

**INNOVATION STRATEGIES ADOPTED BY INSURANCE COMPANIES IN KENYA**

**BY**

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## DECLARATION

### STUDENT:

This research proposal is my original work and has not been submitted to any University for the award of a degree.

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### SUPERVISOR:

This research proposal has been submitted for defense with my approval as the University of Nairobi supervisor Dr Zack Awino.

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## DEDICATION

I dedicate this publication to my wonderful family of husband Joseph Muchinji and two children, Michael Karanja and Angela Muthoni. I undertook this course at the same time my son was taking his undergraduate course and the family was most encouraging, urging me to keep pressing on particularly on the days I felt like abandoning the whole idea due to the many responsibilities that I was suddenly carrying. This would not have been possible without their love, understanding and most importantly their prayers.

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## ABSTRACT

Globally, the insurance industry has enjoyed strong business conditions over the last few years but worsening economic outlook will likely pose considerable challenges in the years ahead. These challenges will be especially pronounced in the property and casualty segment, where growing pricing pressure as the market softens will drive a need for cost-cutting and greater efficiency (Deloitte, 2008). Due to the afore-mentioned, although insurance is a mature industry, driving profitable top-line growth will be difficult owing to increased competition from global players and companies from other industries that produce either same or substitute products and services. While profitable growth is the key to success in a mature industry like insurance, it can be prohibitively difficult to achieve through conventional strategies simply because the industry is mature (Deloitte, 2008). It is vital that insurance executives take a fresh look at the industry and seek fundamental change at all levels of the organization, from its people strategy to its client and product strategy to its processes and infrastructure achieving these will be difficult is appropriate innovation strategy is not put in place (Carrie, 2008).

The study sought to establish the innovation strategies adopted by insurance companies in Kenya. The research design employed in this study was a survey method the entire population was undertaken covering 43 insurance companies. The study relied heavily on primary data obtained through the use of semi-structure questionnaires and the analysis was done in terms of descriptive statistics.

From the findings the study concluded that companies with strong technology-enabled innovation strategies are more likely to secure competitive advantage and create superior shareholder value. The study also concludes that a good technology-enabled innovation strategy should clearly deconstruct the reasons why a company is (or will be) successful.

The study recommends that insurance companies need to develop robust technology-enabled innovation strategies that define how a company source's and develops technology to help deliver compelling new products, services, customer experiences and business models while simultaneously creating barriers to entry.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

An organisation which is serious about competing in fast changing markets with fast changing technology must make things happen it must innovate. If it does not innovate it risks being overtaken by competitors. Sometimes a business underestimates the competitive challenges it faces. The risk of this happening is high when competitors react to potential challenges in much the same way.

The ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage (Tidd, 2001). It is no longer adequate to do things better; it's about "doing new and better things" (Slater and Narver, 1995). Much emphasis has been placed on building innovative organisations and the management of the innovation process, as essential elements of organisational survival (Brown, 1997). Tidd, (2001) suggest that effective innovation must involve all areas of a bank with the potential to affect every discipline and process (McAdam, 2000). Innovation can be transformational, radical or incremental depending on the effect and nature of the change. Afuah (1998) suggests that innovations do not have to be breakthroughs or paradigm shifting; however Slater and Narver, (1995) maintain that organisations should strive for the larger innovations.

#### **1.1.1 Innovation strategy**

The term innovation refers to both radical and incremental changes in thinking, things, and processes or in services, (Mckeown, 2008). In many fields, something new must be substantially different to be innovative, not an insignificant change. For example, in the arts, economics, business and government policy. In economics, the change must increase value, customer value, or producer value. The goal of innovation is positive change, to make someone or something better. Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy.

Chandler, (1990) indicates that some innovations are built on existing products, services, or procedures, and are incremental in nature. Others involve greater degrees of difference and are more radical than incremental. Some innovators aim to be first, others aim for second place. He adds that a different dimension of innovations is the degree to which they imitate something already familiar. For example cell phones, although allow mobility and provide a radical change in the sense of freedom from phone wires, they are imitative of earlier telephones in function and physical shape.

Personal computers operate on internal principles similar to those used in minicomputers and mainframes. However, individuals without extensive special training can operate the PC, unlike its larger predecessors. It allows direct interaction from nonprofessional users, does not require a special physical environment, and can be found in conveniently portable versions. Thus, in several ways, it is inventive rather than imitative (Chandler, 1990).

