APPLICATION OF MODIFIED PORTERS' FIVE FORCES MODEL IN ASSESSING ATTRACTIVENESS OF INSURANCE INDUSTRY IN KENYA

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DECLARATION

This is to declare that this research project is my original work and has not been submitted for a degree course in this or any other University or Institution of higher learning for examination.

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This Management Research Project has been submitted for examination with my approval as the University supervisor.

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May God bless the work of your hands, God bless you All

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DEDICATION

To my parents and heroes, the late father and mother (Abuor Jakoguta &Tabitha Nyakadiang'a) you instilled sense of love, endurance and hard work. Your memory is forever engraved in my heart. My beloved wife Milly,, daughters; Sheh, Veh, Zah and Aisha-Tabby. You literally endured life without a father when I used to burn the mid night oil studying. To my brother, late Wilson, sister late Dorine and brother-in-law Salim Musa: you financially facilitated my early education. Take pride.

ABSTRACT

The insurance industry in Kenya has undergone a lot of changes in the recent past. Many companies have closed shops while others have cropped up on equal measure. There has not been a clear predictable trend on suitability of insurance industry in Kenya. The purpose of this study was to apply the modified porters five forces model in assessing attractiveness of insurance industry in Kenya. This was to shed light on an industry which has witnessed death of as many companies as birth of others. Porter's five forces model has been used world over to understand the competitive forces in an industry. In specific terms, the study sought to determine how attractiveness of insurance industry in Kenya is influenced by bargaining power of suppliers & buyers, threat of new entrants, threat of substitute products or services, competitive rivalry in the industry, politics, government and others. A descriptive survey design was undertaken based on self-competition questionnaires. Data was collected from 33 respondents out of the targeted population of 47 insurance companies registered in Kenya. Completed questionnaires were collected and results analyzed using descriptive statistics. Tables, mean score and standard deviation were used for presentation and analysis. The findings of this research revealed that Politics/Government was a minimal force with a mean of 3.44, Industry rivalry 3.59, Barrier to entry 3.63, Threat of substitutes 3.68, bargaining power of suppliers 3.88, and finally bargaining power of buyers 3.98. The research further identified the Presence of Substitute Suppliers Scored a mean of 4.24, Supplier concentration 3.73, impact of supplier on cost 3.97, supplier difference 3.48 and Importance of Volume of business to the suppliers mean of 3.97. The study concluded that the insurance industry in Kenya is growing and looks vibrant as perceived externally.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Industry attractiveness is the value generated by economic activity of the industry participants as well as the ability to share in the wealth created thereof called Profit, (Hax & Maljuf 1983). The business world is encountering an unprecedented speed of change, radical technologies and massive entry of new competitors. The key concern of organizations is to continue existing over time at a profit. For this to be achieved, organizations have to constantly adjust to their environment. In such a rapidly changing environment, the only competitive advantage is the ability to continuously create new sources of competitive advantage. It is imperative that organizations continuously adopt their activities in order to ensure survival (Porter 1980, Pearce & Robinson 1997, Hamel & Prahalad, 1999). Organizations develop & implement competitive strategies to succeed. Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff 1985).

Every Industry has unique structures and the greater the threat posed by an industry force, the lesser attractive the industry becomes. Clear understanding of what forces are on play enables business owners to formulate and implement corresponding strategies to deal with them and consequently develop unique ways to satisfy customers in order to obtain competitive advantage over industry rivals. Cook (1995) notes that in any particular industry, not all the five forces will be equally important. The five forces frame work do not eliminate the need for creativity in finding new methods of dealing with competition within the industry but helps managers to focus on aspects of industry structure that brings long term profitability.

Increased competition is one of the challenges presented by a dynamic environment. The theory of competition in economics is heavily focused on price competition. A company can gain a competitive advantage through charging lower prices than its rivals (Murphy 2005). This is a complex phenomenon which determines whether a firm’s activities are appropriate and how much it contributes to profit.

Porters famous five forces of competitive positioning model provides a simple but powerful perspective tool for assessing and analyzing the competitive strength and position of a business, organization or corporation in a given industry (Porter, 1980).Firms wishing to gain a competitive edge should consider building defenses against these forces and formulate specific courses of competitive action that can directly influence these forces (Grundy, 2006; Grant and Jordan (2012).

1.1.1 Assessment Of Industry Attractiveness

An industry is a group of firms that market products which are close substitute for each other (Grant 2012). For a firm to succeed in business, it is necessary to evaluate the attractiveness of various industries in terms of their potential to generate suitable profit. Industry attractiveness is the relative future profit potential of a market which can be established by industry analysis. According to Hax & Majluf (1996), Industry analysis is an orderly process that attempts to capture those structural factors that define the long term profitability prospects of an Industry, and to identify and characterize the behavior of the most significant competitors. Pearce and Robinson (2005) say that industry analysis is the basis of intelligent planning. It is a systematic process of gathering and analyzing information about an industry on a domestic and global scope.

According to Porter (1980) a company can out-perform rivals only if it can establish a difference that it can preserve. This is done by creating a unique and valuable position involving a different set of activities and making trade-offs in competitive environment. Porters (1980) notes that a firm can change the industry's structure through the adopted strategies and that if the firm can shape the industry structure, it can fundamentally change the industry attractiveness either negatively or positively. The reasons why some companies make more profit than others lie in understanding of competitive structure and strategic plans. Strategy is the way by which a firm achieves its mission and attains its objectives. According to Drucker (1961), strategy is the pattern of major objectives, purpose or goals and essential policies or plans for achieving these goals; stated in such a way that it defines what business the company is in or to be in and the kind of company it is or is to be. According to Barney (1997), strategy is a pattern of resource allocation that enables firms to maintain or improve their performance. The essence of strategy lies in creating favorable asymmetries between a firm and its rivals. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and fixes weakness (Barney 1993). Management of a firm needs to understand the industry's key success factors and formulate its strategy around it to enable the firm to create sustainable competitive advantage. Key success factors are Competitive advantage like benefits derived when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. According to Porter(1980) competitive strategy involves finding a position in the industry where the company can best defend itself against competitive forces or influence them in its favour.

1.1.3 Insurance Industry in Kenya

The insurance industry in Kenya has realized rapid growth over the recent past. To date there are forty seven insurance companies operating in the country (AKI, 2012). At this rate of growth without a corresponding growth in the economy, the industry is faced with stiff competition.

Table 1: Insurance Industry Players in Kenya

Year	Insurance Companies	Agents	Brokers	Investi gators	MIPS	Insurance Surveyors	Risk Managers	Loss Adjusters	Motor Assessors
2007	43	2665	201	213	21	30	8	23	-
2008	42	3356	141	152	19	19	6	17	-
2009	44	3320	154	112	25	29	6	20	60
2010	46	3847	159	121	26	26	10	22	74
2011	45	4578	168	128	28	28	8	21	89
2012	46	4862	170	140	24	27	10	21	92

Source: Insurance Industry Annual Report, 2012 page 9

As at end of 2012, there were 46 registered Insurance Companies 23 transacting General insurance business and 11 transacting Life business while 12 were Composite transacting both Life and General. There were 170 licensed insurance brokers, 24 Medical insurance providers (MIPs) and 4862 insurance agents. Other licensed players included 140 investigators, 92 motor assessors and 21 loss adjustors. Also in play were 3 claims settling agents, 10 risk managers and 27 insurance surveyors. The total industry premium production for the year ending 31/12/2012 was Kshs.108.54

billion which was composed of Life Kshs.37.08 billion (34.16%) and Non-life Kshs.71.46 billion (65.84%). Production in 2015 is projected to be Kshs.200 billion (AKI 2012). The penetration of insurance in Kenya is estimated at 3.16%. Initiatives such as improved regulatory framework, innovative products, adoption of alternative distribution channels, enhanced public education and use of technology have contributed to the improved penetration level in Kenya.

The Kenyan Insurance Industry is the leader in East Africa (Uganda, Tanzania, DRC Congo, Rwanda) and COMESA region (Common Market for East and Southern Africa) employing over 10,000 people. Total Annual premium in 2012 was 108.54 Billion with net claims paid being over Kshs.48.36 Billion (AKI 2012). On the top ten by premium production (not in any order) are Jubilee, Kenindia, Heritage, APA, ICEALION, CIC, UAP, AIG, British America and Pan Africa. They command over 50% of the market share. Insurance Industry in Kenya is regulated by the Insurance Act Cap 487 as amended. In 2007, sections of the Act were amended which allowed conversion of the former Office of Commissioner of Insurance under the ministry of finance into an autonomous authority called Insurance Regulatory Authority (IRA). It is mandated to provide general control and guidance i.e. licensing, registration, supervision, consumer education/protection and so on.

1.2 Research Problem

Porter’s modified “Five Forces” model is a widely used managerial tool for analyzing potential industry margins and for classifying features which affect the competitive environment. According to Porter (2002) Industry structures are determined by the interplay of five forces thus; bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products, and intensity of industry rivalry. Other scholars like Aosa (1997) added other forces like government, logistics and power play. All competitive forces and their interactions are governed by a regulatory framework that sets the ‘rules of the game’ for all participants.An industry’s economic traits and competitive conditions and how they are expected to change determine whether its future prospects will be poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits while weak companies in attractive industries can report good performances (Porter, 1980; Thompson and Strickland, 2003; Pearce and Robinson, 2005).

