

**COMPETITIVE STRATEGIES AND EFFECTIVENESS OF LIFE
INSURANCE COMPANIES IN KENYA**

BY

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DECLARATION

I declare that the contents of this project is purely my work and has not been presented to any institution for examination/academic credit.

Signed: _____ Date: _____

George Matheka

D61/85873/2016

This research project has been forwarded with the approval of my university supervisor

Signed: _____ Date: _____

Dr. J. Kagwe

DEDICATION

This project dedication goes to God whose favor has seen me through the entire process.

Special dedication goes to all who have made it possible due to their never-ending source of hope and support this would have not come to fruition.

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ABBREVIATIONS AND ACRONYMS

AKI	Association of Kenya Insurers
IRA	Insurance Regulatory Authority
R&D	Research and Development
RBV	Resource Based View

ABSTRACT

Insurance uptake within Kenya is quite lethargic hence it presents the industry with valuable prospect as a significant population does not have insurance cover. Utilization of insurance products is vastly led by Non-life insurance covers such as medical, vehicle and recently introduced marine. The goal of the study is to determine the effectiveness of competitive strategies on life insurance companies in Kenya. The study was anchored on three theories which includes Michael Porters competitive forces model, the resource based view and the competence based strategy theory. Descriptive cross sectional research design was used in this study. This target population was 49 insurance companies in Kenya. Primary data was employed in this study. Structured questionnaires were used to collect primary data using the Likert Scale. The primary data collected by the questionnaire was coded and entered into SPSS. Descriptive statistics in form of frequencies and percentages was used to analyze the descriptive elements of the study. Correlations and regression analysis was calculated to draw inferences to the entire population. Regression of coefficients results affirmed that focus strategy, differentiation strategy and cost leadership strategy positively influences effectiveness of life insurance companies. Based on the findings of the study, the conclusion drawn is that the aforementioned strategies significantly impact on effectiveness of life insurance companies positively.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The basis of any good strategy lies in the actions taken by management to improve company effectiveness, solidify their competitive position in the long term and be better than competitors (Peder & Richard, 2013). Competitive strategy forms the basis by which a firm can achieve competitive advantage in its industry (Aykan & Aksoylu, 2013). In order to attain the above average effectiveness, a firm must seek to have a competitive edge. This is because if buyers prefer the company's products more, their sales volume will be increased and so will the ability to command higher prices increase. The results will be higher earnings, greater return on investments and other financial performance indicators (Chronicle, 2015).

According to Michael Porter, the nature and extent of competition in the industry is determined by five factors: the threat of new entries in the industry, bargaining power of buyers, threat of substitute products, jockeying among current contestants and bargaining power of suppliers (Porter, 1985). The theory is relevant to this study as it explains ways through which industries become competitive and thus help managers in developing competitive strategies. The competence based strategy theory is anchored on structure-conduct-performance of industrial organization economics. This paradigm reflects more on a firm's competitiveness in a given industry which is dependent on its attributes (Prescott, 2011). The resource based view argues that, the uniqueness of resources held by a firm is a great determinant of the firm's competitiveness.

The business environment in Kenya has been very dynamic and aspects of this dynamism include: increased competition, globalization, increased implementation of economic Government reforms, price decontrols and liberalization of both foreign and domestic markets and privatization and commercialization of public sector (Ayele, 2012). All these have made it necessary for organizations to adjust their operations in order to fit within the environment. The insurance industry in Kenya has been rocked by various challenges brought about by globalization, the major one being stiff competition in the industry. In the last few years the insurance industry has witnessed the emergence of new entrants which increases competition in an already competitive industry (Kamau & Waudu, 2016).

1.1.1 Competitive Strategies

According to McCarthy (2011), a strategy is a plan used by an organization in meeting its long term objectives through efficient and effective use of the available resources in the present changing business environment. Strategy is a fundamental concept in strategic management (Nagle & Holden,2012). Competitive strategy is described as the manner in which a firm competes in a specific field of business. It's the way in which a company can distinctively gain a competitive edge over other companies (Aaker, 2011). It is very necessary for a company to have a competitive edge in the market but this should be sustainable. Wadongo et al., (2010) notes that competitive strategy is the process by which firms strive to attract new customers, fight off competitive pressures and solidify their market position. It is the approach taken by firms to remain competitive.

Porter (1998) postulated three competitive strategies which includes cost leadership, focus and differentiation. Under cost leadership strategy, the firm seeks to produce its commodities using the least cost in the industry (Porter, 1998). The strategic perspective of cost leadership requires a firm be the cost leader, not one of the many firms seeking for the position. The differentiation strategy needs a firm to be peculiar in the industry and seek the most valued customer traits (Porter, 1998). It picks the most valued customer attributes that are considered vital and uniquely positions it to meet them. In focus strategy, Porter (1998) states it's a strategy that rest on the decision of a narrow the firm's competitive scope. The business chooses particular segments in the industry and comes up with strategies of serving while excluding others.

The emergence of game theory which discusses competition in a market came about as a criticism of Porter's model that had limitations in trying to explain the generic interactions among organizations (Hansen, et al., 2015). According to Game theory, strategic competition is the relation amongst players in which the actions of one player depends on the actual or predicted actions of the rest of the players. Game theory is beneficial to strategy in that it emphasizes broader thinking, looking for alternatives and awaiting the reactions of other game players (Shinkle, Kriauciunas& Hundley, 2013).

Buckley, Prescott and Pass (1998) formulated competitiveness' framework that constitutes three segments: the first component was competitiveness performance

followed by the competitiveness potential while the third is the management process. Competitiveness entails combining both the created and inherent assets and describing the processes facilitate the transformation of assets into economic outcomes. Bartlett and Ghoshal, (1989) argue that many approaches to firm competitiveness however exist. These are the competency approach which examines the firm's internal factors (the firm's capability to innovate, firm strategy and structure) and other intangible and tangible resources. If a firm is cost effective, operationally efficient and lays great emphasize on quality, then more valuable goods will be delivered to its customers which increases the firm's competitiveness (Hammer & Champy, 1993). The current study will use differentiation, cost-leadership and focus as the indicators of competitive strategies.

