STRATEGIC RESPONSES TO CHANGES IN ENVIRONMENT BY FIRST REINSURANCE BROKERS IN KENYA

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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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D61/72789/2009

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

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DEDICATION

To my parents Mr & Mrs Johnson Mugo who sacrificed a lot to educate me up to the University level and taught me the value of education at an early age

ABSTRACT

The environment in which organizations operate today is turbulent and constantly changing, with many factors contributing to this scenario. The general business operating environment has become more volatile, unpredictable and very competitive. The days when firms could just relax and wait for clients to knock at their doors are long gone. Organizations are today realizing that their products and services, regardless of how good they are, simply do not sell themselves. The Kenyan's macro environment has undergone numerous changes in the recent past. Notable changes includes but not limited to the following; accelerated implementation of economic reforms, globalization and liberalization of the economy, heightened political activities, discontinuation of price controls, privatization and commercialization of the public sector and increased international competition. The macro environment in Kenya has therefore been dynamic and encompasses the six ingredients which include political, economic, social, technological, ecological and legal factors. For example, the promulgation of the new constitution in August of year 2010 is a clear pointer towards the achievement of the political, economic and social pillars of vision 2030. Decisions by managers have a direct strategic impact on their organizations and contribute to strategic direction of their firms. This study was designed to determine environmental changes that affect reinsurance broking firms and in particular First Reinsurance Brokers and to identify responses adopted by FirstRe to deal with those changes. The study was carried out using a case study design. Data was collected using interview guide as the primary data collection instrument. The interview guide was designed to give a brief introduction of the environmental changes targeted and a number of questions were discussed with the targeted employees of First Reinsurance Brokers. Six respondents were targeted for the research, that is, three senior management level staff members and three staff from middle level management team. Senior Management team included the Group Managing Director, the Managing Director and the Operations Director. Three staff from middle level management included Manager Human Resources, Manager Information technology and Manager Finance. The researcher used secondary data instrument, as well, mainly the company's annual reports and Company's profiles. The study found out that the company faced and continues to face a lot of challenges from economic, political, technological and regulatory changes. It responded to the economic changes by diversifying its services and aggressive marketing, thus managing to grow both vertically and horizontally. To deal with changing technological environment, the company introduced a new in house, integrated as well as customer made computer system which has greatly improved automation of its processes. Regarding regulatory changes the company employed expansion strategy. It is currently operating not just in Kenya but the whole of the African continent. The political environment has relatively been stable ever since year 2007 / 2008 post election violence when the company was forced to set up a fully fledged marketing division, to boost its business revenues which had gone down considerably. These findings have implications for other companies within the industry and policy makers as well. In other words, the study will be useful for the entire Insurance and Reinsurance broking fraternity in coming up with similar strategies within their organizations. The findings will also be shared with the Insurance Regulatory Office, hoping that as they make policy guidelines for the Industry they will be fully aware of specific challenges facing industry players. This study will also assist future researchers who might be interested to study this important field in coming up with appropriate topics to be explored further.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations are today faced with dynamic and turbulent business environment probably more than any other time in history. Competition within the reinsurance broking sector and indeed any other sector calls for firms to rethink their marketing strategies. Firms cannot just sit and wait for clients at their doorstep; they must move out and market themselves vigorously by demonstrating how their goods or services are different from competitors. Kotler (2000) noted that organizations must realize that their goods and services regardless of how good they are; do not simply sell by themselves.

Apart from competition, the Kenyan business environment has seen a number of changes which includes but not limited to the following: discontinuation of price controls, privatization, globalization and liberalization, technological advancement, implementation of economic reforms, removal of exchange controls and so on. Ansoff (1987) noted that with the constantly changing environment it is imperative for organizations to continually adapt their activities so as to succeed. Focus to customer needs as a strategy for organizations is therefore critical if they are to survive and beat their competitors in their game. It is due to this ever changing environment, that, organizations have to constantly change their internal configurations and working processes to reflect the new external realities. Failure to do this will certainly put the organizations' success future in jeopardy (Aosa, 1988)

1.1.1 Environmental Changes

Macro environment can be defined as the major external and uncontrollable factors that influence an organization decision making and affects its performance and strategies (Pearce et al 2005). The macro environment plays a fundamental role in the firm's decision making process which views the macro environment in terms of the opportunities or threats that it delivers to the firms (Teece et al 1997). The macro environment is continuously changing and organizations need to be flexible in order to adapt to the changes

The Kenyan's macro environment has undergone numerous changes in the recent past. Notable changes includes but not limited to the following; accelerated implementation of economic reforms, globalization and liberalization of the economy, heightened political activities, discontinuation of price controls, privatization and commercialization of the public sector and increased international competition. The macro environment in Kenya is dynamic and encompasses the six ingredients which include political, economic, social, technological, ecological and legal factors (Economic Survey Report, 2010). Kenya's vision 2030 is the country's development blue print covering the period up to the year 2030, with the aim of making Kenya a globally competitive and prosperous nation capable of providing its citizens with high quality of life. The promulgation of the new constitution in August 2010 is a clear pointer towards the achievement of the political pillar of vision 2030.

