CHALLENGES OF GLOBALIZATION FACED BY THE KENYA REINSURANCE CORPORATION

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other university.

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

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DEDICATION

I dedicate this project to my father, Mr. Aggrey Awuondo, who taught me the value of education and planted in me the first seed of confidence at a very tender age.I also dedicate the project to my mother, Mrs. Damaris Awuondo, who has made great sacrifices to ensure I get the best education possible.

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God bless you all abundantly.

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ABBREVIATIONS

AFRICA RE	Africa Reinsurance Corporation
AKI	Association of Kenya Insurers
AKR	Association of Kenya Reinsurers
CEO	Chief Executive Officer
CIMA	Conférence Interafricaine des Marchés d'Assurances
COMESA	Common Market for Eastern and Southern Africa
ERP	Enterprise Resource Process
GATT	General Agreement on Tariffs and Trade
IT	Infromation Technology
IFMIS	Integrated Financial Management Information System
IPO	Initial Public Offer
IRA	Insurance Regulatory Authority
KENYA RE	Kenya Reinsurance Corporation
PTA	Preferential Trade Area
WTO	World Trade Organization

ABSTRACT

The Reinsurance industry in Kenya has in recent years experienced significant turbulence as a result of environmental change. Organizations depend on the environment for their survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003). This study was a case study conducted to identify the challenges faced by the Kenya Reinsurance Corporation as a result of globalization, and the response strategies it has employed against these challenges. The study used secondary data collected from existing company records and reports of the Insurance industry. It also used primary data that was collected by administering an interview guide to senior management of Kenya Re. The study identified the challenges of globalization as intense competition, cultural diversity, technological challenges, legal and regulatory challenges, currency fluctuations, insecurity, inefficiency and bureacracy. Kenya Re has responded to these challenges through aggressive marketing, market expansion, strategic alliances, product research and development, restructuring, outsourcing of non-core functions, competitive recruitment and remuneration, objective performance management and upgrading its information technology system. The study recommends that Kenya Re develops a distinctive competitve advantage to enable it gain a competitive position against its competitors, and that it employs effective cost control methods. The study also recommends that Kenya Re continuously reviews its governance performance, sets performance targets and adopts performance management systems to ensure it does not develop complacency as a result of guaranteed business in Kenya through the legal mandatory cessions.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many companies have become disillusioned with sales in the international marketplace as old markets become saturated and new ones must be found (Levitt 1983). The forces of globalization have necessitated the alignment and re-alignment of the organization’s strategies and operations to match the ever changing environment (Porter 1998). Despite the numerous benefits gained from globalization, it has also brought with it some challenges. Stiff competition leading to closure of businesses and loss of jobs is a key challenge of globalization. Relocation of capital and jobs take place as businesses seek the most efficient locations to set operations. Cultural erosion occurs when people adopt new cultures whilst trying to blend in host communities. Technological advancement has led to job losses through mechanization and employee lay-offs due to skill inadequacy. Globalization has often been accompanied by privatization of government held businesses, resulting in pursuit of profit maximization, and where no regulations exist, resources have been overexploited and environments polluted.

Several theories have been put forward over time to explain reasons for international investment and trade. There have been theories for and against cross border and free trade. Free trade has been of great benefits, but has also caused a lot of pain and suffering to some communities. This study will be anchored upon Porter’s Theory of

Competitive Advantage (Porter 1998) and also upon the Mercantilism theory of protectionism.

The Reinsurance industry in Kenya has also been affected by the process of globalization. Reinsurance is the transfer of part of risks that a direct insurer assumes by way of legal contract or legal provision on behalf of an insured to a second insurance carrier, the reinsurer, who has no direct contractual relationship with the insured (Grossman1980). Reinsurance business in Kenya is conducted by eight companies that are locally domiciled, and several other international companies without a physical presence (Kenya Re Strategy 2014-2018). The industry has in recent years experienced environmental turbulence requiring strategies to be formulated in response for the survival of the industry. The main changes have been technological advancement, a more educated, demanding and sophisticated customer and increased competition brought about by presence of international reinsurance companies in the country. The three main local players in the Industry have been Kenya Re, Africa Re and PTA Re, who enjoy compulsory reinsurance business of 20% in Kenya, 5% in Africa and 10% in the COMESA region respectively (Insurance Act CAP 487). The protected cessions were necessary at the companies' inception to enable them gain market share against the powerful international reinsurance companies that had been operating in the country since independence. The privatization wave of the 1990's saw the amendment in 1998 of the Insurance Act Cap 487 to facilitate gradual facing out of mandatory cessions for Kenya Re by year 2011. The ownership structure of the three companies has also undergone changes to allow for private investors.

1.1.1 The Concept of Strategy

Strategy is a tool which offers significant help that enable the firm cope with the turbulent environment facing firms. Strategy is the direction and scope of an organization over the long term which achieve advantage for the organization through its configuration of resources in a changing environment and to fulfill stakeholders' expectations (Johnson and Scholes, 2003). Organizations depend on the environment for their survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003).

The responsibility of Strategy formulation is vested with the board of directors and the CEO, who set the objectives of the company. The senior management and in particular the Chief Executive officer are responsible for its implementation. The implementation is supported by the organization's competencies and resources. A good strategy ensures the organization's long-term survival. It must be flexible, being regularly reviewed against the changing environment to ensure it stays relevant.

1.1.2 Globalization Challenges

There has been conflicting opinions on the definition of globalization. The process by which countries integrate politically, culturally and economically has been referred to as globalization (Hill, 2005). The resultant effect of this globalization has been a borderless world, increased productivity, efficiency, competition, and knowledge and technology exchange. Globalization benefits include industrial and commercial development, foreign exchange earnings and Infrastructure development. Comparative advantage is maximized as countries produce what they are most efficient in, export the surplus and import goods they are inefficient in producing (Ricardo, 1817).

Globalization comes with many challenges. Strong competition for local industries from international industries has led to industry closures and job losses. Job losses have also been experienced in the developed world when low skilled high labor jobs have been moved to the developing world due to availability of cheap labor and raw materials. Africa has been disadvantaged by globalization in that her countries have been flooded with cheap imports, killing her industries, whilst she exports raw materials of low value, whose prices are determined elsewhere. Firms also suffer loss of talent to competitors.

There have been concerns of underpaid workers in inhumane conditions in host countries that lack appropriate labor laws, high cost and lack of specialized skills to operate sophisticated equipment. Technology that has improved communication has also facilitated the spread of terror, hate messages and cybercrime. Digitalization exposes companies to the threat of loss of confidential data through hacking of networks. Differences in laws and regulations between countries poses challenges in integrating multinational companies.

Cultural differences between migrant and local workers have often led to problems with integration. Cultural differences posing challenges to integration include differences in food, language, religion and traditional practices. Globalization has led to cultural erosion where communities adopt foreign culture. The most adopted way of life has been the American one, in the Americanization of the world.

Environmental degradation has been a consequence of globalization especially where there are ineffective environmental laws. Globalization is often accompanied by privatization which is motivated by profit maximization at whatever cost. The process of privatizing government business has in some cases been shrouded in corruption where the assets are taken over by politically connected individuals, at below market prices.

1.1.3 Response Strategies

Strategic responses are the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firms objectives (Pearce and Robinson 2002). The organization’s strategy depends on where it wants to go, its vision, and how it intends to get there, its mission. Companies must come up with concrete strategies to counter the negative effects of globalization in order to survive. These strategies would be on three levels, Corporate, Business and Operational. The responses should match the challenges from the environment. These include downsizing, outsourcing and business re-engineering,

Corporate level strategies are concerned with the overall purpose and scope of the organization and meeting the expectations of the owners. They are organization wide, broad, unambiguous, usually involving high investment and are long term (Ansoff and McDonnell, 1990). This includes what business to be in, whether to diversify, the geographical spread and the resources to be allocated. The corporate strategy defines the scope of the firm, the industry it operates in and the market it competes in. Many firms are involved in various businesses. A firm may also decide to concentrate on one line of business only, enabling it to focus its operational activities in its business of choice.

