

**RESPONSES OF SORAS INSURANCE COMPANY LIMITED TO CHANGES IN
THE EXTERNAL ENVIRONMENT IN RWANDA**

BY

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DECLARATION

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

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D61/9051/2001

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

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DEDICATION

This work is dedicated to my beloved husband Toroitich for his total support and commitment throughout the period I was undertaking this research.

I also dedicate this project to my family especially my mother Mary Wairimu, for her moral support and my children Kipkemboi, Kiprop, Kiplimo, and Kipruto for their support and encouragement during the time of undertaking this study.

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ABSTRACT

In the last ten years there has been an increase in rapidity and volatility of the environment in Africa in general and Rwanda in particular. Unfortunately, there is no known research that has been undertaken on this area, thereby leaving a knowledge gap. It is on this basis that research on this area was desirable. The objectives of this study were; to determine the forces of change in the external environment of Soras Insurance Company Limited, and to establish the responses of SORAS Insurance Company Limited to changes in the external environment in Rwanda. Data was collected through in depth interviews undertaken by the researcher herself. The data was analyzed and presented by way of content analysis. The interviewees of the study were ten departmental heads including Finance, Human Resources, Underwriting, Claims, Legal, and Customer Relations, Medical, Marketing and Sales, ICT and Training. The research findings found out that SORAS has been experiencing environmental turbulence. The major threat to SORAS was found to be the increased levels of emanating from regional companies especially from the EAC block offering wider, superior products than SORAS. The study also identified other forces of change including technology, and customer preferences and tastes, among others. SORAS Insurance was found to have crafted various strategies in response to these changing environmental conditions. The company's key strategy was adoption of strategic leadership. SORAS also responded to the changes in the environment through diversification of products and markets, use of ICT, utilization of marketing strategies, low priced products as well as market niching, among others. This study was not without limitations. The unwillingness of the interviews to provide the desired data and limitations of a case study findings' non applicability across industry were the key limitations. Given these limitations, the researcher recommends that further research be undertaken on; Responses of Rwandan insurance companies to changes in the external environment in Rwanda, responses of foreign insurance companies to changes in the external environment in Rwanda, and the role of strategic leadership in the growth of SORAS Insurance business .The nature of competition posed by SORAS's markets outside Rwanda; and the role of strategic leadership in the growth of SORAS Insurance business. The findings of the study have many implications on policy and practice. SORAS need to put in place a Research and Development department charged with not only gathering and analyzing competitor intelligence information but also exploring new markets and new products. R & D will also be charged with innovations and environmental monitoring and possible firm investment. The firm should also consider additional outsourcing of non-core functions such as auditing, archiving, public relations and information technology, among others.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The past will always be a poor guide to the future and firms will forever be dealing with unanticipated events. Rapid technological change, easier entry by foreign competitors, and the accelerating breakdown of traditional industry subject firms to new and unpredictable competitive forces. This is in addition to the diminishing levels of natural resources, the increased change in customer demands, unpredictable weather and economic patterns (Smart & Vertinsky, 2006). Firms must therefore align themselves with the ever changing environment for their continued survival, sustainability and profitability (Aosa, 1990). Modern firms, operating in dynamic market contexts, need to implement strategic responses that permit quick reconfiguration and redeployment of assets to deal with environmental change. Strategic responses are the approaches adopted by firms to handle the challenges, changes and risks in their operating environments (Ansoff & McDonell, 1990). Key generic strategies like cost leadership, differentiation, diversification and reengineering could be applied to respond to the external changes taking place.

In systems theory organizations are open systems; which import resources, and transform them into services and goods which they then release into the environment (Pearce & Robinson 1997). Pfeffer & Salancik (1978) argue that managers must find a way to reduce excessive dependence on the environment in order to maintain control over required resources. Operating under conditions of uncertainty, firms need to apply the dynamic

capability theory for them to remain competitive. Here, the firm's ability to integrate, build and reconfigure internal and external competences will enable it to identify and seize new opportunities as well as handle challenges in the rapidly changing environment (Teece, 2007). The resource-based view (RBV) can also be applied as a basis for a competitive edge creation strategy. The firm relies primarily in the application of the bundle of valuable interchangeable and intangible resources to transform a short-run competitive advantage into a sustained competitive advantage (Makadok, 2001). This requires heterogeneous resources that are not only rare but can also not be easily duplicated and substituted without great effort.

An organization is a system whose survival depends on the ability to respond to the changes in its environment. The environment provides the resources and opportunities for the organizations existence, if organizations want to remain prosperous, they must respond to the demands of the environment. One factor that stands out in environmental scanning is the environmental uncertainty, the speed of change is increasing, and there is no clear view of the nature of the terrain, obstacles or the final destination (Buchanan 2010). This calls for a strategic alignment between the internal capabilities of the firm and the environmental conditionality in order to create a competitive edge (Ansoff & McDonnell, 1999).

Strategic responses involve a set of decisions and actions formulated and implemented so as to achieve organizational goals and objectives. A winning strategy is one that creates an excellent fit with company's situation, is capable of building a competitive advantage, and holds good prospect for boosting company performance. Organizations strategic response to the environment will be based on the turbulence being experienced (Ansoff,

1990). Tactical responses are usually taken to fine-tune strategy and involve less of the company resources and they are difficult to oversee. Organizations also adopt short term day to day tactics of the organization. The other response to environmental uncertainty is in the level of differentiation of firms. This goes hand in hand with changes in the departments to address uncertainty, restructuring and creating differentiation in the cognitive and emotional orientation for top management across departments in line with environmental demands. The experts in various departments for example require to be differentiated in terms of qualifications; experience, goals and education so as to handle change. Firms make use of intensive strategies to respond to the changing environment such as the growth strategies on product/market development matrix. The matrix allows managers to consider ways to grow the business via existing and or new products; in existing and or new markets-there are four possible product/ market combinations (Ansoff, 1990).

1.1.1 The External Environment and Organizations

The environment is a set of forces surrounding an organization which affect its operations and access to scarce resources. The business environment consists of all the external influences that affect firm's decisions and performance. A firm's competitive environment has factors which influence the firm's immediate competitive situation, competitive position, customer profiles, suppliers, creditors and the labor market (Mogeni, 2008). Since all firms without exception depend on the environment for their goods and services, they have to scan the environment for opportunities and threats which affect them so as to adapt to them and deliver on the company's core business and vision (March, 1991). Firms handling of the changing power of customers and suppliers,

potential entrants and existing players in the industry will determine their growth in the long run (Porter, 2001).