Insurance Industry in Kenya is one of the most volatile industries undergoing drastic changes. The industry has witnessed the collapse of giant firms e.g. Kenya National Assurance co. Ltd in 1990, Lakester, United and Blue shield among others. Over the last 15 years, eight (8) new insurance firms have entered the industry. The rapid collapse of existing firms and equally rapid entry of new ones sends mixed signals about this industry. For some companies, the industry looks attractive while for others it is bleak. In Kenya, only 8 out of the current registered 47 insurance firms underwrite Public Service Vehicles (PSV) and out of the 6 collapsed companies 4 were underwriting PSVs (AKI 2012). The legislation; the Insurance Act cap 487 vide legal notice No.58 is a major barrier to entry as it stipulates that Kshs. 500M must be deposited with the government before being licensed to carry on general and Kshs. 300M for life insurance respectively. The public perception of the industry is negative as they always perceive insurance firms as organizations which hide under small prints to avoid settlement of claims. Unscrupulous lawyers and fraudulent public see the industry as cash cow while employees especially managers in public service vehicles (PSV) underwriters view the industry as very unattractive.

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Past studies on application of Porters five forces model have limited the scope to the missionary five forces only without consideration to modifications. Further, no studies have been done specifically on insurance industry in Kenya. Aosa (1997) included three other additional forces thus government, logistics, and power play only. His work was neither in the insurance industry nor exhaustive in terms of the modifying factors. Muchiri (2008) studied porter's five forces application to assess attractiveness of the mailing industry in Kenya while Langat (2009) anchored her studies on how the forces shape competition in handcraft industry in Kenya. Nyale (2007) researched on mobile telephone and Olouch (2003) applied the concept while studying the perceived attractiveness in freight and forwarding industry Muhu (2008) researched on perception of attractiveness of public service vehicles (PSV) insurance business in Kenya. Kiandiko (2007) narrowed down to one of the five forces; the Entry Barrier and studies its extent to profitability in the air pressure Industry in Kenya. All the other known studies were therefore different in context and time. This leaves a remarkable knowledge gap in terms of context and time which this research will satisfy. This study will try to assess how attractive Insurance industry in Kenya is using the Porters modified five forces

1.3 Research Objective

The objective of the study is to apply the Modified Porter's Forces Model to assess the attractiveness of insurance industry in Kenya

1.4 Value of the Study

The study will help the current insurance companies in Kenya and those companies or individual aspiring to invest in the insurance market to assess potentiality of the industry

For scholars, the study will not only increase the level of literature available in understanding how attractive Insurance Industry in Kenya is but also help in critically analyzing and appreciating porter's forces model and its applicability in Kenya's insurance industry.

It will also help the statutory authorities (Insurance Regulatory Authority – IRA) and (Association of Kenya Insurers –AKI) to better understand the viability of the industry for policy formulation and decision making.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses relevant literature information on the study topic and in line with the research objectives. The chapter begins with the theoretical foundation of the study. The chapter ends with empirical review on attractiveness in an industry and concluding summary of the same.

2.2 Theoretical Review

2.2.1 Competitive Theory

Industry analysis is an orderly process that attempt to capture the structural factors that define the long-term profitability prospects to an industry. Rowe et al (1994) define industry analysis as an environmental scan to determine what forces in a firm's external environment have direct impact on its competitive position and what competitive actions need to be taken to achieve competitive advantage. It focuses on industries in which the firm competes (Comeford & Callagham. 1990).There is an established relationship between business strategy, innovation and organizational performance. In response to new technology driven global markets, companies have increased their use of advanced technologies as well as their innovation efforts (Zahra & Covin, 1993). The increasingly competitive environment in the financial services market has resulted in pressure to develop and utilize alternative delivery channels (Pearson & Robinson, 2007).

2.2.2 Industry Theory

The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). In order to achieve new gains for its stakeholders and fulfill their needs and requirements, organizations must continuously search for the development of its product and services through marketing innovation and creativity. This will play a very important role in achieving competitive advantage especially in the insurance industry where competition is intense, through the forces of change brought into the industry by recapitalization and consolidation (Business Monitor International, 2012).

2.3 Porter's Five Forces Model

2.3.1 Threat of Substitute Products or Services

Price to customers willing to pay for a product depends partly on the availability of substitute products. The absence of close substitutes for a product as in the case of Petrol or cigarettes means that consumers are comparatively insensitive to price hence demand is inelastic with respect to price. Existence of close substitute's means that customers will switch to substitutes in response to price increases for the product hence demand is elastic with respect to price. If an industry earns a return on capital in excess of capital, it acts like a magnet to attract firms outside the industry. If entry of new firms is unrestricted, the rate of profit will fall towards its competitive level. Threat of entry rather than actual entry may be sufficient to ensure that established firms constrain their prices to the competitive level.

New entrants in an industry contribute to extra capacity, technology, desire to gain market share and so on. In microeconomics theory, the entry is a response to the prevailing industry attractiveness as manifested in profit margin enjoyed by the industry operating companies. However, according to Geroski (1995), there is evidence that entry reacts slowly to high expected profits and that only important differences of expected profits among industries may lead to different rates of entry hence profits are a sign of industry attractiveness only if they are relatively high and the response by potential entrants is slow. One may therefore reason that speed of entry as a reaction to high profit may depend on other factors connected with an entry of new firms such as capital and technology requirements, transaction costs and so on. However, these factors are mainly industry specific hence leading to a conclusion that entry reaction to high profit industry may depend on industry itself, (Barbot, 2001).

2.3.2 Threat of New Entrant

Entry barrier is the major factor determining the speed and magnitude of threat of new entrants and can also be considered to be low or high depending on the resources and competencies of the potential entrants. With high sustainable profits, new entrants will be attracted in large numbers and will highly be motivated to commit any level of needed resources to negate the barriers to entry. In this case, relevance of entry barrier diminishes. According to Keegan (1995), the entry of new players disrupts the level of Industry's profitability by increasing the industry capacity and reducing the price leading to reduced profit margin; the law of demand and supply. The barrier can be maintained by having unique capabilities which cannot be copied by competitor making it easy for the firm to enter the industry but unacceptably difficult for everybody else.(Hax & Majluf, 1996). Industry growth is another important determinant of entry as growing industries attract new firms and vice versa. An industry where no barriers to entry or exit exists is contestable; prices and profits tend towards the competition level regardless of the number of firms within the industry (Grant & Jordan, 2012). Contestability depends on the absence of sunk costs i.e. investments whose values cannot be recovered. Absence of such costs make an industry vulnerable to 'hit-and-run' entry wherever established firms raise their prices above the competitive level (Grant & Jordan, 2012).

Capital cost of getting established may also be a hindrance to entry. Product differentiation is another entry deterrent. In an industry where products are highly differentiated, established firms possess the advantage of brand recognition and customer loyalty. This will force new entrants to spend heavily on promotion and advertisement to gain brand awareness and goodwill. Control of channel of distribution may also work as a barrier to entry. Limited capacity within distribution channels example. Brokers, Agents, and Banks. Big Brokers and Agents have already placed their loyalty in some few companies. Economists from the Chicago school theorize that the only effective barriers to entry are those created by government (Legal barriers) (Grant & Jordan, 2012). Barriers to entry also depends on the entrants expectations as to possible retaliation by established firms. This may take the firm of increased advertising, price cutting or even litigation.

For most industries, the major determinant of the overall state of competition and the general level of probability is competition among the firms within the industry. In some industries, firms compete aggressively pushing prices below cost hence industry wide losses. In other industries, price competition is muted and rivalry focuses on advertising, innovation and service quality. Concentration of sellers; as measured by concentration ratio is one of the methods of measuring intensity of competition between established firms. Seller's concentration refers to the number and size distribution of firms competing within a market. Diversity of competitors and product differentiation also helps in measuring the inter industry rivalry. The more similar the offerings among rival firms, the more willing are customers to switch between them and the greater inducements for firms to cut prices to boost sales. Where products of rival firms are virtually indistinguishable, price is the sole basis for competition. Excess capacity and exit barriers also help to ascertain the intensity of intra industry competition. Unused capacity encourages firms to offer price cuts to attract new business while barrier to exits are costs associated with capacity leaving an industry e.g. where resources are durable and specialized and employees entitled to Job protection, emotional ties, government or social restrictions and the like.

2.3.3 Rivalry among existing firms

Competitive strategy aims to establish a sustainable profitable position against the forces that determine industry competition (Porter 2002). The choice of competitive strategy depends on attractiveness for long-term profitability and factors that determine it, not all industries offer equal opportunity for sustained profitability which is an essential ingredient in determining the profitability of a firm. Determinants of relative competitive position within an industry helps to explain why some firms are more profitable than others regardless of average profitability of the industry. A firm in a very attractive industry may still not earn attractive profit if it has chosen a poor competitive position. Conversely, a firm in an excellent competitive position may be in such a poor industry, that it is not very profitable. Industries become more or less attractive over time and competitive position reflects a sustained war among competitors. Even long period of stability can be ended abruptly by competitive moves (Anker, 1998).