The social pillar of vision 2030 is geared towards investing in the people of Kenya in order to improve their quality of life by targeting a cross-cutting section of human and social welfare projects and programs, specifically education and training, health environment, housing and urbanization, gender, children and social development, youth, sport labor and employment. In Kenya there has been a tremendous growth in technology in the field of communication, with mobile money transfer and internet services being taken up as a way of life, even within the rural population. This growth has provided great opportunity for growth and ease of business operations (Economic Survey Report, 2010).

In today's global environment, change rather than stability is the order of the day. Liberalization and globalization has reduced considerably trade barriers, thus increasing trade activities across the border and with the economic trading blocks. Virtually all organizations across the globe are experiencing increased pressures due to globalization and technological advancement and reinsurance broking players are feeling the same. Environmental forces of change are the forces which are increasing pressure for globalization and have led to trade liberalization and opening up of new markets. The same forces have increased the rate at which companies need to alter their strategies and structures in order to survive in the market place.

To be successful over time an organization must be in tune with its external environment. There must be a strategic fit between the environment wants and what the firm has to offer. As well as between what the firm needs and what the environment can provide

(Wheelen and Hunger, 1995). The speed or response time to the environmental challenges has been identified as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It's thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events. The emergence of environmental influences and their effect on firm strategies has gained tremendous traction in the management literature in recent years (Pearce and Robinson, 2005). Fueled by societal concerns over global warming globalization, poverty, ecosystem destruction and social degradation, environmental pressures have gained substantial attention in strategic management classrooms, corporate boardrooms and academic journals (Kazmi, 2002).

1.1.2 Strategic Responses

Strategy is defined as a company's game plan and reflects in a company's awareness of how, when and where it should compete, with whom it should compete and for what purpose it should compete. Johnson et al (2002) define strategy as the direction and scope an organization takes over the long term; which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill shareholders expectations. Strategy is identified at three levels; corporate, business and operation. Corporate strategy is concerned with the overall direction of the business, the vision, mission and geographical scope. Business level strategies are concerned with different portfolios. Operation level strategies are concerned with the delivery systems and procedures. It is at corporate level that a firm will decide on how it will compete. Strategy is about getting to the new state through competitive advantage, with least difficulty and in the least time. It is the future oriented plans for interacting with competitive environment to achieve corporate objectives.

Pearce and Robinson (2010) define strategic response as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic response allows organizations to be efficient. Organizations depend on environment for their survival and have to scan it in an effort of building trends and conditions that could eventually affect the industry and adapt to them. Strategic responses are the set of decisions and actions in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1991). They are part of organization strategies that firms develop in defining goals and policies. They are reactions to what is happening in the environment of the organization. The general management should be involved in the organization strategic responses. For organizations to implement a strategic response, three components are essential, these are, the will to respond, ability to respond and the volume of responses (Ansoff, 1999)

Strategic responses involve changes to the organization behavior. Such responses may take form depending on the organization's capability and the environment in which it operates. The overall responsibility for the effective responses belongs to the general management of the firm. Firms can respond to environmental changes by crafting new operation changes which are taken by functional areas of the organization to achieve corporate and business unit objectives by maximizing resource productivity.

1.1.3 Insurance Industry in Kenya

An industry is a collection of firms that offer similar products or services. By 'similar products' we mean products that customers perceive to be substitutable for one another (Pierce & Robinson 1991). Insurance is all about distribution of risks in case an insured peril happens and is usually in form of financial compensation to the insured. In other words an insurance company guarantee to indemnify the insured against certain specified loses in consideration of premium payment by the Insured. Insurance is therefore a mechanism of transferring risks from those exposed to the various risks to the Insurance companies upon fulfillment of certain conditions set out by the Insurance contract called policy document. Insurance companies are able to carry risks by polling together premium from many different sources and paying for the few claims. In other words Insurance companies in a bid to manage risks do result to creating large pools of similar and homogeneous risks in addition to seeking further reinsurance protection

Kenya has forty five locally registered insurance companies, fourteen being composite meaning that they write life and non life business and twenty two of them transacting non life business only. It is only nine companies which write pure life business.

The distribution channel has over 141 licensed insurance brokers and 3,668 agents, 14 medical insurance providers MIP. Other licensed players includes 105 investigators, 75 motor assessors, and 21 loss adjusters, 2 claims settling agents, 8 risk managers and 23 insurance surveyors (AKI report, 2011).

Due to increased competition the market has seen new mode of channel distribution adopted by majority of Insurance Companies, mainly bancassurance, partnership with mobile telephony companies, partnership with retails shops etc. As competition in Insurance markets continue to intensify, cost saving and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. Changes in customer behavior and preferences around products, distribution channels, and processes are also acting as catalyst for the development of alternative distribution channels. Insurers have for example of late been partnering with banks to help drive policy sales. Insurance companies are also effectively using technology to better meet customer demands by better integrating technology with the whole policy sales cycle. Increased use of social media like Face book, twitter and LinkedIn as a distribution channel is common with virtually all insurance companies. A number of Insurance companies are also partnering with mobile telephony companies to develop products which are targeted at mass market example ‘Afya kwa jamii’ health product recently developed by Britam Insurance in partnership with Safaricom. While these trends began with more mature insurance markets, developing markets have been following suit.