There are three major trends that are affecting most organizations technology, globalization and demographics. Technology is the most tangible and visible aspect of environmental change. The rate of technological change is faster than the changes in people's behavior and attitudes. Globalization means the death of distance (Cairn cross, 2001) and has been assisted by free trade through national and international deregulation. Demographic trends make many demands on how organizations are structured and managed. Though systematic, continuous scanning of the whole range of external influences might seem desirable, such extensive environmental analysis is unlikely to be cost effective and creates information overload. The prerequisite for effective environmental analysis is to distinguish the vital from the merely important (Motari, 2011). Firm success is dependent on the speed at which organizational changes take place, and the quickness to learn the factors that influence changes, type and tasks of the strategic leadership which impacts on the desired changes (Porter 1980).The environment consists of people, the recipients of an organizations services or goods, with fast changing likes, dislikes, preferences, opinions and lifestyles. Generally, factors both within and outside the organizations environment are continually impacting negatively on firm success hence there is need for more efforts to be applied if organizations are to meet their objectives (Leonard-Barton, 1992).

1.1.2 The Insurance Industry in Rwanda

Insurance coverage in Rwanda is still low with a penetration rate of 2.3%. A revised regulatory environment has sparked off unprecedented growth in Rwanda's insurance industry that only four years ago was characterized by small operations that provided limited policies. The change in fortune for the local insurance sector is a result of the 2009 legislation that aligned operations to international best practices – separate underwriting of life and general insurance to ensure efficiency (BNR, 2013). Figures from the regulator, the National Bank of Rwanda (BNR), reveal that the Insurance sector grew by 36% during the past 12 months ending December 2012 with gross premiums increasing by 67% from Frw 45 billion in 2011 to Frw 77 billion. In the last five years Rwanda has witnessed an unprecedented increase in competition in the insurance industry. There have been remarkable new investments in the insurance sector since the enactment of a regulatory law in 2009. For example, a leading Kenyan insurer, UAP Group with operations in Uganda, South Sudan and DR Congo, entered the Rwandan market last year trading as Union Insurance Rwanda. The latest entrant is Radiant Insurance – a local company. Separation of general and life insurance businesses means that players that previously operated general and life insurance at the same time have had to create different entities. This has led to the creation of more companies to handle specialized areas of the business.

With just a couple of companies in business during the post-1994 Genocide, recent economic gains and expansion of the private sector have also created many opportunities in the insurance business. Some of the many opportunities have indeed come from the finance sector itself where it is almost mandatory for borrowers to have insurance cover

for assets such as motor vehicles or properties they are purchasing using commercial bank finance or leased from financial institutions. There are twelve insurance companies operating in Rwanda today and analysts predict more will come soon eyeing to cash in on the stable financial sector. Rwanda's insurance market also has a reasonable number of mandatory policies such motor vehicle third party insurance and to some extent medical insurance which indeed accounts for the rapid growth in sector. This too is likely to be a factor in attracting more investors. Rwandan banks are operating in a more economical turbulent and politically risky environment. However, in the midst of these opportunities, the Rwandese environment reveals some levels of environmental turbulence.

1.1.3 Soras Insurance Company Limited

Created in 1984, Soras SA has been split into three different companies, members of one group. Soras Group Ltd is the Investment and Service Company, Soras - General Business Ltd which is the Insurance Company for short term business and Soras - Life Business Ltd which is the Insurance Company for long term business. This split aimed at complying with insurance Laws and related Instructions that existing insurance companies should split into short term and long term activities (<http://www.soras.co>).

Soras shareholders took that opportunity to increase Soras stake in other business activities with a majority shareholding in a microfinance institution CFE AGASEKE, and in GENIMMO, Real Estate Company. Finally, Soras Group came as a result of this restructuring and it is composed of five companies: Soras Group, an investment and service company - Mother Company (<http://www.soras.co>). Soras Group vision is they intend to play the role of leader in the field of Insurance and operate in targeted niche in

areas of Finance and Real Estate while their mission is to ensure profitable and sustainable growth for our shareholders, to offer to their customers high quality products and services and to promote our staff members' professionalism and welfare (<http://www.soras.co>).

1.2 Research Problem

In the recent past, businesses the world over have been faced with external environmental turbulence including increased competition, globalization, political volatility and Technological advancement. This calls for strategic responses that will allow for management of change, innovation, and information technology to tap on the opportunities in the environment and deal with the challenges therein more effectively (Bryson, 1995). The organization, therefore, has to harness both its intangible and intangible assets to maintain a strategic fit between its internal resource capabilities and the external environment (Ansoff & McDonnell, 1990). Porter (1985) identified three generic competitive strategies that a firm can use as a response to a turbulent environment this include focus, cost leadership and differentiation strategies. Organization can respond using product-market scope strategies.

While environmental turbulence cuts across almost all fields in business, the insurance industry where Soras Insurance Company Ltd is a key player has received much of this impact. International terrorism affecting millions of people and destroying property worth millions, bank related computer and armed crime of millions all require insurance compensation. Rwanda having emerged from the aftermath of the 1994 genocide provides fertile grounds for investment in Insurance products. In addition, since the

establishment of a relatively stable political government in Rwanda, the economy is growing; increased number of foreign investments as well as technological advancement. SORAS Insurance Company Ltd operates in this environment. This environment has long term implications on SORAS Strategic repositioning. SORAS Insurance Company Ltd has to constantly reengineer itself so as to favorably undertake business in line with the Changing environmental parameters.

Some studies have been undertaken on the response of organizations in the insurance industry to the environmental changes. These include those Okoth (2005), Motari (2011), Isaboke 2001 and Wangari (2006). Okoth focused on competitive strategies utilized by sugar manufacturing firms in Kenya. Isaboke looked at the strategic responses by major oil firms in Kenya to threats of new entrants; Motari dealt with responses by Kenya Reinsurance Corporation to changes in the environment while. Wangari looked at responses of bottled water companies in Nairobi to the threat of substitutes. Ngwesi (2001) investigated the strategic responses by national university of Rwanda to changing environmental conditions. Motari looked at responses of Safaricom limited to increased competition in the mobile phone industry.

