loss/need occurs, policy is read for the first time, disclaimer clauses discovered but it is too late for any changes.

Teisberg, Porter and Brown (1979), studied the American healthcare system and observed that while competition has been enormously successful in producing quality enhancing innovation, it appeared to have failed in the crucial dimension of costs. Their study revealed that fragmentation of

patients and payers not only limits competitive pressure but also drives up transaction costs since many of the payers have different policies, procedures and forms for provider reimbursement.

Many efficient health plans or insurers have little incentive to reduce prices if lower prices do not help them gain market share. Even when choosing a health plan, most patients have had little incentive to consider cost, they rarely have access to relative price information (Porter 1979).

According to Whitman (1999), evidence indicates that implementing any fully comprehensive employer based solution (in healthcare insurance would be complex and costly enough to discourage firms from offering health care plans or alternatively to encourage hidden employment discrimination against people with medical problems. In her survey of the US healthcare system, she observed that the single greatest barrier to job change is the loss of employer based insurance.

Various observations have been made on the Kenyan health insurance section. Henderson (2002), argues that Kenya's insurance laws were enacted in 1984 but circumstances have changed drastically. The 1980s saw the coming into existence of HMOs. Among the proposals made by Association of Kenya Insurers on reforms to the Insurance Act is legislation on HMOs. The insurance companies are strictly regulated and there is need to bring HMOs on board.

Surungai (2001), observes that insurance is a service industry and serving the customer well should play a central roll in whatever decisions are made

regarding how the organization is run. Poor service means holding the customer for just as long as it takes him to find the next efficient company.

According to Henderson (2002), Aids in Kenya is an economic catastrophe and from the industry's point of view the problem lies in the fact that insurance will become too expensive for anyone to afford. He notes that very few companies have adjusted their rates for Aids.

People have lost confidence in insurance and one of the greatest challenges facing the insurance industry is that of bad publicity (Insurance Focus 2002). Most insurance companies have employed people of little or basic education as their agents in an attempt to reach the extremes of the market. This has resulted in a majority of people buying policies because of ignorance and misconception of their benefits leading to frustration especially on occurrence of the risk exposes.

Marwa (2002), points out that many still regard insurance as a luxury and therefore there is need to aggressively educate them to appreciate its importance. He goes on to say that policy wording should be bold, clear and simplified to ensure the policy holder understand the same especially bearing in mind the 'Uberrime Fidei' nature of the insurance contract. Here he concurs with the sentiments of Porter (1979) on the need to simplify the contents of health insurance.

Maina (2001), emphasize the importance of improving a company's image and points out that the first step in doing this is finding out where you are currently. According to him this can be done by determining target

audience. But he says that employees are an often forgotten audience although they play a big role in setting the company's image i.e. as reflected in their attitude and communication with outsiders.

“ The health insurance industry is deeply involved in a complicated web of economic, social, and political forces” (Bennet, et al 1983 pg 169). The effects of inflation are clearly evident in rising health care costs; the social demand for equity had brought about the need for changes in customary insurance practices; and increased government regulations have created new complications for health insurers.

An article in the Insurance Focus Journal issue No. 2001/2002 “*substitutes to insurance products*” points out that the ‘harambee spirit’ in Kenya has greatly contributed to slow insurance growth in Kenya, i.e. raising funds for education, health, funeral expenses are direct substitutes of education policy, health and life plans. It is further noted that other substitutes include some strong religious inclinations and beliefs. It is crucial that the insurance industry face and recognize these challenges to the industry.

The above various authors and researchers clearly emphasize the importance of relating the environment in which the organization operates and its strategic management approaches. Issues have been raised which requires some attention in respect to the Kenyan context. These include the areas of IT, competition, legislation, costs, company image, and customer responsiveness among others.

## **CHAPTER THREE: STUDY METHODOLOGY**

This study adopted the survey design methodology. This design enables the researcher to collect information in respect to behaviours of the organizations under study for example how they respond to various developments in the environment.

### **3.1 Population of Interest**

The population of interest in this study comprised all organizations within Kenya in the business of health insurance as at April 2002. These includes, 13 private insurance companies, HMOs and I National Social Health Scheme (see appendix III). Since this number is small 25 the researcher sought out to study all of them and therefore this was a census survey.

Studying these organizations gave a fair representation of the state in the health insurance sector. The postal, telephone, and physical addresses of these organizations were established through the Commissioner of Insurance's office and the postal office directory.

### **3.2 Data Collection**

The study involved collection of primary data. Since the nature of data required for this kind of study are not observable the questionnaire was used. The questionnaire constructed included both close-ended and open-ended questions i.e. some questions just required the respondent to make a choice

from amongst the given options while other required short descriptive answers.

The questionnaire was also constructed to capture key variables – both internal and external to the organization. The internal variables included company vision, mission and values, planning horizon, strategy development, structure, IT, human resources management, while the external variables were drawn from the industry characteristics and the key success factors e.t.c.