1.1.2 Firm Effectiveness

According to Richard, Yip, Johnson and Devinne (2009), firm effectiveness is organization's capacity to achieve its main goal through sound administration, solid governing, and tireless rededication to attainment of results. Thompson, Friedlander and Pckle (1968), consider effectiveness as a theme that continuously happens in paradigm of management. The initiative of firm effectiveness enables the organization to adjust to increased levels of uncertainty which hinder the attainment of its mission. This initiative seeks to help each organization in every sector of the economy, businesses, charitable organizations and government. The most notable aspects that can be used to gauge the effectiveness of an organization are the outputs and their effects (Valmohammadi & Servati, 2011).

No consensus has been reached on the best or even the most sufficient measure of firm effectiveness. This is because, there are many varied views of what desirable outcome of organizational effectiveness and because effectiveness is often identified by the theory and the aim of the study being carried out purposes. Performance measurement focuses on the internal processes to determine the effectiveness and efficiency of an action with a given set of metrics. Effectiveness measurement indicators act as proxies for organizational aspects (Henri, 2003).

Some use financial measures as a criterion to judge the success or fail of a decision or action. According to Richard et al., (2009), the efficiency of an organization encompasses three specific firm outcome areas: product market performance ,

shareholder return and financial performance. There are, however, challenges in using these measures; for starters most managers are unwilling to allow researchers access their financial records, most studies that are available rely on perceived results rather than actual results. Another challenge to using financial measures include is the constantly changing environments that make it more challenging to compare savings many years after outsourcing a contract against inside operations costs that had been earlier discontinued (Bryce & Useem, 1998). In this study, firm effectiveness will be measured by total profits realized, number of clients and cost reduction.

1.1.3 Insurance Industry in Kenya

Insurance is the creation of a pool of funds by policyholders with the aim of indemnifying them from unforeseen risks. It works on the principal that the losses of the few are paid by many. Its main intention is to mitigate the policy holder against financial loss that might arise due to unforeseen risks and thus giving peace of mind to the policyholders. Life insurance is also a way of creating an immediate estate for ones dependents'. Insurance companies are financial institutions that function in the economy as part of the financial service industry. The financial services industry is made up of insurance companies, building societies, insurance brokers, pension funds, fund management companies, stock brokers, real estate companies, savings and credit societies etc. it has important effect on the customer retention of Kenya's economy contributing approximately 11% of the Gross Domestic Product (GDP) with insurance contributing 3% to the GDP (IRA, 2017).

Insurance promotes financial stability of individuals, families, and organizations by indemnifying those who suffer loss or harm. Business failure without insurance leads to reduction in shareholders wealth and many other kinds of negative externalities. Higher unemployment, loss of business, high prices of products, less government tax revenues and rising government responsibilities are few negative externalities associated with uninsured losses. This therefore implies that insurance promote financial stability by ensuring continuity in face of adversities (IRA, 2017).

Kenya insurance industry is reported to face various challenges (IRA, 2017). For instance insurance brokers are face threats from Bancassurance and direct selling done through the internet and mobile services. Additionally, 20% of motor insurance claims are noted to be fraudulent due to collusion of clients with loss assessors and employees

from the insurance companies. Hospitals are also reported to be giving documents with false claims of major surgeries and overpricing some treatments. The poor state of affairs continues to prevail as most of the insurers have failed to report fraudulent cases as required by the IRA policy. Lack of awareness and understanding of insurance products stills remains a hurdle. According to a report done by Deloitte (2015) aggressive educational campaigns by insures as opposed to passive brand marketing through media is an effective measure in tackling the issue of awareness. Provision of affordable covers to the low-income earners is also critical for insurers in a bid to widen their market and increase penetration levels.

1.1.4 Insurance Companies in Kenya

There were forty nine (49) licensed insurance companies as at December, 2017, Twenty five (25) underwrite non-life insurance business, Thirteen (13) write life business while eleven (11) were both underwriting life and general insurance business(IRA, 2017). The Insurance companies are grouped in terms of asset size, customers served, and insurance premiums for both life and non-life insurance. There are six reinsurance companies with one being a state corporation. The companies include African Reinsurance Corporation, Kenya Reinsurance Corporation, PTA Reinsurance Company, and Continental Reinsurance Company. The reinsurance sector is regulated by the insurance regulatory authority and the Association of Kenya Reinsurers (IRA, 2016).

There are two broad classifications of the insurance business; these are general and long term or life insurance. The two categories are further broken down into different classes of insurance businesses based on their profit motives. Kenya's General insurance industry business operates along the following classes: Motor- Commercial, fire-domestic, motor-private, aviation, marine , Fire- Engineering and Industrial , theft, workmen's compensation, engineering liability, Motor- Private and Personal Accident and miscellaneous(Kenya Insurance Survey (2004).

The life insurance operates under the following classes of business: Superannuation and Ordinary Life which includes Deposit Administration and Group Life Insurance i.e bond investment and Industrial life (Kenya Insurance survey, 2004). The current study will focus on insurance firms dealing with life insurance.As a result of increased

competition picks and the urge of increased efficiency by the underwriters, there has been more issuance of insurance policies as the majority of the middle class are advocating for social security. High returns together with the gas sector and nascent oil has drawn international investors into the market and further aided strategic alliances in a bid to generate more growth (Kenya Insurance Industry Report, 2016).

1.2 Research Problem

The basis of any good strategy lies in the actions taken by management to improve company performance, solidify their competitive position in the long term and be above competitors (Peder, & Richard, 2013). Aykan and Aksoylu (2013) noted that competitive strategy forms the basis by which a firm can achieve competitive advantage in its industry. Peder, and Richard, (2013) continues to state that in order to achieve above average profitability, a firm must seek to have a competitive edge. This is because if buyers prefer the company's products more, their sales volume will be increased and so will the ability to command higher prices increase. The results will be higher earnings, greater return on investments and other financial performance indicators.

In Kenya, the insurance market has a low penetration rate and this presents the industry with valuable potential as a significant population does not have insurance cover. This indicates a poor perception on personal insurance covers (Mbogo, 2010). In the Kenyan economy, insurance firms have a pivotal responsibility in the growth of the economy mainly by creating employment opportunities and payment of taxes that support the Kenyan economy. The insurance organizations' should be highly aggressive to guarantee development and maintenance of piece of the overall industry in the business as this would unquestionably mean expanded profits and sales.