2.3.4 Bargaining powers of suppliers

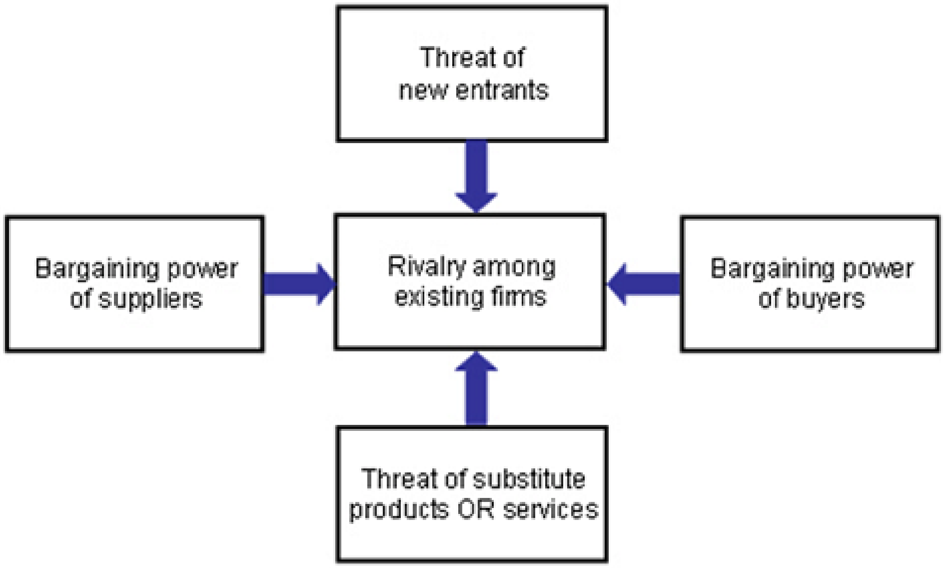
There are a number of strategic options for high performance and success. These are product and service innovation, super customer service, geographical expansion & product differentiation, sales promotion and so on. The intensity of competition tends to increase when an industry is characterized by a number of well balanced competitors, a slow rate of industry growth, high fixed costs and lack of differentiation between products. According to Cook (1995) supplies to organizations refer to all those sources of inputs that the organization need to provide goods and services. Powerful suppliers can connive to bring down profits in an industry by raising prices or reducing quality of supplied goods and services. Suppliers bargaining power is high when; market is dominated by a few powerful large suppliers as opposed to small and weak fragmented source, when there are no substitute to a product or service, high switching costs, high possibility of forward integration.

Singh and Wah (1997) concluded that firms and their suppliers needed to have a good relationship for their mutual benefit. Leverick and Cooper (1998) observed that organizations have tended to move away from adversarial relationship with suppliers towards a more cooperative way of doing business. The bargaining power of suppliers determines the costs of raw materials and other inputs. Suppliers power can affect the relationship between a small business and its customers by influencing the quality and price of the final product (Porter 2003). In the insurance industry, effect of suppliers are seen in computer hardware and software, office equipment, stationery and so on.

2.3.5 Bargaining power of buyers

Buyers are those who use the products or services of an organization. Before buying a product, a consumer collects information from various sources which then goes through the consumer buying process till decision to buy is made. Buyers will normally compete with the industry by bargaining for lower prices, high quality products or services. Buyer power is high when the volume of purchase of the buyer is high, there are alternative source of supply, cost of switching supplies is low, there is threat of backward integration; buyers have full information of demand, actual market price and supplies costs. Powerful buyers can exert pressure on business by demanding lower prices, higher quality services and even playing off competitors against one another. The strength of buying power that firms face from their customers depends on two factors thus buyer’s price sensitivity and relative bargaining power. Price sensitivity is the extent to which buyers respond to a firm’s price changes in an industry.

Figure 1. The Porter's Five Forces Model.



Source: Grant R.M & Jordan. J, Foundation of strategy, 2012, page 61

2. 4 Modified Porter's Framework

Aosa (1997) included three other additional forces (government, logistics, and power play). Wheeler and Hunger (1990) also agreed with Porter but wanted to include the sixth force, 'other stakeholders'. They argued that this new category would incorporate the relative power of unions, government, and other interested parties not specifically mentioned in Porter's model. Though Porter had included government as a potential entry barrier under threat of new entrants, they argued that government was very powerful and merited special mention as a separate strategic force. Porter (2008) agrees that no structural analysis is complete without a diagnosis of how present and future government policy at all levels will affect structural conditions.

The work of McFarlan (1984) also added an information technology (IT) dimension to the model by exploring the way that IT could be used to exploit or counter any of the forces. It was suggested that, by adding to products and IT content, which would create added value or reduce cost, it could make it more difficult for new entrants or substitute products to be successful. Further, using IT to forge links with suppliers and customers would increase the power of the organization within the market. Every industry feels the influence of other forces like politics of the day, government, employees and special groups, the public, lobby groups and registered trade unions and so on hence called the sixth force. The sixth force either influence industry attractiveness through all the main five forces or act as a separate force

2.5 Empirical literature on industry analysis

Illangakon (2010) on Analysis of Industry attractiveness using Porter's five forces in UK music Industy examined and concluded that the universal applicability of music as a form of entertainment may remain to be the largest selling proposition for this industry and is the largest reason behind the high profitability of the industry. In conclusion therefore, it can be said that applying five forces theory is extremely important in industry analysis as it allows firms to develop better strategies through identification of forces operating in the market and understanding of overall attractiveness of the industry.

Cafferky (2005) in The Porter Five-forces Industry Analysis Framework For Religious Nonprofits in the USA contends that the profitability (and correspondingly attractiveness) of an industry is a function of the cumulative effect of the five forces. Profitability of the religious "industry" is not meaningful if discussed in terms of marginal costs versus marginal revenues. What is needed is a better description of the outcome of the five forces in the religious industry. Share of world-view and mind-set advantages versus the tradeoffs for the consumer may offer descriptions of outcomes more relevant than profit though exceedingly difficult to measure. Aldrichs (1979) concept of environmental capacity, richness and leanness may be helpful in understanding the environment in which religious non profit organizations operate.

Vengesayi (2009) on A conceptual model of tourism destination Competitiveness and Attractiveness examined that there have been advances in modeling competitiveness in tourism but there is little empirical evidence to support the models proposed by researchers. The symmetrical approach to tourism destination evaluation should be a starting point in harmonizing the interests of the destination as well as those of the tourists. The results of such an approach could be used to sell the destination interests to visitors as well as the interests of visitors to the destination operators. Researchers now need to move from conceptual to empirical validation of the proposed models. Initially the challenge should be to investigate the relationship between the identified variables and how strongly they influence the attractiveness and competitiveness of tourism destinations.

In Kenya, studies that have been conducted focused only on the application of the ordinary Porter's Five Forces Model without the modification. However, Waithaka (2001), studied funeral industry attractiveness and adopted the modified model advanced by Aosa (1997), which included three other additional forces (government, logistics, and power play). These forces were found to define the structure of the funeral industry. The same modified model has been applied by Oluoch (2003) in studying the perceived attractiveness of the freight and forwarding industry. Other studies that have adopted Porter's Five Forces Model include those of Nyale (2007) who researched on mobile telephony and Wachira (2008) in the insurance industry. The studies are also in support of the views advanced by Aosa, (1997) Osigweh, (1989) Hussey,(1990) and Austin, (1991) that management is sensitive to the context in which it is practiced and that strategic management models advanced in developed countries where strategic management originated may not be directly applicable in developing African countries.

2.6 Summary of the literature Review

The Kenyan insurance industry is experiencing intensified competition and regulations. This study will analyze the 'big picture' of the insurance industry in Kenya through Porter's Modified Five Forces model of competition. It will also examine the key players aligned with the Modified Five Forces and their impact on competition and industry Profitability in Kenya. Finally, it will assess attractiveness of the insurance industry in Kenya through the modified porter's model.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the methodology that will be employed in the research project. It details the research design, population under study, sampling technique used, nature of the data collected and method of data analysis.

3.2 Research Design

The study was a descriptive survey of all the 47 Insurance companies registered in Kenya and are members of The Association of Kenya Insurers (Appendix 2). It was carried out by descriptive survey design which is favoured because it describes the state of affairs as it exist at present (Kothari 2003). The researcher wanted to assess the attractiveness of insurance industry at the moment.

According to Donald and Pamela (1998) a descriptive study was concerned with finding out the what, where and how of a phenomenon, hence the how, or how not attractive the insurance industry in Kenya is and due to what forces. The design involved primary research methods and field research involved collection of primary data.

3.3 Population of study

Population of interest in this Study was all the Insurance companies registered in Kenya comprising 47 companies which are registered with the Association of Kenya Insurers (Appendix 1).