Personal interviews were adopted for they have the potential of yielding a better quality of data than the other modes like mail and telephone. This is because issues can be clarified on the spot and supplementary information collected in the course of the interview. It also tends to have low no-response rate and was convenient to the researcher given the fact that all the organizations under study have their head offices within Nairobi where the researcher resides.

The CEO of each organization was targeted for an interview. This is because these are the people who normally deal with the environmental issues affecting their respective organizations. Some researchers have argued that CEOs should have the most realistic representation of the firm's strategic orientation because they are the prime strategist (Andrews 1971). This is especially so in small organizations where the CEO can be expected to have a much clearer view of the overall strategic orientation of the firm than other potential organization's informants. Appointments with the

respondents were sought through or by calling in personally with a letter of introduction (appendix 1) explaining the purpose of the survey.

### **3.3 Data analysis**

The completed questionnaires were edited for completeness, consistency and coherence. The data were tabulated according to various issues that are covered in the questionnaire.

The data collected has been analysed by use of descriptive statistics such as tabulation, frequency and percentages. Frequency tables for arraying data and percentages have been employed for use in relative comparisons.

Measures of central tendency have been used to aid in establishing the challenges and strategies, which are typical across the respondents hence answering the two objectives of the study.

The researcher has also employed measures of dispersion to show the deviations from the average characteristics as revealed from the firms' responses. Small deviations means that most responses are clustered around the mean of central tendency while a large deviation means that measures of central tendency are a poor representation of the distribution. The researcher computed both the standard deviations and coefficient of variations for each of the rated variables. Coefficient of variation was used to show the degree of variability on responses on the various identified variables. A lower coefficient of variation implies a lower degree of variability and a high coefficient of variation imply a greater degree of variability.



These measures have been used to analyse data collected on the 5-point Likert-scale to obtain average scores that are representative of the distribution for each of the variable being scored against.

The above descriptive statistical tools has enabled the researcher to summarize, organize, describe collections of statistical observations and reduce information to a form that not only addresses the research objectives but also reveals the environment in which the respondents are operating and the general behaviours of the firms.

### **3.4 Scope of the study**

The study covered environmental developments in the health insurance sector in Kenya. The focus was all the organizations in the business of health insurance, being drawn from the private insurance companies, the health maintenance organizations/administrators, and the social health insurance system in Kenya.

The principal focus was to investigate the challenges facing the sector and the strategic responses by these organizations. These included organizational as well as external aspects from the companies point of view as mentioned in 3.2 above.

## CHAPTER FOUR: THE RESEARCH FINDINGS

### 4.1 Introduction

This study has examined the developments in the health insurance sector in Kenya. The objectives of the study were to establish the challenges facing the sector, and the strategic responses by the players. These two objectives have been addressed by looking through the respondents' organizations' profiles and their perceptions of the developments in the environment in which they are operating.

The findings are based on the data and information provided by those who responded.

*Table 1: Population of Study*

Type of Organization	Number	Percentage
Private	13	52
HMOs	11	44
Social Health	1	4
Total	25	100

Out of these, 15 i.e. 60% responded (7 Private Insurance Companies, 7 HMOs, and 1 Social Health Insurance Organization).

## 4.2 Organizations Profiles

Various aspects of the organizations were investigated.

### 4.2.1 Management and ownership

The researcher looked at this aspect, because it is an area, which may affect the strategy formulation and implementation process. Respondents were asked to indicate whether their management and ownership was local, foreign or a mix of the two. The study revealed that of the 15 companies studied, 60% were fully locally owned, 6.7% fully foreign owned while 33.3% had ownership drawn from both. In all except one the government has no direct interference hence are in a position to strategically manage their organizations with no interference from the government.

**Table 2: Ownership/Controlling Share**

Ownership	Frequency	Percentage
Fully Local	9	60
Fully Foreign	1	6.7
Both	5	33.3
Total	15	100

Source: Research data

The study reveals that 60% of the companies studied have nothing to do with foreign management and ownership.

4.2.2. Size of the firms

It was important to find out the size of companies studied because size may as well affect the strategic management process. This was looked at from two areas i.e. staff establishment and capital base. The respondents were asked to indicate their staff establishment and capital base brackets.

*Table 3: Staff Establishment*

Staff Establishment	Frequency	Percentage
< 100	7	46.6
100 ≤ 200	4	26.7
Over 200	4	26.7
Total	15	100

Source: Research Data

The data revealed that 46.6% of the 15 companies studied have staff establishment of less than 100, 26.7% have from 100 to less than 200, while 26.7% have over 200 employees.

**Table 4: Capital base**

Capital (Kshs Billion)	Frequency	Percentage
(<)	8	53.3
$1 \leq 2$	3	20
$2 < 3$	3	20
$> 3$	1	6.7
Total	15	100

Source: Research data

53.3% of the companies studied indicated a capital base of less than Kshs 1 billion and the rest have Kshs. 1 billion and above.