Gaps exist in literature on the connection between competitive strategy and firm performance. Abou-Moghli et al., (2012), showed that there was a zero connection between strategy and performance among banks in India using a descriptive survey design while Onyoro (2011) established that competitive strategies had a notable influence on performance of commercial banks. This study was both quantitative and qualitative. Jonsson and Devonish (2009) concluded that competitive strategies have a significant influence on firm performance hotels in Malaysia using a descriptive survey design. Kwasi and Acquah (2015) found that strategy influences performance of manufacturing firms in Ghana while Arrawati et al., (2015) showed that efficiency of

banks in Korea is positively influenced by competition. These studies focused on firm performance and ignored firm effectiveness. In addition, the contexts and methodologies are different from the current study.

In local studies done in Kenya, Gaturu (2010) researched on competitive strategies employed by Nairobi private hospitals by use of a descriptive survey design while Mutegi (2013) researched on competitive strategies adopted by Nairobi supermarkets by use of descriptive cross-sectional design. These studies focused in a different context compared to the current study and used different methodologies. Aswani (2010) concentrated on the influence of the marketing strategies on the insurance firms. Obudho (2014) studied among financial risk and financial execution of insurance companies while Muriira (2014) studied competitive strategies adopted by Kenyan insurance industries. All the above mentioned studies were descriptive surveys and they failed to take into account the causal effect of competitive strategy on firm effectiveness.

The studies reviewed have shown that conceptually, there is no consensus on the effect of competitive strategies on firm effectiveness. Contextually, most of the local studies done on competitive strategy have focused on other industries apart from the insurance sector. In addition, the studies carried out on competitive strategies in the insurance sector used a different methodology as they did not take into account the causal effect of competitive strategies on firm effectiveness. Thus, this justifies the need for further study in this field. Thus, the research question this study seeks to answer is: What is the effectiveness of competitive strategies on life insurance companies in Kenya?

1.3 Research Objective

The study sought to determine the effectiveness of competitive strategies on life insurance companies in Kenya.

1.4 Value of the Study

This study's findings would create more understanding of the Porter's competitive forces model, the RBV theory and the competence based theory. The investigation discoveries will likewise go about as a source of perspective point for future analysts, researchers and understudies trying to attempt thinks about on the equivalent or a firmly related field. The researchers and scientists may likewise think that its supportive in the

recognizable proof of further examination territories and related zones by pointing out themes that require further research and auditing of existing experimental literature to distinguish research gaps.

This current examination's discoveries will be valuable to the government and other policy making bodies as a benchmark for advancement arrangements definition identified with the area in the economy. The government will profit with the discoveries of this investigation as it will be edified through understanding the impact of aggressive systems on the advancement of insurance segment in Kenya.

The examination provides a comprehension on the effectiveness of competitive systems on the effectiveness of insurance organizations in Kenya. The derivation drawn from this investigation is valuable concerning helping with directing and planning strategies and rules that would help insurance organizations and different organizations in the division to embrace channels that would upgrade their execution which thusly will add to the segment effectiveness.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter covered the theoretical and empirical review of literature on competitive strategies, effectiveness and their relationship. The chapter began by discussing the theories underpinning these concepts, review of empirical literature on the concepts showing similarities and contradictions and the research gaps and finally the conceptual framework.

The theories covered in this literature review were competitive forces model which explains ways through which industries become competitive and thus help managers in developing competitive strategies. The competence based strategy theory reflects more on a firm's competitiveness in a given industry which is dependent on its attributes. The resource based view argues that, the uniqueness of resources held by a firm is a great determinant of its competitiveness.

The chapter also discussed the theoretically expected relationship between competitive strategies and effectiveness of insurance firms in Kenya as the two concepts form the basis of the current study. There have been related studies conducted before and their findings have been discussed in this chapter. The research gaps which the current study intended to fill were also brought out in this chapter. The chapter concluded by the conceptual framework.

2.2 Theoretical Foundation

This study was anchored on three theories. These are; Michael Porters competitive forces model, RBV and the competence based strategy theory.

2.2.1 Competitive Forces Model

The forces that primarily determine level of competitiveness are: new entrants threat in the industry, buyers' bargaining power, threat of substitute products, the jockeying among current contestants and the bargaining power of suppliers'. Pearce and Robinson (2011) argue that collectively, these five forces determine the expected profits in any industry Rivalry is brought about when key players compete on the basis of price, new advertising methods, product innovations and an increase in the warranties provided to customers as part of service to customers.

Competition draws from the fact that one or more players feel the need to improve their position in the industry. Pressure arising from substitutability of products is greatest since they limit potential of returns in the market by placing caps on the prices that firms can charge in the industry (Porter, 1998). Suppliers have an effect on the participants' bargaining power by either increasing the prices or reducing the commodities. New entry by other firms in the industry drive the need to have a significant share of the market and also come with additional resources that are bound to increase prices or drive them down. Buyers on the other hand have a powerful effect on pricing since they can bargain for it to be driven down or demand superior quality, more range of services, or create collusion among competitors at the expense of industrial profitability (Tanwar, 2013).

Other factors considered in the model include the economic environment and the competitive structure of the industry such as the bargaining power of the suppliers, bargaining power of buyers, threat of new entrants and threat of substitute products. Ideally, this seeks determine how these factors increase the level of competition in the industry. The stronger the forces, the higher the competition will rise and the weaker the forces, the lower the competition. An industry's competitive environment affects how a business performs in that industry. The porter's model determines the attractiveness of any industry from the company's perspective (Dirisu, Oluwole & Ibidunni, 2013). This theory was relevant to this study as it recognized the factors that influence competition in a given industry.

2.2.2 Resource Based View

Among the early studies on the concept of RBV was by Penrose (1959) who proposed that an organization's uniqueness is derived from the heterogeneity rather than the homogeneity of the productive services available. According to Penrose (1959) both the internal and external growth of an organization through means such as merging and acquisition and diversification can be determined by how well the organization's resources are deployed. An organization is made up of a combination of valuable resources and these resources can only contribute to an organization competitive advantage if they're deployed and used in a way that these productive resources are easily accessible to the organization (Wernefelt, 1984).

Each and every individual organization can be viewed as a unique bundle of tangible and intangible capabilities and resources (Wernerfelt, 1984). Resource may be termed as any particular thing that gives a company an advantage or disadvantage relative to its rivals. The intangible and tangible assets of an organization at any given time are defined as resources (Wernerfelt, 1984). This could be all the assets such as human resource, physical assets, commercial, organizational assets, financial assets as well as technological assets that firms deploy so that they can innovate, manufacture and convey services and products to their clients (Barney, 1991).