From a micro point of view, innovation is management discipline as it focuses on the organization's mission, searches for unique opportunities, determines whether they fit the organization's strategic direction, defines the measures for success, and continually reassesses opportunities (Gaynor, 2002). Gaynor (2002) commented that innovation does not require genius, but it does require a system-wide dedication to pursue unique opportunities. Drucker (1998) is very explicit in stating that innovation is work rather than genius; successful innovation requires hard, focused, and purposeful work.

Strategy is the way by which a firm fulfills its mission and attains its objectives. According to Brandenburger & Stuart, the essence of strategy lies in creating favorable asymmetries between a firm and its rivals. According to Barney (1997), Strategy is a pattern of resource allocation that enables firms to maintain or improve their performances. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and/or fixes weaknesses. According to Porter, a company can outperform rivals only if it can establish a difference that it can preserve. A firm can be different by creating a unique and valuable position, involving a different set of activities and making trade-offs in competing e.g. choose what NOT to do.

Strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources. This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a 'strategy' designed to keep the organization in business (Tim and Hannagan ,2005). According to Drucker,(1961) strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

In the insurance industry, increased competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector. It exerts pressure on the companies to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. Insurers therefore focus on using innovation strategies to enable them respond to, and compete effectively in the market. By identifying their core competences and creativity that they have in place, insurers are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage by employing unique innovations. According to Johnson and Scholes (1997), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Drucker (1958) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. One of the environmental influences to a business normally arise from competition which, makes innovation of products and services offered quite imperative to insurance companies.

### **1.1.2 Insurance Industries in Kenya**

The main players in the Kenyan insurance industry are insurance companies, reinsurance companies, intermediaries such as insurance brokers and insurance agents, risk managers or loss adjusters and other service providers (Insurance Regulatory Authority, 2008). The statute

regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the Ministry of Finance. There is also self-regulation of insurance by the Association of Kenya Insurers (AKI) established in 1987 as a consultative and advisory body to insurance companies and registered under the Society Act Cap 108 of Kenyan law ([www.akinsure.com](http://www.akinsure.com), 15/10/08). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education. Recently established was Insurance Regulatory Authority (IRA) mandated to supervise and regulate the insurance industry players. According to the (AKI) Insurance Industry Report for the year 2007, there were 43 insurance companies (see appendix III): 7 long-term business insurers, 20 general business insurers, 16 composite insurers and 3 re-insurance companies (Insurance Commission, 2007). During the year, insurance intermediaries were: 201 licensed insurance brokers, 21 Medical Insurance Providers (MIPs), 2665 insurance agents, 2 locally incorporated re-insurers. Insurance service providers were: 23 loss adjusters, 1 claims settling agent, 8 risk managers, 213 loss assessors/investigators, 30 insurance surveyors, and 8 risk managers during the year.

The gross written premium by the industry was Kshs 48.10 billion compared to Kshs 41.68 in 2006 representing a growth of 15.40%. The gross written premium from General insurance was Kshs 32.95 billion (2006: Kshs 29.2 billion) while that from long term business was Kshs 14.44 billion (2006: Kshs 12.48 billion). This is a ratio of about 70:30 in favour of general insurance. General insurance premium grew by 12.8% while life insurance premium and contributions from deposit administration business grew by 15.7%. The industry recorded growth over the last six years as illustrated in Figure 1.4 above. The penetration of insurance computed as a ratio of Gross Premium to Gross Domestic Product (GDP) was 2.65% compared to 2.54% in 2006. Long term insurance recorded a penetration ratio of 0.83% while that of general insurance was 0.83%

Insurance business can broadly be classified into general and life/ long term. Despite this classification, the different classes of insurance businesses can be viewed as lines of business along the profit centre concept. According to the Kenya Insurance Survey KPMG, (2004), the following lines of business drive the General insurance industry business in Kenya: Motor-Commercial, motor-private, fire-domestic, aviation, Fire- Industrial and Engineering, theft,

workmen's compensation, Motor- Private and Personal Accident engineering, liability, marine, and miscellaneous. The life insurance industry is mainly driven by the following lines of business: Ordinary Life and Superannuation, which includes Group Life Insurance and Deposit Administration i.e. industrial life and bond investment. The Survey revealed that the General insurance business is facing two major challenges. The first challenge is to come up with a solution for companies whose viability is threatened by their inability to meet policy holder claims. The second major challenge is how to generate growth for an industry that has significant potential for growing as a percentage of GDP but has been stagnant. In contrast to the General insurance business, the life insurance business enjoyed a real cumulative average growth rate of 8.6 per cent between years 2000 and 2004. One serious challenge facing the life insurance is the increasing difficulty of managing the HIV/AIDS epidemic.