The Ministry of Trade and Industry (2010) undertook a joint sector survey on private sector development whereby mention was made on the growing Rwandan economy and with it the accompanying investment opportunities for increased competition across industry. The survey identifies insurance competition as one of the forces of change in Rwanda. Gershenson (2010) also did research on Rwanda's priority on resources mobilization as a response to the growing opportunities and threats in the business

environment. This is in addition to research by UNCTAD (2010) on investments in Rwanda. Also, Nyiramatama (2011) carried out research on Strategic responses by Banque Populaire du Rwanda to challenges in the external environment. These researchers have positively shed some light on organizational response to the environment in a more company specific manner. However each of these firms is quite different and unique from the other in their way of responses and the way of doing business and even in the specific business context that they may be operating. None of these researches therefore could be applicable parse on the responses of Soras Insurance Company Ltd to changing environmental conditions. So far there is no known research which deals with this topic that is under study. This study therefore addresses the question: what are the responses that have been adapted by Soras Insurance Company Ltd to changes in these environmental conditions?

1.3 Research Objectives

The objectives of this study were;

- i. To determine the forces of change in the external environment of Soras Insurance Company Ltd.
- ii. To establish the strategic responses of SORAS Insurance Company Limited to changes in the external environment in Rwanda.

1.4 Value of the Study

The findings of this study will be useful to the following groups. In terms of theory development, the findings of this study will enrich existing knowledge particularly in

theories such as dynamic capability, resource based and Open Systems theory. It will provide basis for further research.

The findings of this study will give SORAS management relevant information to help them build and improve their organizational capacity for responding to a range of changes in the operating micro and macro environment. In terms of Policy the findings would enable governments and other regulatory bodies to formulate policies on Insurance and competition.

Also, the findings of this study will enable Insurance companies in Rwanda, in general, and Soras in particular to undertake effective strategic responses to changes in the external environment .The findings will enable them benchmark their strategic responses with those of other insurance firms for purposes of strategic planning Also, this study will provide useful information to the government of Rwanda and other insurance regulators to develop useful policy strategies for effective strategic response management to the external environmental turbulence.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the following subtopics Theoretical Framework, the concept of strategy, changes in the external environmental and the organization, responses to the changing external environment.

2.2 Theories Underlying the Study

Theory informs the foundations upon which research is undertaken. Theories such as the open systems and dynamic capability are more relevant to this study. The open systems theory views organizations as open systems that import resources such as materials, and transform them into services and goods which they release into the environment. However, the theory fails to point out the competitive advantage created by the inputs-output matrix in addressing environmental turbulence.

The dynamic capability theory on the other hand analyses the firm's ability to integrate, build and reconfigure internal and external competences to enable it to identify and seize new opportunities as well as handle challenges in the rapidly changing environment (Teece, 2007). The resource-based view (RBV) can also be applied as a basis for a competitive edge creation strategy .The firm relies primarily in the application of the bundle of valuable interchangeable and intangible resources to transform a short-run competitive advantage into a sustained competitive advantage (Makadok,2001).

Competitive advantage, therefore, requires heterogeneous resources, that are not only rare but can also not be easily duplicated and substituted without great effort. However in scenarios where firm especially young and upcoming firms do not have enough resource capability, this theory fails to point out the sources of competitive advantage in addressing environmental change. Apparently therefore the weaknesses in all these theories can be handled by the dynamic capability theory. This theory analyses the firm's ability to integrate, build and reconfigure internal and external competences to enable it to identify and seize new opportunities as well as handle challenges in the rapidly changing environment. To do this the theory incorporates strategic leadership as a basis for creating a learning organization, management of strategic change and innovation as a basis for the creation of a sustainable competitive advantage in the midst of environmental turbulence. The dynamics capability theory would therefore incorporate all the other theories as a response to the changing environment. On this basis, this is the best suited theory for this study.

2.3 The External Environment and the Organization

Environment is the context in which organizations interpret and respond to performance feedback and set strategies. Many scholars have recognized the importance of congruence between organizations and their environmental conditions (Lawrence&Lorsch,1967). Organizations are also dependent on their environments (Pfeiffer & Salancik, 1978). The notion that as the environment changes organizations should change their strategies and respond accordingly has long been held (Porter, 1985).Environment has a greater impact on strategic decision making in more technologically intensive industries than in simpler

industries. Complexity challenges organizations' abilities to interpret their surroundings and respond to changes in their environments. With rapid change, interpretation and response become all the more difficult tasks for organizations. Complex environments that change rapidly are labeled turbulent environment (Ginn, 1990).

Eisenhardt and Bourgeois (1988) investigations of rapidly changing environments found that successful firms have an ability to react to environmental changes. The findings are also supported by Ginn's (1990) investigation of acute care hospitals in the 1980s. These organizations have the ability to make response strategic decisions both carefully and quickly in light of sudden environmental changes. Organizations whose past experience has been in an environment with constant change will come to expect change, are likely to remain more vigilant, devote more resources to environmental scanning, and consequently may be less likely to underestimate the significance of the environmental changes. Environmental change affects the ways in which organizations interpret strategy and performance. While internal organizational members and membership dynamics are integral contributors to organizational strategies, understanding the context in which an organization is embedded may enhance evaluation and understanding of organizational strategies (Lamothe, & Langley, 2001). Chan (1986) and Jackson (1991) found to varying degrees that organizational change results from a dynamic combination of environment, strategy, structure, and technology factors. As environments change rapidly, there is increasing pressure on organizations to produce valuable outputs faster and more efficiently. The rules of the game of new product development have changed. The environment for new product development is characterized by increased competition,

new technologies that make existing products obsolete, changing customer needs and shorter product life cycles, higher development costs, and increased need for involvement of customers, vendors, and strategic partners in the development process (Gupta & Wilemon, 1990).