Kenya’s Insurance Industry leads in the East Africa region in terms of market penetration as well as premium volumes. The country’s insurance penetration is estimated to be 3.02% of the growth domestic product GDP. Initiatives such as improved regulatory framework, innovative products, adoption of alternative distribution channels, enhanced public education and enhanced use of technology may improve the levels of penetration (AKI report, 2011)

1.1.4 First Reinsurance Brokers

First Reinsurance Brokers (FirstRe) was incorporated in Kenya in 1993 as the First locally owned Reinsurance Broking firm, hence the name FirstRe. This was at the height of economic challenges happening in the country and attempted solutions as directed by the Breton wood institutions – World Bank and International Monetary Fund (IMF). It was also during this time that Kenya faced a myriad of economic problems due to mega corruption sanctioned by senior government officials. Prior to 1993, two international reinsurance brokers, JB Boda (India) and Afro Asia (UK) were operating in the country though they did not have operating offices here; they operated from respective countries' abroad.

A reinsurance broker, like FirstRe, acts as an intermediary between insurance and a reinsurance company. Insurance companies are therefore immediate customers of reinsurance brokers. For a long time, the number of Insurance companies in Kenya has remained within the range of forty to fifty companies. This means that with the increasing number of reinsurance broking firms, competition among them has been on a steady rise. Again there is no legal requirement for insurance companies to reinsurer through a broker, hence we can as well say that direct reinsurance business pose as a form of completion to reinsurance brokers. A reinsurance brokers adds value in a reinsurance program in a number of areas, which includes carrying out treaty analysis on annual basis for the benefit of their clients – insurance companies. Treaty analysis means pointing out treaty terms which require review at the end of the year vis a vis treaty performance as per annual statistics, in comparison with peers in the industry. They do also negotiate on behalf of insurance companies for the best treaty terms especially at the treaty inception. Makes claims recoveries from reinsurance companies on behalf of insurance companies. Offer reinsurance training to staff of their clients. Lastly but not least intermediary firms are responsible for quarterly reinsurance accounting and administration of client's portfolio (FirstRe Audit Report, 2012).

1.2 Research Problem

In a dynamic operating environment like in the reinsurance broking sub sector in Kenya, organizations must compete effectively and outperform competitors if they are to gain competitive edge over rivals and thus achieve their corporate objectives within a set timeframe. It is therefore paramount that managers are able to appreciate their greatest opportunities and strength while at the same time know how to deal with threats to their firms as well as their own internal weaknesses. The need to know what the business is all about, where it is headed to and what it is trying to achieve for everybody in the organization is critical. In other words all staff members must align their goals to the vision, mission and core value of their organization.

When formulating effective strategies, management usually undergoes the following: analyzing the competitive environment which includes the competitor's strategic move and market signals; analyzing the industry by looking at discreet market segments, changes in industry structures, which strategic groups to compete in and selecting a generic competitive strategy based on identified target market segments, strategic options and SWOT analysis (Porter, 1988). Every successful organization has this business self awareness and every successful business seem to have this clarity of vision, even though it does not arise from formal planning process (Pearson, 1990)

A number of studies have been carried out in relation to strategic responses within organizations due to changes in environment (Kombo, 1997; Owiye, 1999; Oyoo, 2002 and Yatich 2001). Mutua (2004) carried out a research on changing environmental conditions which was a case study of University of Nairobi. Mpungu (2005) carried out a research on strategic responses to changing environmental conditions whose focus was on AAR Health Services Limited. Kashero (2008) studied the strategic responses to changing environment at Lloyd Masika. Maina (2008) did a research on strategic responses to changing environmental conditions which centered its focus on the Central Bank of Kenya. However none of the past studies focused on strategies adopted by a reinsurance broking firms in Kenya in responses to a turbulent operating environment. This is despite the fact that the current changes brought about by competition and other business environmental changes, has had a very big impact on reinsurance broking operations in Kenya.

A need to research on strategies adopted by a reinsurance broking firm, like FirstRe, in response to various external environmental stimuli therefore arose. The study answered and tested the following hypothesis: What strategies are adopted by First Reinsurance Broker (FirstRe) in response to changes in operating environment?

1.3 Research Objectives

The objective of this study was to identify strategic responses adopted by First Reinsurance Brokers in response to changes in the environment.

1.4 Value of the study

The study was intended to assist various stakeholders; reinsurance brokers, insurance as well as reinsurance companies to obtain details on the challenges facing their industry and the responses of one of the players. The study was also meant to provide justification to the responses adopted, depending the successes obtained.

Policy makers like Insurance Regulatory Authority (IRA) were to acquire knowledge of reinsurance broking dynamics and appropriate responses; they were also obtain guidance from this study in designing appropriate policies that will regulate the sector.

Academicians and researchers in the field of strategic management especially within the insurance industry were to use this study as a source of reference in forming their future research topics and studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It involves the planning, directing, organizing and controlling of a company's strategy related decisions and actions. A strategy is a company's game plan. Although that plan does not precisely detail all future deployments, it does provide a frame work for managerial decisions. A strategy reflects a company's awareness of how when and where it should compete; against whom it should compete; and for what purpose it should compete (Pearce 11, Robinson Jr, Mital 2004). Lawrence and Lorsch (1967) observes that strategic management should be characterized by a clear business strategy and vision for the future, a strategic direction endorsed by senior managers, taking account of partners and other stakeholders, framework of governance at several levels that ensures that you can coordinate everything even when there are competing priorities and different goals. Good strategic management brings about the ability to exploit opportunities and respond to external change by making ongoing strategic decisions with a coherent framework for managing risk – whether it is balancing risk and rewards of a business direction, coping with the uncertainties of project risk or ensuring business continuity