3.4 Data Collection

A population is defined as a complete set of elements with some common observable characteristics, Mugenda and Mugenda (1999). The study used primary data which are largely descriptive in nature. Data was collected by Structured questionnaire due to convenience of facilitating collection of large amount of data in a given sector of the economy. It captures respondense’s feeling and makes comparison and analysis easy (Kibera and Wariunge). The researcher identified the targeted individual respondents from each insurance company and wrote introductory letter together with questionnaire to them. The questionnaire dwelt on the modified Porter's five forces model which was regarded as variables. Question format embraced Five Point likert scale. It targeted Chief Executive Officers because the research is intended for officers at policy formulation levels who are able to appreciate the industry challenges. Method of distribution was by hand delivery to respondents and collecting later. This method is favored due to its convenience.

3.5 Data Analysis

Descriptive statistical method was used because the research questions are descriptive in nature. The data was presented using tables for further analysis and to facilitate comparison. Quantitative data was analyzed using descriptive statistics such as frequencies, percentages, mean score and standard deviation. Data from open ended questions was analyzed thematically according to objectives and research questions after categorizing and allocating points for each answer. Inferences and conclusions were then drawn from the analyzed data. The mean of the points was computed by use of Statistics for Practices of Social and Sciences (SPSS). While mean scores measures the average, Standard deviation connotes the disparity from the central tendency.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented in line with objectives of the study which was to assess attractiveness of insurance industry in Kenya by application of Porter's modified five forces model. The data was gathered using questionnaires which was designed in two sections. The first section covered brief background information of the insurance companies while second section covered the information on Porter's modified five forces. The likert scale of 1 to 5 points was used in which I meant No or low effect while 5 meant very high effect. Statistical tools like means, percentages were employed to analysed data and presentation done in table form.

4.2 The Response Rate

The response rate is the return rate expressed as a percentage of total number of questionnaires the researcher gave out. The study targeted the 47 Insurance Companies operation in Kenya and registered as members of the Association of Kenya Insurers (AKI). Out of the 47 questionnaires given out, 33 were completed and returned in good time for analysis. The response rate was therefore 70.2% which was considered fair and representative. According to Mugenda and Mugenda (1999) a responses rate of 50% is considered adequate for reporting, 60% is good and 70% is very good. The researcher initially called respective managing directors in advance to request for their assistance in completing the questionnaire. After a short period soft copies were sent followed by hard copies dropped for those who alleged to had not received the soft copies. Respondents who did not respond to the questionnaire cited a number of reasons including busy schedules, targeted personnel being out of the country and some deliberately refused to divulge any information.

4.3 Organisational Information

This aspect was analysed based on ownership structure, age of the company and the products and/or services offered. This aspect of organization information was considered relevant as it facilitates proper understanding of the insurance industry.

4.3.1 Ownership Structure

Ownership of the company is detrimental in establishing unique inherent characteristics of a company which translates to a given organizational structure ultimately affecting the overall structure of an industry. The findings are presented in table 4.1.

Table 4.1: Ownership Structure

Response	**Frequency**	**Percentage**
Local	24	73
Foreign	0	0
Both Local & Foreign	9	27
Total	**33**	**100**

Source: Research Data (2014)

From table 4.1 above, it is clear that out of the thirty three insurance companies 73% are locally owned, 0% foreign and 27% are both locally and foreign owned. The findings therefore shows the extent to which the local investors consider insurance industry as attractive and worth a bet. Foreigners also seem to have reasonable interest in Kenyan Insurance market though they partner up with locals. This could be due to legal restrictions.

4.3.2 Products or Services Offered

The insurance companies can offer General Insurance, Life Assurance or both Life and General. The analysis of products offered helps to understand if a particular industry's market segment is favoured. The result of the study is shown in table 4.2.

Table 4.2: Product of Services offered

Response	Frequency	Percentage
General	18	55
Life	3	9
Both Life and General	12	36
TOTAL	**33**	**100**

Source: Research Data (2014)

The study results reveals that majority of respondent (55%) provide general insurance while 9% provide life assurance. From the face value f this, it can be concluded that pure general insurance sector is more lucrative and therefore more attractive than life or combination of general and life.

4.3.3 Organisation's years in operation.

The firms were divided in to those which has operated up to 5 years, between 6 years to 10 years, between 11 years to 15 years, between 16 years to 20 years and finally over 20 years. Age may be an indicator of industry status. Many years of operation may portend an accumulation of economies of scale while having many new companies may be an indication of a young and promising industry.

Table 4.3 below shows the findings of insurance companies' years in operation

Table 4.3: Organisation's years in operation

Response	Frequency	Percentage
1 – 5	3	9
6 – 10	20	6
11 – 15	4	12
16 – 20	0	0
Over 20	24	73
Total	**33**	**100**

Source: Research Data (2014)

The study found out that 9% of respondent insurance companies are in the 1 – 5 age bracket, 6% are 6 years to 10 years, 12% are in 16 years to 20 years bracket and 73%

are over 20 years. It can therefore be concluded that majority of insurance companies in Kenya are over 20 years old meaning the industry is mature, followed by those of 11 – 15 and 1 – 5 years at 12% and 9% respectively. This means the industry is attracting new ones.

4.4 Attractiveness of the Insurance Industry

The objective of the study was the application of modified Porters five forces model to assess attractiveness of insurance industry in Kenya. Porter's model provides an assessment tool to analyze industry forces and profitability through bargaining power of suppliers, bargaining power of buyers, threat of new entrants/barrier to entry, threat of substitutes, competitive rivalry in the industry and power of other stakeholders. These forces are the major determinants of industry profitability with great influence on cost of production, prices, level of competition, operational policies and others.

4.4.1 Supplier Bargaining Power

Suppliers are those who provide inputs that organizations need to provide goods and services. Suppliers can exert pressure on company profits by raising prices. They may also reduce quality of supplies thereby forcing the producers to either incur extra cost in improving the quality of their ultimate products or offer substandard products at cover prices and reduced profit.

Table 4.4: Existence of Bargaining Power of Suppliers

Response	Frequency	Percentage
Yes	9	27
No	24	73
Total	**33**	**100**

Source: Research Data (2014)

From the above table 4.4, it can be concluded that majority of respondents (73%) felt that there was non-existent of supplier power in the insurance industry. Only 27% felt otherwise. On the various determinants of suppliers' bargaining power, respondents had almost a similar trend as shown in table 4.5

Table 4.5: Determinants of Supplier Bargaining Power

Determinants	Mean	Std. Deviation
Presence of substitute	4.24	.728
Supplier Concentration (Number and Size)	3.73	.452
Impact of Supplier on Cost (Low/High)	3.97	.435
Supplier Differences	3.48	.508
Importance of Volume of business to the suppliers	3.97	.830

Source: Research Data (2014)

The result show that Presence of Substitute Suppliers Scored a mean of 4.24,supplier concentration 3.73, impact of supplier on cost 3.97, supplier difference 3.48 and Importance of Volume of business to the suppliers mean of 3.97. From the study results displayed in table 4.5, it gives a fare distribution of respondents with majority falling between average and fairly high. This may be interpreted to mean that respondents recognized suppliers have bargaining power on insurance. The study further reveals that suppliers power is on average in determining attractiveness of insurance industry. However, presence of substitute suppliers exerts most pressure as a determinant with a mean of 4.24 and standard deviation 0.728

The overall suppliers power over insurance companies effect of suppliers power on organization's profitability, power of organization over suppliers and significance of suppliers towards operational performance of organization's showed results as follows :

Table 4.6: Aspects of suppliers Power

Aspects	Mean	Std. Deviation
Importance/Significance of suppliers bargaining power towards operational performance of Insurance Company	3.48	.435
Power of Insurance company over suppliers	4.76	.508
Bargaining power of suppliers over insurance companies' profitability	3.52	.870
Overall power of suppliers over insurance company	3.73	.839

Source: Research Data (2014)

The result shows that Importance/Significance of suppliers bargaining power towards operational performance of Insurance Company scored mean of 3.48, Power of Insurance company over suppliers mean of 4.76, Bargaining power of suppliers over insurance Company's profitability mean 3.52 and Overall power of suppliers over insurance company 3.73. From the research findings presented in table 6, importance/significance of suppliers bargaining power towards operational performance of insurance company is low with a mean of 3.48, Power of insurance company over suppliers is highest with mean of 4.76, effect of bargaining power of suppliers on insurance companies profitability is moderate and in overall power of supplier over insurance companies is moderate. This implies that all the aspects of the suppliers power are important because the mean is above 3.00. The degree to which all the respondents perceived all the above aspects varies across board as indicated by the standard deviation.

4.4.2 Bargaining Power of Customers/Buyers

Buyers are known to be good in collecting market information on various aspects including prices and quality before buying. They prefer to get high quality products/services at the most favourable prices. Buyers often play competitor against each other in a bid to acquire lower prices. All these are likely to reduce profitability of the company. This study was meant to ascertain effect of the above buyers/customers of the insurance products have on insurance companies.