The firm could decide to diversify, engaging in different unrelated businesses but sharing common resources like finance and technology. It offers security to the firm by providing different streams of business and spreading the risk of failure. The firm could decide to integrate its business units, where the output of one unit is the input of another unit. This enables the firm achieve competitive advantage by creating barriers to entry into the business and control quality. It has the disadvantage of failure in one section would lead to failure in the firm. Outsourcing of non-core value creating activities enables the firm to concentrate on its core activity, creating specialization and reducing cost. Strategic alliances are formed when two or more firms come together to forge synergies. The firms could even be competitors but stand to benefit from cooperating. This has the risk of a firm losing technological know-how to its competitors. Business responses are strategic responses targeted at Strategic Business Units. These are strategies applied in diversified multiindustry companies in the business portfolio approach.

Operational strategies are short term in nature. They are concerned with how a particular part of a business delivers to the corporate strategy in terms of resources, people and processes. They are concerned with operational functions of marketing, finance, research and development, information technology, human resources and production. They are responsible for customer responsiveness and efficiency that is necessary for delivering competitive advantage.

Efficiency can be achieved through economies of scale, staff training, market research, product research and development, reduction of defects and reducing or eliminating loss of customers. Product differentiation enables delivery of superior quality and charging premium prices. Minimizing costs enables reduction in prices enabling competition through low cost. The grand turnaround/retrenchment strategy (Pearce and Robinson, 2004) is useful in reversing negative trends. It is accomplished through cost reduction and/or asset reduction. It could also involve retrenchment, change of leadership, culture change and adoption of new technologies.

1.1.4 The Reinsurance Industry in Kenya

Reinsurance is the business of insurance of insurance companies. Insurance business has been in existence in Kenya since the second decade of the twentieth century. The early insurance companies were branches of foreign insurance companies, mainly from the United Kingdom and India. The first Kenyan owned insurance company was Jubilee Insurance, established in 1935. (Jubilee Insurance Annual Report 2005).

At independence in 1963, the insurance sector was governed by the Insurance Company’s Act of 1960, which was based on the UK legislation. In those formative years, all the reinsurance business was placed internationally, mainly with European Reinsurance companies. In 1978, the minister of finance, who was responsible for the insurance sector issued an order stopping the operations of all foreign branch offices and further instructed that all insurance companies must be locally incorporated (Makove, 2006).

The Insurance Act Amendment Bill was passed in 2006 aimed at strengthening the regulation and supervision of insurance. The amendment was to allow the conversion of the department of insurance in the Ministry of Finance, into an autonomous supervisory authority, the Insurance Regulatory Authority (IRA). Kenya Reinsurance Corporation, Africa Reinsurance Corporation and PTA Reinsurance Company, also known as ZEP Re, were established to provide reinsurance services, and were entitled to 25%, 5% and 10% compulsory reinsurance cessions respectively.

Meanwhile two other reinsurance companies, Swiss Re and Munich Re companies also set up offices in Kenya. Swiss Re later closed its office to relocate its operations to South Africa and later to Zurich. Munich Re also moved its operations to Mauritius and only left a liaison office in Nairobi. The other international reinsurance companies that conduct business in Kenya are Hannover Re, SCOR Re, GIC Re, Arab Insurance Group and Tunis Re. East Africa Reinsurance Company, the first privately owned reinsurance company in Kenya, was established in 1995 (East Africa Re website). Continental Reinsurance Company, a Nigerian company opened a regional office in Nairobi in 2008 which was later fully subsidiarized in 2013. (Continental Re annual report 2013). Ghana Re opened a regional office in Nairobi in 2012 and the office is still operating as a branch of the head office. The total reinsurance premium ceded by Kenyan insurance companies in 2013 was Ksh.25.85 billion (AKI Annual report 2013).

1.1.5 Kenya Reinsurance Corporation

The Government of Kenya established the state owned State Reinsurance Corporation in 1970 to stem the flight of capital through an act of parliament (State Reinsurance Corporation Act 1970). The State Reinsurance Corporation changed its name to Kenya Reinsurance Corporation, popularly known as Kenya Re, under the provision of 1977 statute Law (miscellaneous amendment) Act. Kenya Re's objective was to provide reinsurance capacity to the Kenyan Insurance Companies, to conduct research and advise the industry, to provide regulatory services, to train and to generate funds for investment in the national economy. It was entitled to 25% of all policy and treaty business in Kenya. The mandatory cessions which were meant to expire in 2011 was first extended to 2015 and now to 2020. The compulsory cessions have since been revised to 20% of treaty business (Insurance (Amendment) Regulations 2014).

In 1997, the corporation was registered under the Company's Act in the process of privatization. The Insurance Act Cap 487 was amended in 1998 to facilitate the gradual facing out of mandatory cessions for Kenya Re by the year 2011, or after privatization, whichever comes earlier (Commissioner of Insurance, 2006). The Insurance Amendment Regulation of 1998 outlines the schedule of gradual removal of Reinsurance treaties. In 2007, Kenya Reinsurance Corporation offered 40% of its shares to the public through an IPO in the Nairobi Stock Exchange (Kenya Re IPO prospectus 2007). As a result of the listing, the corporation found itself coming into a net of a host of additional regulations, which included Company's Act and Capital Markets Authority Act. Being a state Corporation, it is subjected to the State Corporation Act, and being in the insurance industry, it is subjected to the Insurance Act. Kenya Re is also subjected to the Performance Contracting by the Government of Kenya. This is a process where the corporation signs performance targets with the government at the beginning of the year, and achievement of the target is measured at the end of the year. The employment contract of senior management is pegged on the achievement of the targets. Kenya Re gross written premium from the Kenyan market in 2014 was Ksh. 6.32 billion which is 25% market share (Kenya Re annual report 2014)

1.2 The Research Problem

Globalization is generally seen as the process of broadening and deepening of inter-relationships in international trade, foreign investments and portfolio flows (Wignaraja 2001). Increasing globalization has come about due to the easing of policy barriers to trade and factor flows from technological change, which have lowered the cost of trade and factor flows (Gichira 2007). The resultant free trade of globalization has put intense pressure on firms to remain competitive in the global market. Advances in technology has meant the consumers are more informed about product availability and costs from all over the world. Companies compete for market share, talent and raw materials. As a result, firms have had to adopt structures and processes that ensure maximum efficiency and innovation in order to remain relevant and competitive. Improved communication and transportation has removed distance barriers. Technological advances have also exposed the organization to cybercrime and loss of data through computer hacking.

Reinsurance business being international by nature, has not been spared the effects of globalization. Kenya Re has been under intense pressure to adapt to the turbulent changes in its internal and external environment. Internally, Kenya Re has had to deal with inefficient systems, bureaucracy as a result of having to refer major decisions to the national treasury, inappropriate employee culture, slow adaptation to technological challenges and language barriers in communication with international clients. Externally, Kenya Re has to deal with political interference due to its part ownership by the government, poaching of its talented staff by competition, currency fluctuations, encroaching of its market space by more sophisticated reinsurers, other

African countries establishing their own reinsurance companies with mandatory cessions, thus reducing Kenya Re's market share.

Studies have been conducted on strategic responses of various organizations to the changing competitive environment. Kasingiu (2010) studied strategic responses by Kenya Post Office Savings bank; Mwarania (2003) studied responses by Kenya Re when it had government as the sole shareholder; Komira (2011) studied responses by Jubilee Insurance; Awino (2007) studied responses by Kenya Re prior to privatization; Gichira (2007) studied responses by Kenya Airways and identified strategic partneships and alliances, improved customer service and technological adaptation as key to the success. Andelic (2010), studied the Impact of Globalization on the Insurance and Reinsurance Market of Eastern Europe and confirmed that there is a significant relationship between globalization trends and changes in the insurance and reinsurance markets of Eastern Europe.

Studies conducted in recent years on reinsurance firms' responses have focused on changes in the external environment. Mwarania (2003) studied the responses by reinsurance companies in Kenya to changes in the environment, the case of Kenya Re, when Kenya Re had the government as a sole shareholder. Awino (2007) studied the challenges of globalization in the reinsurance industry. In her study, she recommended that since the privatization process of Kenya Re was still in its infancy stage, a further study be undertaken in future to see how implementation of the rolling corporate plan is being carried out. She also recommended that a study be done on the responses by reinsurance companies to the challenges of globalization. A further recommendation was for a study in the insurance industry to determine if these factors apply to the whole insurance industry and that another study be done to find out if the strategies of the insurance companies in Kenya have a positive impact on their profitability and employee motivation. The studies done so far have focused on privatization of the reinsurance industry and ceasation of the compulsory cessions enjoyed by Kenya Re. No study has been undertaken to establish Kenya Re's challenges as it enters the global market space. However, with other regional countries establishing their own state owned reinsurance companies, there is increased pressure on Kenya Re for market share. A further extension of Kenya Re's compulsory cessions, is also an indication that Kenya Re's ownership structure will not be changing soon.