#### **4.2.3 Geographical Spread of Operations**

The researcher sought to establish the extent of accessibility of the firms by asking the respondents to indicate the number of branches from where they operate and where services can be accessed.

Of the 15 companies studied, 46.6% operate from less than 10 branches, 26.7% operate from between 10 to 20 while the rest operate from over 20 branches.

**Table 5: Branch Network**

Branches	Frequency	Percentage
< 10	7	46.6
From 10 to 20	4	26.7
From over 20	4	26.7
Total	15	100

Source: Research data

The revelation is that only 26.7 of the companies studied operate from over 20 branches implying there is limited access to the rest by the Kenyan population.

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#### **4.2.4 Delegation of authority and responsibility.**

This aspect affects the decision making process i.e. the timeliness. Respondents were asked to indicate the extent of delegation of authority and responsibility in their firms.

**Table 6: Delegation of Authority and Responsibility**

Extent of delegation	Frequency	Percentage
Total delegation	2	13.3
Limited delegation	10	66.7
Total Centralization	3	20.0
Total	15	100

Source: Research data

66.7% of the organizations studied indicated existence of limited delegation of authority and responsibility, 20% indicated total centralization while only13.3% indicated total decentralization. The implication here is the delay in some crucial and urgent decision making situations given the fact that the majority of the firms i.e. 66.7% have limited delegation.

**4.2.5 Use of Information Technology**

The researcher looked at this aspect because it may affect the flow and quality of information. Respondents were asked to indicate the extent of use of IT.

*Table 7: Responses on extent of use of IT*

Extent of use	Frequency	Percentage
Full use of IT	8	55.3
Limited use of IT	7	46.7
Nil	-	-
Total	15	100

Source: Research Data

The study reveals that 53.3% of organizations studied fully takes advantage of information technology systems in their operations while the rest have limited usage of IT i.e. only in some services or in a few branches.

#### **4.2.6 Strategic Planning**

Strategy formulation is the foundation of strategy implementation. Strategy planning as an aspect of strategy formulation was sought among the respondents. The respondents responded on issues of mission statements, vision, planning horizon, nature of strategies in their respective organizations etc.

66.7% of the organizations surveyed indicated the existence of a bottom-up approach in strategic planning and strategy formulation while 33.3% indicated an approach that combines both bottom-top and top-down. It was further revealed that there is participation in the area of strategic planning across the firms.

##### **4.2.6.1 Mission statements**

Respondents were asked to indicate whether they have mission statements. The researcher sought to establish this because mission statements gives a firm not only organizational direction but also the reason and purpose for its existence.



**Table 8: Responses as to whether they have mission statements**

<b>Mission</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	14	93.3
No	1	6.7
Total	15	100

Source: Research data

93.3% of organizations studied revealed they have mission statements. All the 15 organizations indicated that they have visions in respect to the future of their organizations, implying that they have reasons for their existence and are focused towards a particular goal attainment.

#### **4.2.6.2 Planning horizon**

The researcher sought to establish whether the respondents have strategic plans and the period their plans cover.

**Table 9: Responses on the Planning Horizon.**

<b>Planning</b>	<b>Frequency</b>	<b>Percentage</b>
Short term < 1 year	3	20
Medium term 1-3 years	3	20
Long term > 5 years	9	60
Total	15	100

Source: Research data

The findings indicate that of the 15 companies studied, 60% indicated existence of long-term plans. However, when probed

further they revealed that their plans are flexible i.e. can be readjusted to cope with the changing environment.

#### 4.2.6.3 Factors influencing strategic planning and strategy formulation

The researcher identified 9 factors that may influence strategic planning and strategy formulation in an organization. These factors were provided on a 5-point-likert scale in terms of their strength i.e. very weak, weak, fairly strong, strong and very strong for scores 1,2,3,4 and 5 respectively. The respondents were asked to score for all these factors. The researcher has worked out the Means, standard deviations and coefficient of variations for each of the factors based on the firms' responses, (see table 10).

**Table 10: Factors Influencing Strategic Planning and Strategy Formulation.**

<b>Factors/Rating</b>	<b>Mean</b>	<b>Std dev.</b>	<b>CoV-%</b>
Organizational structure	3.8	1.1	28.9
Rational forces- innovativeness/creativity	4.00	0.83	20.8
Political forces	2.13	0.36	16.9
Top management	3.13	1.23	39.3
Company resources	4.06	0.63	15.5
Trends in the Business Environment	4.47	0.57	12.8
Employees' experiences	4.00	0.69	17.3
Company culture and values	2.8	0.72	25.7
Stakeholders	2.8	0.52	18.6

Source: Research data

The data indicate that on average trends in the Business Environment influences most of the players' strategic planning and strategy formulation i.e. with mean 4.47 which tends towards score 5 (score for very strong influence). This is followed by company resources (4.06) rational forces (4.0) and employees' experiences (4.0) in that order.