Respondents were asked to rate selected nine known determinants of buyer/customer power in a bid to shed more light to the varying results of existence of buyer/customer bargaining power. The findings are tabulated in table 4.7.

Table 4.7: Determinant of Buyer/Customer Bargaining Power

Determinants	Mean	Std. Deviation
Buyer information about demand, actual market price	4.76	.435
Buyer switching costs (Low/High)	3.18	1.530
Substitute product/service for buyers product differences	4.00	.000
Product difference	3.70	1.132
Brand Identity	4.03	1.237
Buyer volume (Volume of business)	4.24	.435
Threats of backward integration of buyers and their suppliers	3.70	1.334
Buyer Concentration (Number & Size)	4.21	.857

Source: Research Data (2014)

The research findings in table 4.7 shows that majority of the determinants averagely determine the buyer/customer power in insurance companies. According to the result the determinant Buyer information about demand, actual market price and suppliers cost mean is 4.76, Buyer switching costs (Low/High) 3.18, Substitute product/service for buyers product differences 4.00, Product differences mean 3.70, Brand identity mean 4.03, Buyer volume mean 4.24, Threats of backward integration of buyers and their suppliers, 3.70 and Buyer concentration 4.21. The mean score obtained is greater than 3.00 meaning that all these determinants affects the customers bargaining power, The determinant that scored the highest mean is Buyer information about demand, actual market price and suppliers cost meaning that it is a very important determinant. It was however revealed that respondents were at variance in regard to some determinants like product differences and buyer concentration. Determinants like substitute products, brand identity, and buyer information of competitors' prices drive bargaining power to large extent.

Table 4.8: Aspects of Bargaining power of customer/buyer

Aspects	Mean	Std. Deviation
Overall Bargaining Power of Customers Over insurance company	4.00	.707
Insurance Companies Power Over Buyers	3.27	.839
Effect of Buyer Bargaining Power on Insurance Co. Profitability.	4.48	.508

Source: Research Data (2014)

From table 4.8, the result show that Overall Bargaining Power of Customers Over Insurance Companies scored a mean of 4.00, Insurance Companies Power Over Buyers a mean of 3.27 and Effect of Buyer Bargaining Power on Insurance Companies Profitability a mean of 4.48. From the above findings, it can be concluded that buyers bargaining power exerts a lot of pressure on insurance companies' profitability though insurance companies also have some bargaining power over the buyers.

4.4.3 Threat of New Entrants/Barrier to Entry

Entry barrier checks on the speed and magnitude of entry. Any industry, new entrants create new capacity and jostle for market share. In business, existing companies often react negatively to new entrants hence acting as barriers. However, entry barrier is the major impediment to new entrants. The researcher therefore set to ascertain whether or not insurance industry participants perceive the entry of new firms thereafter their existence.

Table 4.9: Existence of Barriers to Entry

Response	Frequency	Percentage
Yes	21	63.6
No	12	36.4
Total	**33**	**100**

Source: Research Date (2014)

Findings from Table 4.9 above reveals that 63.6% indicated existence of barriers to entry into the insurance industry as opposed to 36.4% who replied to the contrary. Buoyed by the above findings, the researcher advanced to establish the extent to which set of known barriers threaten entry into the insurance industry. The findings are tabulated in Table 4.10

Table 4.10: Entry Barriers

Aspects	Mean	Std. Deviation
Price Wars (Undercutting)	3.21	1.317
High Operating Costs	3.24	1.091
Economies of Scale	3.26	1.091
Government Regulation/Policy	3.48	.508
Expected Retaliation by Competitors	3.97	1.015
Technology	3.73	.839
Capital Requirement	3.23	1.091
Brand Identity	4.00	.707
Product Differences	4.24	.435
Existing Partnerships by Competitors	4.27	.452
Fraud by Lawyers, Employees etc	3.28	.830

Source: Research Data (2014)

Table 4.10 shows that price wars scored a mean of 3.21, high operating cost 3.24, economies of scale 3.26, government regulation policy 3.48, expected retaliation by competitors 3.97, technology 3.73, capital requirement 3.23, brand identity 4.00, product differences 4.24, existing partnerships by competitors 4.27 and fraud by lawyers, employees; 3.28. From the above findings, an average of 3.00 was the benchmark and it was eminent that majority of entry barriers were marked by respondents as above average. They include economies of scale expected, retaliation by competitors, government regulation policy, existing partnerships by competitor, capital requirements and brand identity, price wars, operating costs, product differences and technology. In view of the fact that majority of the barriers to entry into insurance industry are found to be above average, insurance companies already in the industry are not facing such high threats from new entrants. For a new entrant, high barriers means market is not easy to penetrate hence not profitable. It was therefore prudent to establish how the insurance industry in Kenya rate threat by new operators with respect to profit level, pricing, operational capacity, market share and product differentiation. The findings are shown on Table 4.11.

Table 4.11: Extent to which New Operators Affect Existing Insurance Companies.

Aspects	Mean	Std. Deviation
Profit Level	3.24	.830
Pricing of Products and Services	3.48	1.121
Operational Capacity	3.76	1.091
Market Share	3.24	.830
Product Differentiation by Customers	3.97	.728

Source: Research Data (2014)

From the result above, profit level scored a mean of 3.24, pricing of products and services 3.48, operational capacity 3.76, market share 3.24 and product differentiations 3.97. It is evident that the new companies averagely (3.00) affect existing companies but at different degrees. Product differentiation is the leading force followed by Operational capacity, Pricing of product and services, and lastly Profit level and Market share. The researcher also sought to establish extent to which New entrants are a threat to companies' profitability. The findings are as shown in the Table 4.12

Table 4.12: Extent to which new Entrants are a threat to Companies' Profitability

Response	Frequency	Percentage
Very Low	0	0
Fairly Low	9	27.3
Average	12	36.3
Fairy High	6	18.2
Very high	6	18.2
TOTAL	**33**	**100**

Source: Research Data (2014)

From the above Table 4.12, respondents who felt that the threat of new entrants is very low, fairly low and average are 0%, 27.3% respectively totalling to 27.3%. It is therefore evident that majority of insurance companies do perceive threat by new entrants as a very serious threat. Those who rated it as fairly high average and high are 18.2% and 36.3% a totalling 72.7%. These are substantial portions of respondents and help to strengthen the fact that threat of new entrants is still a force to reckon with in the insurance industry.

In general, it can be concluded that threat of entrants contributes to shaping competition in the Kenyan Insurance Industry. Overall assessment of factors which are key in driving new companies to enter the Kenyan insurance industry was carried out and findings were as follows:

Table 4.13: Factors Driving New Companies to enter Insurance Industry

Driving Factor	**Frequency**	**Percentage**
Affordable Capital outlay	15	45.45
Industry Growth	21	63.64
Low Competition Levels	0	0
Minimum Regulatory Requirements	9	27.27
High Profitability in the Sector	21	63.64
Affordable Technical Requirements	12	36.36
Availability of Affordable Manpower	12	36.36

Source: Research Data (2014)

From the above findings, major driving forces are industry growth and high profitability in the sector at 63.64% each. Low competition levels does not motivate entry, while minimum regulatory requirements, availability of affordable manpower and affordable technical requirements are least drivers at 27.27% 36.36% respectively.

4.4.4 Threat of Substitutes

Availability of substitute products affect pricing and consumers' often find themselves moving from one product to another if both products certify same need. The researcher intended to determine the extent to which threat of substitute products affect the Kenyan insurance companies' profitability.

Table 4.14: Threat of Substitutes Effect on Insurance Companies' Profitability

Response	**Frequency**	**Percentage**
Negligence	0	0
Low	6	18.2
Moderate	15	45.4
High	6	18.2
Very High	6	18.2
TOTAL	**33**	**100**

Source: Research Data (2014)

From Table 4.14 above, it is evident that majority 45.4% of respondents felt that threat of substitutes affect their profitability to a moderate level while 36.45 feel that it is either high or very high. Those who feel that the effect of threat of substitute on their profitability is negligible and low accounts for 18.2% only meaning substitutes affects profits only to small extent. This is a proof that threat of new substitutes is a force to reckon with in terms of shaping competition in insurance industry albeit not very strong. With the above findings in mind, the study also intended to establish the extent to which selected known determinants of threat of substitutes contribute to the strength of power of substitutes.

Table 4.15: Determinants of Threat of Substitutes

Determinants	Mean	Std. Deviation
Relative Quality to Substitute	3.76	.839
Buyer Propensity To Substitutes	3.73	.452
Relative Price of Substitutes	3.97	.728
Switching Costs By Buyers	3.24	.452
Ready Availability Of Substitutes and Emergent new one	3.70	.830

Source: Research Data (2014)

Table 4.15 shows that relative quality to substitute scored a mean of 3.76, buyer propensity to substitute 3.73, relative price of substitute 3.97, switching cost by buyers 3.24 and Ready Availability of Substitutes and Emergent of New Ones mean of 3.70. From the above Table, it can be established that relative price of substitutes is a major determinant of threat of substitutes. Ready availability of substitutes and emergent of new ones shows average strength. Switching cost seems to be a low determinant. In general, all the above determinants are responsible in determining threat of substitute but at varying degrees as indicated by the standard deviation

The researcher went further to establish the extent to which substitutes affect insurance companies' profitability. The findings are as shown in table 4.16.