This study seeks to fill the research gap by determining what are the challenges of Kenya Re as a result of globalization?

1.3 Research objectives

This study aims to address the following,

i. What are the challenges of globalization faced by Kenya Reinsurance Corporation Ltd. after the commencement of the privatization process?
ii. What response strategies have been adopted by Kenya Re to the challenges of globalization?

1.4 Value of the Study

This study will add value to the theories that the study is anchored on, which is the theory of competitive advantage and the theory of protectionism. It will seek to find a working balance between free market trading and government protectionism. It will also provide a platform for formulation of new theories.

The results of the study will contribute to narrowing the existing knowledge gap. It will seek to highlight the various competitive strategies currently employed in the reinsurance industry and their effectiveness. It will also seek to recommend other strategies that can be utilized in view of the existing ownership structures.

The research findings will be a useful source of reference material for academics who would be interested in carrying out further research. The additional research would be in the field of globalization, management, strategy or corporate competitiveness. The academicians will also be able to critically examine the accuracy of previous research projects. Further research could be carried out in other similar organizations.

The study will help guide managerial policy in the reinsurance sector and in particular Kenya Reinsurance Corporation. The policy makers will gain insight into the dynamics of the reinsurance industry. It will help the government through the Insurance Regulator in formulating appropriate policies for the insurance and reinsurance sector. It will also help highlight the effect of government ownership on the competitiveness of organizations.

The research findings will be of greatest benefit to Kenya Reinsurance Corporation in guiding managerial practice. It will seek to point out existing strategies that are hurting its competitiveness. It will also seek to examine and recommend the best strategies to be employed in entering foreign markets.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Globalization refers to the shift towards a more integrated and interdependent world economy (Hill 2005). It has been accelerated by improvements in technology, transportation and communication. It has brought along immense benefits but has also posed challenges to the business, economic, social and political environments. Post World War II era has seen the economic environment experiencing surges and declines of globalization intensity. This chapter examines the challenges posed by globalization on the reinsurance industry in Kenya.

2.2 Theoretical Foundation

This study is based on two theories, Competitive Advantage and Protectionism. These theories are discussed in the following sub-sections.

2.2.1 Porter's Competitive Advantage

According to Porter (1980) in any industry, there are five basic forces of competition at work, namely rivalry amongst existing competitors, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of buyers. To be a superior performer in any industry, a company must have a sustainable competitive advantage. This is the thing it does better than its rivals and can protect from imitation (Porter 1985). Advantage can be sustained in two ways, either to come up with an innovation that can never be copied and this is very rare, or to innovate and improve faster than the competition can catch up.

There are two basic types of competitive advantage that a company can possess, low cost and differentiation (Porter 1985). In low cost advantage, the company attains a lower cost in designing, producing and marketing its products than its competitors. Due to the lower cost, it can earn superior margins and therefore superior performance (Porter 1985). The low cost competitor starts with a good product which it offers without extra frills. It opens a significant and sustainable cost gap than all its competitors, by managing the critical drivers of cost like labor, production, distribution and packaging. Cost leadership strategy is a management process that must be built into the company culture.

Differentiation is the other competitive advantage a company can have. Here, the company provides a unique benefit to its products or services that allows it to charge a premium price which the customers would be willing to pay due to the added value. Differentiation starts by identifying a number of needs that the customer deems valuable, then proceeding to meet these needs increasing the cost only when necessary. The premium price leads to superior margins and superior performance. The company must communicate the added value to the customer. Understanding the competitors, their products and costs is also key in determining the competitive advantage strategy.

In seeking to position itself in the industry as either low cost or differentiated competitive advantage, the company must decide on the competitive scope. A wide scope applies the advantage to a wide range of customers in a wide geographical region. A narrow scope focuses on a particular product on particular niche customers in a particular geographical range. This is segmentation. Competitive advantage theory is most relevant to the reinsurance industry in positioning companies. Given the wide range of products and markets using Kenya Re’s services, it is able to apply both cost leadership and differentiation competitive advantage to position itself amongst its competitors. It first needs to segment the markets in terms of languages, level of maturity hence sophistication and price sensitivity.

Cost leadership advantage in reinsurance can be applied by developing generic, basic reinsurance products that can be sold as is. These products would be offered to non-sophisticated price sensitive markets. They would be simple to inteprate, not requiring use of sophisticated pricing models and legal jargon. Differentiation strategy can be applied to sophisticated, mature clients. These are clients with deep understanding of the business seeking to insure mega complex projects. The reinsurer can partner with the client, offering actuarial services, legal and other technical services to develop a product that would be exclusive to the selected customer. Examples of niche reinsurance products include Terrorism, Mining and Aviation. Reinsurers can also differentiate themselves through superior customer service, by having agreed service standards that can be measured and improved.

2.2.2 Theory of Protectionism

Protectionism in economic context refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations. Protection is inversely related to the number of firms in the industry (Caves, 1976). Protectionism can take the form of tariffs, exchange rate manipulations, import regulations, anti-dumping legislations, direct subsidies, voluntary export restraints, export subsidies or trade quotas. Goldberg and Maggi (1999) found that tariffs are higher with organisations with an organised lobby. The rise of economic nationalism throughout the Western world was related to Mercantilism, who in the eighteenth century associated foreign trade to a source of wealth, with a condition that exports should be higher than imports. Thus, continuing to support the necessity of State's intervention within economy and protecting some interests of a protectionist policy. States have used barriers to trade to gain power and security. This has sometimes led to retaliatory actions by foreign trade, resulting in loss of power. As the level of protection rises, further incremental increases in protection will yield smaller benefits to the favoured sector (Becker 1983).

Protectionism allows infant industries to develop, unhampered, protected against competition from more mature similar industries from other nations (Kusca & Butta 2010). Developed countries like the United States continue to practise protectionism to date, through anti-dumping policies and voluntary export restraints, despite claiming to be a free market. Newly industrialised countries like Taiwan, South Korea, Brazil and China gained considerable advantage through protection. Protectionism helps the country's indusries, adding to the economic growth, creating jobs and increasing the overall wealth of the country.

Protectionism however has some disadavantages. It is not efficient from an economic standpoint. It is more efficient under the concept of comparative advantage for a country to focus its production on those goods for which it has comparative advantage.Consumers in the domestic market may also have to pay more for the protected product. Also, countries subjected to a country's protectionism policies may retaliate by raising trade barriers against that country. Protected industries are prone to inefficiency with highly priced products.

To counter the negative effects of protectionism, a country may team up with other countries through economic integration and selective protectionism. The country may also enter into a trade agreement with another country or participate in a free trade area. The protection could also be for a given period and in given areas of competition. The government could demand a minimum level of productivity to justify the protection. This in Kenya Re has been done through annual performance contract agreement.

Protectionism is relevant to this study as African countries have resorted to practising it to protect their own reinsurance sectors against competition from more established reinsurance companies from out of the continent. The practise of imposing compulsory reinsurance cessions on the insurance industry is a form of import protection. The insurance companies can only purchase a limited percentage of reinsurance protection from external reinsurers. National reinsurance companies receive mandatory business from insurance companies of the respective countries. In addition, regional companies like PTA Re in the COMESA region, Africa Re in Africa and CICA Re in CIMA region, receive mandatory cessions from countries subscribing to the regional bodies. These companies with assured business could easily become inefficient and are open to political inteference. Measures have to be put in place to ensure productivity and accountability.

2.3 Challenges of Globalization

Globalization is a broad concept casually used to describe a variety of phenomena that reflect increased interdependence of countries. Such phenomena include flows of goods and services across borders, reductions in policy and transport barriers to trade, international capital flows, multinational activity, foreign direct investment, outsourcing, increased exposure to exchange rate volatility and immigration. These movements of goods, services, capital, firms and people are believed to contribute to the spread of technology, knowledge, culture and information across borders. (Goldberg and Pavcnik, 2006). There have been heated debates, especially in recent times about the true benefit of globalization. Anti-globalization campaigners have become a frequent feature in globalization meetings. Despite the numerous benefits enjoyed by trade due to globalization, there have also been negative effects. Major trade reforms took place in the late 1980's and in 1990's in the tariff reducing rounds of GATT/WTO negotiations. The World Trade Organization and the International Monetary Funds are two organizations that have promoted globalization and International Trade. Some countries have been left worse off after globalization.