Organizations experiencing rapidly changing environmental face both high complexity and dynamism. Assuming a highly complex and dynamic environment, implicitly leads to the issue of continuity. Continuity deals with the magnitude of the changes in those parts of the environment that are changing (Keck & Romanelli, 1993). Since we focus on environments that experience many changes it is interesting to understand what factor differentiates the various changes. Continuity is considered high during relatively incremental changes that build upon previous experiences. Incremental environmental change describes those changes that represent incremental or convergent shifts in salient environmental factors. Continuity is considered low during major changes that break from or are incongruent with previous experiences. Major environmental change describes revolutionary changes in environmental factors. These revolutionary changes tend to reorient or transform affected segments of the environment.

There are fewer consensuses about the abilities of firms to learning from prior experience during periods of incremental environmental shifts than during periods of major change (Eisenhardt & Bourgeois, 1988). However, while there are competing theoretical perspectives about the nature of major change in the literature, there appears to be agreement about the disruptive effects of that change (Lant & Mezias, 1992). Since incremental environmental changes occur more often than major environmental changes,

it is likely that most changes in the literature that have been labeled as conditions of high environmental turbulence are the result of a large number of incremental environmental change events. Most learning theories suggest that rapid environmental change and the condition of ambiguity it creates will attenuate successful organizational responses (Keck & Tushman, 1993). However, others suggest that the ambiguity generated by rapid environmental change will present firms with equivocal experiences and opportunities for strategic responses. In persistently changing environments firms may come to expect rapid environmental changes as an equilibrium condition of their world (Levinthal & March, 1993). Rapid environmental change describes a commotion that adds ambiguity to an environment. This ambiguity complicates the relationship between organizations and their environments. Organizational perceptions of their environments may be clouded by the introduction of ambiguity, a random component, in their otherwise systematic understanding of their environments (March, 1991).

Kraatz & Zajac (2001) argue that as environmental change increases, a firm's decision making tasks become more difficult and managers may have greater information processing requirements. However, in stable environments information-processing requirements are not as intense. Environmental change may increase erroneous perceptions and interpretations of environmental signals during information processing. Successful organizational responses may be curtailed under conditions of rapid environmental change. However, firms in some industries are able to develop processes for coping with incremental environmental changes and have been successful at adapting to these environments. It is possible for organizations embedded in rapidly changing environments to thrive on incremental changes. Perhaps, only some populations of

organizations learn to adapt in the face of rapid environmental change. Only some organizations appear to have developed this second-order organizational strategic response process by which they can adapt to incremental environmental change. Second-order learning refers to exploration of alternative processes, routines, or technologies where first-order learning indicates improvement within the realm of current processes or technologies (Kraatz & Zajac, 2001).

For organizations that are able to initiate second-order learning processes, the continuity of the organizational environment may not affect their abilities to cope with their environments. These organizations live in a world where incremental environmental change is the equilibrium condition of their environment. Organizations that are faced with an almost constant stream of new innovations and generational improvements must cope with these innovations and respond to the market and adapt their internal processes to incorporate changes. Incremental environmental changes are viewed as the equilibrium condition in this industry and are not expected to degrade the value of performance feedback information (March & Simon, 1993).

Environmental conditions have been traditionally considered to have the same relationships as or to be a part of performance feedback in the adaptive learning literature. However, organizations that survive by adapting their internal processes to incorporate environmental changes may directly use that information. For example, Langlois (1992) characterized the microcomputer industry as one where growth proceeds through the generation of external rather than internal capabilities. These organizations rely on adapting their internal processes the external capabilities of its supplier industries (Rosenbaum, 1993). As organizations attempt to understand their environments' they

interpret additional information that is separate and distinct from performance feedback information. These incremental environmental changes may directly affect organizational strategic response decisions. Major changes will disrupt the feedback relationship between performance and strategic change (Keck & Tushman, 1993)

2.4 Responses to the Changing External Environment

Porter, (1985) sees strategy as a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environmental conditions to gain competitive advantage. The intention of strategy is to focus on the interdependence of the adversaries' decisions and on their expectations about each other's behavior. Strategy is the determination of the basic long run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Strategy is the unifying theme that gives coherence and direction to the decisions of an organization. Strategy is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals. Strategy defines the mission of the firm and its vision. Strategy therefore clearly gives the firm its identity, its power to mobilize its strengths and its likelihood of success in meeting stakeholder value (Wright & Calof, 2008). Strategy is the pattern or plan that integrates an organization's major goals, policies and action sequences into cohesive whole.

Strategy can be at the corporate level, the business unit level, and the product level. There are three distinct levels of strategy in a commercial context, corporate strategy, which deals with the allocation of resources among the various business's or divisions of an enterprise. Business level strategy exists at the level of the individual business or division

that addresses primarily the question of competitive position. Functional or Product level strategy is limited to the actions of specific functions within specific businesses. Finally, marketing plans need to be developed at the product level. Plans at all three levels need then to be implemented, the results monitored and evaluated and, where necessary, corrective action taken. Strategy is a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. Strategic Management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises (Ansoff, 1990).

Strategic responses mean strategic change. Strategic change requires that firms change the organizational Vision, Mission, Objectives and of course the adopted strategy to achieve those objectives. Strategic change is defined as changes in the content of a firm's strategy as defined by its scope, resource deployments, competitive advantages, and synergy. Strategic change is defined as a difference in the form, quality, or state over time in organization's alignment with its external environment.

Strategic responses are the alternatives that organizations make in an attempt to address the key issues arising from both internal and external analysis of the firm and its business operating environment. They involve changes in a firm's strategic behavior to ensure success in transforming future environment. Strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. The organization, therefore, has to harness both

its intangible and intangible assets to maintain a strategic fit in its environment and strategy (Ansoff & McDonnell, 1990). The changing external environmental conditions shape what a company's strengths, opportunities, challenges and threats. Organizations must therefore understand the underlying sources of competitive pressure in its industry so that it is able to formulate appropriate strategies to respond to competitive forces. Once organizations face unfamiliar and changing business environments, they should revisit and revise their operational strategies to match the turbulence and the unpredictable level (Ansoff & McDonnell, 1990;).