Table 4.16: Extent of the Effect of Substitutes on Insurance Companies' profitability

Response	**Frequency**	**Percentage**
Negligence	0	0
Low	6	18.2
Moderate	21	63.6
High	3	9.1
Very High	30	9.1
TOTAL	**33**	**100**

Source: Research Data (2014)

From the above findings, 18.2% of the respondents feel the effect is high and very high, 63.6% feels the effect is moderate. It is therefore clear that substitutes have effect on insurance companies' profitability.

4.4.5 Degree of Rivalry Among Existing Firms

Industries become more or less attractive overtime and competitive positions reflect a sustained war among competitors. The choice of competitive strategy depends on attractiveness of the industry and factors which determine it. Rivalry sets in automatically as each company in the industry jostles for a share of the market within the industry. Different companies see different opportunities at different times hence scramble for a superior competitive position. Major tools used in the scramble are price competition, customer service, product differentiation, promotions and innovations. The study is intended to establish the degree of rivalry in Kenya and also the strength of such rivalry in determining industry attractiveness. Selected determinants were paused to the respondents who were asked to rate them on basis of extent to which they determine competition. The results were as shown on Table 4.17

Table 4.17: Determinants of Rivalry

Determinants	Mean	Std. Deviation
Switching Costs	3.27	.839
Industry Growth	3.76	1.091
Number and Size of Firms	3.67	1.708
Exit Barriers	3.48	.508
Product Differentiation	3.49	.870
Prices	4.27	.839
Excess Capacity	3.21	1.111

Source: Research Data (2014)

From the above Table 4.17, it is indicative that the following rivalry determinants exert more pressure and therefore strong determinants than others. Switching cost scored a mean of 3.27, Industry growth 3.76, Number and size of firm 3.67, Exit barriers 3.48, Product differentiation 3.49, Prices 4.27 and Excess capacity 3.21. This implies that rivalry too exerts pressure in the insurance industries activities as evidenced by the fact that the mean results is over and above 3.00. Though all the determinants were found to be active, Prices with a mean of 4.27 is the strongest determinant followed by industry growth at 3.76 and Number and size of firms at 3.67. The rest were above average with Excess capacity as the least determinant with 3.21. The respondents were also asked to rate the intensity of competition in the insurance industry and the following research findings in table 18 were obtained.

Table 4.18: Intensity of Competition in the Insurance Industry

Response	Frequency	Percentage
Negligence	0	0
Low	0	0
Moderate	3	9.1
High	9	27.3
Very High	21	63.6
TOTAL	**33**	**100**

Source: Research Data (2014)

From the findings recorded in Table 4.18 above, none of the respondents acknowledged Intensity of competition in the insurance industry either to be negligible or low. 9.1% of the respondents indicated moderate, 27.3% high and 63.6% to be very high. It can be concluded that majority (High and very high 90.9%) recognizes that Intensity of competition in insurance industry is not merely a competitive force but very fierce.

To establish the extent to which competitive rivalry in insurance industry affects companies profitability, respondents were requested to indicate from a scale of 1 to 5 and results were as indicated in Table 4.19

Table 4.19: Extent of the Effect of Competition on Companies' Profitability

Response	Frequency	Percentage
Negligence	0	0
Low	0	0
Moderate	15	45.4
High	6	18.2
Very High	12	36.4
TOTAL	**33**	**100**

Source: Research Data (2014)

The research outcome is clear that overall, Competition in insurance industry largely affect companies' profitability. A total of 54.6% felt that the effect is between high and very high; an indication of serious impact of competition on profits. Though there is remarkable variation of extent on the strength of the effect, the actual effect on the profit is quite significant.

When the respondents were asked to briefly explain in what other way rivalry in the industry influence performance, they gave various reasons including undercutting of rates, and when asked for recommendations to make insurance industry more attractive, respondents gave various reasons like competition on service delivery not on price, product development, training of insurance personnel and strict adherence to the rule of law.

4.4.6 Politics/Government/Power of other Stakeholders

Politics, Government policies and other stakeholders plays big role in the industry and forms the modification in the porters' five forces model hence referred to as the sixth force. While government enact rules and regulations for insurance industry, other stakeholders like trade unions and lobby groups exert pressure on insurance companies. Information technology is very detrimental in shaping the industry destiny and politics of the day dictates a lot on how insurance companies conduct their business. In order to gauge susceptibility of insurance companies to other stakeholders, the researcher sought to know how many insurance companies have their staff as members of trade unions and results were as in the tables below.

Table 4.20: Effects of Politics of the Day

Response	Frequency	Percentage
Yes	27	81.8
No	6	18.2
Total	**33**	**100**

Source: Research Data (2014)

From the above table, it is clear that politics highly affect insurance companies as 81.8% of respondents attested to this.

Table 4.21: Whether Government has impact on Insurance Companies

Response	Frequency	Percentage
Yes	30	90.9
No	3	9.1
Total	**33**	**100**

Source: Research Data (2014)

From table 4.21, 90.9% of the respondents feel that government has an impact on insurance companies' operations in Kenya while in Table 22, 90.1% of the respondents confirms that the government impact is both positive and negative. The above findings is a clear testimony that the sixth force in the modified porters' five forces model has impact in shaping the competitive position of insurance industry

Table 4.22: Nature of Impact of Government/ Politics on Insurance companies.

Response	Frequency	Percentage
Positive	0	0
Negative	3	9.1
Both Negative & Positive	30	90.1
Total	**33**	**100**

Source: Research Data (2014)

Table 4.23 Membership to Trade Union

Response	Frequency	Percentage
Yes	3	9.1
No	30	90.9
Total	**33**	**100**

Source: Research Date (2014)

From the above findings, it is evident that majority (90.9%) of the respondents do not subscribe to trade unions and only 9.1% do. This could be due to deterrent company policies or general fair treatment to the extent that staff do not perceive viability of unionism. The research further intended to establish the extent to which the above stakeholders affect operation of insurance companies in Kenya. The findings are as shown in table 4.24.

Table 4.24: Extent of Extent of Politics/Government/Other Stakeholders

Factors	Mean	Std. Deviation
Effect of Trade Union Movement in Company's Performance	3.03	1.661
Effect of Politics of the Day in Company's Performance	3.52	.728
Effect of Government Policies on Profit	3.76	.435

Source: Research Data (2014)

From table 4.24 the results show that Effect of Trade Union Movement in Company's Performance scored a mean of 3.03, Effect of Politics of the day in Company's Performance a mean of 3.52 and Effect of Government Policies on Profit a mean of 3.76. This implies that politics/government/other stakeholders to some extent have effects in the insurance industries' activities

Table 4.25: Strengths of the six forces of the modified Porters' model

Force	Mean	Rank
Bargaining Power of customers	3.98	1
Bargaining power of suppliers	3.88	2
Threats to substitute	3.68	3
Threats of new entry	3.63	4
Competitive Rivalry	3.59	5
Politics/Government/Other stakeholders	3.44	6

Source: Research Data (2014)

Table 4.25 shows that Bargaining power of customers exert more pressure in the insurance industry with mean of 3.98, followed by Bargaining power of Suppliers with mean of 3.88, Threat of substitute 3.68 mean, Barrier to entry 3.63 mean, Competitive rivalry 3.59 while Politics/Government/Others had the least mean of

3.44. This implies that customers still have the strongest powers in influencing the Insurance industry and should therefore be treated with great care.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMEDATIONS

5.1 Introduction

The prime objective of the study was to apply the modified porters five forces in assessing attractiveness of insurance industry in Kenya. This chapter mainly summarizes the findings, draws conclusions, highlights limitations of the study and makes viable recommendations as guided by the research findings. Data was collected by use of structured questionnaire which was developed in line with objectives of the study. A programme Statistics for Practice of Social and Science (SPSS) was used to produce the results. Analysis and presentations were done using frequencies, percentages, mean scores and standard deviation which were found to be suitable for the type of analysis required.

5.2 Summary

Industry can be described to be attractive based on various factors but majorly on profit margins. The business world will only venture into an industry after thorough scrutiny of level of industry attractiveness. However, the porters five forces model, which the study adopted, with modifications as the sixth force, have been a viable strategic framework by which attempt is made to predict how an industry behaves, grows and responds within a competitive environment. The forces include Threat of substitute product or service, Threat of new entrants, Rivalry among existing firms, Bargaining powers of suppliers, Bargaining power of buyers, Government and Others. The research findings were varied for each force but also with a lot of similarity in trends.

Results showed that Politics/Government was a minimal force with a mean of 3.44, Industry rivalry 3.59, Barrier to entry 3.63, Threat of substitutes 3.68, bargaining power of suppliers 3.88, and finally bargaining power of buyers 3.98. From the above results, it is evident that all the forces are above average (3.00) and therefore plays a great role in influencing competition in the industry.