2.3.1 Economic Challenges

Competition is the battle for customers, marketshare and resources. Multinational firms typically enjoy technological superiority, managerial know how, abundant capital and strong brand loyalty that they can transfer to their foreign subsidiaries. They are highly visible and can secure preferential treatment from local governments due to their strong bargaining power (Moran 1985). The most successful Multi-National Enterprises are those with strong core competencies. Start up companies have found it difficult to compete with the established Multinational Companies.

Selective protectionism is one of the challenges cited by many advocates of anti-globalization. It is argued that America, Europe and Japan protected their industries in their infancy years, and it is only after they had well developed industries, able to withstand competition that they started advocating for free trade. Their anti dumping laws are actually against free trade, much as the countries that impose them argue that the cheap imports expose them to unfair trade. Americans placing restrictions on importation of Japanese cars and electronics goes against free trade advocated by globalization.

Exposure to exchange rate volatility impacts firms' incentives to export or import. The subsequent exchange rate cost is passed on to customers as increased prices. Exchange rate disparity can also lead to discontent when employees of a multinational organisation on the same grade end up receiving different wages due to changes in currency exchange rates.

Financial interdependance and **i**ncreased interconnectivity has increased vulnerability to exogenous shocks. The interconnectivity of firms in different nations has accelerated the spread of bad fortune from one country to another. Outsourcing production processes in different countries means that a failure in one country quickly spreads to the rest. This was evident during the various episodes of financial crises experienced in the world. The Asian crisis of 1998, the Mexican peso crisis of 1994 and most recently, the global financial meltdown of 2008. The collapse of the Lehman Brothers' in America quickly sent panic through the world financial system. The experience during the crisis was a clear demonstration that government cannot be totally locked out of business as it has a duty to protect its economy. The American government attempted to intervene by negotiating a rescue to avoid a financial collapse. When Barclays Bank accepted to buy out Lehman's assets before the collapse, the British government quickly intervened to stop Barclays, a British Bank from investing in Lehmans. After the collapse of Lehman's the American government forcibly bought shares in the other financial institutions to enable the government involvement in business decisions that can affect the state.

Dumping is a major challenge of globalization. This occurs when manufacturers export a product to another country at a price either below the price charged in its home market or below its cost of production. Under the World Trade Organisation Agreement, dumping is condemned but not forbidden, if it causes or threatens to cause material injury to a domestic industry in the importing country (Van den Bossche, 2005). Dumping can kill domestic industries due to inability to compete at very low prices.

2.3.2 Socio-political Challenges

Globalization has been found to erode the sovereignity of weak states. It has been used to de-stabilize governments. Strong states have a capacity to influence the rules of international economy and to control their own integration into the world economy. Governments have lately been re-thinking globalization in an effort to protect their territories. This phenomenon of guarded globalization does not allow for foreign companies to engage in indusries considered stategic to the nation, such as national security and some scientific research.

Outsourcing of jobs, whilst providing jobs to a population in one country, takes the jobs from another population. This has led to massive layoffs as manufacturing is shifted to locations where raw materials and labour is cheaper. Outsourcing, also known as production sharing has been facilitated by removal of controls on capital flows, improved transportation that enables goods to be transported on short notice (Feenstra and Hanson, 2003). Improvement in technology also means that customer service can be outsourced to take advantage of cheap labour. This has led to the massive growth of call centers in India, and lately Africa. After the capital control liberalization in Mexico in the mid-1980's, many US companies shifted relatively low skill intensive stages of production to Mexico by setting up foreign assembly plants (Hanson 2004).

Shortage of skills have frustrated importation of technology by Multinational organisations. This has forced them to invest in training of their staff. However, due to shortage of skilled staff, the organisations have resorted to paying higher wages to the skilled staff in order to retain them. Experience in South East Asian countries of South Korea, Taiwan, Singapore, differs from other developing countries that underwent reforms in the 1960's and 1990 (Wood, 1999). These countries practised guarded liberalization.

Multinational organizations seek to maximise profits through maximizing efficiency. This often means creating areas of specialization. Developing countries have been disadvantaged as oftentimes they are used for production of raw materials of low value. Advanced technology and know how will be concentrated in the first world. This causes an imbalance of trade as developnig countries have almost no hope of developing know how to the level of developed countries. This situation can lead to dissatisfaction and political instability. There have been incidences of human rights abuses where appropriate labour laws are lacking. Child labour has been used in factories under inhumane conditions. Workers have been paid low wages and made to work long hours.

Cultural erosion has been a result of new communications systems that has seen media, music, books, international ideas and values disseminated in a global and virtually instataneous manner. As visitors attempt to integrate in the host communities they adopt the cultures and learn the languages. This is now beginning to reverse as populations are re-gaining their national pride. Hooker (2012) argues that competition is now moving towards Cultural Competitive Advantage, leveraging on their unique cultural traits. The Japanese quality, Indian Information Technology, Korean manufacturing, Chinese Entrepreneuraship. Deadly diseases and terrorism are now spreading faster worldwide due to advances in trans border communication.

2.3.3 Technological Challenges

The high cost of adopting advanced technology has locked out many developing countries from its use. In other cases, such as in agriculture, its adoption has led to job losses as technology replaces human labour. Technological advancement and different legal environments have made it more difficult to fight cybercrime and terrorism. It has been used in espionage and spread of propaganda. The adoption of modern technology in business transaction has exposed firms to the risk of having their networks hacked. This could result to loss of sensitive information, malicious distortion of records and fraudulent transactions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was used in the study. It includes the research design, the study population, data collection and analysis methods used.

3.2 Research Design

Research design refers to the procedures to be employed to achieve the objectives of the study. A case study was used in this study. It is a form of qualitative study that involves a careful and complete observation of a social unit (Kothari, 1990), in this case, the Kenya Reinsurance Corporation limited. A case study provides focused and valuable insights to a phenomenon that may be vaguely known and less understood.

Machuki (2005), Okech (2013) and Mohamed (2014) successfully used a similar research design in their study. According to Kitay and Callus (2008), a case study is an effective way of examining the processes by which events unfold as well as exploring casual relationships.

3.3 Data Collection

The research used both primary and secondary data. Primary data was collected using an interview method. An interview guide was used to cover the various aspects of the study, including the corporation ownership, strategic management, structure, culture, competitive environment, globalization challenges and the organizational responses to the challenges.

An introductory letter explaining the topic and the purpose of the study was first delivered before seeking an appointment with the interviewee to conduct the interview. This interview used an interview guide to interview staff in top management in decision making and thus well versed with challenges and response solutions at Kenya Reinsurance Corporation. The study targeted 6 heads of departments, namely General Managers in Reinsurance Operations, Finance, Legal, Risk, Human Resources and ICT. The guide had open ended questions to enable the researcher collect qualitative data. The interview was in three parts, A,B and C. Part A covered the demographics of the respondent, part B examined the challenges the corporation has experienced as a result of globalization and part C covered the response strategies the corporation has employed to respond to these challenges. This method was ideal as it did not restrict the respondent on answers and it had the potential to generate detailed information on the challenges of globalization to Kenya Reinsurance Corporation.

The researcher also collected secondary data from existing records produced by the corporation and Industry Regulator. These included Annual Reports, Business Plans, magazines, research studies, Industry reports and information from the corporation's website. Data was also be collected from existing press records.

3.4 Data Analysis

The responses collected were examined for completeness and competency. The data was then analysed using qualitative content analysis. This is the systematic qualitative description of the composition of the objects of the study. It makes general statements on how categories or themes of data are related. It enables generation and categorization of items for comparison with interview results. Information from the interviews was grouped based on running themes. The running themes were seeking to obtain the two objectives of the study which were to identify the challenges faced by Kenya Re as a result of globalization and the response strategies used to address these challenges.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter covers the data analysis, findings and discussion. The objective of this study was to establish the challenges of globalization faced by the Kenya Reinsurance Corporation after commencement of the privatization process, and to determine the response strategies Kenya Re has employed to counter the globalization challenges.

4.2 Background Information

The method of data collection was personal interview by the aid of an interview guide composed of open ended questions. An introductory letter was written to the company to explain the purpose of the study and to seek permison to conduct interviews. The researcher made appointments with the interviewees at their convenient time.