2.2 Theoretical basis of the study

Selznick, (1957) introduced the idea of matching organization's internal factors with external environmental circumstances. This was the basis of what we call today strengths, weaknesses, opportunities and threats (SWOT) analysis. Strength and weaknesses of a firm are assessed in light of the opportunities and threats from the business environment. Ireland et al (2007) observes that firms understands the external environment by acquiring information about competitors, customers and other stakeholders to build their own base of knowledge and capabilities. On the basis of the new information, firms may take actions to build new capabilities and buffer themselves against environmental effects or to build relationships with stakeholders in their environment. In order to take successful action, they must effectively analyze the external environment. Environment is a source of threat. For example hostile shifts in market demand, new regulatory requirements, revolutionary technologies and entrance of competitors can be fatal for organizations. It is vital that managers analyze their environment carefully in order to anticipate, and if possible, influence environmental changes (Johnson et al, 2010)

According to Thomson and Stickland (1993) there are five tasks of strategic management, all within the strategy formulation and implementation function. These includes developing a business concept and forming a vision of where the organization needs to be headed to, in affect giving the organization a sense of purpose, providing long term direction and establishing a mission, converting the mission into specific objectives, designing a strategy to achieve the targeted performance, implementing and executing the strategy efficiently and effectively and evaluating the performance, reviewing the situation and initiating corrective adjustment into mission, objectives and strategy, or implementation in light of actual experience, changing conditions, new ideas and new opportunities. Mintzberg and Quinn (1988), states that strategy may either be planned by the organization or emergent from the environment. Strategic management seeks to provide solutions to issues by maintaining a long term focus to anticipate and deal with issues facing the organization with a view of long term growth, profitability and survival. Strategic management is dynamic, involving a complex pattern of actions and reactions.

An important objective of studying the general environment is identifying opportunities and threats. An opportunity is a condition in the general environment that, if exploited, helps a company achieve strategic competitiveness. A threat on the other hand is a condition in the general environment that may hinder a company's effort to achieve strategic competitiveness (Ireland et al, 2007)

To survive in a dynamic and highly competitive business environment, organizations have to adopt various strategies. A good example is corporate turnaround strategy, which involves pointing to a totally new direction. In other words turnaround is a complete change in strategic direction of an organization after facing corporate distress. Unless a corporate survival mechanism is devised and successfully executed, the firm is likely to collapse. The starting point is identification of the root cause of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce & Robinson (1997)

Porter (1985) point out that for firms to be able to retain competitive advantage, they need to examine their environment, both internal and external, and respond accordingly. Success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched with environmental turbulence. Each level of turbulence has different characteristics, requires different strategies and different firms capabilities (Ansoff & McDonnell (1990). Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capabilities for survival, growth and development.

To be successful over time, an organization must be in tune with its external environment. Pearce & Robinson (1991) show in their model, that, the external environment consists of two interactive and interrelated segments, the operating environment and the remote environment. The operating environment consist of competitors, customers, creditors, labor markets and suppliers that is the immediate business environment while the remote environment consist of the economic, political, social and technological aspects which are further afield. The operating environment is easily controllable by the firm. Customer relationships and a successful supply chain can be cultivated.

Pearce & Robinson (1991) observe however that remote environment consists of forces that originate beyond the firms operating environment and are therefore much harder to manipulate or handle. Economic forces influences inflation rates, unemployment rates, foreign exchange rates and disposable incomes which the firm must contend with.

Political-legal considerations may influence laws governing firms and dictate specific ways of running organizations through labor laws, taxation and so on.

Porter (1980) discusses three best strategies of analyzing industries and competitors: Cost leadership, differentiation and market segmentation / focus. Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad. Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on small but profitable market niche.

Firms in the middle were less profitable because they did not have a viable generic strategy. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching a firm's product strategy (supply side) to the characteristics of your target market segment (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value added differentiation (Porter, 1980)

2.3 Environmental Changes and Strategic Responses

According to Porter (1980) strategy is all about competition and the means by which an organization tries to gain competitive advantage in the industry. He discusses about the five forces driving the industry competition which includes threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threats from substitute products or services and rivalry among existing firms. He is of the opinion that once these five forces have been identified in a particular industry, a SWOT analysis of the firm should be done to determine the firm's competitive position in the industry. This will enable that firm to determine which particular strategies to formulate in order to combat the competition.

According to Johnson and Scholes (1997) organizational strategies exist at three levels: corporate level, business or competitive level and operating level. Corporate level strategies involve the overall structural scope of the organization while business level strategies use strategic business units to compete successfully. Operational level strategies deal with internal procedures and standards. Four possible corporate strategies are; market penetration, product development, market development and diversification. Managers could consider any of the four so as to grow their business via the existing and/or new products, in existing and/or new markets. Diversification strategy stands apart from the other three strategies (Porter, 1980). The first three strategies are usually pursued with the same technical, financial and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

Diversification is the riskiest of the four, for a firm to pursue. Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur in either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of the industry in which the business is already in. At the corporate level, it is generally entering a promising business outside the scope of the existing business unit (Ansoff, 1980)

There are three generic competitive strategies, which includes cost leadership, differentiation and focus. Cost leadership aims at being efficient in production and operations to reduce costs by having controls to this effect. Differentiation means targeting different market segments and catering for each individually to gain maximum value. Focus involves concentrating on one particular market niche to position oneself in the market (Porter, 1980)

Focus strategy concentrates on serving a particular market niche, which can be defined geographically or through the type of customer or by segment of the product line. It differs from the first two since it is directed towards serving the needs of a limited customer group of segment, thus the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low cost and differentiated enterprises which tends to be larger.