RBV states that the major forces that influence and impact on the competitive advantage and how excellent an organization performs is derived from the features of the company's capabilities and resources which are both valued and hard to imitate (Barney, 1991). Through RBV firms can design and carry out their firm strategy by looking at the position of their internal resources and capabilities (Sheehan & Foss, 2007). Wernerfelt (1984) argues that while there is direct relation between how a company performs and the performance of its own offerings in the market, organizational performance is also impacted indirectly by the resources that are utilized in the production process. Therefore for organizations to achieve above average performance and returns they have to identify, know and acquire these resources that are core to product development that are demanded by the customers. A firm resource has to be valuable, scarce and hard and costly to copy for the organization to achieve sustained competitive edge (Barney 1991).

Two assumptions govern RBV. One, it assumes that organizations that operate in an industry that are viewed as being in the same strategic circle may differentiate themselves through the resources they possess. Two, it assumes that these differences may last way into the future because these resources cannot be transferred from one company to another because they are not portable (Barney, 1985). Resources can contribute to a firm achieving competitive edge over their rivals if they possess resources that are difficult to imitate due to its unique nature (Barney, 2003). This theory is relevant to the current study as it suggests what a firm can do to gain competitive advantage over rivals.

2.2.3 Competence Based Theory

The competence based theory argues that each business should run using a given set of procedures. This approach describes a business as an open system that freely interacts with the environment to acquire resources and increase outputs. According to this theory, the firm's capacity is determined by the firm's specific core competences which are not accessible to the competitors which increase the profitability and performance of the firm (Prescott, 2011).

The firm's competitive position is constantly changing in the current competitive environment due to emergence of new technologies, products competitors as well as new markets. Similarly, adaptability and flexibility are critical concepts towards the attainment of sustainable competitive advantage (Whetton, 2011). The competence based theory describes the influence a firm's strategies towards its performance improvement. Therefore, the role of this theory in evaluating the firm's competitiveness and sales cannot be underestimated. The theory helps the firm to develop initiatives that it could take to meet the needs of the customer and to improve the general firm performance (Lovelock, 2011).

In the present unique business condition, the focused position of a firm is tested continually by the development of new advances, items, the business sectors and additionally contenders. Then again, adaptability and versatility have framed real ideas of the board in creating continued upper hand (Whetton, 2011). Competence based hypothesis gives the establishment to firm aggressiveness. It is one of the primary examined speculations relating to the impact of the systems of a firm to enhancing its execution. This hypothesis is important to this examination as it adjusts a company's capacity to look at the dynamic business condition and create techniques for survival.

2.3 Competitive Strategies and Effectiveness

According to McCarthy (2011) strategy is defined as an organization's direction and scope in meeting its long term objectives through use of its resources in the current changing business environment. Competition determines if a company succeeds or fails (Porter, 1985). Competition will determine how appropriate activities that a firm undertakes contribute to its effectiveness. Competitive strategy is the plan managers undertake in order to achieve superior performance and deliver value to the customer. Porter (1985) defines competitive strategy as the search for a favorable competitive

position and ideal location or circumstance in which competition occurs. The basic goal of competitive strategy is to achieve superior performance that can be sustained in the long run against rivals. Firms implement competitive strategy so that they can achieve competitive edge in the industry by being in the best position to face the five forces namely threat of competitors, threat of buyers, substitutes, threat from new entry and buyer power. (Porter 1998).

Organizations require a sustainable and working competitive strategy to compete successfully in the industry against both current and potential rivals (Achoki, 2013). According to Capon (2008), the choice of a competitive strategy to be used to gain edge over rivals is not an exact process. Capon (2008) also argues that for competitive advantage and superior performance to be achieved strategy is a critical factor in any firm.

Differentiation strategy is offering products and services that have unique features and attributes. According to Svatopluk and Ljuba (2006) differentiation strategy objective is to establish the main differences between the products the firm offers and those of its rivals. These unique differences are the ones that ensure these firms can demand for a premium price. This results in better returns and ultimately better performance than the firm's rivals.

Maina (2014) states that focus strategy involve identifying a niche and narrow segment in the market and developing products to satisfy the niche customers. This could lead to an increased customer and brand loyalty to the products and services of the firm by concentrating the small but demanding segment that are willing to pay for premium prices a firm can achieve superior profits and overall performance (Anderson, 2006). Focus strategy is based on serving a narrow scope that most competitors do not get involved with (Maina, 2014).

2.4 A Summary of Literature Review and Research Gaps

Several studies that have been conducted on competitive strategy and its effect on firm performance and effectiveness. This section reviews these previous studies in terms of their findings and research gaps that the current study will focus on.

Table 2.1: A Summary of Literature Review and Research Gap

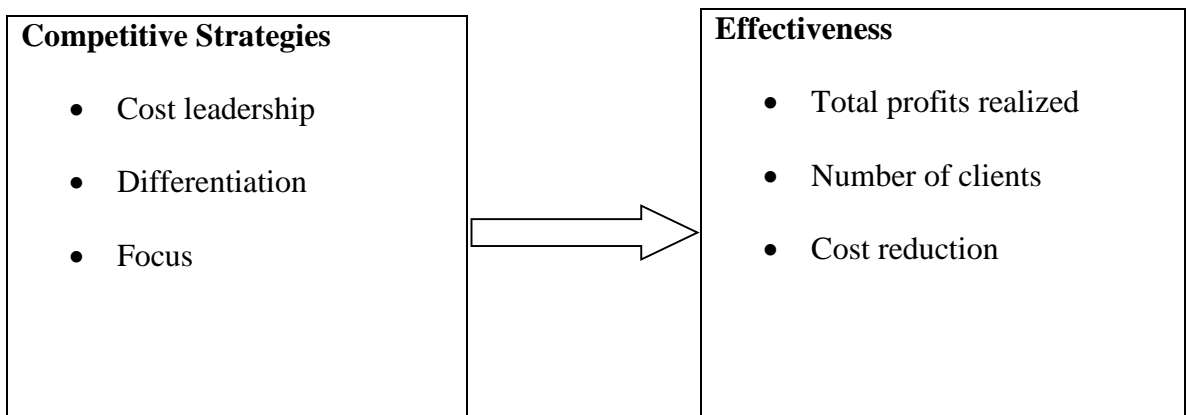
Study	Findings	Gaps
Jonsson and Devonish (2009)	This study was exploratory in nature. It revealed that used competitive models of strategy effectively attained higher performances as compared with those with poor competition strategy models	Study did not address the effect of competitive strategies on firm effectiveness and it was undertaken in a different context
Zekiri and Nedelea (2011)	It asserted that if a firm aims at pursuing the strategy of cost leadership, it has to produce at low cost. It is further posited that a company can gain in production costs, economies of scale as a result of proprietary technology, and cheap raw material etcetera	The findings underscores the importance of work efficiency
Kwasi and Acquah (2015)	It was noted that firms in this sector should become more competitive and customer-focused by formulating strategies to build positive associations with customers/suppliers, and enhance distribution of products within the given market segment	This study was descriptive in nature and so it did not address the causal effect between competitive strategies and effectiveness. The current study will address this cause and effect
Arrawati et al., (2015)	Results showed there was a rising trend in competition as from the time frame 1996 to 2004 preceded a fall in the levels of competition. Granger causality tests showed that efficiency is positively influenced by competition	This study was conducted in a different context and addressed efficiency while the current studies will address organizational effectiveness.
Arasa (2014)	A case of the Kenyan mobile telecommunication firms showed that high competition is being experience in this industry	This study however focused on mobile telecommunication companies while the current study will focus

