

**STRATEGIES ADOPTED BY APA INSURANCE IN KENYA TO ACHIEVE
COMPETITIVE ADVANTAGE**

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university or college for examination/academic purposes.

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

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DEDICATION

This project is dedicated to my Late father Charles Mathiru who laid the foundation of my academic world. Special dedication to my Mother Anna Mathiru and siblings for the role they played in my life.

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ABSTRACT

Whether an organization remains competitive or not, largely depends on the quality of decisions made by its executives (Myerson, 1991). This is partly because the present day competitive marketing patterns enable the competitors to come to reality with the fact that future marketing will be highly influenced by how an organization plays its cards. Generally, successful businesses rely on a strategy based aspect, which in turn may necessitate use of appropriate decision tools that enhance its competitive advantage. Competitive advantage in any organization is achieved when the competition cannot match the organization's ability to sustain its lead in the market, through its strategies. Insurance industry is equally competitive and APA Insurance as player has taken up several strategies that have had considerable effect on the company's efficiency, productivity change, market structure and performance in the insurance industry. The study set out to establish the strategies adopted by APA insurance to achieve competitive advantage. It adopted a methodology that embraced both primary and secondary data in order to achieve this objective. The secondary data was collected by use of desk search techniques from published companies' publications. Primary data, on the other hand, was collected using personal interviews with respondents at APA Insurance, with the of an interview guide. The research targeted ten respondents in senior and executive positions within APA insurance Kenya, as well as a few staff in lower management cadres at the company. From the ten interviews that were initially projected, six were successful; one (1) face-to-face interview and five (5) telephone interviews. On successful completion, the study identified these strategies as comprising Building a strong Insurance brand; Establishment of a wide branch Network; Effective cost Management; Competitive pricing of products; Broad product range; Market Segmentation; and Product differentiation. Of all these strategies, the study has found that Effective cost management, building a strong brand and Establishment of a wide branch network were found to be the three major strategies adopted by the company. The study recommends to policy makers in the insurance industry to make use of these findings in order to understand the driving force behind such aspect as a constant drive by Insurance companies to open new branches in the wake of competition. Other insurance companies can also benefit from the lessons learnt from APA Insurance so as to tailor their products, focus on the right target market, among others, so as to better serve their intended clients.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The competition in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000). Thus, strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates. According to Ansoff and McDonnell (1990), it is through strategies that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, Systematic management of resistance during strategic implementation (Ansoff and McDonnell, 1990).

Competitive advantage in any organisation is achieved when the competition cannot match the organization's ability to sustain its lead in the market, through its strategies. Insurance industry which is equally competitive and APA a player, has taken up several strategies that has a considerable effect on efficiency, productivity change, market structure and performance in the insurance industry.

Game theory helps analyze dynamic and sequential decisions at the tactical level. The main value of game theory in strategy is to emphasize the importance of thinking ahead, thinking of the alternatives, and anticipating the reactions of other players in your game. Application areas in strategy include new product introduction, licensing versus production, pricing, Research and Development, advertising and regulation.

Successful strategy cannot depend on just one firm's position in industry, capabilities, activities, or what have you. It depends on how others react to your moves, and how others think you will react to theirs. By fully understanding the dynamic with others, you can recognize win-win strategies that make you better off in the long term, and signaling tactics that avoid lose-lose outcomes. Moreover, if the game is understood, actions can be taken to change the rules or players of the game in one's favor. One way a company can change the game and capture more value is by changing the value other players can bring to it. Game theory has been a burgeoning branch of economics in recent years. It is a complex subject that spans games of static (one-time) and dynamic (repeated) nature under perfect or imperfect information.

1.1.1 Strategy and Competitive Advantage

According to Grant (2000), there is no agreed all-embracing definition of strategy. Strategy is the direction and scope of an organization over a long term. Strategies are systematic choices about how to deploy resources to achieve goals (Safford, Kravitz and Leendert, 2003). Strategy is a deliberate search for a plan of action that will develop a business' competitive advantage and compound it. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle.

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process (Ghemawat, 2000). Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives (Ghemawat, 2000).

According to David (2001), concepts, theories, and analytic frameworks are not alternatives or substitutes for experience, commitment, and creativity. But they do provide useful frames for organizing and assessing the vast amount of information available on the firm and its environment and for guiding decisions, and may even act to stimulate rather than repress creativity and innovation. The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprises decisions also permits the application of powerful analytical tools to help companies create and redirect their strategies. Strategy can help the firm establish long term direction in its development and behavior (David, 2001).

Hrebiniak (2005) argues that increasing, strategic planning processes are becoming part of companies knowledge management systems as management becomes increasingly concerned with how companies create, store, transfer, and deploy knowledge assets, so strategic planning becomes an integral part of how deeply-embedded understanding of businesses and their environments become transferred between business units, divisional, and corporate levels and how the knowledge of many different managers and functional experts becomes integrated within strategy.

Competition is one of the major challenges affecting performance of companies. The effects of competition can be measured in terms of number of competitors, the labour force and market size. It is evident that organizations mainly compete for the subscription from the working class like motor vehicle, domestic package and personal accident and the business risks from the property owners. They also face stiff competition from other companies which normally have competitive advantage over them as they can even finance premiums for their clients or they have negotiated better credit terms with underwriters. The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000).