However further analysis revealed deviations from the mean score. Coefficient of variation is lowest for the variable 'trends in the business environment' i.e. 12.8%. This implies that the degree of variability is small on this factor. This is followed by variables company resources (15.5%), political forces (16.9%) and employees' experiences (17.3%) in that order. Coefficient of variation for the other factors are relatively high implying that their means provide a poor representation of the firms surveyed.

#### 4.2.6.3 Forms of strategy evident in the firms

The respondents were asked to indicate the form of strategy that exists in their respective firms.

**Table 11:** Responses on form of strategy evident

Form of Strategy	Frequency	Percentage
Emergent	1	6.7
Planned	3	20.0
Combination of both	11	73.3
Total	15	100

Source: Research data

The researcher had to look into this aspect because the approach to strategy development and implementation will play a role in determining how well the firm's activities are matched to the environment in which it operates.

73.3% of the companies studied revealed that both emergent and planned strategies are evident in their organizations. 20% indicated planned while 6.7% indicated emergent strategies in play. The implication here is that majority of the organizations pursue a combination of both planned and emergent strategies.

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#### **4.2.7 Trends in Premiums and Claims**

The researcher sought to investigate this because the trends may indicate how the firms are performing in the business in terms of premiums received and expenditures incurred on health covers.

Out of the 15 companies that responded, 60% offer only in-patient while 40% offer both out and in-patient cover. Those offering only inpatient argue that it is easier to confirm the authenticity of the claims and also to control the same.

93.3% of the firms surveyed indicated that both premiums and expenditure in respect to health cover have been and are still rising. However 6.7% indicated declining claims and they attributed this to better claims control mechanisms being employed.

4.3 Business Environment

The researcher sought to establish the state of business environment because it also determines the strategic direction that an organization pursues.

4.3.1 Factors contributing to performance.

The researcher identified ten factors that may contribute to a successful performance of a firm. The factors were provided on a 5-point-likert scale and the respondents were required to score against each of the factors in terms of their importance i.e. not important, least important, fairly important, important and most important for scores 1,2,3,4 and 5 respectively. The researcher has computed the Mean, Std dev., and Coefficient of Variation for each of the factors, (see table12).

**Table12: Responses on factors contributing to the firm's successful performance.**

<b>Factors/Rating</b>	<b>Mean Score</b>	<b>Std dev.</b>	<b>CoV-%</b>
Reputation of the firm	4.73	0.55	11.6
Customer responsiveness	4.86	0.46	9.5
Government Regulations	3.26	0.34	10.3
Employees Experiences	4.26	0.44	10.3
Accessibility	4.26	0.71	16.7
Competition	4.06	0.49	12.3
Price of Cover	3.66	0.69	19
Employees Morale	4.13	0.83	20
Political Situation	2.93	0.25	8.5
Nature of buyers	2.33	0.23	9.8

Source: Research data

These findings indicate that being customer sensitive is the most important factor on average (with a mean of 4.86) in determining the firms' successful performance. This tends towards score for most important i.e. 5. This is followed by the company's reputation, employees' experience and accessibility i.e. with scores 4.73, 4.26 and 4.26 respectively.

Further analysis indicate that the degree of variability on responses is lowest for variable 'political forces' with coefficient of variation of 8.5% implying that the mean score of 2.93 is a fair representation of the firms' responses on

this variable. This is followed by responses on variables, customer responsiveness, nature of buyers, government regulations, employees' experiences, and firms' reputation with coefficient of variations of 9.5, 9.8, 10.3, and 10.3 respectively. These Coefficient of variations imply a lower degree of variations in respect to these factors' contributions to the firms' successful performances, hence the means computed provide a fair representation of the position of the firms surveyed. Responses on the rest of the factors indicate relatively high CoV hence high degree of variations implying a poor representation of the firms surveyed.

### 4.3.2 State of Competition

The researcher sought to establish the state of competition in the sector. Respondents were asked to indicate their perceived state of competition in the health insurance sector. The researcher identified five states of competition and the respondents were required to tick one.

**Table 13: Responses on State of Competition**

State	Frequency	Percentage
Mild	-	-
Moderate	1	6.7
Fairly Strong	3	20.0
Strong	10	66.6
Fierce	1	6.7
Total	15	100

Source: Research data

Of the companies that responded, 66.6% indicated that competition was strong. The respondents when further interviewed indicated that new entrants have no felt impact because still there's a big untapped market in respect to health insurance.

4.3.3 Approaches employed in Environmental Scanning

The researcher sought to investigate whether the respondents do carry out environment scanning and the approaches employed in doing so. This is because in formulating and implementing suitable and effective strategies, knowledge of the state of the environment in which firms are operating is crucial. The researcher identified five approaches and the respondents were required to rate them on a 5-point-likert scale in terms of usage i.e. not used, least used, fairly used, above average and mostly used for scores 1,2,3,4 and 5 respectively. Means, standard deviations and coefficient of variations were computed from the scores for each of the approaches (See table 15).