Study	Findings	Gaps
	forcing most companies to formulate competitive strategies that enhance the companies' survival. The results of regression analysis revealed a weak positive association between competitive strategies and performance	on the insurance industry in Kenya.

Source: Author (2018)

2.5 Conceptual Framework

The conceptual framework in figure 2.1 shows the effect of competitive strategies, on organizational effectiveness.



Source: Researcher (2018)

Figure 2.1: The Conceptual Model

Competitive strategies in this study were the independent variable with three measures. The measures are namely cost leadership, differentiation strategy and focus strategy. Firm effectiveness is the dependent variable in this study and it was measured by total profits realized, number of clients and cost reduction.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains information about design used and sample that was selected to help unveil the relationship between competitive strategies and effectiveness of life insurance firms. Data collection, data analysis and presentation techniques that was used in the study are highlighted in this chapter.

The chapter starts by discussing the research design that was utilized. A research design is the chronological order of things that result to answering research questions. The section also covers the population of the study and also the sampling frame to be applied in picking respondents.

The chapter also covered the data collection procedure and data analysis. Under data analysis, the researcher explained the method that was used in transforming the collected data to useful information that can be used in decision making.

3.2 Research Design

Khumar (2005) described research design as that method that is procedurally acquired by the researcher in answering research questions. According to Wanyama and Olweny (2013), a research design aims at improving the ability of the research in conceptualizing an operational plan in order to be able to embark on the various techniques available and required tasks for the completion of the study while at the same time ensuring that that the procedures used are sufficient enough to acquire valid, objective and precise responses to the research questions.

Descriptive cross sectional research design was used to address this research problem. A descriptive study aims at establishing the what, where and how with regards to a phenomenon (Cooper & Schindler, 2008). The appropriateness of this design is that it allowed the researcher to utilize both quantitative and qualitative data so as to unveil the influence of competitive strategies on the effectiveness of Kenyan life insurance firms.

Descriptive cross sectional design was utilized in gathering information, summarizing, presentation and interpretation it in order to obtain more clarification on issues. The researcher chose descriptive survey research design because his interest is primarily on the current state of affairs in the field rather than manipulating variables. Cross-

sectional study methods are done once and they represent summary at a given timeframe (Cooper & Schindler, 2008).

3.3 Population of the Study

A population has been defined as individuals, groups, object or events that exhibit similar traits (Mugenda & Mugenda, 2003). The selected population target for this study was the 49 insurance companies operating in Kenya as at 31st December 2017. This target population provided data that gave answers to the research questions raised by the researcher on how competitive strategies affect effectiveness.

Since there are 49 insurance companies in Kenya, all of them were selected for this study's purpose. For primary data collection purpose, the study focused particularly on senior level managers of the insurance companies. The researcher believes that these are the most informed on the various competitive strategies employed by the firm.

3.4 Data Collection

This research applied primary data. Structured questionnaires were applied in collecting data using the Likert Scale. The targeted respondents were senior level managers and supervisors of the insurance companies. This is because they are involved in the organizations' management and have a broad understanding of the affairs of the organizations.

Two respondents from each organization was chosen upon which the questionnaires were administered. The structured questionnaire contained close-ended and open – ended questions and the close-ended questions consisted of more structured responses which brought out more tangible recommendations. The ratings on various attributes were tested using the closed ended questions which helped in the reduction of responses that are related so as to obtain responses that were more varied.

Additional information that were captured using the close-ended questions were captured using the open-ended questions to aid in gaining a better understanding of the influence of competitive strategies on the effectiveness of Life Insurance companies. The research instrument was personally administered by the researcher to the respondents. The researcher kept a register of the questionnaires to ensure that all the questionnaires distributed to the respondents are returned.

3.5 Data Analysis

The primary data obtained by the questionnaire was coded and entered into SPSS. Descriptive statistics in form of frequencies and percentages was used to analyze the descriptive elements of the study. Correlations and regression analysis was calculated to draw inferences to the entire population. Multiple Regressions analysis was used to analyze whether there exists a link between one dependent variable and the independent variables.

The multiple regression model used was represented below.

$$P = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

P= Effectiveness of Life Insurance companies Kenya

α = Constant Term

β_i = Beta Coefficient of variable i that measures whether there is responsiveness of Y to change in i

X_1 = Cost leadership strategy

X_2 = Differentiation strategy

X_3 = Focus strategy

e = Error term

This chapter highlighted the design adopted in carrying out the study, which was a descriptive cross-sectional survey design. It also highlighted the method of data collection to used which was primary data. The study targeted senior managers and supervisors who were in a better position to shed insight on the effect of competitive strategies on organizational effectiveness. The chapter also showed how data analyses were done.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.0 Introduction

The chapter summarised the results of the data analysis, the findings of this analysis and interpretation of those results. Results were displayed diagrammatically as well as in the form of tables. The analysed data was also arranged in groupings that were a reflection of the research objectives.

4.1 Response Rate

The researcher gave out 49 questionnaires to insurance companies in Kenya. Thirty-eight (38) were properly filled and returned. These results were below.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	38	77.55%
Unreturned	11	22.45%
Total	49	100%

The results therefore revealed an overall successful response rate of 77.55%. As per Kothari (2004) a return rate of above 50% is sufficient for a study thus 77.55% return rate is excellent for the study.