An organization can shift production from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production (Porter, 1990). Similarly, the competitive flexibility of an organization arises from its ability to coordinate its global competitive moves. This helps the organization to have a large number of competitive points and a bigger strategic space to build appropriate offensive and defensive moves that may often include counter-parry, cross-subsidization and sequential competitive entries. A strategy is usually a dynamic strategy-making process and involves a complex pattern of actions and reactions. It can also be partially planned and partially unplanned.

Competitive advantage is an advantage over competitors gained by offering consumers greater value either by means of lower prices or by providing benefits and services that justify higher prices (Thompson et al. 2007). The idea of sustainable competitive advantage surfaced when Day and Wensley (1988) suggested types of strategies that may help to sustain the competitive advantage. Pearce and Robinson (2003) has come the closest to a formal definition by offering that a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. To maintain sustainable competitive advantage, a firm must have core competences. Prahalad and Hamel (2000) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics; first it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for competitors to imitate (Prahalad and Hamel, 2000).

According to Grant (2000) there is no agreed all-embracing definition of strategy. Indeed, strategy is an elusive and somewhat abstract concept. He argues that this is expected when dealing with an area that is constantly developing. Strategy is the direction and scope of an organization over a long term. Strategies are systematic choices about how to deploy resources to achieve goals. A strategy is a long term plan of action designed to achieve a particular goal, most often winning (Thompson et al, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed. Strategy is a deliberate

search for a plan of action that will develop a business's competitive advantage and compound it (Thompson et al, 2007). For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 2001).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel and Prahalad (2000) views organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Ghemawat, 2000).

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and reengineering.

Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. And gradually, the tools have taken the place of strategy. Njau (2000) argues that as managers push to improve on all fronts, they move further away from viable competitive positions. Michael Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate (Njau, 2000).

Winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Kombo, 2000).

Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation (Beal, 2000).

1.1.2 Insurance Industry in Kenya

Insurance business in Kenya is governed by the Insurance Act 1 of 1985 which provides the registration of Insurance companies, Intermediaries, Risk managers, Loss adjusters, Insurance surveyors and Claim settling agents. All persons and companies carrying out insurance business in Kenya must be registered (Christian, 2006). After independence

transformation has taken over Kenya's insurance industry. In reference to Association of Kenyan Insurers, in the end of 2009 there were 44 licensed insurance companies, 20 companies engaged in non life insurance while 9 wrote life insurance and 15 companies were composite engaging in both life and non life insurance. The industry had 137 licensed insurance brokers, 21 Medical Insurance Providers and 3,076 insurance agents. Other licensed players included 106 investigators, 57 motor assessors, 18 loss adjusters, 2 claims settling agents, 5 risk managers and 26 insurance surveyors (AKI 2009).

Kenya's insurance industry is categorized as the leading insurance industry in East African Community, it is further described as a key player in the COMESA region. This not only indicates the potential and capabilities of the insurance industry, but also acts as a source of income for Kenyans as it employs over 10,000 people. Leaders in insurance industry handle approximately 70 percent of motor industry and 90 percent of property related business (Rand, 2004). According to Kenya Insurance Report, Kenya provides evidence that the insurance industry can thrive in Sub-Saharan Africa in face of highly challenging economic and political problems. This then provides a space for an effective marketing strategy in order to capture this potential market. At the end of closing the year 2009, the combined Assets of Kenya's 44 insurance firms amounted to € 1, 3 billion. The Non-life and the Life segments both sustained double-digit growth over the previous five years. Olende (2010) states the Figures as Total Industry Premium being €452 million, whereby General Business was € 303 million and the Life Business € 147 million.

The Industry grew by 14.8 percent, General Business grew by 12 percent and Life Business grew by 20.9 percent in year 2008. The top 10 General Insurance Companies accounted for about 65 percent of the total premium, while the 8 top Life Insurance Companies accounted for 83 percent of total premium.

There are several insurance sectors and products in Kenya's market. They can be split into; non life and life insurance. Non life insurance is also referred to as General insurance. It covers the policy owner from risks, for instance property/casualty; it protects your possessions from fire and peril (Floods, Earthquakes etc). Health insurance protects you through settling the costs related to your health (Physicians fees). Life insurance is the payments paid to the beneficiaries as a result of death of the insured, according to the contract made by the policy owner and the insurer. Health sector; it has two players the Public and Private sectors. The Private is still relatively small, with about 600,000 insured. The public has many insured people with the major player alone; National Hospital Insurance Fund (NHIF) with more than 2 million in the health sector (Barnes et al 2010, 29) while, the penetration into the market is only at about 2 percent.

In the health sector there are two distinct players; insurance companies and medical insurance providers. According to the AKI report 2007 there were 14 insurance companies offering health insurance products with total gross premiums of Kshs. 4.25 billion (approximately € 33 million). Further information in the report indicates that the sector grew by 20 percent from 2006 to 2010. According to the data from AKI (2009), the insurance industry in the wider African market shows a sluggish growth in 2009.

South Africa leads in Africa with a higher penetration rate in non life premiums at 2.9 percent in the GDP of its country, seconded by Kenya and morocco at 1.9 percent. Compared to life premiums, South Africa still leads at 10 percent in the GDP, Kenya at 0.94 percent and the least being Tunisia and Nigeria at 0.1 percent.