Table 14: Responses on approaches to environment scanning

Approach	Mean Score	Std Dev.	Cov. %
Industry analysis	3.60	0.51	14.2
Competitor analysis	3.53	0.68	19.3
Market analysis	4.53	0.50	11.1
SWOT analysis	4.26	0.58	13.6
Situation analysis	4.40	0.93	21.2

Source: Research data



The findings revealed that market analysis approach is the most preferred or used in establishing the state of the environment as a step towards developing effective strategies. It scored a mean of 4.53 followed by situation analysis (4.4) and SWOT analysis (4.26) as indicated in table 15 above. These means tend towards 5 i.e. the score for mostly used.

Responses on market analysis score the lowest Cov. of 11.1% followed by SWOT analysis 13.6%, industry analysis 14.2%. This implies that the means of these variables offer a fair representation of the behaviours of the firms surveyed i.e. the degree of variability is low. However the Coefficient of variations in respect of responses on competitor analysis and situation analysis are relatively high implying high degree of variation hence poor is a poor representations of the behaviours of the firms surveyed.

#### **4.4 Challenges**

To answer objective 1 of the study, the researcher sought to investigate and establish the challenges facing the sector. The researcher identified various challenges which the players in the sector faces. The respondents were requested to rank them according to their weight i.e. not critical on the score 1 and most critical on the score 5.

Further analysis indicates deviations from the mean (see table 15). Coefficient of variations has been used to reveal the degree of variability in respect to responses by firms on the identified challenges.

**Table 15: Responses on Challenges**

Challenge	Mean	Std Dev.	Cov. %
Rising Healthcare costs	4.7	0.49	10.6
Competition	3.9	0.56	14.3
Closure of firms & Downsizing	3.1	0.56	18.2
Satisfying Customers	4.4	0.51	11.7
Government regulations	2.9	0.27	9.2
Cultures and beliefs	2.2	0.21	9.7
Exclusions	4.0	0.44	11.1
Changing Technology	3.5	0.71	20.3
Unawareness Uninformed majority	4.2	0.52	12.3
Bad reputation	3.4	0.73	21.5

Source: Research data

**4.4.1 Healthcare costs**

The finding reveals that rising health care costs is one of the most hitting challenge on average with a mean score of 4.7 which tends towards score 5 i.e. most critical. This challenge has a low coefficient of variation of 10.6% implying low degree of variation amongst the respondents. Hence the mean of 4.7 provides a fair representation of the firms’ responses on this challenge. The respondents attributed the rising cost to long hospital stays, frequent visits to hospitals and unregulated hospitals and doctors charges.

#### **4.4.2 Competition**

100% of the firms surveyed indicated that competition does exist in the sector. 66.6% of the firms surveyed indicated that competition is strong. A 5-point-likert scale was provided and the respondents were asked to rate competition as a challenge i.e. not critical on the one end and most critical on the other end. A mean score of 3.9 was attained implying that the challenge is critical. When probed further, it was revealed that although there are new entrants into the sector their impact is not felt much because there is still big potential and untapped market in the country.

#### **4.4.3 Closure of firms and downsizing**

All the firms that responded indicated that closure of firms and downsizing exercise is a challenge facing them. Respondents were asked to rate the criticality of this challenge. A mean of 3.1 was computed from the responses i.e. fairly critical. Coefficient of variation for this challenge is 18.2% which is relatively high implying high degree of variation, hence the mean is a poor representation of the firms' responses.

#### **4.4.4 Satisfying customers**

The respondents indicated that satisfying customers is one of the major challenges facing them. They were asked to rate this challenge in term of how critical it is. A mean score of 4.4 was attained. This mean tends towards score 5 for most critical. A coefficient of variation of 11.7% was computed,

and this is low implying low degree of variability hence the mean of 4.4 provides a fair representation of the firms' responses on this challenge.

The respondents further revealed that customer needs and demands were fast changing and increasing.

**4.4.5 Government regulations**

Respondents were asked to rate the weight of this as a challenge. 73.3% indicated that this is not a critical challenge to them. Coefficient of variation computed i.e. 9.2% imply that the mean of 2.9 provide a good representation of the firms position on this area (see table 15).

**4.4.6 Cultures and beliefs**

80% of the firms that responded indicated that culture and beliefs though a challenge, is not critical. On a 5-point-likert scale it scored a mean of 2.2 with a coefficient of variation of 9.7%. This implies a low degree of variation hence the mean of 2.2 is a good representation of the firms position on this challenge.

**4.4.7 Exclusions**

This was revealed to be a critical challenge with a mean rating of 4.0 and coefficient of variation of 11.1%. The coefficient of variation is low implying low degree of variation. Therefore the mean is a fair representation of the position of the firms surveyed. It was further pointed out that people

with the pre-existing conditions are on the rise and are seeking their situation to be addressed.

#### **4.4.8 Changing technology**

100% of the respondents recognized changing technology as a challenge facing them. This challenge had a mean rating of 3.5 with a coefficient variation of 20.3%. This implies a high degree of variability and hence the mean is a poor representation of the firms' position on this challenge.