4.2 Reliability

The cronbach alpha was computed for the purpose of measuring the reliability of the administered questionnaire. The conclusion reached was that both variables were reliable as their cronbach alpha achieved was above 0.7 that has been used as the cut point of the study's reliability. Table 4.2 summarises the reliability results.

Table 4.2: Reliability Results

Variable	α=Alpha	comment
Cost Leadership strategy	0.8112	Reliable
Differentiation strategy	0.7123	Reliable
Focus strategy	0.7962	Reliable

4.3 Demographic Characteristics

This section consisted of the basic characteristics of the study which included; management level

4.3.1 Management Level

The results on management level were presented in Figure 4.1.

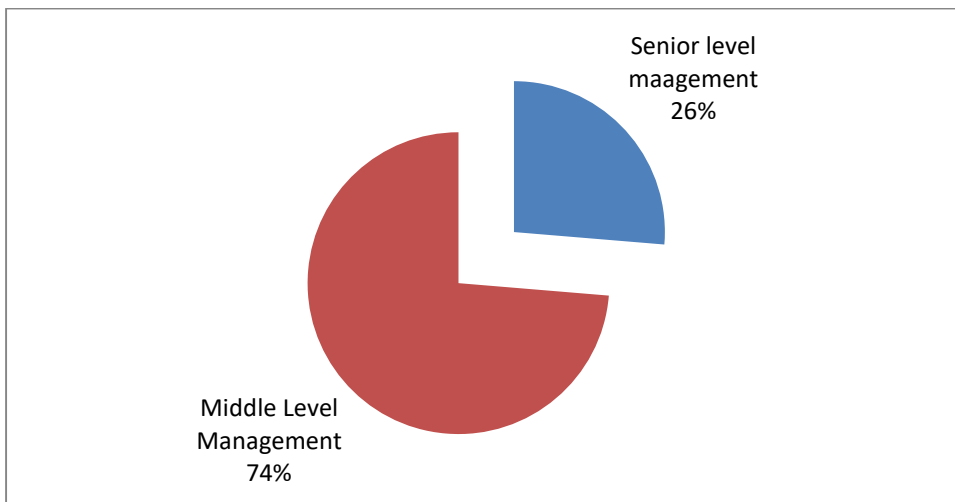


Figure 4.1: Management Level

The results indicated that majority of the respondents who were 74% stated that they were in middle level management while only 26% who were in the senior level management.

4.3.2 Duration worked

The results on duration worked by employees were presented in Figure 4.2 below.

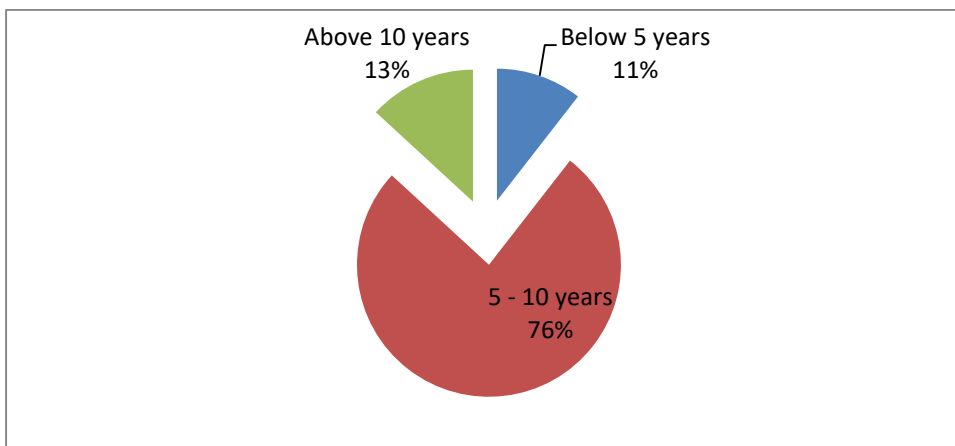


Figure 4.2: Duration Worked

The findings showed that many of the respondents (76%) stated that they had worked for 5 – 10 years, 13% had worked for above 10 years while only 11% had worked for below 5 years

4.4 Descriptive Statistics

4.4.1 Cost leadership Strategy

Table 4.3: Cost Leadership Strategy

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Aggressive pursuit of automation to lower the cost of service delivery	7.90%	7.90%	0.00%	39.50%	44.70%	4.05	1.23
Designs, production, and marketing of a comparable products more efficiently than its competitors	5.30%	5.30%	2.60%	39.50%	47.40%	4.18	1.09
Tight cost and overhead controls	5.30%	2.60%	7.90%	44.70%	39.50%	4.11	1.03
Emphasis on maximum capacity utilization of resources	5.30%	2.60%	5.30%	34.20%	52.60%	4.26	1.06
Reducing costs in certain areas of the organization like research and development and marketing	5.30%	2.60%	5.30%	39.50%	47.40%	4.21	1.04
Backward or forward integration to reduce costs	5.30%	13.20%	5.30%	36.80%	39.50%	3.92	1.22

Merges to achieve economies of scale	7.90%	5.30%	15.80%	36.80%	34.20%	3.84	1.2
Basing jobs on limited and specialized tasks	15.80%	2.60%	5.30%	28.90%	47.40%	3.89	1.45
Average						4.06	1.17

The findings showed that most of the respondents (84.2%) were in agreement with the statement that there is aggressive pursuit of automation to lower the cost of service delivery in their firm. The findings showed that most of the respondents (86.1%) were in agreement with the statement that their firms designs, production, and marketing of a comparable products more efficiently than its competitors. The findings showed that most of the respondents (84.2%) were in agreement with the statement that their organization have tight cost and overhead controls. The findings showed that most of the respondents (86.2%) were in agreement with their firm emphasis on maximum capacity utilization of resources. The findings showed that most of the respondents (86.9%) were in agreement with their firm reduces costs in certain areas of the organization like research and development and marketing.

In addition, the findings showed that most of the respondents (86.3%) were in agreement with their firm engages in backward or forward integration to reduce costs. The results indicated that most respondents who were 71.0% agreed with the indicator that their firm engages in merges to achieve economies of scale. 76.3% cosigned the organization base jobs on limited and specialized tasks.