Firms respond differently to the same external environment changes for example they respond with different strategies to the same opportunities (Bryson 1995). Porter (1985) identified three generic competitive strategies that a firm can use as a response to a turbulent environment this include focus, cost leadership and differentiation strategies. Organization can respond using product-market scope strategies. Firms can focus on specific markets or specific products or even product new products to suit niche markets. New product development strategy is used when the external factors suggest that the market is saturated or that stronger competition or other threats to market exist and the internal factors show weakness in distribution or strength in product development. New market development strategy may be adopted when internal factors suggest adding markets for existing products due to greater distribution strengths but production or product development weaknesses (Chan, 1996).

A change in strategy work in practice if the relevant structure is put in place in terms of processes, boundaries and relations and their interactions at the same time there must be enabling thus creating of support mechanisms in the organization in order to support

strategy implementation and development. Finally there has to be change thus creating an environment that facilitates change throughout the organization. Organizational responses could take the form of strategy or operations. Firms in different environments respond to changes in the business environment through various methods. For portfolio related strategic responses firms can adopt mergers, takeovers and diversification strategies. At the same time strategies such as shares buyback, joint venture, disinvestments and strategic alliances collaborations could be utilized (Gupta 1990).

In addition firms can also adopt the environment organization structure related strategic responses which include strategic business units, matrix structure and delayering flat organization structure. Equally firms can use process related strategic responses of quality strategies, international quality, certification programs, just-in-time inventory and benchmarking. Others strategies that could be utilized are setting vision and mission, cost and asset utilization strategies, technological up gradation and indigenization, information technology, research and development, marketing strategies and project management. Operational efficiency and effectiveness strategies alone may be insufficient to achieve sustainable competitive advantage. This is because they are short term in nature and may only address short term changes in the environment. However they address efficiency as opposed to effectiveness which is dealt with by strategic responses whose main characteristics is being long term in nature. The strategic responses are holistic in nature as they involve the whole firm and constitute decisions made at the corporate and business levels (Jackson, 1991).

Diversification strategy could take the form of related diversification or unrelated diversification. Related diversification allows a business to escape from possible

business wars with existing competitors while minimizing product-market adjustment costs in terms of having to adopt new technology. Unrelated diversification is an expansion by a business into market areas that are not related to existing products or services in terms of technology, distribution channels or end use. The rationale for such an expansion path is financial rather than industrial. Unrelated diversification releases the company from any constraints upon the chosen market in which to expand (Howe, 1986). Firms can also respond to environmental changing conditions formulating new strategies in their operations. Firms' operational strategies can be in the functional level of a firm take and its strategic business unit. Here strategies can be on the areas of marketing, finance, operations, research and development and human resource functions. Marketing strategy deals with pricing, promoting, selling and distribution of products. Using market development strategy, a firm can capture a larger share of an existing market for current products through market saturation and market penetration. The company could also develop new markets for current products. Using the product development strategy, a company can develop new products for new markets. For advertising and promotion, a company could use push and pull marketing strategies (Pearce & Robinson 1997).

Strategic purchasing could be utilized to obtain supplies at a relatively cheap cost and better quality. This can in turn minimize cost or purchases and create competitive edge of the firm. To keep in line with modern business strengths a firm must put in place research and development strategies. These strategies could unravel new competitors in the market new demand and the changing nature of customer preferences and tastes. Harmed with these strategies the firm can create a competitive edge for itself. Firms can also make

adjustments in the creation of a competitive human resource management component to deal with emerging issues in strategies in business while, the non-core functions maybe outsourced. Functions that require to be performed by non-skilled labor could also be outsourced (Lant & Mezias, 1992).

A good strategy in finance must examine the cash flow and investment issues of the firm this is in addition to adopting the best valuation methods in understanding fully the net present value of the firm so as for it to attract investment. Sources of financing which are reliable and relatively cheaper in terms of cost also constitute a strategic response to a volatile business environment. The formulation of strategic responses is generally treated as a rational process of matching corporate capabilities to market demands and changing environment conditions. Corporate perspectives on changing environmental conditions are likely to be premised upon views of climate science, expectations of regulatory responses, and the market potential for mitigation technologies. These perspectives are mediated by the institutional environment, including competitors, industry associations, consumers, regulatory agencies, and the media (Kraatz & Zajac, 2001). The forces in macro environment have their impact on the goals, values, human relations technologies and decision making in a business organization and the firm must react strategic if it has to survive. Also perceptions and beliefs of the managers are also important. It is because of the fact that information from the external environment is passed through the perceptive and cognitive process of individual managers. They analyze the information and take the appropriate decision. The forces in the external environment may act a positive stimulant or a negative constraint for the business. When they act as positive stimulant, the efficiency of the business improves and vice versa (March, 1991).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the following sub-topics which relate to how the project was carried out. The chapter covers the research design that was used to conduct the study, data collection method that was used and the analysis of data in order to generate the findings of the research.

3.2 Research Design

This study adopted the case study design. This is a case study of strategic responses of Soras Insurance Ltd to the changing external environment. A case study design is the most appropriate when a detailed and an in-depth data is desired about organizations or multiple organizations (Cresswell, 1994). The case study focused on Soras Insurance Company Ltd as a single study unit under investigation. Case study research design provides very focused and valuable insights to the phenomena that may be vaguely known or understood.

A case study design aims at determining the what, when and the how of a phenomena which will be covered under this study. The design enabled the researcher not only to establish factors explaining phenomena but also unearth underlying issues. A case study is the easiest design free from material bias and enables one to intensively study a particular unit (Motari, 2011).

3.3 Data Collection

The study used both secondary and primary data. Primary data was obtained from managers of Soras by the use of an interview guide. An interview guide allows the researcher to gather detailed data from the study elements through further probing. The interview guide was used to gather data on the study topic. The interviewees of the study were ten departmental heads including Finance, Human Resources, underwriting, claims, legal, Customer relations, Medical, Marketing and Sales, ICT and Training. These interviewees were better placed in providing required data to answer the research questions of this study. This is because they are the ones playing a key role in ensuring that the firm is better positioned to favorably manage the ever changing external environment by instituting appropriate and effective responses.

The interview guide that was used was administered through personal interview carried out by the researcher herself which allowed more room for further and extensive probing of the respondents. The secondary data for this study was obtained from the company's continuity plan and annual reports.