The interviewees were drawn from Reinsurance, ICT, Human Resources, Risk, Finance and Investments and Legal departments. The choice of interviewees cut across the company to ensure all aspects of globalization were covered. The interviewees had worked in the company for varied periods of time from two years to twenty five years. They all agreed that globalization has posed major challenges to Kenya Re. The key challenges were competition, technological, political, cultural and Government shareholding.

4.3 Challenges of Globalization

The interviewees were asked what in their opinion were the problems Kenya Re was facing as a result of globalization. All of them identified competition as the top challenge. Other challenges identified were Cultural, both internal and external, technological, legal, Government shareholding, national economic performance and strategy formulation.

The interviewees also said globalization had exposed Kenya Re to challenges of political instability in their areas of operations. The reason why these were identified as challenges are discussed as follows.

4.3.1 Challenges of Competition

The interviewees were asked which was the biggest challenge of globalizatin and they all answered it was stiff competition. They said there was stiff competion for market share, manpower and brand recognition. The interviewees were asked of their opinion on the intensity of competition and five thought it was intense while one thought it was moderate. Two interviewees added that the discovery of oil in East Africa has led to increased economic interest in the region and especially Kenya as the regional economic hub. That International reinsurers have followed their clients who have come to invest in the country and have also come to expand their markets to enable them utilise their excess capital.

They said economic growth in Europe and America is plateauing as sections of Africa is recording double digit economic growth. Some reinsurers have established in Kenya to benefit from business that is domesticated by law, such as Life Reinsurance. The interviewees noted that these international reinsurers who have stronger credit rating, have better risk management and are better capitalised have reduced Kenya Re's market share. Kenya Re is disadvantaged when competing for international business due to its credit rating of B+ by A.M.Best, which is pegged on the sovereign rate, whilst some clients prefer to deal with 'A' rated securities.

They further said that the international reinsurers have more advanced technology that they can use in rating and Catastrophe modeling. They have well developed research and development functions, strong brands, benefits of which they can pass onto their subsidiaries. They also noted that Insurers bidding for international contracts would prefer to have these 'A' rated reinsurers leading their treaty programmes to enable them increase their chances of winning. This is particularly evident in infrastuctural projects whose financiers are insisting on chosen securities.

The interviewees noted that in an effort to benefit from the economic growth, many African countries are now setting up their own Reinsurance companies and allocating them mandatory shares. This has greatly reduced Kenya Re's business in those markets. The most recent have been Gabon,Uganda, Tanzania and Ethiopia.

The study found that Kenya Re's key African competitors, Africa Re and Zep Re enjoy diplomatic status in Africa and COMESA region respectively by virtue of having been established by Africa Union and COMESA. They are therefore tax excempt. This makes it cheaper to place business with them as cedants and intermediaries do not have to pay additional taxes. Being tax excempt also gives them room to discount certain cervices and attract talent since their employees are also tax excempt.

4.3.2 Technological Challenges

The interviewees also said that a lot of business is now being conducted on the digital platform. The cost of setting up and upgrading technological platforms is sometimes exorbitant. In more advanced companies, technology is used for risk assesment, rating and placement. Communication is also heavily technological especially across borders. Kenya Re has faced challenges in frequently upgrading its networks where there is incompatibility of networks, including those of business partners.

There are also challenges in connectivity with the outstations and especially with the West Africa office. The company has also faced increased threats of hacking into e-mails and database and introduction of malicious software into the system. The website was once de-faced causing embarassment to the company and sending wrong messages to visitors. The hacking also increases chances of fraud.

4.3.3 Cultural Challenges

The interviewees were asked what they thought of the impact of culture, both internally and externally. Five interviewees thought it was strong, whilst one responded that it had no impact. Externally, Kenya Re had challenges integrating its staff in West Africa due to differences in language, dressing, religion and cultural practices. Cultural differences with some of the international client means Kenya Re has to be very sensitive when dealing with foreign markets.

Some of the international markets that Kenya Re has ventured into are quite prone to fraud leading to high claims. Differences in culture leads to differences in definition of family. This alters levels of compensation in liability claims. Emerging ways of life has also given rise to new risks like terrorism, cybercrime, takaful and political violence. This has posed challenges to reinsurance in terms of claims and also offered and opportunity to innovate new products to respond to these cultures.

When asked about the effect of internal culture on international competitiveness, one interviewee thought it had no impact, two thought the impact was low, whilst three thought it was high. They said that that there were still elements of negative internal culture who had no sensitivity to customer service and they were causing the corporation to lose business. There were staff who believe their promotions would come through government connections rather than through merit an therefore spend more time lobying than working.

There are also some disgruntled employees who feel discriminated against as a result of historical unfairness. These employees are numb to customer complaints. Attempts to recruit competitvely from outside the company have not totally borne the desired fruit as the new employees get frustrated and leave, or they get indoctrinated with the negative culture.

4.3.4 Government Shareholding

The interviewees were asked of their opinions on having the government as a shareholder. They said being government owned has posed challenges in competitive operations. Kenya Re has benefited from government shareholding by getting mandatory 20% of all treaty business in Kenya. It has also suffered perception setbacks. There is a general perception of government being corrupt and inefficient. There is also excessive bureacracy. This has led to difficulties in attracting serious bidders to professional services sought by the corporation. The assumption is that government employees will always ask for kickbacks. All procurements in the corporation, including its subsidiaries must comply with the Public Procurement Act. The outcomes of procurement has not always favoured business competitiveness. The researcher further probed on the quality of supplies to the corporation. It was noted that the corporation is also exposed to substandard and overpriced supplies, as long as the Public Procurement Act has been complied with. It is for the same reason that the corporation does not always attract the best talent. It was noted that there were very few applications for jobs from the top rated univeristies.

The interviewees noted that the government employment regulations have also made it difficult to dismiss underperforming employees. The strict requirements to comply with regional, gender and people living with disabilities balance means the corporation does not always having the best person for the job. There is political interference on recruitments and promotions.

4.3.5 Loss of Talent to Competition

The interviewees were asked about the threat of loss of talent to competitors. Five responded that it was a major threat whilst one did not see it as a threat. Kenya Re invests heavily in training. When competitors set up in the country, they recruit Kenya Re's staff who are well trained, have knowledge of the local environment and have business contacts. Losing key employees also means loss of business as they use their contacts to get business for the competitors.

The corporation has specifically faced challenges retaining her bilingual staff both at the headquarters and subsidiaries. The private companies can directly negotiate terms of employment with staff, whilst Kenya Re must follow the government guideline. Any deviations must be approved by the parent ministry.

4.3.6 Strategy formulation

The interviewees were asked whether Kenya Re had a distinctive advantage. Four said no, while two responded that its longevity and resilience is a distinctive advantage. The company has been able to resist attempts to corruptly acquire its assets. They both thought that the company's age was a distinctive advantage. Kenya Re has a five year rolling strategic plan. Monitoring and winning against the competition did not feature strongly in the strategy.

Also, when questioned whether Kenya Re employed Cost Leadeership strategy to gain competitive advantage, the interviewees all responded in the negative. Cost of inputs largely depended on the procurement process. The company does not analyse the cost of goods and services it purchases against its revenue. The company therefore runs the risk of spending more than it earns.

4.3.7 Legal and Regulatory Challenges

The interviewees were asked if they faced any legal or regulatory challenges and they unanimously agreed that they had several challenges. Kenya Re is a parastatal. Its subsidiaries outside the country are expected to comply with the Kenyan laws. This is sometimes difficult when the laws clash with the host country's. They said the biggest challenge has been with taxation and employment laws. Its West African subsidiary pays taxes on revenue and when this is remitted to Kenya, the corporation is again expected to pay tax to the Kenyan government on the same revenue. The same applies to Pay as You Earn tax for employees and benefits tax. This results in double taxation that erodes the net income position of the corporation.

The interviewees added that witholding tax that is payable on commissions in Kenya is not applicable in many countries where the corporation's intermediaries operate. This suppresses their revenue and discourages these intermediaries from doing business with Kenya Re. Likewise, some foreign governments impose taxes on foreign reinsurers that are not applicable to local reinsurers. The corporation also faces the risk of nationalisation by foreign governments.

The interviewees noted that the corporation can be negatively affected during times of political instability. Apart from creating an unstable business environment, the instability increases the security risk, exposing Kenya Re to increased claims. They said that Kenya Re's Cote d'Ivoire office was established in 2010 and could not start operations till late 2011 due to post election instability. Some governments can compel the insurers to pay unpayable claims as a gesture of goodwill to its citizens, mainly to gain political mileage.