According to Johnson & Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. Companies adopt strategies directed at improving the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development and human resources. Even though strategies may be focused on a given function, more often than not they embrace two or more functions and they require close cooperation among functions to attain companywide efficiency, quality innovation and customer responsiveness goals.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the systematic, theoretical analysis of the methods applied to a field of study, or the theoretical analysis of the body of methods and principles associated with a branch of knowledge. It, typically, encompasses concepts such as paradigm, theoretical model, phases and quantitative or qualitative techniques. A methodology does not set out to provide solutions but offers the theoretical underpinning for understanding which method, set of methods or so called "best practices" can be applied to a specific case.

3.2 Research Design

This was a case study which sought to achieve the objectives of this research, that is, document in details environmental changes and challenges facing First Reinsurance Brokers and then identify responses adopted by First Reinsurance Brokers in response to these changes. 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 (Kothari 1990). It is a method that drills down rather than cast wide. The interview guide was meant to cover the various aspects of the study, which includes the objectives, mission, vision of the organization, internal and external challenges facing the firm, customer care, organizational structure and strategic management issues that will appear relevant to this study.

3.3 Data Collection

The researcher used interview guide as the primary data collection instrument. The interview guide was designed to give a brief introduction of the environmental changes targeted and was administered using a drop and pick method targeted at employees of First Reinsurance Brokers. Six respondents were targeted for this research, that is, three staff from senior management level and three from middle level management. Senior management team included the Group Managing Director, the Managing Director and the Operations Director. Three staff from the middle level management included Manager Human Resources, Manager Information Technology and Manager Finance. FirstRe is managed through five distinct departments which includes Operations (Life & General Business), Human Resources, Finance, Information Technology and Business Development. The researcher used secondary data, as well, mainly the company's annual reports as well as the company's profiles.

3.4 Data Analysis

The data collected was analyzed using content analysis to determine strategic responses that First Reinsurance Brokers adopted in view of the ever changing environment. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the sample.

The researcher used the data with an aim of presenting the research findings in respect to the use of strategic responses to the external environment adopted by First Reinsurance Brokers

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings of the study. It was clear from the interview discussions that all managers are fully aware of the vision, mission and the core values of FirstRe. In summary, First Reinsurance Brokers Limited is an organization which is committed to be the Reinsurance brokerage of choice in Africa by providing high quality reinsurance broking and consulting services to its customers. In pursuit of this commitment the company complies with all applicable requirements and continually improves the effectiveness by implementing a quality management system based on ISO 9001:2008. The company was declared ISO certified in the year 2012.

The specific Vision of FirstRe is to be the leading Reinsurance Broker of choice in Africa and its missions to offer Technical and most Professional, Cost Effective Reinsurance Broking Services. Its co-values include

- Professionalism - Abiding to ethical standards
- Integrity - True to their word
- Passionate - Enthusiastic or Strong drive
- Commitment - Sincere and steadfast
- Teamwork - Working together to achieve a common goal

4.2 Response rate

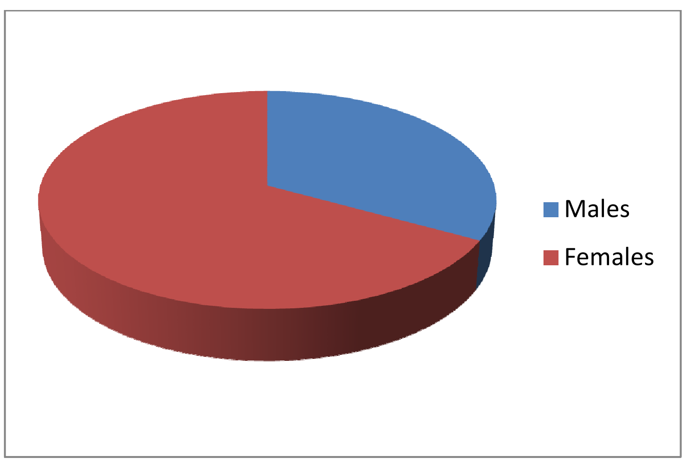
Three senior managers and three middle level FirstRe managers were interviewed out of which all of them responded appropriately to the interviewer. This represented a response rate of 100%, as shown below.

Overall Response Rate		
Response	**Frequency**	**Percentage**
Yes	6	100.00%
No	0	0.00%
Total	**6**	**100.00%**

4.3 Gender of respondents

The respondents were asked to state their gender. It was found out that 33% of the respondents were males while 67% were females. This is presented in the figure below.

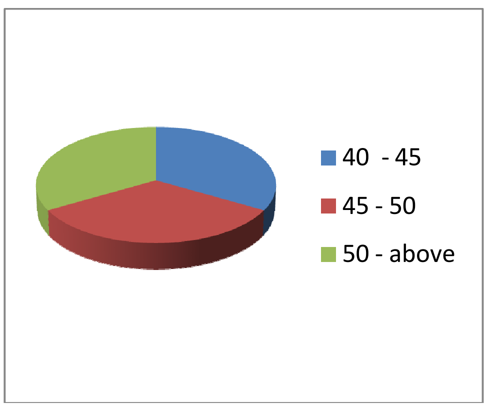
Figure 4.1: Gender of respondents



4.4 Age of the respondents

The study also found out that 33.3% of the respondents were aged between 40 and 45 years, 33.3% aged between 45 and 50 years and 33.3% of the respondents were aged above 50 years. This is presented in the figure below.