#### **4.4.9 Unawareness**

The respondents acknowledged the fact that the majority of the Kenyan population have no information on the health insurance. The challenge was rated scoring a mean of 4.2 with a coefficient of variation of 12.3%. This coefficient of variation is low implying low degree of variability across the firms surveyed.

#### **4.4.10 Bad publicity**

All the respondents recognized bad publicity as a challenge facing the sector. It had a mean rating of 3.4 with a high coefficient of variation (21.5%) implying that there are greater variations across the firms positions on the intensity of this challenge.

Coefficient of variation is lowest for responses on Government regulations i.e. 9.2%. This implies that the mean on this factor is a fair representative of

the firms' responses. It is followed by cultures and beliefs, rising healthcare costs, exclusions, unawareness and satisfying customers with Coefficient of variation of 9.7%, 10.6%, 11.1%, 11.7% and 12.3% respectively. Coefficient of variation for responses on the other challenges are relatively high (See table 15) implying high degree of variability hence their respective means are poor representations of the firms' responses.

## **4.5 Strategic Responses**

To answer objective 2 of this study, the researcher investigated this area. All organizations that responded revealed that they take note of the dynamics in the environment. In line with this they undertake environmental analysis to enable them understand the same in order to facilitate employment of appropriate strategies in moving towards their stated goals and objectives.

### **4.5.1 Net – working and cooperation**

The respondent indicated that networking and cooperation among the players in the health insurance is a common strategy being pursued in addressing the failures challenges they are facing. This is between HMOs and private insurance companies and between the insurance providers and medical service providers. The study revealed that there are arrangements whereby HMOs do medical underwriting for the private insurance companies and sometimes act as their administrators

Also the respondents revealed that networking and cooperation is aimed at controlling and managing claims to ensure that cheats are minimized.

Further investigations revealed that all the firms that responded have vetted hospitals and/or doctors who attend to their clients.

The study revealed that networking and cooperation has also been pursued by the players in the sector to make sure that undercutting is brought to minimum, and to set guidelines on various issues including regularizing the doctors charges. The respondents also unanimously revealed that they enter into negotiations with hospitals on the costs in respect of their treated/to be treated clients.

#### **4.5.2 Product differentiation and quality of service.**

The 100% of organizations that responded indicated that product differentiation and quality of service are the most common strategies pursued in coping with competition. It was also observed that the respondent with capital base bracket Ksh.2 billion and above and with staff establishment of over 200 are broadening the range of products to take care of the various identifiable segments both existing and potential. However, none indicated to have plans to introduce packages to take care of the current exclusions like AIDS.

#### **4.5.3 Customer responsiveness**

100% of the respondent indicated that they carry out environmental analysis although following different approaches. Market analysis had the highest mean score i.e. tends towards the score 5 -for most used (see table 15).

The ever-changing customer demands calls for more customer responsiveness on the part of the insurance cover providers. It cut across the respondents that customer surveys are carried out from time to time to enable them respond appropriately to the customers needs. Although majority of the respondents indicated that there exists limited delegation of authority and responsibility, there is a consensus that urgent issues are addressed without necessarily being referred to the top management. Customer care desks and teams are in place to attend to the feelings and complaints of the clients. Information technology has also been utilized by all the 15 companies to improve service delivery, although 55.3% of these respondents have not fully used it in all their services.

#### **4.5.4 Advertising and Promotions**

The respondent revealed high unawareness (See table 16), with a mean of 4.2 which tend toward score 5 (for critical challenge). It was further revealed that those organizations with a capital base of more than Kshs. 1 billion have entered into a lot of advertising and promotional campaigns – through print and electronic media. In the promotional campaigns, these firms revealed that they involve themselves in social responsibilities like offering free medical days, offering seminars on health related issues.

#### **4.5.5 Primary healthcare Campaigns**

Of those that responded, 60% indicated involvement in prevention and controlling of diseases campaigns. The results also indicated that those organizations with capital base of Ksh.1 billion above and from the HMOs



category and social health insurance system are the one who pursue this strategy . According to them this is aimed at increasing awareness on how the beneficiaries of the health cover can prevent certain diseases from occurring e.g. malaria and typhoid and to help those suffering from ailments like diabetes be in a position to control the same. The firms pointed out that the objective of the campaigns is to reduce the chances of these people from visiting the medical centres frequently hence reducing costs to be incurred by these organizations in settling the bills.

## **CHAPTER FIVE: CONCLUSIONS**

### **5.1 Summary and recommendations**

The objectives of this study were to establish the challenges and strategic responses in the health insurance sector in Kenya.

The study reveals that the health insurance sector, just like the others operates in an ever-changing environment and therefore faces certain challenges. The respondents also identified strategies they use to counter the challenges.

Majority of the firms studied indicate that the rising healthcare costs is the most critical challenge, followed by satisfying customer, unawareness and exclusions in that order. The study revealed that these organizations whether small or big face similar challenges and they respond to these challenges with similar strategies.