When questioned about the local regulatory environment, the interviewees answered that the Kenyan Insurance regulatory environment is largely favourable to the company. Requirement on suitabililty of persons in leadership positions, reporting and risk management functions have actually improved the running of the company. It however faces challenges in complying with some requirements such us having an internal actuarist due to the cost and the limited number of qualified actuarists in the country. The only time the company has had problems with the government was when Kenya Revenue Authority demanded backdated taxes the company felt were not due. They ended up going to court to resolve the matter.

4.4 Response Strategies to Challenges of Globalization

The interviewees were asked about the response strategies Kenya Re employs to overcome the challenges of globlization. They gave the following responses.

4.4.1 Restructuring and outsourcing

The interviewees were asked whether the corporation had used restructuring and outsourcing to respond to the globalization challenges and they all said yes. They said corporation conducted a job audit following which it was able to re-structure the company. Departments that had duplicated roles were merged. Other departments and divisions were created to give focus to problem areas. Claims division, Marketing, and Credit control divisions were created to give focus to these roles that had a big impact on customer service.

Non-core activities such as cleaning, tea making and courier services were outsourced. The company also uses consultants for tasks that do not require full time engagement. The company was then able to carry out a retrenchment to lay off staff who's services were no longer required. This enabled it save money that was used to improve terms of existing employees to better motivate them. Creation of a Risk department has enabled the company put in place an Enterprise Risk Management policy and improve its Risk Maturity Index from 5% in 2010 to 66% in 2014. It has also given rise to a Capital Adequacey Framework Policy, Anti Money Laundering Policy and Risk Appetite Framework. All these measures have contributed to improving the running the company, making it more competitive.

4.4.2 Aggressive and focused marketing and customer service

The interviewees were asked to explain what measures they had used to boost the company's competitive advantage. They answered that the company embarked on aggressive and focused marketing. It has a marketing plan that is reviewed every year. Marketing activities that now receive more focus are client visits, client training, sponsorships of forums, cocktails and golfing activities. The company has gained more visibility and interaction with clients through such involvment. Research and development has been given increased focus and budget. Improved customer care has also been an area of focus through a re-vamped service charter. Customer centricity has become embedded in the corporate strategy. This has borne fruits as successive Customer Satisfaction surveys have revealed improvements, from 69.8% in 2009 to 78% in 2014.

4.4.3 Rebranding

Rebranding was another measure mentioned by the interviewees as part of the effort to improve competitiveness. They said the company re-branded in 2012. This was in an effort to shed off its old image of being complacent, lethargic and inefficient. The re-branding was through physical changes like changing the corporate colours, from the dull brown to the vbrant blue and red, changing the logo and the slogan. Change was also conducted through a culture change program. Several senior employees were recruited competitively to improve professionalism, customer service and hence competitiveness.

The interviewees added that a major CSR campaign dubbed “Niko Fiti, ability beyond disability’ aimed at assisting the physically challenged was launched, aimed at giving the corporation a humane look. The re-branding also gave the corporation an opportunity to create awareness of its existence, its strength and its activities. The interviewees said that recent surveys conducted on the company indicated that the brand equity index of the corporation has since improved greatly from 40% in 2012 to 65% in 2015. The customer satisfaction index has also jumped from 69.8% in 2009 to

78% in 2015. The interviewees however noted that the rate of growth of customer satisfaction and brand equity have slowed down.

4.4.4 Training and development

The researcher asked what measures had been taken on employees to improve competitiveness. The interviewees all answered that Kenya Re had invested heavily in training and developing its staff. Every year, a training needs analysis is done on all staff and an effort is conciously made to close the competency gaps. Staff are encouraged to pursue qualifications the company is in need of and are rewarded accordingly. They added that the company invites experts to train staff alongside the clients on new areas, like Agriculture, Oil and Gas, Terrorism, pricing and soft skills. The company has also improved its remuneration and benefits to staff to avoid losing talent to competitors. The Human Resource Policy and Operations Manuals are in place to standardise terms of service even within the subsidiaries.

The interviewees added that performance management has also become more structured through the introduction of the Balanced Score Card tool. This was to correct the previous perception by staff that the reward system was subjective and full of favouritsm. It is also an attempt to base reward on performance and not just on academic qualifications. The government has also aided perfromance management through the Performance Contract Agreement.

4.4.5 Mergers and Acquisitions and Strategic Alliances

The interviewees were asked on whether strategic alliances have been used in the company and they all said yes. The alliances have mainly been with Reinsurance Brokers internationally to enable the company tap business in regions that it does not have physical presence. The brokers advise the company on conditions on the ground and available opportunities. Alliances have also been forged with competitors, where Kenya Re reinsures its own risks in the process of retrocession. They added that Kenya Re is a member of the Association of Kenya Reinsurers where reinsurers discuss issues affecting the industry in the region. Kenya Re has also forged alliances with other reinsurers to write huge risks where the market does not have sufficient experience and capacity, like Oil and Gas and Agriculture.

When asked whether the company has used mergers and acquisitions, the interviewees responded that the corporation has not merged with any other, neither has it acquired an existing company. Its strategy is to start branches from scratch. The company has however been approached to take over companies in regions where it wished to open a branch. There was once an attempt to acquire the company but it failed as the odds were against Kenya Re.

4.4.6 Privatization

The interviewees were asked whether privatization was a response strategy to globalizations. One thought it was a fund raising exercise, another thought it was a response to the pressures of the structural adjustment program on the Kenyan government by the World Bank and International Monetary Fund. Four interviewees thought it was an effort to reduce government influence in the running of the corporation.

The privatisation was done through listing at the Nairobi Securities Exchange, as a result of which the corporation is now subjected to the Capital Market Authorities Act. This opens the corporation’s corporate governance to scrutiny of its shareholders and government authorities. Two interviewees thought the government should not privatize further as the circumstances were not right. The process may be hijacked for individual selfish interests. The other four thought that the government should be encouraged to sell more shares to give the company an opportunity to run as a private business.

When asked whether being favoured by the government was not creating room for inefficiencies, two interviewees responded that it was actually the government's duty to protect the Kenyan reinsurance industry just as other governments are doing the same with theirs. It was doing this through Kenya Re. They reiterated that the objectives of setting Kenya Re included guarding against foreign exchange flight through reinsurance and as an investment to generate funds for the government. Besides surveys conducted indicated that Kenya Re's services had greatly improved. This was demonstrated through several insurance companies giving Kenya Re more than the compulsory shares stipulated by law, and also, Kenya Re's success in the international environment where it has no protection.

4.4.7 Technological Responses

The interviewees were asked the extent to which technology has been used to respond to globalization challenges. They all answered to a large extent. They said the corporation has invested in an Enterprise Resource Management programme that connects the entire corporation digitally. Perfromance and resource utilization can be measured through his system. Complaints on IT can now be channeled through servicedesk for ease of followup.

The interviewees however noted that the process of acquiring a reinsurance system has failed twice due to procurement challenges. The corporation is still in the process of acquiring another system for Reinsurance Operations. The corporation has been able to provide computers for all, and the automation index has reached 85%. The corporation is also now connected to IFMIS as required by the government. Large tenders will be advertised through this system that will have indicative figures of items being procured. This will reduce instances of suppliers overcharging the corporation and also check on corruption. The interviewees also added that the corporation has also advanced its digital communication through e-mails, socialmedia like tweeter, facebook, skype, whatsup and blogs. The website was also re-branded and is now regularly up-dated to market the company and provide information in both English and French.

4.4 Discussion and Findings

The study looked at challenges faced by Kenya Reinsurance Corporation as a result of globalization, and its response to these challenges. It found that Kenya Re faced several challenges and it has been able to employ strategies to address most of these challenges in order to compete effectively in the face of globalization. This is consistent with Thompson and Strickland (2003) who found that organizations depend on the environment for their survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them. There are however a few challenges Kenya Re has not yet addressed and needs to formulate response strategies to them.