Presence of Substitute Suppliers Scored a mean of 4.24, Supplier concentration 3.73, impact of supplier on cost 3.97, supplier difference 3.48 and Importance of Volume of business to the suppliers mean of 3.97 On the determinants, presence of substitute suppliers rank high as determinant with a total of 90.9% of respondents falling on average and above. Determinants like suppliers concentration impact of suppliers on cost and importance of volume of business stand out to be fairly strong determinants with over 50% of respondents. However, impact of supplier differences as a determinant is average with up to 72%. In overall, power of suppliers over insurance companies is revealed to be average with 63.6% of the respondents. Findings on bargaining power of customers/buyers revealed that in overall, buyers of insurance products hold a lot of powers over the insurance companies with 36% acknowledging that its high and 45.4% as fairly high. For power of insurance companies over their customers, the scale oscillates on the reverse with a whopping 63.6% of respondents choosing between fairly low and average.

The above finding sends a strong message to product development managers who must consider the feeling of customers before producing, packing, pricing and finally selling. On effect on profitability, effect of customers is manifested at varying levels with 45.4% of respondents saying its high and 36.4% feeling that its fairly high. Here, customers came out to be the reigning king. Regarding determinants of buyers bargaining powers, all are fairly high, a clear indication that all substantially determine the customer bargaining power. Determinants like buyer volume, buyer information about actual market price and substitute product are so strong that every strategist needs to greatly consider them when formulating competitive market strategies.

Findings regarding threat of new entrants/barrier to entry had a different outcome with that of buyers powers. Here distribution of respondents is fairly even. The determinant factors are fairly average with exception of the likes of capital requirement, government regulation and brand identity to be fairly high. On the effect of new entrants on existing companies, the finding reveal that the effect is average. This means that new entrants do not pose such a strong threat to the existing industry players. Industry growth and high profitability were found to be the leading entry drives followed by affordable capital and availability of affordable manpower.

However, majority of entry barriers presented for studies were found to be strong; like government regulations. Threat of substitutes was studied and findings revealed that 45.4% of the respondents felt that the effect on companies' profitability is moderate while 18.2% felt is was very high. It could therefore be concluded that substitutes has averagely moderate effect on companies profit. Major determinants of threat of substitutes were listed and respondents gave general verdict. All the factors are determinant of threat of substitute but some factors like relative quality of substitute, relative price and ready availability of substitutes are strong determinants. From the research findings, it was revealed that substitutes have moderate effect (63.6%) on companies profitability. In general, threat of substitutes is a contending competitive force in the insurance industry with potential to shape competitive strategy of the industry players

Study on rivalry among existing firms revealed that all determinants of rivalry are neither low of high motivators but moderate. This means that competition in insurance is not a fierce cut throat as people would believe, players are not on a strong serious competitive war. However, determinants like prices, industry growth and number and size of firms exert more pressure as motivators of competitive rivalry. But respondents indicated the above with a lot f variance. Competitive rivalry was also found to negatively impact on insurance companies' profitability with up to 36.4% of respondents acknowledging it is very high. When respondents were asked to gauge the intensity of competition in the insurance industry, 63.6% felt it is very high and 27.3% felt it is high with only 9.1 feeling its average. This over-shadows the revelation by determinants. In general therefore, competition intensity in Kenya insurance industry is quite high and mainly fought on the basis of price.

The sixth force under the study is a category of factors which are sometimes referred to as others. These include government, politics and power of other stake holders. Effect of government policies highly affect operations of insurance companies with up to 54.5% of respondents feeling the effect is high. This is felt through taxation, fixing of premium rates, burning of night travels for public service vehicles and lack of supervisory muscle and will to tame errand companies. Trade unionism was observed to have minimal effects on insurance operations but effects of politics of the day was recognized by majority of respondents, 90.1% of the respondents felt the impact is both positive and negative. Political influence was felt by 81.8% of the respondents with only 18.2% feeling free of political influence.

5.3 Conclusion

From the findings of the study, it was concluded that the insurance industry in Kenya is growing and looks vibrant as perceived externally. However, from the internal perceptive, the vibrancy and growth is dwarfed by the so many players with fierce competition mainly based on pricing and lately product differentiation. However, new entrants may not find it quite attractive due to strong internal competitive rivalry.

Government policies, politics of the day and pressure from other stakeholders affect insurance industry at varied degrees. Effect of stakeholders like trade unions have mild effect while government policies and politics highly affect operations of Kenyan insurance companies.

The determinants factors were meant to ascertain the extent to which a force has an effect in shaping the competitive position of a company. It was found that most of the determinants were moderate with a lot of variations. This means that respondents had varied perception on determinants.

5.4 Limitations

The study faced limitations of various degrees and impact. First, the respondents were chief executive officers and data was collected in the month of September and October. It was as if fate conspired against the study as many of respondents were found to be out of Nairobi on strategic meetings. Some simply felt that they did not have time while others were in delegating to their deputies to handle. There was also problem of time allocated for research. This became prominent because some respondents were not co-operative. Costs was another hindrance as the data was to be collected in Nairobi where all the chief executive officers are found. The researcher together with assistants had to shift base and lodge in Nairobi for the period.

5.5 Recommendation

This study could probably be different if the target respondents were strategic or business development managers. These group are mostly young, aggressive and hands on specialization in market analysis unlike the chief executive offices who may be of older generation with a laid back attitude. Most of them will find questionnaires to be mind boggling.

Linkert scale has some weaknesses, other researches could be done using other tools. Insurance Regulatory Authority (IRA) should not only enact rules and regulations but must also ensure strict enforcement of the same. Insurance playing ground do not seem to be levelled.

Insurance practitioners should move towards 'Blue Ocean' principle and avoid competition on price (premium rate). Instead of so many insurance companies for a small economy like Kenya, the government should encourage mergers and also enact favourable fiscal and monetary policies to protect and safeguard the industry.

Innovation, information technology and professional training should be upheld in the industry.

5.6 Suggestion for Policy and Practices

The Government should legislate laws to seal loop holes being exploited by the unscrupulous public to fleece insurance companies. There should be structured compensation index depending on extent of injury and at what part of the body, not to leave it at the whims of the bar and the bench. Besides Work Injury Benefits and Motor Third Party Insurance which are compulsory, more other critical classes like trade risks insurance should be made compulsory to ensure business security and boost penetration which is now at a paltry 3.4%

5.7 Suggestion for further Studies

The study recommends that further research should be done on the Modified Porter's five forces model so as to assess attractiveness of insurance industry in East and Central African region given that regionalization is the way to go

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APPENDICES

Appendix 1 LIST OF INSURANCE COMPANIES

1. AAR INSURANCE KENYA LTD
2. AFRICAN MERCHANTS ASSURANCE LTD
3. AIG KENYA INSURANCE COMPANY LTD
4. APA COMPANY INSURANCE LTD
5. APOLLO LIFE INSURANCE LTD
6. BRITISH AMERICA INSURANCE COMPANY LTD
7. CANNON ASSURANCE COMPANY LTD
8. CARPEX LIFE ASSURANCE COMPANY LTD
9. CFC LIFE ASSURANCE LTD
10. CFC GENERAL INSURANCE COMPANY LTD
11. CFC LIFE INSURANCE COMPANY LTD
12. CORPORATE INSURANCE COMPANY LTD
13. DIRECTLINE ASSURANCE COMPANY LTD
14. FIDELITY SHIELD INSURANCE COMPANY LTD
15. FIRST ASSURANCE COMPANY LTD
16. GA INSURANCE COMPANY LTD
17. GATEWAY INSURANCE COMPANY LTD
18. GEMINIA INSURANCE COMPANY LTD
19. HERITAGE INSURANCE COMPANY LTD
20. ICEA LION GENERAL INSURANCE COMPANY LTD
21. ICEA LIFE ASSURANCE COMPANY LTD
22. INTRA AFRICA ASSURANCE COMPANY LTD
23. INVESCO ASSURANCE COMPANY LTD
24. JUBILEE INSURANCE COMPANY LTD
25. KENNINDIA ASSURANCE COMPANY LTD
26. KENYA ORIENT INSURANCE COMPANY LTD
27. KENYA ALLIANCE INSURANCE COMPANY LTD
28. MADISION INSURANCE COMPANY LTD
29. MAYFAIR INSURANCE COMPANY LTD
30. MERCHANTILE INSURANCE COMPANY LTD
31. METROPOLITAN LIFE ASSURANCE COMPANY LTD
32. MONARCH INSURANCE COMPANY LTD
33. OCCIDENTAL INSURANCE COMPANY LTD
34. OLD MUTUALLIFE INSURANCE COMPANY LTD
35. PACIS INSURANCE COMPANY LTD
36. PAN AFRICAN LIFE ASSURANCE COMPANY LTD
37. PHOENEX OF E A ASSURANCE COMPANY LTD
38. PIONEER LIFE ASSURANCE COMPANY LTD
39. REAL INSURANCE COMPANY LTD
40. RESOLUTION INSURANCE COMPANY LTD

41. SHIELD ASSURANCE COMPANY LTD
42. TAKATUI INSURANCE OF AFRICA LTD
43. TAUSI ASSURANCE COMPANY LTD
44. TRIDENT INSURANCE COMPANY LTD
45. UAP INSURANCE COMPANY LTD
46. UAP LIFE ASSURANCE COMPANY LTD
47. XPLICO INSURANCE COMPANY LTD

Appendix 11 – QUESTIONAIRE FOR BUSINESS EXECUTIVES.