Figure 4.2: Age distribution of respondents



4.5 Professional qualification of respondents

Regarding the professional qualification of the respondent, the study found out the following details as per the below table.

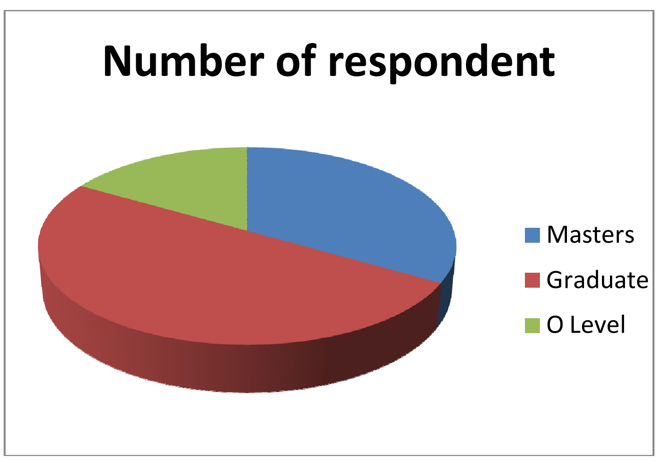
Table 4.1: Professional qualification of respondents

Qualification	Number of respondent	Percentage
FCII	1	16.67%
ACII	2	33.33%
DCS	1	16.67%
HD / HRM	1	16.67%
CPA	1	16.67%

4.6 Academic qualification of respondents

The researcher also sought to know the highest academic qualifications of the respondents. From the analysis it was found out that 50% of the respondents were graduates, 33.3% had master degree and 16.7% had O level certificate. This observation is summarized in the figure below.

Figure 4.3: Academic qualification of respondents



4.7 Response Strategies

4.7.1 Response strategies to Economic changes

During the interview the respondent were asked to state whether or not management had faced major challenges due to economic changes. The majority of the respondent said that FirstRe has had faced major challenges from the dynamic economic environment. The results are shown in the table below.

Table 4.2: Challenges from the economic environment

Response	Frequency	Percentage
Yes	5	83.33%
No	1	16.67%
Total	6	100.00%

Regarding the specific challenges that faced the firm from changes in the external economic factors, the respondents listed competition as the most conspicuous amongst others. FirstRe faces stiff competition from companies like JB Boda which opened an office in Nairobi recently, Afro Asia Reinsurance brokers, Levittes, Reinsurance solution from Mauritius according to the respondents. They also mentioned that FirstRe faces competition from direct Insurance companies which opt to deal directly with the reinsurance companies.

The researcher also sought to investigate whether the respondents sought for response strategies to mitigate against the effects of any major challenges posed by changes in the economic environment. It was unanimous from the respondents that FirstRe adopted strategies to counter changes in the environment. Here below are the counter strategies by First Reinsurance Brokers in response to changes in environment from the economic perspective.

FirstRe has embarked on aggressive marketing strategies across the entire African continent on or around the year 2012. This was at the height of competition brought about by new entrants into the Kenyan market by other reinsurance brokers. By the year 2014 this strategy started bearing fruits as the company's gross premium rose from 3 billion in the year 2011 to kshs 8 billion by the close of the year 2014. The ratio of locally generated premium income, to that of foreign markets, currently stands at 50:50. Going forward to the year 2015 the company plans aggressive marketing in their newly found markets, especially within the eastern and southern part of Africa, so as to increase its market share.

The study also found out that FirstRe has started offering additional services to its customers apart from its core mandate of offering intermediary services. The company is now offering training and consulting services, especially to the companies within the Kenyan market. This training is offered in different formats; organizing for workshop for selected Insurance companies' staff for free, inviting staff from insurance companies to come for attachment at FirstRe offices and lastly approaching reinsurance companies to partner with us in training our mutual customers.

The majority of the respondent who said that they adopted response strategies claimed to have experienced high levels of success with corporate level strategies. This is illustrated in the table below whereby 16.67% recommended strategic level response strategies, 66.67% recommended corporate level strategies while 16.67% recommended business level response strategies.

Table 4.3: Strategies experiencing high level of success

Response Strategy	Frequency	Percentage
Strategic Level Strategies	1	16.67%
Corporate Level Strategies	4	66.67%
Business Level strategies	1	16.67%
Total	**6**	**100.00%**

4.7.2 Response strategies to regulation / policy changes

66.7% of the respondents claimed that there were challenges caused by changes in regulation policies that affected their operations, while the remaining 33.3% were of the opinion that there were no major challenges posed by changes in regulation policies. This is presented in the table below.