Stiff competition was identified as the most intense challenge. This is through other reinsurance companies coming into Kenya Re's market space. Competitors have also been able to differentiate themselves through superior customer service. Competition is also experienced through increased capitalization allowing cedants to retain more business and channeling very little to Reinsurers. The study revealed that Kenya Re does not apply cost leadership strategy and has also not been able to adequately differentiate itself from the competitors. This is in contrast to Porters theory of Competitive Advantage (1998) which identifies differentiation and cost leadership as key forms of achieving competitive advantage against competitors. Ogutu & Nyatichi (2012) studied the competitive strategies adopted by multinational banks in Kenya and identified differentiation, broad focus as an important competitive strategy.

The study also found that Kenya Re faces competition in attracting and retaining quality employees, due to existing cultural challenges and government involvement. Some of Kenya Re’s competitors are tax excempt making them attractive employers and cheaper to do business with. The competition challenge has been addressed through aggresssive and focused marketing, increased publicity to improve awareness of the company’s capability, products and strength, increased staff training and improved risk management. Increasing publicity agree with Gilliland and Johnston (1997) who argue that brand awareness is best done through media advertising. The corporation has also re-structured and outsourced non-core activities to enable staff concentrate on their core duties. The company has also embarked on an expansion program through setting up subsidiaries abroad. It has however shunned acquisitions as an entry mode. The study also found that Kenya Re has a home advantage in Kenya in mandaory treaty business through a government directive and also through local companies viewing it as one of their own. They can leverage on this advantage by providing specialised service to these companies. This is in agreement with Hooker (2012) who found that there is a growing trend in the world for companies to leverage on cultural comparative advantage to gain competitive advantage over their foreign competitors.

The study also revealed technological challenges in the cost of installing and upgrading the IT system. Challenges were also experienced in communicating with outstations. This challenge has been addressed through installing an ERP system and upgrading the computers and telephone hardwares. The corporation is partnering with other companies like their retrocessionnaires to be able to use their rating and underwriting software. The IT department also holds regular training sessions for staff to improve IT useage and create awareness especially on malware.

Cultural challenges have posed difficulties in conducting business. Externally, this has been through differences in languages, religion, way of life and attitude towards risk and fraudulent claims. This, the company has adequately addressed through segmenting its markets based on language, geographical spread and cultural diversity and focused its services to address these differences. This is in agreement with Porter's Competitive Advantange (1998) which identifies Focus, alongside differentiation and cost leadership in gaining competitive advantage. Warugu (2001) in his research found that focus and differentiation are some of the strategies that banks have employed to achieve competitive advantage. Kenya Re has addressed the cultural challenges through hiring multilingual underwriters, training staff on sensitivity to handling diversity and coming up with a risk appetite framework that addresses propensity to losses, including trends in physical and moral hazard.

The study found that Internal cultural challenges have been more difficult to address. These include poor work ethics, disgruntled employees and indifference to customers by some staff. The elements of poor work ethics is consistent with Johnson (1965) who argues that protectionism and government intervention breeds inefficiency. The corporation has dealt with these by having a code of conduct policy, establishing Human Resource Policy to be used at the head office and subsidiaries, improving remuneration and establishing a performance based reward system. There is also a channel for customers to report complaints and corrupt practices. Being listed in the stock exchange opens up the corporation monitoring on Corporate Governance by the Capital Markets Authority.

Regulatory requirements must be complied with. These have posed challenges especially in the international markets where compliance leads to reduced profitability or clashes with Kenyan regulations. Kenya Re has successfully collaborated with other reinurers to negotiate a reduction in witholding tax in Uganda. It also focuses its business with countries that have a double taxation agreement with Kenya. It is however worthy to note that the same regulations that favour Kenya Re on the home front are the same ones reducing its market share abroad. Imposing taxes on foreign companies that do not apply to domestic companies agrees with Watson and James (2013) on the theory of protectionism.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This research study addressed the objective of establishing the challenges of globalization faced by Kenya Reinsurance Corporation after commencement of the privatisation process, and the response strategies applied to address these challenges. This chapter presents the summary and conclusions of the findings, limitations of the study and suggestions for further research. It also provides recommendations for policy and practice in the same field.

5.2 Summary of Findings

This study was conducted by interviewing six senior managers of the Kenya Reinsurance Corporation on the challenges the corporation was facing as a result of globalization and the response strategies it has employed against these challenges. The managers had served the corporation for varied periods of time, ranging from two years to twenty five years. The interview results were then analysed using content analysis. The study identified the challenges of globalization as intense competition, cultural diversity, technological challenges, legal and regulatory challenges, currency fluctuations, insecurity and bureacracy . Competition is a challenge because it reduces the amount of business available to Kenya Re and forces it to constantly find innovative ways of increasing its business volume and market share. The study established that Kenya Re has responded to competition through aggressive marketing, restructuring, outsourcing non-core activities, market expansion, strategic alliances, research and development and innovations. The study found that mergers and acquisitions have not been employed as a response to competition.

Cultural challenges were found to be experienced through difficulties in integration, language barriers, religious differences and difficulties in management of diversities. Internal cultures have been a challenge in providing resistance to change and insensitivity to customer needs. The study found that Kenya Re has dealt with these challenges through employment of staff from the competitive private sector, employing multilingual staff, conducting culture change programmes, introducing Human Resource Policies that address cultural diversity, and Performance Management programmes. The company also keeps a close contact with its clients to understand them and to be up to date with their needs. It strives to employ citizens of host countries in its subsidiary offices to enhance integration. Fabricating and exaggerating claims by some clients can increase the cost of claims. The corporation responds to fraudulent claims through careful assesment of the claims and conducting background checks of intermediaries and cedants.

The study found that technological challenges have been experienced through difficulties in communication with outstations, difficulties in integration of the IT systems with those of business partners, threats of hacking and introduction of malware. It was established that technological challenges have been addressed through upgrading the hardware, installling an ERP software and installing firewalls to keep out malware. The study found that the corporation is able to afford the best software although procurement process sometimes gets into the way.

The study also found that Government ownership of Kenya Re has posed challenges by giving the perception of a corrupt and inefficient organisation. This has been addressed through re-branding to improve the corporation image, culture change programmes, advertising, competitive recruiting and CSR activities. However, since the corporation benefits from guaranteed business through compulsory legal cessions and also some cedants take comfort in the company's having government backing, it is proposed that the government ownership continues. The government may consider further privatisation in future when it can be handled in a transparent manner. Regular training of the board and management on corporate governance attempts to address the governance issues. Meanwhile, it was established that monitoring by the Capital Markets Authority and competitive forces keep the corporation in check.

Currency fluctuation was found to be a challenge when claims have to be settled at a different exchange rate from which the business was placed and premium collected. Kenya Re addresses this by applying a harmonising multiplier when there is a time gap between inception and claim. Weakening of the Kenya shilling also erodes the value of capital and financial assets held by the corporation. The corporation is considering offshore investments to diversify its assets.

The study however found challenges Kenya Re has not adequately responded to. It still does not have a customised rating software and catastrophe model. Credit rating agencies have proposed spreading investments to other countries and in particular 'A' rated countries. This has been a challenge for the company due to the high returns realised in local investments as opposed to foreign investments especially in Europe. Offshore investments were also found to expose the corporation to the risk of fraudulent transactions abroad.

The study also found that Kenya Re is yet to get a satisfactory reward and promotion system for its staff. It was found that although remuneration has improved in recent years, a section of the staff still complained that the criteria of remuneration was not fair and there were favouritsm. Reward is pegged on staff education rather than productivity. Records management was also found to be a challenge in the corporation, which it has attempted to address through establishment of a records division.

This study found that Kenya Re enjoys the advantage of being viewed favourably by many local companies due to its local ownership. This offers it inbuilt differentiation that the corporation could take advantage of. This advantage is lost when when local companies are taken over by foreign ones, as has been the trend lately. Kenya Re has responded by innovating products that are in demand in the local market, such as Re-takaful, Microinsurance, Political Violence and Terrorism. It has also responded by crafting service to meet demand. Response strategies Kenya Re has employed have been at Strategic, Business and Operational, and they address long term and short term challenges.

5.3 Conclusions of the Study

This study concludes that Kenya Re faces several challenges as a result of globalization, majority of which it has been able to adequately address to remain competitive. The main challenges are competition, cultural, technological, cost control, political inteference, currency fluctuation. Guaranteed business through the legal mandatory cessions poses the risk of the corporation being complacent and inefficient. The fact that Kenya Re has been able to attract optional business and has competed favourably in foreign territories is an indication that it has what it takes to compete in a competitive private environment.