1.1.3 APA Insurance Limited

Apollo Insurance Company Limited (“Apollo”) was established in 1977 as a family owned and managed insurer. Apollo is 75% owned by Kenmac Limited. In 2003, the general insurance businesses of Apollo and Pan Africa Insurance Co. merged to form a specialist general insurance company called APA Insurance Ltd (“APA”), with Apollo having a 60% shareholding in APA. APA Insurance Ltd commenced its operation on 1st January 2004. Born from the merger of general businesses of Apollo Insurance Company Ltd and Pan Africa Insurance Company Ltd, APA Insurance Ltd carries a wealth of eighty years combined experience from the parent organizations.

APA Insurance underwrites Health, Marine, Aviation and other General Insurance risks. The Company has long established re-insurance relationships with major international re insurers and has the capacity to underwrite large risks. APA Insurance has shown exceptional growth since 2004, the first year of operation. In the quest to be the largest underwriter of general insurance in the region APA Insurance (Uganda) opened in January 2009. Reliance Insurance Co Ltd is the associate company in Tanzania. APA Insurance has grown to be the industry leader with a turnover of over Kshs 3 billion as at 31st December, 2008. APA is now the biggest insurance company in Kenya. APA Insurance is well placed to provide expert and professional services to all its clients and proving to be a new dimension in insurance.

1.2 Research Problem

In order to survive in a competitive environment, it becomes necessary for companies to up their search and development of strategies that provide a competitive advantage (Beal, 2000). The stiff competition among insurance companies and the entry of other players into the industry necessitate the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage (David, 2001). The ability of a company to command a competitive advantage depends on the sustainability of the competitive advantages that it commands (Hamel and Prahalad, 2000). Increased involvement of the government in the affairs of the insurance industry and identified deficiencies in the industry's rules, have together affected the unique potential of this vital industry (Njau, 2000).

Whereas the sector remains of great significance to the economic development of this country, currently contributing approximately 26% of the country's GDP through employment of thousands of Kenyans, demand for life assurance has remained relatively subdued. According to the association of Kenyan Insurers the industry reflected a penetration rate of 0.76% in 2006 (2005: 0.78%) compared to the 1.78% penetration by the general insurance sector (AKI, 2011). Nevertheless, organizations in Kenya whether profit or not for profit have had to change their structure, design, culture, and general management orientation in order to remain competitive in the wake of the government implementation of policies leading to economic liberalization (Oyoo, 2002).

Various studies that have been done in this area include Strategic Positioning and Sustainable Competitive Advantage in Food Industry (Baraskova, 2010), Strategies adopted by postal corporation of Kenya to gain competitive advantage in the mail sub

sector in Kenya (Karanja, 2009), Organizational capabilities as a source of competitive advantage at Airtel Kenya (Wairimu, 2012), Development of Competitive Advantage in Apparel Industry in Kenya (Masona and Kachiengab, 2012) and Strategies Adopted By Multinational Corporations to Cope With Competition in Kenya (Ogutu and Carol, 2011).

There was a need, therefore, to formulate a study on insurance industry, specifically to understand the strategic responses that APA Insurance has adopted to curb the ever-increasing competition. Though companies use strategies, different companies use different strategies as management is context specific. What are the strategies adopted by APA insurance to achieve competitive advantage?

1.3 Research Objective

The objective of the study was to establish the strategies adopted by APA insurance to achieve competitive advantage.

1.4 Value of the Study

The findings of this study have been found to be of great significance to various parties including, policy makers in the insurance industry who can now make use of it so as to better understand the competitive strategies in the industry, and enable them face inherent challenges better informed manner. From the lessons learnt insurance companies can now tailor their products and focus on the right target market in order to better serve their intended clients.

This study has also succeeded in setting a precedence on which future researchers can ground their work. The study can be used as a basis on conceptual and empirical research in the future, and as a result help to validate future findings and refine future studies after carrying out sufficient research from information and data collected on experiences observed and reviewed in this study. Scholars will use it for further research in the same area or related field and for teaching in universities and other institutions of learning. The study has also contributed to the theoretical foundation as it attempted to explore the strategies adopted by APA insurance in Kenya to achieve competitive advantage from a broader theoretical perspective. Thus, the study relied on the fact that profit scope economies are more likely to be realized by larger firms which makes up competitive advantage.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The subjects covered are closely related to the theme and the objectives of the study.

2.2 Theoretical Perspectives

The study's conceptual view is supported by the following theories, as discussed below.

They are a result of studies done from several sources and they bring out the theoretical perspective of the study.

2.2.1 Game Theory

The idea of game theory, as conceived by Von Neumann and presented in the book that he co-authored with economist Oskar Morgenstern, was to find a general solution to all games. Business is a high stakes game. Branderburger (1995) notes that essence of the business success lies on playing the right game. It has been assumed as an effective strategy in influencing customers' purchasing decision, nevertheless, predatory price setting implied unethical business strategies, "zero sum game" method will leads one party exits from the industry.

John (1944), in his game theory posits the cooperative and non cooperative approaches to business games and social situations in which participants must choose between individual benefits and collective benefits. The games involved scenarios where participants must make decisions that affected not only the individual participants but also all the other participants as well. It has been used as a tool in economics to analyze

competitive situations where the players of the game (companies) attempt to maximize their performance in strategic situations. Their success depends on their choices and how their competitors react to their choices and make choices in response.