Table 4.4: Impact of regulatory policies

Response	Frequency	Percentage
Yes	4	66.67%
No	2	33.33%
Total	**6**	**100.00%**

The findings presented in the table below are based on the question 'rate the extent to which the regulation has affected your operations?' 66.7% of the respondent answered high, 16.7% answered moderate while 16.7% answered that the effect was low

Table 4.5: Impact of regulatory policies

Answer	Frequency	Percentage
High	4	66.67%
Moderate	1	16.67%
Low	1	16.67%
Total	**6**	**100.00%**

The study further revealed that the company faces some challenges relating to regulation in future. As an intermediary FirstRe does not earn brokerage commission from compulsory share of the treaty sessions. A recent case is where Uganda Re started operations recently and was given 15% compulsory share by the Uganda regulator, meaning that FirstRe lost quite some substantial amount of revenue from the Ugandan market. Other countries like Rwanda, Burundi and Ethiopia are following suit.

Another challenge closely related to regulation concerns the investment risk. First Re has placed quite some substantial business with non rated companies thereby posing high risk of non-recovery of outstanding claims. To mitigate against the risk of non-honoring of policy obligations by their clients, FirstRe has recently adopted a strategy of working with rated companies only. However it is quite difficult to get rated securities for all risks which are placed through the company.

Other response strategies posed to regulatory environment includes:

Reinsurance Investment mix: FirstRe reinsurance invest mix will cushion the firm against the disadvantages brought about by loss of brokerage from compulsory sessions.

Foreign operations and accounts: The company is in the process of recruiting a French underwriter and a Chinese language speaker as it seek partnerships with well established companies from china as well as other French speaking countries.

4.7.3 Response strategies to environmental changes

The table below indicates that 83.3% of the respondents were of the view that changes in the political environment affected their operations, while the remaining 16.7% felt that there were no major challenges posed by changes in the political environment.

Table 4.6: Impact of political environment on the company

Response	Frequency	Percentage
Yes	5	83.33%
No	1	16.67%
Total	**6**	**100.00%**

The respondent cited the impact to the company of the post election violence in the year 2007/2008. There was significant drop in premium income in the year 2008 and the company had to come up with a strategy to survive so as to meet its obligation like salaries, office expenses and returns to share holders. The company recruited a Business Development Manager, who embarked on aggressive marketing which saw the gross written premium significantly rise to the current 8 billion Kenya shillings.

4.7.4 Response strategies to Technological changes

As presented in table 4.7 below, 66.7% of the respondents said that technology has affected the company while 33.3% said that the technological changes have not affected the company.

Table 4.7: Impact of political environment on the company

Response	Frequency	Percentage
Yes	4	66.67%
No	2	33.33%
Total	**6**	**100.00%**

The respondents were also asked to state the areas in which technology has specifically taken toll in the company. The study revealed that technology had revolutionized the way the company operates affecting all the divisions and departments within the organization. More specifically, the study revealed that the accounting division was the most affected one in the company as all the operations in the department have now been automated.

The study also found out that the ICT department is dogged by several challenges including having to continuously train the staff on the use of modern technology, constantly maintaining systems to meet user needs and maintaining the network infrastructure and securing it from any external threats. The response strategies to the technological challenges are as follows:

i) Automation of operations

The respondents were asked to state what strategies the company has used to respond to technological challenges. According to them the company has employed strategies such as using quarterly performance reports, online budget controls, e-commerce, enhancement of teamwork, equipping staff with necessary skills and training and upholding the highest standards of ethics in the accounts department

ii) Introduction of a new customer made software

The company has engaged a local software programmer to come up with a tailor made system which will integrate all operations at FirstRe before 31st December 2015. Though the company has been having a system, there has been some in-adequacies especially on the area of generation of reports since different departments have their own system, making it difficult for compilation of requisite reports from different sections.

iii) Technically qualified staff

Since reinsurance profession is technical in nature, the company has employed technically qualified staff to handle all aspects of the business like facultatives, treaty, life, general and the support services like HR, finance etc. The staff are now able to discuss and guide the system developers to come up with the most effective computer system

There was 100% unanimity among the respondents that performance had improved as a result of the technological strategies employed by the company, as shown in the table below

Table 4.8: Impact of technology on performance improvement

Response	**Frequency**	**Percentage**
Yes	6	100.00%
No	0	0.00%
Total	**6**	**100.00%**

4.8 Involvement in strategy formulation

As indicated in table 4.9 below, 50% of the respondent indicated that they were involved in the formulation of response strategies while the remaining 50% claimed that they have not been involved. In other words it was clear from the respondents that middle level managers have not been involved in strategy formulations

Table 4.9: Involvement of managers in strategy formulation

Response	Frequency	Percentage
Yes	3	50.00%
No	3	50.00%
Total	**6**	**100.00%**

Lastly the findings on the table below are based on the question 'Do you consider the various response strategies adopted by FirstRe to be proactive or reactive to the changes in the company's external environment?' 33.3% of the respondents were of the opinion that the response strategies were proactive, while 66.7% of the respondents perceived the response strategies adopted to be reactive to the challenges posed by changes in FirstRe's operating environment.

Table 4.10: Perception on the type of strategy adopted by the company

Response	Frequency	Percentage
Proactive	2	33.33%
Reactive	4	66.67%
Total	**6**	**100.00%**

CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The fore going discussion revolves around the finding of this study against the objectives that the study was designed to achieve. From the study the researcher found out that the majority of the respondent perceived economic factors as the most challenging external environmental factors

The study also established that half of the management staff at FirstRe did not actively participate in the formulation of response strategies but were involved in the implementation of the company's strategic plan just like any other staff were involved at the implementation stage. The decision making tasks in respect to strategy formulation was done by the top managers and communicated to other employees in management position for implementation. Majority of the respondents mentioned that they would appreciate and be more proactive in the implementation of the response strategies if they were involved in the formulation of such strategies.