3.4 Data Analysis

Data collected was analyzed using content analysis. This is because the data was qualitative in nature. Content analysis provides a systematic manner in which to compress the data collected into fewer content categories and common themes to enable the researcher to answer the research question raised. It was used for making inferences by objectively and systematically identifying the specific variables and characteristics of data collected (Weber, 1985).

Content analysis enables the researchers to sift through large volumes of data with relative ease in a systematic fashion. It can be a useful technique for allowing the researcher to discover and describe the focus of individual, group, institutional, or social attention while at the same time allowing inferences to be made which can then be corroborated using other methods of data collection. The analyzed data was also compared with existing literature about the study. This was done for purposes of establishing areas of commonality and where deviations occur so as to come up with dependable research facts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and results of the study. It also discusses the findings of the study as set out in the research methodology. The chapter also brings out the discussion of the study. Data collection was done by the use of an interview guide that was developed according to the objectives of the research. The interview was carried out by the researcher assisted by a research assistant. A total of the 10 top heads of departments responded to the interview. This represents one hundred percent response rate which is satisfactorily enough and could be used as a basis for drawing conclusions. Content analysis was utilized in the analysis of data.

4.2 Bio Data of the Interviewees

All the interviewees were heads of the 10 departments at SORAS Insurance Company. These were the departments of Finance, Human Resources, Underwriting, Claims, Legal, Customer relations, and Medical, Marketing and Sales, ICT, and Training. The findings indicate that 5% of the heads of department had more than 10 years' experience in the insurance industry; 15% had between 7-15 years' experience and the rest less than 8 years' experience in the Insurance Industry. Staff experience is necessary in the delivery of the desired goals of the firm. This is because experienced staff takes relatively less time to deal with emerging and new environmental issues at the work place. For SORAS,

more than 70% of the top management is fairly experienced, qualified and competent when dispensing their duties and responsibilities.

4.3 Forces of Change in the External Environment of SORAS Insurance

The findings indicate that there are many forces of change in the external environment of Soras. These included economic, socio-cultural, technological, political as well as ecological factors. The interviewees indicated that competition is the key driving factor facing SORAS Insurance. Eight out of the ten managers identified interviewed singled out competition as a key factor requiring attention. Upon further probing, the researcher pointed out that there were two most important forces of change in the external environment of SORAS Insurance. These were found to be Socio-Cultural and technological changes, respectively.

It was also found out that the Rwandese people have been going through a linguistic change from French Speaking to English speaking hence need to change the mode of communication. Technology was also found to play a major role in the way of doing business in Rwanda. Rwanda's vision is to become a technology hub in the region and all private and public institutions have to align themselves to these vision. The external environmental conditions of economic, political, and ecological factors were relatively found also to influence the need to respond to change.

4.3.1 Competition as a Force of Change

Various key competitive factors were found to cause a major challenge to SORAS Insurance. Influx of competition from the region due to joining East Africa Community, regional companies such as UAP Insurance Company, BRITAM Insurance Company and

Phoenix Insurance Company have joined the industry in the last 5 years. This is in addition to an increase in insurance intermediaries who tend to negotiate lower premiums. The findings indicate that new competitor products in Rwanda such as regional medical cover by UAP Company have reduced the market share of medical policy significantly. The lack of qualified and experience insurance professional has created a situation of high staff turnover amongst Insurance Co in Rwanda. The regional Companies are attracting better qualified staff from the region and not just from Rwanda.

The findings also identified banks as offering competition by way of self-Insurance which denies the premiums being transferred to the Insurance Companies. Last but not least unfair competition due to violation of minimum tariffs as set out by Association of insurers of Rwanda created price undercutting

4.3.2Socio-Cultural Changes

The findings indicate that Rwanda changing from French to English is a major force of change. Also changing from strong French culture to more open English culture has been a major force of change. The returning of many Rwandeses who had been exiled due to political instability has also affected the way business is done. Also, the returnees came with different cultural orientations. This was a challenge on how to accommodate cultural diversity.

Upon further probing the interviewees reported that SORAS has been operating with a closed membership kind of a cooperative society culture, allowing only those affiliated with the cooperation to do business with it. This posed a challenge of opening up to other members of the society.

4.3.3 Technology as a Force of Change

The study findings found out that the ambitious plan of the Rwanda Government to become a technology hub within the East Africa Community Block in line with its vision 2020, posed challenges to SORAS to adjust its technology in line with this change. From the interviews, global technologies including e-commerce e.g. Mobile transactions also pose a challenge to SORAS. Asked to respond further to rapid technological changes, the interviewees identified internet services through the web and SMS facilities as a force of change for SORAS.

4.3.4 Economic Factors as Forces of Change

Rwanda Economy is heavily funded by donors and foreign investments, Kenya being the highest direct foreign investor. The economy of Rwanda depends more on donor funds and foreign investment. This dependence indirectly affects SORAS because majority of clients are funded by donor money to purchase insurance notwithstanding the fact that donor funds are unreliable. Rwanda economy also reported a significant growth rate of 8 percent in 2012. This in comparison with 2011 with a growth rate of 6.56%. This has a net effect of increased demand for insurance service. SORA has to meet the increased demand for insurance cover.

Upon further probing it was also noted that unpredictable economic conditions such as inflation, and high exchange rates, as well as weakened power of investors were also identified as economic challenges facing SORAS.

4.3.5 Political and Regulatory Factors as Forces of Change

From the findings the Insurance industry in Rwanda was largely unregulated until 2006. The Central bank of Rwanda has introduced the Insurance act which means SORAS has to comply. The separation of life and general business has challenged SORAS to split to SORAS General and SORAS Life as two separate insurance companies. The Insurance Act also required a total restructuring of management to comply. The regulatory amendments and differing objectives between regulators and the Insurer also pose major regulatory challenges to SORAS.

The findings also indicate that Rwanda has enjoyed a very stable political environment in the last 18 years especially after the genocide and many years of turbulence. The government commitment to zero tolerance to corruption and a good security system has created a strong investor confidence. SORAS must also keep to the very standard of zero tolerance to corruption.

4.3.6 Changes in Customer Tastes and Preferences as a Force of Change

The study findings indicated that the customers in Rwanda need have been changing tremendously. They need short term products and services of quality as well as new products. This is in addition to prompt and fast claims settlement which was found to pose a great challenge to SORAS.