2.2.2 Resource Based View and Competitive Advantage

The Resource Based View (RBV) emerged as a complement or dual to the theory of competitive advantage (Barney and Arikan, 2001). Initially, Wernerfelt (1984) developed a theory of competitive advantage based on the resources a firm develops or acquires to implement product market strategy. Wernerfelt's (1984) primary contribution to the RBV literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in implementing product market strategies (Barney and Arikan, 2001). A different perspective is presented by Rumelt (1984) who focuses on economic rents and created a theory of rent generation and appropriating characteristics of firms (Barney and Arikan, 2001).

Moreover, Rumelt (1984) in his strategic theory offered many characteristics which were later associated with the RBV. For example, his view on firms as collections of productive resource as well as his suggestion that the imitability of these resources depends on the extent to which they are protected by an isolation mechanism (Barney and Arikan, 2001). The third resource-based article in the field of strategic management was published by Barney in 1986. Barney introduced the concept of strategic factor markets as the market where firms acquire or develop the resources they need to implement in

their product market strategies. As a result, Wernerfelt (1984), Rumelt (1984) and Barney (1986) are the three cornerstones of what was later known as the resource-based theory.

Moreover, resource-based theory is based on the assumption that firms are fundamentally heterogeneous regarding their resources and internal competencies. It deals with the problem of how firms can exploit their internal resource base and capabilities to obtain sustained competitive advantages (Barney, 1991; Hamel and Prahalad, 1994).

According to Barney (1991), a firm is argued to have a competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time. Moreover, a firm is argued to have a sustained competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991). However, in order for a resource to have the potential of being a sustained competitive advantage, it must contain the following four attributes: Firstly, it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment, secondly, it must be rare among firm's current and potential competition; thirdly, it must be imperfectly imitable and fourthly, there cannot be any strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 1991).

Whereas Barney focuses on internal resources as the key to sustained competitive advantage, Hamel and Prahalad (1994) focus on core competencies and argue that a firm's sustained competitive advantage is to be found in its core competencies. In order for a competence to be a core competence, three criteria have to be met: the competence

has to 1) provide access to more than one market, 2) give a significant contribution to the end product/products and 3) be difficult for competitors to imitate (Hamel and Prahalad, 1994). Accordingly, if a company possesses a core competence and understands how to take advantage of it, it can lead to sustained competitive advantages.

2.3 Competitive Advantage in Organizations

The range of possible pricing strategies reaches from well known posted prices to sophisticated yield management. Each pricing strategy has its own advantages or disadvantages and there is no clear recommendation which strategy to use in conjunction with a certain product or a certain market environment. Posted prices represent the widespread form to price products in the developed countries. Since there is no haggling about the price the transaction turns out to be cheap, clear and fast. All three factors are relevant in our developed world. Thus, posted prices show to be extremely efficient and functional (e.g., Liebowitz, 2002). Cost-plus pricing is by far the most common pricing strategy because of its simple calculation and its foundations on the costs. Applying such a strategy, managers stay in the safe haven, especially with regard to accounting departments (e.g., Noble and Gruca 2006, Simon 2005).

There are some advantages with cost-plus pricing. Since managers usually obtain relatively little information on the demand function, it is more likely that they tend to use cost-plus pricing (e.g., Wilkes and Harrison 2003). Another organizational factor that supports cost-plus pricing is risk aversion. Managers have to fulfill certain internal margin requirements. It turns out to be more secure to price adding a predefined markup.

It is also important to note that managers usually have to decide about numerous prices simultaneously. To capture that complexity the most secure way of pricing will be cost-plus (Noble and Gruca, 2006).

Firms' switching costs have been less studied, but in some contexts, such as the simple model of the next subsection, the total prices (including any switching costs) paid by consumers are unaffected by whether firms or consumers actually pay the switching costs. Thus the equilibrium incidence need not coincide with the apparent incidence of switching costs. For example, empirical findings about the credit card (Ausubel, 2006), and telecommunications (Knittel, 2004) markets, and about the effects of firms' discount rates on prices (Froot and Klemperer (2003), Chevalier and Scharfstein (2002), Fitoussi and Phelps (2000)) could be the result of either switching or search costs. On the other hand, Moshkin and Shachar (2000) develop a discrete-choice empirical model to estimate how many consumers behave as if they have switching costs and search costs, respectively. Their test is based on the fact that whereas the switching probability of a consumer facing search costs depends on the match between his tastes and the attributes of the alternative he last chose, the switching probability of a consumer facing switching costs depends on the match between his tastes and the attributes of all available alternatives.

Using panel data on television viewing choices, they suggest 72% of viewers act as if they have switching costs between TV channels, while 28% act as if they have search costs (Wilson, 2006).

In general, researchers have found evidence for the existence of economies of scope, meaning that multi-product/-branch firms are more efficient than specialized firms (Meador et al., 2000; Cummins et al., 2007; Fuentes et al., 2005). Again, looking at the study results in more detail gives additional insights: for example, in Berger et al. (2000), a US application, it is shown that profit scope economies are more likely to be realized by larger firms. Toivanen (2004) studies economies of scale and scope in Finnish non-life insurance. The production process is separated into cost and portfolio management functions. He found that firms expand their branch network to either gain market power or informational advantages. There are diseconomies of scale at firm level and economies of scale at branch level, and economies of scope in production. Large firms in the non-life insurance industry pay a substantial premium to gain market power via branch networks. The study revealed that the retained premiums-curve of portfolio management is U-shaped and a positive function of the number of branches (Toivanen, 2004).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used in carrying out the research. It involved a roadmap for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure that was conceived to aid the researcher in answering the raised research questions. Specifically the subsections that were included in this chapter are research design, data collection and finally data analysis.