4.4.2 Differentiation Strategy

Table 4.4: Differentiation Strategy

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
My company frequently introduce new products targeting clients	7.90%	5.30%	7.90%	34.20%	44.70%	4.03	1.22

My organization frequently improves existing life insurance products	5.30%	10.50%	0.00%	52.60%	31.60%	3.95	1.11
The insurance I work for has wide branch network to take care of different customers	5.30%	21.10%	5.30%	28.90%	39.50%	3.76	1.32
Offering a variety of services relative to your competitors	15.80%	5.30%	13.20%	47.40%	18.40%	3.47	1.31
We engage our clients by use of the latest technology	2.60%	13.20%	10.50%	36.80%	36.80%	3.92	1.12
Our clients receive customized services	7.90%	10.50%	2.60%	47.40%	31.60%	3.84	1.22
Average						3.83	1.22

The findings showed that most of the respondents (78.9%) were in agreement with their organization frequently introduces new products targeting clients. The findings showed 84.2%) agreed that their organization frequently improves existing life insurance products. The findings showed that 68.4% also agreed to the fact that the company they work for has wide branch network to take care of different customers. The findings showed that most of the respondents (65.8%) were in agreement with offering a variety of services relative to your competitors.

Further, the findings depicted that many of the respondents (73.6 %) were in agreement that they engage their clients by use of the latest technology. The findings indicated that most of the respondents (79.0%) were in agreement that their clients receive customized services

4.4.3 Focus Strategy

Table 4.5: Focus Strategy

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Building brand and vision around specific customer promise	10.50%	2.60%	5.30%	36.80%	44.70%	4.03	1.26
Making brand and vision visible to our niche market	7.90%	2.60%	13.20%	44.70%	31.60%	3.89	1.13
Making sure that there is a distinct understanding of the corporate customer experiences	5.30%	2.60%	18.40%	34.20%	39.50%	4.00	1.09
Ensuring the customer experience is centered on specific points of excellence	21.10%	2.60%	10.50%	34.20%	31.60%	3.53	1.50
Putting in place a company structure that has niche customer centricity at the core of its decision making	2.60%	7.90%	13.20%	34.20%	42.10%	4.05	1.06
Training the employees so that they can develop skills that will help in niche customer	2.60%	10.50%	13.20%	34.20%	39.50%	3.97	1.10

centric							
objective							
Targeting							
hearts and							
minds of							
specific niche							
markets to							
drive							
attitudinal							
loyalty	2.60%	0.00%	0.00%	60.50%	36.80%	4.29	0.73
Average						3.97	1.12

The findings indicated that most of the respondents (81.5%) were in agreement building brand and vision around specific customer promise. The findings indicated that most of the respondents (76.3%) were in agreement that making brand and vision visible to their niche market. The findings indicated that most of the respondents (73.6%) were in agreement that making sure that there is a distinct understanding of the corporate customer experiences. The findings indicated that most of the respondents (73.6%) were in agreement that ensuring the customer experience is centered on specific points of excellence.

In addition, the findings indicated that most of the respondents (76.3%) were in agreement that putting in place a company structure that has niche customer centrality at the core of its decision making. 73.7% agreed that training the employees so that they can develop skills that will help in niche customer centric objective. The findings indicated that most of the respondents (93.7%) were in agreement that targeting hearts and minds of specific niche markets to drive attitudinal loyalty.

4.4.4 Effectiveness

Table 4.6: Effectiveness

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Total profits realized has been increasing in the last five years	5.30%	5.30%	5.30%	44.70%	39.50%	4.08	1.08
Number of clients has been	15.80%	5.30%	7.90%	31.60%	39.50%	3.74	1.45

increasing in the last five years								
Cost has been reducing in the last five years	10.50%	5.30%	5.30%	26.30%	52.60%	4.05	1.33	
Average						3.96	1.29	

The findings indicated that most of the respondents (84.2%) were in agreement that total profits realized has been increasing in the last five years in their organization. The findings indicated that most of the respondents (71.1%) were in agreement that number of clients has been increasing in the last five years in their organization. The findings indicated that most of the respondents (78.9%) were in agreement that cost has been reducing in the last five years in their firm.

4.5 Inferential Statistics

Inferential analysis which included correlations and regressions were conducted

4.5.1 Correlation Analysis

Correlation analysis undertaken was to depict the link on competitive strategies and effectiveness of life insurance firms. The results are displayed below

Table 4.7: Correlation Analysis

		Effectiveness	Cost Leadership strategy	Differentiation strategy	Focus strategy
Effectiveness	Pearson Correlation Sig. (2-tailed)	1			
Cost Leadership strategy	Pearson Correlation Sig. (2-tailed)	.598** 0.000	1		
Differentiation strategy	Pearson Correlation Sig. (2-tailed)	.697** 0.000	0.289 0.079	1	
Focus strategy	Pearson Correlation Sig. (2-tailed)	0.272 0.000	-0.057 0.733	0.05 0.766	1

The findings depicted that a positive and notable correlation exists between cost leadership strategy and effectiveness of life insurance firms ($r = 0.598$). Additionally, the findings showed existence of a positive and great connection on differentiation strategy and effectiveness of life insurance firms ($r = 0.697$). The results further unveiled existence of a positive and significant association differentiation strategy and effectiveness of life insurance firms ($r = 0.272, p=0.000$).

4.5.2 Regression Analysis

Tabulated below are the outcomes of the fitness of model of regression model applied to explain the research phenomenon.

Table 4.8: Model Fitness

R	R²	Adjusted R²	Std. Error of the Estimate
.855a		0.73	0.707

Competitive strategies were found to be satisfactory variable in explaining effectiveness of life insurance firms. This is supported by coefficient of determination also known as the R^2 of 73.0% meaning that competitive strategies explain 73.0% of the variations in the dependent variable which is effectiveness of life insurance firms.

Table 4.8 provides the outcomes on the ANOVA

Table 4.8: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.969	3	2.99	30.691	.000b
Residual	3.312	34	0.097		
Total	12.281	37			

The findings show that the overall model was statistically significant as supported by a p value of 0.000 which is lesser than the critical p value of 0.05. This was further justified by the calculated F statistics value of 30.691 which imply that Forecourt retailing strategy is a good predictor of effectiveness of life insurance companies.