The study also established that FirstRe usually adopts reactive response strategies to changes in the external environment rather than being proactive in the development of such response strategies.

The respondents recommended that the company should encourage and educate its staff and members and appoint more qualified and competent managers to the various departments as a way of improving the efficiency of the company especially in this era of stiff competition within the reinsurance broking fraternity.

5.2 Conclusion

This study was designed with two major objectives. To determine the environmental changes facing FirstRe and to identify the response strategies adopted by the company to those changes. It can be concluded that the challenges that FirstRe faces are numerous and are both internal and external. They include stiff competition, rapid technological changes, language barriers and unfavorable regulation policies like compulsory sessions. These changes can be summarized into social, economic, political and internal challenges.

To deal with these challenges the firm has laid out response strategies to counter them. It has embarked on aggressive marketing not just within Kenya but also across the African continent. Hence the reason why the company is in the process of employing a bilingual underwriter, as well as a Chinese language speaker, as it prepare for collaboration with Chinese companies.

The company has employed highly trained professional staff to deal with technical emerging issues and thus differentiate itself with competitors in this regards, thus maintain competitive advantage over the rest. The study found out that the organization trains the staff on new developments, both in technology and the core business aspects. It can therefore be concluded that FirstRe employs various response strategies to changes in operating environment including diversification of its service offering, expansion to emerging African markets, collaboration and partnership with other markets like French speaking countries and Chinese companies, coming up with tailor made and integrated computer systems and employing highly qualified and trained staff.

5.3 Recommendations

If FirstRe is to succeed in its response strategies to changes in external environment, it should involve all its managers in the formulation of such strategies and give them adequate decision making authority in the implementation of response strategies. Practitioners within the insurance industry including reinsurance brokers, Insurance companies, reinsurance companies as well as insurance brokers should incorporate the findings of this study, more so on the challenges facing the insurance industry in making their day to day strategic decisions. The Insurance regulatory Authority should also take cognizance of the dynamics facing the Insurance sector when formulating policies for the industry. In other words the dynamics presented in this study are an important pointer to enlightening the policy makers on the direction to which the policies should be made.

5.4 Suggestions for further research

This study proposes that a similar study should be undertaken focusing on response strategies adopted by other reinsurance broking firms and the level of success experienced by those firms in dealing with changes in their external environment.

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Appendix 2: Interview Guide

Section A: General Information

1. What is your name …………………………………………………

2. What is your age

   18 – 25 yrs { }
   26 – 35 yrs { }
   36 – 45 yrs { }
   Above 45 yrs { }

3. What is your gender

   Male { }
   Female { }

4. What is your work designation …………………………………………

5. What is your professional insurance qualifications

   FCII { }
   ACII { }
   AIIK { }
   None of the above { }

6. What is your highest academic qualification

   Phd { }
   Masters { }
   Graduate { }
   O' Level { }

Section B: Specific Information

1. List down all the challenges which in the recent past had impact on your work performance and arose from the general economic and political environment

2. Indicate the strategies you adopted to respond to those challenges, thus mitigating consequences of those challenges

3. Has there been competition within the reinsurance broking subsector in Kenya?

   Yes { }
   No { }

4. If yes, rate the extent to which competition has affected First Reinsurance Brokers

   High { }
   Moderate { }
   Low { }

5. Indicate any changes which have taken place within your department and in FirstRe, in response to increased competition

6. Has there been any regulatory changes introduced by Insurance Regulatory Authority (IRA), which have affected your operations?

   Yes { }
   No { }

7. If yes, rate the extent to which the IRA changes have affected First Reinsurance Brokers

   High { }
   Moderate { }
   Low { }

8. Briefly describe the above regulatory changes, how they have affected First Reinsurance Brokers and how FirstRe has responded to those changes

9. Has there been technological changes within the reinsurance broking sector, which have affected your operations?

Yes { }
No { }

10. If yes, rate the extent to which technological changes have affected First Reinsurance Brokers

    High { }
    Moderate { }
    Low { }

11. Briefly describe those technological changes and the strategies put in place by First Reinsurance Brokers in response to those changes

12. Has there been social cultural changes which have affected your operations?

    Yes { }
    No { }

13. If yes, rate the extent to which the above changes have affected First Reinsurance Brokers

    High { }
    Moderate { }
    Low { }

14. Briefly describe those social cultural changes and the strategies put in place by First Reinsurance Brokers in response to those changes

15. Has there been political changes which have affected your operations?

    Yes { }
    No { }

16. If yes, rate the extent to which the above political changes have affected First Reinsurance Brokers

    High { }
    Moderate { }
    Low { }

17. Briefly describe those political changes and the strategies put in place by First Reinsurance Brokers in response to those changes

18. Are you involved in the formulation of any of the response strategies highlighted in any of the above questions?

    Yes { }
    No { }

19. Are you involved in the implementation of any of the response strategies highlighted in any of the above questions?

    Yes { }
    No { }

20. Lastly, are the various response strategies adopted by First Reinsurance Brokers proactive or reactive to the changes in the external environment?

    Proactive { }
    Reactive { }