3.2 Research Design

This research was conducted through a case study. It sought to identify the factors influencing the strategies adopted by APA insurance to achieve competitive advantage. The case study was chosen as it was seen as a choice method that would enable the researcher to have an in-depth understanding of the study.

A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear (Mugenda and Mugenda, 2003). This is advocated by Kothari (2004) who acknowledges that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

3.3 Data Collection

The study utilised both primary and secondary data. Primary data was be collected using personal interviews while secondary data was collected by use of desk search techniques from published companies' publications. With respect to competitive strategies adopted

by APA insurance, this paper utilized an interview guide. This research instrument contained intensive review and consultations for the data to be refined. The interview guide adopted open-ended questions which enabled the researcher to collect qualitative data.

Responses from each copy of the interview guide were coded so that only the researcher would know each person's response. The coding technique was only used for the purpose of matching completed interview guides for the purposes of analysis. The staff interviewed included senior managers, directors and staff in other management ranks. This made it easier to get adequate and accurate information necessary for the research. The data was to be collected from ten respondents who the researcher interviewed by phone and/or face to face using the interview guide as the research instrument.

3.4 Data Analysis

The qualitative data collected using an interview guide was be analyzed using conceptual content analysis, which is the best suited method of analysis for such data. This entailed analyzing the qualitative statements to identify themes and patterns and to examine the intensity with which certain words have been used and systematically describe the form or content of written or spoken material.

The data collected from the open ended questions which is qualitative in nature, was analyzed using content analysis. Content analysis was used in processing of this data and results presented in prose form. According Kothari (2004), Content analysis is a summarizing, quantitative analysis of messages that relies on the scientific method and is not limited as to the types of variables that may be measured or the context in which the messages are created or presented.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter focuses on the analysis, interpretations and discussions of field data collected by way of an interview guide. Generally, the analysis and interpretation of data are two closely related aspects of research. In data analysis, the collected data is broken up into groups or elements which the researcher examines separately, and translates into results. On the other hand, interpretation, translates the initial results into integrated and meaningful general references and findings. Such findings must be relevant to the objectives of the research which were to determine the strategies adopted by APA Insurance Kenya, to achieve strategic advantage.

4.2 Demographic Information

In order to gain further insight as regards responses given in this study, the following demographic details were captured in the interview: Age bracket, Gender, Educational level, Job role, and Length of service. The responses given are presented in sections 4.3.1 to 4.3.5.

4.2.1 Educational Level of Respondents

Respondents were requested to state their highest level of Education. The responses given are as tabulated in Table 4.1.

Table 4.1: Educational level of respondents

Education level	Response Code	Frequency	Percentage
Primary School	1	0	0
Secondary School	2	0	0
Degree	3	4	66.67%
Postgraduate/PhD.	4	2	33.33%
Totals		6	100%

Source: Field Interviews conducted by the Author (2013)

The data in Table 4.1 shows that none of the respondents has the highest education level as Primary School or Secondary level. All respondents interviewed have either a first degree or a postgraduate qualification. The largest percentage i.e. 66.66%, hold Bachelors Degrees while the remaining 33.33% hold Masters Degrees.

4.2.2 Job Roles of Respondents

When asked what role they hold in the management structure at APA insurance, the responses show that 50% of the respondents are line managers, a further 33.33% are in middle level management while the balance of 16.67 are senior managers. These responses are as tabulated in Table 4.2.

Table 4.2: Job roles of Respondents –

Job roles of respondents	Response Code	Frequency	Percentage
Line Manager	1	3	50%
Middle level Manager	2	2	33.33%
Senior Manager	3	1	16.67%
Totals		6	100%

4.2.3 Length of service

As regards how long each of the respondents ha been working at APA insurance, Table 4.3 summarizes the responses that were given.

Table 4.3: Length of service of Respondents

Length of Service	Response Code	Frequency	Percentage
Less than 1 Year	1	1	16.67%
1 – 3 Years	2	1	16.67%
More than 3 Years	3	4	66.67%
Total		6	100%

Source: Field Interviews conducted by the Author (2013)

The analysis shows that 16.67% of the respondents have been at APA Insurance for less than one year, a further 16.67% have been employed by the insurance company for 1 -3 years while the majority (66.67%) has been working at the company for more than three years.

4.2.4 Gender of Respondents

This question was not posed to the respondents, but the researcher observed the gender of the respondent in the face to face interview. For the telephone interviews, the researcher used the voice tone of respondents, names given and other gender based criteria to deduce the gender of the respondent. This was recorded as a tick against the respective gender, (male or female) as provided on the interview guide. The results are as tabulated below.

Table 4.4: Gender of the Respondents

Gender	Response Code	Frequency	Percentage
Male	1	4	66.67%
Female	2	2	33.33%
Totals		6	100%

Source: Field Interviews conducted by the Author (2013)

As is presented in table 4.4, respondent genders distribution is shows a skew in favour of the male gender. The study utilised responses from six respondents, 66.67% of whom were male and 33.33% female respondents.