Table 4.9: Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	-1.011	0.587	-1.722	0.094
Cost Leadership strategy	0.476	0.098	4.871	0.000
Differentiation strategy	0.488	0.082	5.924	0.000
Focus strategy	0.303	0.1	3.02	0.005

Findings indicated that cost leadership strategy a significant and effective effect on effectiveness of life insurance firms ($\beta=0.476$, $p=0.000$). The results further showed that differentiation strategy had a positive and significant effect on effectiveness of life insurance companies ($\beta=0.488$, $p=0.000$). The results further showed that focus strategy had a positive and significant effect on effectiveness of life insurance companies ($\beta=0.303$, $p=0.005$). Results concur with that of Arasa (2014) who discovered a positive association between the competitive strategies and organizational performance

Therefore, the optimal model is;

Effectiveness of life insurance firms = $-1.011 + 0.476$ cost leadership strategy + 0.488 differentiation strategy + 0.303 Focus strategy

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter addresses the findings' summary, conclusions and recommendations done in accordance to the study objectives.

5.2 Summary of Findings

The objective of the study was to establish the effectiveness of competitive strategies of life insurance companies in Kenya. This target population was 49 insurance companies in Kenya. Primary data was used in this study. Structured questionnaires were applied in collecting primary data using the Likert Scale. The primary data collected by the questionnaire was coded and entered into SPSS. Descriptive statistics in form of frequencies and percentages was used to analyze the descriptive elements of the study. Correlations and regression analysis was calculated to draw inferences to the entire population.

Regression of coefficients results indicated that focus strategy, cost leadership and differentiation all had positive and notable impact in the effectiveness of life insurance firms in Kenya.

5.3 Conclusions

Based on the research outcome, the output gave a conclusion that cost leadership strategy have an affirmative as well as notable influence on effectiveness of life insurance companies. In addition, engagement in different designs and marketing strategies from the competitors enhances effectiveness. The study further concluded that engagement in backward or forward integration enhances effectiveness.

In addition, differentiation strategies have a positive and notable influence on effectiveness of life insurance companies. In addition, improving life insurance products frequently enhances effectiveness. The study further concluded that offering a variety of services relative to competitor's boosts performance of the firm.

The study further concluded that focus strategies have a positive and notable influence on effectiveness of life insurance companies. In addition, building brand and vision around specific customer promise and ensuring the customer experience is centered on

specific points of excellence enhances effectiveness. The study further concluded that training the employees so that they can develop skills helps in niche customer centric and thus enhancing effectiveness of the organization.

5.4 Recommendations

The study recommends that firms should aggressively pursue automation cost of service delivery in their firm. In addition, insurance firms should work to reduce cost in various areas in their firms. They should also engage mergers to achieve economies of scale. This will improve effectiveness of the company.

The study also recommends that insurance companies should frequently introduce new products with target of new and existing clients. They should also offer variety of services relative to their competitors. Insurance firms should also work towards having wide branch network to take care of different customers. This will enhance effectiveness of the organization.

The study also recommends that insurance firms should build brand and vision around specific customer promise. They should also make sure there is a distinct understanding of the corporate customer experiences. Organizations should also train their employees so that they can develop skills that will help in niche customer centric objective. This will improve effectiveness of the insurance company.

5.5 Areas for Further Studies

Further study should focus on the research gaps identified in this study. The current study focused on effectiveness of competitive strategies of life insurance companies in Kenya. Thus area for further studies could consider another Financial sector such as banks and Micro Finance institutions.

In addition, the study focused on life insurance companies in Kenya only. Further study could focus on other insurance companies in other east African countries for purposes of making comparisons.

Since the R squared was not 100% it seems there are other competitive strategies that were not addressed by the study. Other studies should therefore focus on other competitive strategies that affect effectiveness of insurance companies.

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APPENDICES

Appendix I: Research Questionnaire

The questionnaire aim is to gather information on the effect of competitive strategies on organization performance of life. All the information provided in thus questionnaire will be treated with utmost confidentiality and used purely for the purposes of this study

Instructions

1. Tick correctly in the box provided.
2. You can give additional information regarding the study.

PART A: BACKGROUND INFORMATION

1. Company Name

.....

2. What is your level of management in the company?

Senior Level Management

Middle Level Management

3. Duration as an employee of the company?

Less than 5 years

5 - 10 years

Above 10 years

PART B: COST LEADERSHIP STRATEGY

To what extent do you agree that your organization engages and emphasizes the following activities relating to cost leadership to enhance performance?

- 1) Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly disagree

Strategy	1	2	3	4	5
Aggressive pursuit of automation to lower the cost of service delivery					
Designs, production, and marketing of a comparable products more efficiently than its competitors					
Tight cost and overhead controls					
Emphasis on maximum capacity utilization of resources					
Reducing costs in certain areas of the organization like research and development and marketing					
Backward or forward integration to reduce costs					
Merges to achieve economies of scale					
Basing jobs on limited and specialized tasks					

2) In your opinion, how else has your organization adopted cost leadership strategy to enhance performance?

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PART C: DIFFERENTIATION STRATEGY

To what extent do you agree that your organization engages and emphasizes the following activities relating to differentiation to enhance performance? Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly disagree

Strategy	1	2	3	4	5
My organization frequently introduce new products targeting clients					
My organization frequently improves existing life insurance products					
The insurance I work for has wide branch network to take care of different customers					
Offering a variety of services relative to your competitors					
We engage our clients by use of the latest technology					
Our clients receive customized services					

In your opinion, how else has your organization adopted differentiation strategy to enhance performance?

.....

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PART D: FOCUS STRATEGY

To what extent do you agree that your organization engages and emphasizes the following activities relating to focus strategy to enhance performance? Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly agree

Component	1	2	3	4	5
Building brand and vision around specific customer promise					
Making brand and vision visible to our niche market					
Making sure that there is a distinct understanding of the corporate customer experiences					
Ensuring the customer experience is centered on specific points of excellence					
Putting in place a company structure that has niche customer centricity at the core of its decision making					

Training the employees so that they can develop skills that will help in niche customer centric objective					
Targeting hearts and minds of specific niche markets to drive attitudinal loyalty					

In your opinion, how else has your organization adopted focusing strategy to enhance performance?

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Kindly highlight in brief on how the organization has performed before and on adoption of the above mentioned strategies in terms of profits realized, number of clients and cost reduction.

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PART E: EFFECTIVENESS

Use the following scale to rate the following statement

1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly agree

Component	1	2	3	4	5
Total profits realized has been increasing in the last five years					
Number of clients has been increasing in the last five years					
Cost has been reducing in the last five years					

Thank you for your co-operation