4.3.7 Strategic Leadership Challenge

Findings of the study indicate that in Rwanda there are inadequate insurance experts who are required to steward the Insurance industry to sustainable competitive levels .High cost of training of these experts and lack of training opportunities in the field of Insurance

compounds this problem. In addition, there are a limited number of professionals with core skills and competences to create sustainable leadership which is the basis for establishing the foundations of competitive business continuity.

4.4 Responses to the Environmental Conditions Facing SORAS Insurance

The study findings point out that SORAS has responded in various ways to the various environmental conditions. These responses are in regard to forces of change in economics, strategic leadership, competition and politics. This is in addition to responses to social cultural changes and technological changes.

4.4.1 Responses to Competition

The study findings indicate that joining of the East Africa Community by Rwanda gave it an opportunity to compete favorably within the East African region by opening up more market for companies. Most insurance companies such as Jubilee and Brita have a presence in all the EAC countries while SORAS has are only operating in Rwanda the local presence. This increased competition has seen SORAS enter into negotiation with a South African partner which has presence throughout Africa to be enable it spread its wings in the region and beyond.

Upon further probing, the interviewees pointed out that SORAS has introduced new products like crop Insurance. This has increased its market share and sales volumes. SORAS also have adopted all its policies to English language so as to meet the demands of the largely English speaking clientele base in the East African Community.

Findings also have shown that SORAS has established a strong partnership with other complementary service providers such as hospitals and agencies to boost its competitive edge.

4.4.2 Responses to Social Cultural changes

From the findings it was evident that Rwanda as a country has adopted English Language as an official language from French. Soras Insurance has adopted English language as a business language which keeps it at par with other regional companies.

The interviewees also indicated that previously SORAS which was a society serving its members only is now a fully incorporated company. This has made it possible for it to attract more investments thereby raising its presence in the market to higher levels. So far it is the leading private insurer in Rwanda.

4.4.3 Responses to Technological Changes

The study findings indicate that SORAS has taken advantage of government policies to make Rwanda an information technology hub in the EAC region to invest in technology. The company has computerized all its transactions. Recently, it has heavily in technology Insurance for example by establishing accounting software to manage its accounting information systems.

Also, the firm has changed from AIMS to NOVANET software 2013. This is in addition to the installation of extranets with other business partners to win a competitive edge from them. The information technology department which was nonexistent at SORAS is now fully operational.

4.4.4 Responses to Economic Changes

The study findings indicate that SORAS have not done so much to deal with the changes in the economic environment. The interviewees intimated that this is because more of these changes are external to the firm and the firm has little if any influence over them.

To mitigate itself from the adverse effects of a slow economic growth and donor funding, the interviewees pointed out that SORAS has undertaken prudent investments such as investments in land property and buildings such as Altis apartments. The study findings also pointed out that the company has other investments like the purchase of shares at Agaseke Bank.

4.4.5 Responses to Regulatory and Political Changes

The regulation that there should be a separation of life and general business has led to the creation of SORAS General and SORAS Life as two separate insurance companies. This was meant to increase the business portfolio of the firm as well spread the risks involved in doing business by SORAS. The findings pointed out that this also meant a total restructuring of management.

In terms of capitalization, the interviewees indicated that the company brought in a strategic partner for it to be fully capitalized. Further study findings also indicate that Political stability has enabled SORAS to be stable as a company and to also be able to attract strategic partners.

4.4.6 Responses to Changing Customer Needs and Preferences

The findings indicate that SORAS has employed experts from Kenya, Uganda, South Africa as well as Europe to bridge the gap caused by low local capacity to address the ever changing tastes and preferences. The expatriate staffs have a strong insurance experience background. The expatriate staff also trains the local staff to enable them take over after the expatriates in addressing customer needs especially in Rwanda.

To endear itself to its current and potential customers, the findings indicate that SORAS has entered into new markets through strategic partners e.g in Kenya SORAS is working with Jubilee Insurance. In Uganda it has signed hospital credit facilities with leading hospitals .This enables it to extend its medical services across East Africa.

Findings also indicate that customer payment terms dictate where they buy the Insurance products and services from. SORAS has embraced flexible premium payment options and offered a wide range of product variations to fit customer needs and financial ability.

The study findings indicate that 40% of SORAS's total revenue comes from its Health Insurance products targeting corporate clients. SORAS are the leading medical insurance provider in Rwanda and have plans to cover the Sub-Saharan Africa through strategic partners.

SORAS are also a socially responsible corporate citizen as it is involved in several areas. These findings indicate that SORAS sponsors corporate social responsibility activities to a tune of RWF50 annually for genocide orphans who are sponsored to schools and daily upkeep. From the findings this positive gesture has earned the company customer goodwill which indirectly translates into indirect sales. In its pricing strategy, SORAS has

embraced flexible premium payment options and offered a wide range of product variations to fit customer needs and financial ability. The study findings indicate that SORAS has undertaken staff restructuring whereby staff is only deployed in areas where they add maximum value in their changing needs and preferences.

4.5 Discussion

The findings of the study identified several forces of change affecting SORAS .SORAS was found to be facing competition, political changes as well as technological challenges. The other challenges identified as having an impact on SORAS as forces for change included social cultural, strategic leadership, regulatory and economic forces among others. These study findings were in tandem with empirical findings of Okoth (2005), Motari (2011), Isaboke (2001) and Wangari (2006). All of these scholars also identified the forces of change in their various studies. The study findings also support the literature of Kraatz & Zajac (2001) who identifies the forces facing businesses as being political social, cultural, economic and regulatory in nature.

The findings of the study also point out legislative requirements, financial constraints, and political and regulatory challenges as forces of change as some of the challenges facing SORAS. These views are shared in the writings of Ghani (2010) and Liu (2007) who even though they did not identify the challenge of leadership and commitment as a force for change, they identified adoption of organizational learning as a challenge for firms to effectively respond to the ever changing business environment.

From the study findings it is evident that SORAS utilizes both the tangible and the intangible assets at its disposal to respond to the challenges posed by the environment. The findings point out the critical role played by strategic leadership as a response to the ever changing business environment.