The study concludes that Kenya Re lacks a distinctive competitive advantage. The resources it has at its disposal should be used to conduct research, innovate and differentiate itself from competing reinsurers. Since there is a limit to competition based on the price of reinsurance, the Corporation should differentiate itself through exceptional service. The Corporation also ought to manage its suppliers to ensure it is getting value for money from goods and services purchased.

Government involvement in the Corporation poses the risk of rendering it incompetent. However, the government performance contract and Capital Market authorities provide an environment of accountability. The international expansion slightly eases government influence on the business. On regulatory requirements, the Corporation has no option but to comply.

5.4 Recommendations

The recommendations from this study are in three major areas, namely Recommendations for Theory, Implications for Policy and Practice, and contributions of the study to knowledge. The recommendations are discussed below.

5.4.1 Recommendations for Theory

This study was based on two theories, Porter's theory of Competitive Advantage, and Mercantilism theory of Protectionism. Findings of the study support the theory of competitive advantage, in that for an organization to have competitive advantage over its competitors, it must apply either cost leadership or differentiation and be able to focus. The study has found that Kenya Re's advantage is inherent, being a alocal company that attracts local loyalty. It has not deliberately differentiated itself to gain competitive advantage. There has been no finding of cost leadership in the processes. Instead the study found that the Corporation is often supplied with overpriced goods, which are accepted as long as the procurement process has been followed. The study recommends that Kenya Re goes beyond the Public Procurement Act and bench mark prices against those paid by similar enterprices for similar goods and services. This will ensure that they get value for money.

There are various reasons why countries resort to protectionism. This study concluded that the Government of Kenya established Kenya Reinsurance Corporation to use it as a vehicle to develop the insurance and reinsurance industry in Kenya, for revenue generation and to guard against capital flight. Arguments have been advanced for and against protectionism. The key arguments for protectionism is that it promotes growth of infant industries. Kenya Re, having been established in 1970 is no longer an infant. However, it has continued to enjoy protection from the government to help it survive in the environment dominated by strong international reinsurers, mainly from Europe. Since it competes favourably in foreign markets, it can be concluded that the protection has not had a major negative impact on Kenya Re. It however has to guard against the risk of incompetence and wastage that is often associated with protectionism. It is therefore recommended that the theory of protectionism is still relevant, however it ought to be modified to be guarded protectionism, with minimum conditions to be met by the protected entity, and consequences for not meeting them.

5.4.2 Implications for Policy and Practice

The government, as a policy maker and regulator will have an opportunity from this study, to understand the turbulence in the reinsurance business environment, and craft appropriate policies that address the needs of the country. The findings of this study will be of value to Kenyan firms experiencing challenges as a result of globalization. To Kenya Reinsurance Corporation, this study highlights how it has dealt with challenges of globalization and recommendations on how it can improve. It also points out areas that could be challenges and are not yet recognised as so by the Corporation. The results of this study will help the leadership of Kenya Re have an insight into the views of the management and craft the appropriate responses to the challenges.

The reinsurance industry has experienced intense competition from international reinsurers who have increasingly developed interest in the region. This study will provide insight to the industry regulator, The Insurance Regulatory Authority, on the impact of licensing additional insurance and reinsurance providers in the existing market. The study will also enlighten the government to the fact that protectionism is real and at times necessary, but must be practised with caution as it can lead to incompetence.

5.4.3 Contribution to Knowledge

This study will increase the knowledge base because it will facilitate the adaptation and shifting of knowledge from theory to practice through implementation of competitive strategies. It also enables the understanding of the true need and impact of protectionism.

This study examined the continued relevance of the theories it has been based on, which are the Theory of Competitive Advantage and Mercantilism. The study adds more knowledge to existing theory by providing more literature on market competition. Scholars and researchers will find the findings of this research useful as a base for further research. Findings of the study can also be used to criticise previous findings.

5.5 Limitations of the Study

This case study was conducted through interviewing senior managers at Kenya Re. It was difficult to have interviews confirmed due to the busy nature of interviewees. The interviewees were also reluctant to provide sensitive information relevant to their competitiveness. The fact that these were the decision makers of the company, there was a fear that the interview was a form of an appraisal of their performance. The managers had to be coaxed in order to respond where it would appear as if the failure to deliver was on their part.

The case study was conducted in only one reinsurance company. Circumstances differ from company to company. The findings of the study cannot be assumed to be true to other reinsurance companies. The study was also conducted by interviewing senior managers of the company. Since these are the decision makers their answers were likely to mirror what they would like to be the case in the company. The study did not seek the views of the lower cadre employees, who may be in touch with the business at a different level and therefore have differing opinions.

5.6 Recommendations for Further Research

This study focused on the challenges faced by Kenya Re as a result of globalization and the response strategies. The study did not measure the actual impact of the response strategies. A quantitative study is recommended to measure the impact of the response strategies. It is also possible that other Reinsurance companies, especially those that do not enjoy protectionism, employ different strategies. It is recommended that a study be conducted on the other reinsurance companies to establish the challenges of globalization and their response strategies. It is also recommended that a study be conducted by interviewing a cross section of employees to get a holistic view of the challenges of globalization and response strategies applied.

Since Kenya Re competes in the international market, it is recommended that a study be conducted on similar companies, that have government ownership and protection, to establish their globalization challenges and their response strategies. It is also recommended that a comparison be made of the challenges between the different companies. A similar study should also be conducted on a private reinsurance company and comparisons made.

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APPENDICES

Appendix 1: Letter of Introduction

Jane Atieno Odipo,

Faculty of Commerce,
School of Business,

University of Nairobi.

20th July 2015

The Respondent,

Kenya Reinsurance Corporation,

P.O.Box 30271, 00100,

NAIROBI.

Dear respondent,

RE: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi, School of Business, pursuing a course leading to a Master's degree in Business Administration (MBA). In order to fulfill the degree requirement, I am conducting a case study on "Challenges of Globalization faced by Kenya Reinsurance Corporation Ltd."

You are therefore kindly requested to assist by granting an opportunity to interview at your convenience. The information obtained will be used exclusively for academic purposes and the findings of the study, shall, upon your request be made available to you.

Thank you in advance for your valued contribution to my academic pursuit.

Yours faithfully,

Jane A. Odipo

MBA Student

Appendix 11: University Letter

KENYA REINSURANCE CORPORATION LIMITED
RECEIVED
21 JUL 2015
OFFICE OF THE HUMAN RESOURCE MANAGER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 20/7/2015

TO WHOM IT MAY CONCERN

The bearer of this letter JANE ATIENO ODIPO
Registration No. D61/P/7110/2004

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
20 JUL 2015
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix 111: Interview Guide

INTERVIEW GUIDE

Section A – Personal Information

1. What department are you responsible for?
2. How long have you served in the insurance industry?
3. How long have you served at Kenya Reinsurance Corporation?
4. How would you describe globalization in relation to Kenya Re's survival?

Section B – Challenges of Globalization

1. What, in your opinion are the problems facing Kenya Re as a result of globalization, How would you rank these challenges from the most critical?

   Why do you think the issues mentioned above are a problem?

2. How would you describe the level of competition experienced by Kenya Re as a result of globalization? Please explain.
3. Please comment on the threat of loss of talent to competition
4. What is the impact of organizational structure on competitive strategy implementation at Kenya Re? Are roles clearly defined?
5. What is the impact of organizational culture on competitive strategy implementation on Kenya Re?
6. Do you experience any challenges as a result of the legal and regulatory requirements?

Section C: Response strategies

1. Please explain in detail how Kenya Re has responded to these challenges
2. Are there challenges that Kenya Re has not responded to?
3. If so, why, and what is Kenya Re intending to do in future about these challenges?

4. To what extent has Kenya Re applied the following strategies in gaining Competitive Advantage
    i. Cost Leadership
    ii. Differentiation
    iii. Focus

5. To what extent has Kenya Re used re-structuring as a response to globalization challenges?
6. Kenya Re recently re-branded. Would you consider this to be one of the responses to the challenges of globalization? Which challenge was it responding to? How effective was this response?
7. Would you consider privatization of the Corporation to have been a response strategy? Which challenge was it responding to, and how effective was it?
8. Does Kenya Re have a distinctive competence
9. To what extent has Kenya Re used technological advancement in responding to globalization challenges?
10. Has Kenya Re adopted any of the following strategies to remain competitive
    i. Mergers and Acquisitions
    ii. Strategic Alliances
11. What other way has Kenya Re adopted as a response to globalization?