4.2.5 Age of Respondents

The respondents were asked what age category they fell under, given the following choices: 25-30, 31-35, 36-40, >40. From the responses given, of the six respondents interviewed, one of them (16.67%) falls between the ages of 25 – 30 years. The majority of respondents (50%) fall between the ages of 31 – 35 years. One more respondent (16.67%) is aged between 36 – 40 years, while a further 16.67% (1 respondent) is aged above 40 years. These responses are as presented in Table 4.5:

Table 4.5: Age of Respondents

Age Bracket (Years)	Response Code	Frequency	Percentage
25 – 30	1	1	16.67%
31 – 35	2	3	50.00%
36 – 40	3	1	16.67%
Above 40	4	1	16.67%
Totals		6	100%

Source: Field Interviews conducted by the Author (2013)

4.3 Competitive Strategies Adopted by APA Insurance

The respondents were asked to describe the strategies adopted by the company in order to achieve competitive advantage. The responses given by each respondent were listed down and include the following: Building a strong Insurance brand; Establishment of a wide branch Network; Effective cost Management; Competitive pricing of products; Broad product range; Market Segmentation; and Product differentiation.

Similar responses by different respondents were evaluated from which conclusions were made. The responses were given indicate that Effective Cost Management is the most popular Strategy at APA Insurance, as it was mentioned by each one of the six respondents that were interviewed. Other Strategies that attracted high response rates are Building of a strong brand, and Establishment of a wide Branch Network, both of which were mentioned by a majority of the respondents. Three strategies attracted moderate responses i.e. competitive pricing, Broad product range, and Market segmentation. On the lower side, only one out of the six respondents named Product differentiation as a strategy adopted by APA Insurance in order to achieve Competitive advantage. As has been discussed elsewhere in this study, such a finding would suggest homogeneity of insurance products in the Kenyan market with little or no differentiation as to warrant significant product differentiation as well as setting up of a clear cut market segmentation strategy.

4.3.1 Effectiveness of selected Strategies adopted by APA Insurance

Respondents were asked to comment on the influence of three (3) strategies adopted by the company in efforts to gain competitive advantage. The strategies evaluated were Price wars, Switching Costs and a wide Branch Network. The responses that were given

point towards an indication that all the three Strategies have a significant influence on the competitiveness of APA insurance. However, it is noteworthy that a Wider Branch Network was viewed by the respondents as bearing more significant influence than both Price Wars and Switching Costs.

These responses are further evaluated through a determination of the extent to which the respondents thought that three selected strategies impact on the competitiveness of the insurer. One of the respondents felt that price wars affect competitiveness at APA to a very low extent. Majority of respondents viewed influence of price wars as being to a moderate extent, while two respondents felt this influence is to a high extent.

As regards switching costs, two respondents felt that this strategy only impacts the competitive advantage of APA Insurance to a low extent, with the majority standing with the opinion that the extent is moderate and one respondent had a view that Switching Costs have a high influence on the competitive advantage at APA Insurance.

As regards the third strategy that was evaluated, establishing a wide branch network received the most favorable opinions. None of the six respondents regarded it as bearing a low extent of influence. Instead, only one respondent viewed it as bearing a moderate extent of influence, while all the other respondents actually regarded it as bearing a high extent of influence on the competitiveness of the Insurance Company. This implies that the respondents in this study regard an expansion strategy that encompasses establishment of a wide branch network as being highly influential in the achievement of competitive advantage of the company.

This finding would point at a wide branch network that provides an imposing presence in the market which in turn plays a dual role, the first being serving as a deterrent to rival firms and secondly, ensuring that potential customers have easier access to the insurer and can their products.

4.4 Discussion

The fact that this research only interviewed management staff at APA Insurance is important because different staff cadres have different corporate viewpoints and their opinions may significantly differ depending on the level from which they address a research question. All the respondents had university education which also points at their ability to understand questions as posed by the researcher. The quality of responses is dependent on the ability of the respondents to comprehend the question as posed, and it is the view of the researcher that university level education enhances this aspect of comprehension.

Despite the fact that the respondents are gender skewed in favour of the male gender, the ratio of 1:2 (female to male ratio) is understandably appropriate for this kind of study. Besides, the manner of questions included in the Interview guide dwelt on Strategic Management opinion issues that in the view of the researcher were not prone to the threat of gender bias. The respondents also were representative of the different age groupings in the organization, which must have added value to the study by bringing in ideas from across the major age categories among the working class i.e. from 20's, through 30's to 40's.

4.4.1 Comparison with theory

The conceptual view of this research is supported by the Game theory and the Resource Based View (RBV) as the two key theories that underpinned the study. Successful completion of this study was expected to yield results that would be comparable to these theories and either confirm them, challenge them or suggest their further development so as to take care of the new findings. This study has evolved findings which are in agreement with the premises of these two theories as elucidated in the account that follows.

In this regard, Effective cost management as fronted by the respondents in this study as a key strategy APA is currently pursuing is in total agreement with the Game theory in that if the firm were to achieve Cost leadership, it has to be benchmarked against the cost of doing business by similar ventures in the Insurance industry. Establishment of a strong insurance brand would also be a counter game to similarly strong brands by other Insurance players, so would be expansion of the branch network, Switching costs and price wars. These are strategies that must be implemented with a view of what rival firms may do in retaliation and with plans on what course of action to take in view competitor strategies.