The other responses to the forces of change were found out to be investment in modern technology, product diversification, and entry into new markets. These findings are consistent with the literature on the Dynamic Capabilities Theory (Teece, 2007). Theory postulates that firms use both the intangible and tangible resources to create a sustainable competitive advantage. The study findings also agree with the literature of Barney (1991) on the use of the Resource Based view or Theory as basis for the competitive advantage creation through configuration of a portfolio of resources available in an a rapidly changing business environment.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the summary, conclusions and recommendations of the study for further research. It also covers the limitations and recommendations for policy and practice.

5.2 Summary

The results of the study findings indicate that SORAS has been experiencing environmental turbulence. The major threat to SORAS was found to be the increased levels of competition that could lead to a declining market share. The greatest competition to SORAS was found to emanate from regional companies especially from the EAC block offering wider superior products than SORAS.

Competition was also posed by other firms outside the insurance industry. Substitute products from non-insurance firms such as banks, and Rwanda Social Security Board (RSSB) SORAS a competitive run.

The study findings also identified changes in technology as a challenge to SORAS. Technological developments such as e-mobile, mobile internet as well as WIFI internet and website called on SORAS to change in tandem with the changing times.

The customer preferences and tastes changes also called for SORAS to change. Modern Rwanda customers were found to be interested in one stop shop, variety insurance

products, faster services and personalized attention. So far increased competition, changing customer tastes and preferences and changes in technology were found to be the top three factors affecting SORAS Insurance. Hence major attention on the responses to these environmental conditions by SORAS concentrated on these three key factors.

SORAS Insurance was found to have crafted various strategies in response to these changing environmental conditions. The other responses are on the application use of ICT in its operations and e-commerce in general. The SORAS customers can now pay online through mobile money transfer services. SORAS customers use mobile internet to communicate with management.

The findings also indicated the utilization of marketing strategies by the firm. The firm uses aggressive advertising, marketing and customer care, among others. The company has also managed to come up with low priced products to attract the low income category of consumers. Similarly SORAS has also applied generic strategies of cost leadership, differentiation and focus strategies. Under cost leadership the firm has embraced modern technology, restructuring and business processing re-engineering to cut on overall costs. This is in addition to the use of e-commerce to do business. For product differentiation SORAS has branded its products and modified their specific characteristics to suit certain market segments. The focus strategy by SORAS has been to come up with products that target certain niche markets for example the SMEs insurance. In addition SORAS's corporate social responsibility has gone a long way in endearing the public and customers to the firm.

5.3 Conclusion

SORAS' key strategy as a response to changing environmental conditions in the insurance industry was found to be its adoption of strategic leadership. This is especially in relation to the top managers of the firm who were found to be professionals and highly experienced to deliver on the mission and vision of SORAS firm. The strategic leadership at SORAS was found to be always on the alert to the changes in the environment. The capability of SORAS to create a learning organization was found to give it a competitive edge in its responses to the environmental conditions.

A strong strategic leadership at SORAS undertook diversification of products and markets by entering into strategic partnerships in Tanzania, Uganda, Burundi and Indian markets and is planning major expansion into other countries in Sub-Sahara Africa. In terms of products, SORAS has a wide range of products including pensions, life, motor, accident, and fire, medical, marine and other related products. The prudent management principles by SORAS management also involve corporate governance, management by objectives and the inclusion of stakeholders especially management in strategy formulation and implementation. By doing so there is little resistance from employee during times of change. Employee benefits including medical and group life covers, retirement fund, car and mortgage loans, among others, go a long way in boosting employee motivation to surpass their targets year on year.

5.4 Limitations of the Study

This research had the following limitations;

- i. The unwillingness of the respondents to supply the right response was a great limitation in the study. The respondents were suspicious that such study could expose their competitive advantage to their competitors who may have access to this thesis. This was in spite of the assurance given to them that the study findings were purely meant for academic purposes and were to be kept confidential.
- ii. Also, the findings of this study were based on a case study of SORAS Insurance Company Limited. Such findings are therefore limited to Soras Insurance Company limited and could not be reliably applied across firms in the insurance industry in Rwanda.

5.5 Recommendations for Further Research

Given the above limitations, it is recommended that the following further research be undertaken:-

- i) Responses of Rwandan insurance companies to changes in the external environment in Rwanda
- ii) Responses of foreign insurance companies to changes in the external environment in Rwanda
- iii) The nature of competition posed by SORAS in markets outside Rwanda.
- iv) The role of strategic leadership in the growth of SORAS Insurance business.

5.6 Implications for Policy and Practice

SORAS need to put in place a Research and Development department. This will be charged with not only gathering and analyzing competitor intelligence information but also exploring new markets and new products. R & D will also be charged with innovations and environmental monitoring and possible firm investment. The firm should also consider additional outsourcing of non-core functions such as auditing, archiving, public relations and information technology, among others.

The company should review technology needs, have in house group and individual training, improve on a learning culture and reward and implement innovations. At the same time the company needs to be more aggressive in media advertising and improve on premium payments through mobile money transfer services. More fundamentally, all employees should be turned into marketers of the firm. Also short term products should be developed as well as empowerment of employees to work from wherever they are. IT improvement such as teleconferencing and working from outside the official roofed home should be encouraged. Above all performance management for effectiveness whereby employees` performance is pegged on surpassing key performance indicators should be prioritized.

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Appendix I: Interview guide on responses of Soras insurance

Section a: Biodata of the interviewees

1. What is your managerial position in your firm?
2. For how long have you been in charge of this department? Please tick
1-3 Years () 3-6 Years () 3-9 Years () Over 9 Years ()

SECTION B: Responses of Soras insurance company limited to changes in the external environment in Rwanda.

1. Which changes have you observed in each of the following external environmental factors that affect your company? Please explain

Economic factors Political factors Technological factors

Socio-cultural factors Ecological factors Competition in the industry

Regulatory factors Customer preferences Customer needs

Number of new entrants Substitute products other factors
2. What do you think have been the implications of the changes in each of the external environmental factors in (5) above
3. How has your company responded operationally and strategically to these external environmental factors above?
4. Has your company developed internal capability to effectively and successfully execute the responses?
5. Overall do you think the company has competitively positioned itself favorably in its operating environment? Please explain how?
6. What other additional strategies can you propose to be deployed to create a sustainable competitive advantage for you firm.

Appendix II: Letter of Introduction