Majority of the respondents indicate that in addressing the challenges in the sector, they first do environmental scanning to enable them develop suitable strategies and match these strategies to the firm's activities.

The respondents indicated that networking and cooperation amongst the insurance providers and with the health providers was the most effective way in which they address many of the issues affecting the sector, e.g. service standards, costs unethical practices etc. They indicated that unlike few years back the players (i.e. HMO's, insurance companies) are forming a

common approach to tackle problems. Other strategic responses include product differentiation, focus (segmentation) etc. Customer focused strategies, i.e. customer responsiveness (in terms of quality) advertising and promotions (to improve awareness) are of service pursued.

The researcher identified areas that need to be addressed by the players in the sector to enable them carry out their business with increased efficiency and effectiveness.

- *Accurate and correct information:* There were revelations that, most companies receive complaints about wrong perception on the benefits of the cover purchased because of inaccurate information. To this it is important that emphasis is put on the correct and accurate information – this will certainly ensure retainer of clients and improve the companies' reputations.
- *Need for more packages:* It was revealed that there are those who suffer ailments which are excluded from cover but are willing to pay more for a package that takes care of such an excluded ailment even if it will have its limitations. Hence there is need for more packages to take care of the diverse populations.
- *Healthcare costs:* Investigations revealed that healthcare costs are arbitrarily charged depending on the hospital or doctor visited. There is need to forge a common front towards pushing for regularizing hospitals' and doctors' charges. The sector should have a say on this issue to help control the escalating healthcare cost.

- *Service standards:* It was revealed that customers often complain of poor service standards. Some of the new entrants, it was indicated come with unethical practices like undercutting and compromise on quality of service. Once the service standards for the sector has been set these practices can be minimized.
- *More potential:* There is quite a big market, which remains untapped in Kenya. The health insurance providers need to be more aggressive because a large of the Kenyan population has not been reached and really explained about the health packages available.

## **5.2 Limitations of the Study**

This study encountered certain limitations. 10 organizations refused to respond. This was a major drawback because it is not possible to know how these organizations would have responded. Secondly, there were delays on the part of those who responded- in scheduling and re-scheduling appointments. Thirdly the time frame given was short for this type of research.

## **5.3 Suggestion for further study**

This study focused on the developments in the health insurance sector in Kenya. There is need for a further study to focus on the wider spectrum of healthcare management to which health insurance is just part of. This is to examine the developments in the healthcare sector in Kenya and how the relevant organs, both private and public are responding.

APPENDIX I



UNIVERSITY OF NAIROBI  
FACULTY OF COMMERCE  
MBA PROGRAMME - LOWER KABETE CAMPUS

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P.O. Box 30197  
Nairobi, Kenya

DATE: ...16TH MAY 2002.....

TO WHOM IT MAY CONCERN

The bearer of this letter: ...MR. ROBERT M. ARASA.....

Registration No: ...D/61/P/8780/99.....

is a Master of Business & Administration student of the University of Nairobi.

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

Thank you.

DR. MARTIN OGUTU  
LECTURER & CO-ORDINATOR, MBA PROGRAMME

MO/ek

## APPENDIX II

### UNIVERSITY OF NAIROBI

#### FACULTY OF COMMERCE

#### DEPARTMENT OF BUSINESS ADMINISTRATION

#### STUDY QUESTIONNAIRE

**Note:** This questionnaire has been prepared in relation to the objectives of this study. It seeks to establish the challenges facing organizations in the business of health insurance in Kenya. It also seeks to establish strategic responses by these organizations in view of the established challenges. The information provided in this questionnaire will be treated confidentially and will be used only for academic purposes.

Questionnaire No.-----

Name of respondent -----Title held-----

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#### **Part A Organization profile**

1.a) Name of organization: -----

b) Year when started: -----

c) Type of organization, is it--

HMO ☐

Private Insurance Company ☐

Statutory body ☐

Others (please specify) -----

2. Management and ownership. Is it-----

Wholly local ☐

Wholly foreign ☐

Both

**3. Staff establishment:**

**a) Current number of employees, is it—**

<100 ☐

between 100 and 200 ☐

between 200 and 300 ☐

over 300 ☐

**b) Please give number of employees for each category below**

i) Kenyans ----- ii) Expatriates -----

**c) Please indicate the number of employees for the following qualifications**

i) PhD----- ii) Masters degree ----- iii) Bachelors degree -----

iv) Certificate & Diploma ----- v) A-level ----- vi) O-level & below -

**4. Please give approximate figure of your organization's capital base. Is it----**

Less than 1bil. ☐

Between 1bil & 2bil ☐

Between 2bil & 3bil ☐

Over 3bil ☐

**5. In how many branches does your organization operate from?**

Less than 10 ☐

From 10 to 20 ☐

From over 20 ☐

**6. What is the extent of decentralization of operations in your organization (i.e delegation of responsibility and authority)? Is it--**

Totally delegated ☐

Limited delegation ☐

Totally centralized ☐

7. What is the extent of use of IT in your organization? Is it—

Full use of IT ☐

Limited use of IT ☐

Nil ☐

8. a) Does your organization have a mission statement?