As regards RBV as a key theory underpinning this study, the research has identified a prioritization of strategies by APA Insurance in that three key strategies prominently featured which points at a bias in resource allocation in favour of the three.

Effective Cost Management, Building of a strong brand and extensive branch network are the key strategies at the Insurance firm, and this informs resource allocation for implementation purposes. Other strategies play second fiddle, only receiving attention when resources are available. The findings of this research are therefore in line with both theories that underpinned the study.

4.4.1 Comparison with other Studies

As regards the strategies adopted by APA Insurance to achieve competitive advantage, the high priority that the company ascribes to Effective Cost Management is consistent with studies in similar organizations that have adopted a strategic concept known as Cost leadership. It is noteworthy that Noble and Gruca (2006) have articulated this concept in postulating that Cost-plus pricing is by far the most common pricing strategy because of its simple calculation and its foundations on the costs. The authors further comment that, by applying such a strategy, managers stay in the safe haven, especially with regard to accounting departments. In adopting a Cost-plus pricing model, organizations that have been able to embrace cost leadership will benefit from higher profits should they choose to price as well as other players in the industry, or else they could develop afford to lower their prices and gain competitive advantage through competitive pricing models. It is no wonder then that this Strategy had the highest number of responses in this study.

The other strategies that prominently featured in this study have been presented as Building of a strong brand, and Establishment of a wide Branch Network, The benefits of a strong brand are obvious in that the brand makes marketing easier as the potential market is not only aware of the product offering but have confidence in the brand. These findings are consistent with those of Toivanen (2004), in which he studied economies of

scale and scope in Finnish non-life insurance. In that study, the author concluded that the production process is separated into cost and portfolio management functions. He found that firms expand their branch network to either gain market power or informational advantages. There are diseconomies of scale at firm level and economies of scale at branch level, and economies of scope in production. Large firms in the non-life insurance industry pay a substantial premium to gain market power via a wide branch network.

Various other studies that have been done in this area as categorized by Industry include: Food Industry; (Baraskova, 2010), Postal Corporation of Kenya; (Karanja, 2009), Airtel Kenya; (Wairimu, 2012), Apparel Industry in Kenya; (Masona and Kachiengab, 2012) and Multinational Corporation; (Ogutu and Carol, 2011). These studies unearthed a research gap in that there was a need to formulate a study on insurance industry, specifically to understand the strategic responses that APA Insurance have adopted to curb the ever-increasing competition. Different companies adopt different strategies since management is context specific. It is in this light that this particular study was conducted, the successful completion of which seals this gap.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study set out to establish the strategies adopted by APA insurance to achieve competitive advantage. This section gives a summary of the findings of this research as derived from face-to-face and telephone interviews as presented in chapter four of this paper. This chapter further draws some conclusions based on the findings of the study, and finally proposes some recommendations that draw from the conclusions of the study.

5.2 Summary

For APA Insurance to gain competitive advantage, this research identified various strategies that they have embraced to this end. These strategies have been established as Building a strong Insurance Brand; Establishment of a wide Branch Network; Effective Cost Management; Competitive Pricing of Products; Broad Product Range; Market Segmentation; and Product differentiation.

Of all these strategies, the study also found that Effective Cost Management, Building a strong brand and Establishment of a Wide Branch Network were fronted as the three major strategies adopted by the company. In explaining these three, the study unveiled that the directors and senior management at APA Insurance have prioritized efforts towards building a strong Insurance brand, and expanding their Branch Network while at the same time ensuring that their operating costs remain on the minimum.

5.3 Conclusion

The conclusion of this study is that Building a strong Insurance brand; Establishment of a wide branch Network; Effective cost Management; Competitive pricing of products; Broad product range; Market Segmentation; and Product differentiation are the various strategies that APA Insurance has adopted to achieve competitive advantage.

Further to this conclusions, the study also noted that from this list, the foremost strategies APA Insurance are most keen on are Cost management strategies, Establishment of a wide branch network, and Building of a strong brand. This is significant because strategy Implementation is done within the constraints of time, human capital and other resources. Having a priority list of strategies implies that should these resources prove insufficient for the whole range of simultaneous strategies, management will allocate the available resources towards pursuance of the three strategies in their priority list.

5.4 Recommendations

The recommendations of this Study stem from its value as discussed in Chapter 1 of this paper. The study recommends to policy makers in the insurance industry to make use of these findings in order to understand the driving force behind such aspect as a constant drive by Insurance companies to open new branches in the wake of competition.

The study further recommends that other insurance companies can also benefit through the lessons learnt from APA Insurance so as to tailor their products, focus on the right target market, among others. In this way, they are assured of gaining competitive advantage and therefore stand in a better position to serve their intended clients in the best possible way. Recommendations for further research are as presented in Section 5.5 below.

5.5 Limitation of the Study

Having adopted a case study design, this research limited itself to Strategy Implementation at APA Insurance, and targeted ten (10) respondents in various management cadres who were sampled for interviewing in line with the objectives of the Study. From this sample, only six interviews were successful from which only one (1) was done face to face, owing to a number of challenges experienced on the field.

The major challenges the researcher encountered in this study are the limitations of time and financial resources. Given the little time available for the study, most of the interviews had to be done through telephone. This denied the researcher the benefit of reading non-verbal language like gestures and facial expressions from the respondents during the interview.