I am a MBA Strategic Management student at the University of Nairobi. I have witnessed collapse of many insurance firms and experienced the dynamics of the industry. As part of the requirements for my project work I would wish to assess the attractiveness of the insurance industry in Kenya by applying the Porters modified Five Forces Model. This questionnaire is therefore purposely meant to gather the relevant data for this noble goal.

Kindly assist by participating in answering the questions. The Information collected will strictly be used for academic purposes only

Thank you in advance for your time and co-operation.

Regards,
Shariff Nhaaman.

QUESTIONAIRE

SECTION A – BACKGROUND INFORMATION

1. Name of the firm ---
2. Year of incorporation ---
3. What is the ownership of the Company?
   a). Locally owned [ ]
   b). Foreign owned [ ]
   c). Both locally and foreign owned [ ]

4. What are the Products and/or services offered?

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5. What is the number of years in operation?
   a). 1 – 5 years [ ]
   b). 6 – 10 years [ ]
   c). 11 – 15 years [ ]
   d). 16 – 20 years [ ]
   e). Over 20 years [ ]

SECTION B: INFORMATION ON PORTER'S MODIFIED FIVE FORCES MODEL

Part 1:- Bargaining Power of Suppliers

Suppliers are those who render services or supply products which enable your company to operate e.g. Information Technology software venders, stationery suppliers etc

6. Do suppliers have any power over your company?
   a). Yes [ ]
   b). No [ ]

7. What is your rating on the importance/significance of suppliers towards the operational performance of your company?

a). Very High [ ]

b). Fairly High [ ]

c). Average [ ]

d). Fairly Low [ ]

e). Very Low [ ]

8. How would you rate your power over your suppliers?

a). Negligible [ ]

b). Low [ ]

c). Moderate [ ]

d). High [ ]

e). Very High [ ]

9. To what extent does supplier bargaining power have an effect in your organization's profitability?

a). Not at all [ ]

b). Less extent [ ]

c). Moderate extent [ ]

d). Large extent [ ]

e). Very large extent [ ]

10. The following factors are major determinants of suppliers power. Rate them on what extent you feel the factors determine suppliers power over you

		Not at all	Less extent	Moderate extent	Large extent	Very large extent
a.	Presence of substitute suppliers					
b.	Supplier concentration (No. and size)					
c.	Impact of supplies on cost (Low/high)					
d.	Supplier differences					
e.	Importance of volume of business to the supplier					

11. Overall, how would you rate the power of suppliers over your company?

a). Negligible [ ]
b). Low [ ]
c). Moderate [ ]
d). High [ ]
e). Very High [ ]

Part 2:- Bargaining Power of Customers

12. How would you rate the overall bargaining power of your customers/buyers/client?

a). Negligible [ ]
b). Low [ ]
c). Moderate [ ]
d). High [ ]
e). Very High [ ]

13. How would you rate your power over the Customers/buyers/clients of your Company?

a). Negligible [ ]

b). Low [ ]

c). Moderate [ ]

d). High [ ]

e). Very High [ ]

14. Do you think the buyer bargaining power affects your company's profit

a). Yes [ ]

b). No [ ]

15. If yes in No.19 above then to what extent?

a). Less extent [ ]

b). Moderate extent [ ]

c). Large extent [ ]

d). Very large extent [ ]

16.. The following are the major determinants of buyers'/customers' bargaining power. How would you rate the extent they determine the buyers power.

		Negligible	Low	Moderate	High	Very High
a.	Buyer information about demand, actual market price and suppliers cost					
b.	Buyer switching costs (Low/High)					
c.	Substitute products/services for buyers					
d.	Product differences					
e.	Brand identity					
f.	Buyer volume (volume of business)					
g.	Threat of backward integration of buyers and their suppliers					
h.	Buyer concentration (Number and size)					

17. How would you rate your power over the customers/buyers/clients?

a). Negligible [ ]
b). Low [ ]
c). Moderate [ ]
d). High [ ]
e). Very High [ ]

Part 3:-Threat of New Entrants/Barrier to Entry

18.How would you categorize the extent to which the entry of new operators in the insurance business has affected your firm in regard to the following aspects

		Very High	Fairly High	Average	Fairly Low	Very Low
a.	Profit Level					
b.	Pricing of your products and Services					
c.	Operational capacity					
d.	Market share					
e.	Product differentiation by customers					

19. Key drivers to entry are those factors facilitating ease of entry of firms in to the insurance industry. Which of the following factors will you consider as key drivers to entry of new players in insurance industry in Kenya? (Tick those that apply)

a). Affordable capital outlay [ ]
b). Industry growth [ ]
c). Low competition levels [ ]
d). Minimum regulatory requirements [ ]
e). High profitability in the sector [ ]
f). Affordable technological requirements [ ]
g). Availability of affordable manpower [ ]

20. Do you think there are obstacles in Kenya preventing potential investors to enter insurance industry?

a). Yes [ ]
b). No [ ]

21. How would you rate the following aspects as being barriers to entry into the insurance industry in Kenya?

		Very High	High	Moderate	Low	Negligible
a.	Price wars (Undercutting)					
b.	High operating costs					
c.	Economies of scale (benefits of long experience)					
d.	Government regulation/policy					
e.	Expected retaliation by competitors					
f.	Technology					
g.	Capital requirement					
h.	Brand identity					
i.	Product differences					
j.	Existing partnerships by competitors					
k.	Fraud by lawyers, employees etc					

22. To what extent would you say the new entrants are a threat to your company's profitability? (Tick as appropriate)

a). Not at all [ ]
b). Less extent [ ]
c). Moderate extent [ ]
d). Large extent [ ]
e). Very large extent [ ]

23. What is your overall assessment of the entry obstacles in the insurance industry in Kenya?

a). Very weak [ ]

b). Weak [ ]

c). Moderate [ ]

d). Strong [ ]

e). Very Strong [ ]

Part 4:- Threat of Substitutes

24. To what extent do substitute products have an effect in your organization's profitability?

a). Not at all [ ]

b). Less extent [ ]

c). Moderate extent [ ]

d). Large extent [ ]

e). Very large extent [ ]

25. How would you rate the following factors as determinants of substitute threat?

		Negligible	Low	Moderate	High	Very High
a.	Relative quality of substitutes					
b.	Buyer propensity to substitutes					
c.	Relative price of substitutes					
d.	Switching costs by buyers					
e.	Ready availability of substitutes and emergent of new ones					

Part 5: – Competitive Rivalry in the Industry

26. How many companies does your company compete within the industry?-------
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27. How would you rate the intensity of competition in the insurance industry?

a). Negligible [ ]

b). Low [ ]

c). Moderate [ ]

d). High [ ]

e). Very High [ ]

28. To what extent does competition have an effect in your organization's profitability?

a). Not at all [ ]

b). Less extent [ ]

c). Moderate extent [ ]

d). Large extent [ ]

e). Very large extent [ ]

29. The following are the major determinants of competition in the industry? Please rate them based on the level you feel they determine competition;

		Negligible	Low	Moderate	High	Very High
a.	Switching costs					
b.	Industry growth					
c.	Number and size of firms					
d.	Exit barriers					
e.	Product differentiation					
f.	Prices					
g.	Excess capacity					

30. In what other ways does competitive rivalry in the industry influence performance/growth of your firm?(Briefly explain) --------------------------------
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31. What recommendations would you give to the insurance industry to make it more attractive? ---
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Part 6:– Politics/Government/Power of other stakeholder

32. Does your company staff subscribe to any trade unions?

a). Yes [ ]

b). No [ ]

33. How would you rate effects of trade union movement on your company's performance?

a). No effect [ ]

b). Little effect [ ]

c). Moderate effect [ ]

d). Large effect [ ]

e). Very Large effect [ ]

34. Does politics of the day affect your company's performance?

a). Yes [ ]

b). No [ ]

35. If yes in 34 above then to what extent?

a). No effect [ ]

b). Less extent [ ]

c). Moderate extent [ ]

d). Large extent [ ]

e). Very Large extent [ ]

36. Does government policies have impact on your company's operations

a). Yes [ ]

b). No [ ]

37. If yes in 36 above then what is the nature of impact?

a). Positive [ ]

b). Negative [ ]

c). Both positive and negative [ ]

38. To what extent do you think the government's policies effect profit of your company?

a). No effect [ ]

b). Less extent [ ]

c). Moderate extent [ ]

d). Large extent [ ]

e). Very Large extent [ ]

39. Which aspects of government's regulatory & supervisory roles affect your company's profitability or operations? ---

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40. What recommendations would you make to the government of Kenya in regard to improving the insurance industry? ---------------------------------------

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Thank you very much for your time and Patience. Be blessed

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