Yes ☐ No ☐

If yes please state it -----

b) What vision do you have in respect to the future of your organization-----

c) Please tick the appropriate from the following in respect to your organization's strategic planning

i) Short-term <1yr ☐ Medium 1-3yrs ☐ Longterm > 5yrs ☐

ii) Top-down ☐ Bottom-up approach ☐ Others----- ☐

d) Please rate the influence of the following in respect to strategic planning and strategy formulation in your company in terms of their strength i.e. very weak, weak, fairly strong, strong, and very strong for scores 1,2,3,4,and 5 respectively.

FACTORS/RATING	1	2	3	4	5
Rational forces					
Organizational structure					
Political forces					
Top management					
company resources					
Market trends					
Employees experiences					
Stakeholders					



**e) Which form of strategy is experienced/common in your company. Is it—**

Emergent

☐

Planned

☐

Combination of the above 2

☐

**9 a). Please indicate the nature of health cover your company is involved in. Is it--**

Out patient only ☐

In patient only ☐

Both ☐

**b) Please give approximate premium collection realized in respect of healthcare packages for the last 5 years**

2001: kshs-----

2000: kshs-----

1999: kshs-----

1998: kshs-----

1997: kshs-----

**c) Please give approximate figures of your expenditure on health cover for the last 5 years**

2001: kshs-----

2000: kshs -----

1999: kshs -----

1998: kshs -----

1997: kshs -----

**Part B: Health Insurance Business Environment**

10. Please rate the following factors in the order of importance (i.e. in terms of not important, least important, fairly important, important, and most important for scores of 1, 2, 3, 4, and 5 respectively) in determining the successful performance of your organization.

Factors/Rating	1	2	3	4	5
Reputation of your company					
Customer responsiveness					
Government regulations					
Employees' experience					
Accessibility					
Competition					
Price of cover					
Employees morale					
Political situation					
Fragmented buyers					

11 a). How would you rate the state of competition between your organization and others?

Mild ☐ Moderate ☐ Fairly strong ☐ Strong ☐ Fierce ☐

b). What are the 3 most important methods your organization employs in competing with the other organizations?

- 1. -----
- 2. -----
- 3. -----

12. What is the impact of the new entrants into the sector on your company's performance and the industry in general? -----  
-----  
-----

13. Does your organization cooperate with the other organizations?  
Yes ☐ No ☐  
If Yes, how many -----  
In what area(s)-----  
Why-----  
-----

14. How would you describe your organizations relationship with the stakeholders?  
Positive ☐ negative ☐  
Please give 3 most important reasons for your answer  
1. -----  
2. -----  
3. -----

15. Kenya has undergone some restructuring process in various sectors leading to downsizing exercises. How do you describe the effect of such to your organization?  
-----  
-----  
-----  
-----

16.The following are various approaches to understanding the environment in which firms operate to enable them formulate suitable and effective strategies. Please tick the one/s your company pursues and rate them in terms of usage ( i.e. in terms of not used, least used, fairly used, above average, and mostly used for scores 1, 2, 3, 4 and 5 respectively)

Approaches/Rating	1	2	3	4	5
Industry analysis					
Competitor analysis					
Market analysis					
SWOT analysis					
Situation analysis					

17.a) Please rate the weight of the following challenges on a continuum of 1-5, for not critical on the one end (score 1) and most critical on the other end (score 5)

Challenges/rating	1	2	3	4	5
Rising health care costs					
Competition					
Closure of firms/downsizing					
Satisfying customers					
Government regulations					
Cultures and beliefs					
Exclusions					
Uninformed majority					
Bad reputation					
Changing technology					

b) What has been your strategic response to each of the challenges in a) above?

## **APPENDIX III**

### **List Of Organizations Constituting Population Of Interest**

1. American Life Insurance Company
2. Apollo Insurance Company Ltd
3. British American Insurance Co. (K) Ltd
4. Heritage A.I.I. Insurance Co. Ltd
5. Insurance Company Of East Africa Ltd
6. Jubilee Insurance Company Ltd
7. Kenindia Assurance Company Ltd
8. Kenya Alliance Insurance Co. Ltd
9. Madison Insurance Company (K) Ltd
10. Mercantile Life & General Assurance Co. Ltd
11. Pan Africa Insurance Company Ltd
12. Pioneer General Assurance Society Ltd
13. UAP Provincial Insurance Company Ltd
14. AAR Services Ltd
15. Avenue Health
16. Health First International
17. Health Plan Services Ltd
18. Health Management Solutions
19. Health Access Ltd
20. Mediplus
21. Mesco Consultants
22. Mediplan Ltd
23. Medex
24. Medguard
25. NHIF

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