5.6 Suggestions for Further study

The researcher wishes to suggest lines of thought that may add value to future research in this area. While this particular study concerned itself with the actual strategies being pursued by APA insurance and the effectiveness of three (3) of them, it helps to find out how the strategies are formulated, who does it and how the entire process of implementation is done. This recommendation is informed by the fact that strategy implementation and the implementation process may determine whether strategies, no matter their value, will succeed or not.

The researcher further wishes to recommend that a similar study on the strategies adopted by Insurance companies to gain competitive advantage be done as a survey, to verify if the findings of the study on APA Insurance apply to other insurance players in the Kenyan market. If this were to be done, the findings of that research would broaden the scope of this study and entail a more generalizable scenario.

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APPENDICES

APPENDIX 1: INTERVIEW GUIDE

STRATEGIES ADOPTED BY APA INSURANCE TO ACHIEVE COMPETITIVE ADVANTAGE

Please ensure that you complete all questions by ticking all that apply.

Completion of this questionnaire is voluntary and all responses will remain confidential.

Section A: Demographics

1. What is your highest level of education?

Primary ()

Secondary ()

Degree ()

Postgraduate/PhD ()

2. What is your position at APA Insurance?

line manager []

Middle level[]

Senior level[]

3. Period in this position

<1year[]

1-3[]

>3years[]

4. Kindly indicate your Gender

Female[]

Male[]

5. What is your Age bracket?

25-30 years[]

31-35[]

36-40 []

Over 40 years []

Section B: Determinants of Internet marketing Adoption

5. Describe the strategies adopted by APA Insurance to achieve competitive advantage.

.....

.....

6. Describe briefly, to what extent does the influence of price wars as a strategy adopted by APA insurance contributes to its competitive advantage?

.....

.....

7. Describe briefly, to what extent the influence of switching costs, a strategy adopted by APA insurance contribute to its competitive advantage?

.....

.....

8. Describe briefly to what extent a wider branch network, a strategy adopted by APA insurance contribute to its competitive advantage?

.....

.....

APPENDIX II: LIST OF LICENSED INSURANCE COMPANIES IN KENYA

- ☐ A P A Insurance Limited
- ☐ AAR Insurance Kenya Limited
- ☐ Africa Merchant Assurance Company Limited
- ☐ AIG Kenya Insurance Company Limited
- ☐ Apollo Life Assurance Limited
- ☐ British-American Insurance Company (Kenya) Limited
- ☐ Cannon Assurance Limited
- ☐ Capex Life Assurance Company Limited
- ☐ CFC Life Assurance Limited
- ☐ CIC General Insurance Limited
- ☐ CIC Life Assurance Limited
- ☐ Continental Reinsurance Limited
- ☐ Corporate Insurance Company Limited
- ☐ Directline Assurance Company Limited
- ☐ East Africa Reinsurance Company Limited
- ☐ Fidelity Shield Insurance Company Limited
- ☐ First Assurance Company Limited
- ☐ Geminia Insurance Company Limited
- ☐ ICEA LION General Insurance Company Limited
- ☐ ICEA LION Life Assurance Company Limited
- ☐ Intra Africa Assurance Company Limited
- ☐ Invesco Assurance Company Limited
- ☐ Kenindia Assurance Company Limited
- ☐ Kenya Orient Insurance Limited
- ☐ Kenya Reinsurance Corporation Limited
- ☐ Madison Insurance Company Kenya Limited
- ☐ Mayfair Insurance Company Limited
- ☐ Mercantile Insurance Company Limited
- ☐ Metropolitan Life Insurance Kenya Limited
- ☐ Occidental Insurance Company Limited
- ☐ Old Mutual Life Assurance Company Limited
- ☐ Pacis Insurance Company Limited
- ☐ Pan Africa Life Assurance Limited
- ☐ Phoenix of East Africa Assurance Company Limited
- ☐ Pioneer Assurance Company Limited

- ☐ Real Insurance Company Limited
- ☐ Resolution Insurance Company Limited
- ☐ Shield Assurance Company Limited
- ☐ The Heritage Insurance Company Limited
- ☐ The Jubilee Insurance Company of Kenya Limited
- ☐ The Monarch Insurance Company Limited
- ☐ Trident Insurance Company Limited
- ☐ UAP Insurance Company Limited
- ☐ UAP Life Assurance Limited

Source: Internet (2013)

APPENDIX III

INTRODUCTION LETTER

MARTHA WANJIRU MATHIRU
P O BOX 22208-00400
NAIROBI.
30th Sep 2013

DIRECTOR OF OPERATIONS
APA INSURANCE KENYA
P.O. Box 30065 - 00100
NAIROBI

Dear Sir,

RE: LETTER OF INTRODUCTION

I am a Post graduate student at the school of business in the University of Nairobi. I am carrying out a research project as a requirement of partial fulfillment of the award of a Masters Degree in Business Administration (MBA). My area of specialization is strategic management and my chosen area of study is “Strategies adopted by APA insurance in Kenya to achieve competitive advantage”.

To complete my study, I will need to collect relevant information from APA insurance. I am therefore hereby requesting for permission to collect and use corporate information which will be collected using the attached interview guide.

The information collected will be treated as confident and will be used for academic purposes only. A copy of the completed project will be availed to the authority for reference.

Thanking you in advance for your assistance

Yours faithfully

Martha W. Mathiru

Prof Evans Aosa
Supervisor