## **1.2 Statement of the Problem**

Globally, the insurance industry has enjoyed strong business conditions over the last few years but worsening economic outlook will likely pose considerable challenges in the years ahead. These challenges will be especially pronounced in the property and casualty segment, where growing pricing pressure as the market softens will drive a need for cost-cutting and greater efficiency (Deloitte, 2008). Due to the afore-mentioned, although insurance is a mature industry, driving profitable top-line growth will be difficult owing to increased competition from global players and companies from other industries that produce either same or substitute products and services. While profitable growth is the key to success in a mature industry like insurance, it can be prohibitively difficult to achieve through conventional strategies simply because the industry is mature (Deloitte, 2008). It is vital that insurance executives take a fresh look at the industry and seek fundamental change at all levels of the organization, from its people strategy to its client and product strategy to its processes and infrastructure achieving these will be difficult if appropriate innovation strategy is not put in place (Carrie, 2008).

Despite the fact that the insurance industry faces these challenges over the short and long term – due to a softening market, pricing pressure, and increased global competition – there is tremendous opportunity for carriers that pursue growth strategies in addition to cost efficiencies, according to Deloitte's "Global Insurance Industry Outlook – Mid-Year Update 2008".

In Kenya, the insurance industry faces a number of challenges, among them; over capacity and price wars, poor corporate governance, inadequate legislative and regulatory framework, financially weak insurance organizations, negative public perception and lack of awareness of insurance, high cost of insurance, corruption and fraud among the stakeholders and overdependence on traditional products and distribution channels (Insurance Regulatory Authority, 2008). According to Deloitte report, 2008, Insurers can drive growth by taking a holistic approach geared toward enterprise-wide improvements, including refocusing on their distribution networks, developing and delivering products geared toward the burgeoning retirement market, and understanding and realigning their business through analytics but can't hit off without augmenting them with innovation strategies. Insurance companies hence need to review their operating and marketing strategies, and be willing to drive fundamental changes in the way they work. Insurers that innovate have the opportunity to move ahead of their competitors by better meeting evolving customer needs. Insurance firms need to manage relationships with an expanded array of distribution partners to ensure they deliver a high-quality, consistent experience to customers. They have to become more efficient and operate in an increasingly integrated fashion or else risk being thrown out of business.

Most of the researches that have been done on innovation have focussed majorly on banks with no research on innovation being undertaken on insurance firms despite the significant contribution of the insurance industry to the overall economic soundness. Some of the studies on innovation strategies in banks were done by Gitonga (2003) and Mwangi (2007). This leaves a very wide knowledge gap on innovation strategy that this study wants to exploit. The study is hence an investigation into the innovation strategies adopted by insurance companies in Kenya.

### **1.3 Objectives of the Study**

The study sought to establish the innovation strategies adopted by insurance companies in Kenya.

#### **1.4 Importance of the Study**

The study will be invaluable to the insurance industry players (insurance companies, brokers, agents e.t.c) management in getting a comprehensive knowledge on innovation strategies that they can employ to mitigate competition and increase their customer base and hence the firm's productivity.

The policy makers or insurance regulators will obtain knowledge of the insurance sector dynamic/challenges facing the sector and innovation strategy adopted by them. They will therefore obtain guidance from this study in designing appropriate policies that won't stifle innovation strategy hence ensure survival of the important players in an economy.

The study will provide information on innovation strategy adopted by the insurance industry to the various scholars in Kenya; this will expand their knowledge on innovation strategy and hence identify areas of further Research. Lastly, the study would be of benefit to Kenyan residents who would be beneficiaries of improved insurance services.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter provides the available literature that had been reviewed for the study. The literature dealt with the innovation strategies adopted by insurance companies.

### 2.2 Introduction to Innovation Strategy

Innovation activities are generally categorized as either incremental or radical. The distinction between these two different types illustrates how organizations approach innovation in different ways. A cumulative series of minor changes or introducing something similar to previous organizational practices is called an incremental or routine innovation, whereas an abrupt major change or doing something markedly different from what the organization had done before is called a radical innovation (Nord and Tucker, 1987; Urabe *et al.*, 1988; West and Farr, 1990). Although there has been debate over which type of innovating activity is more important and effective, the more astute managers understand the necessity for both. James (2002) said that timing the introduction of radical innovations to stay ahead of competition, while simultaneously utilizing incremental innovations to maximize profits is a major challenge for contemporary business managers. Hamdouch and Samuelides (2001) also reported that in the service industry, the innovation process is both cyclic and cumulative, combining radical innovations and introducing incremental innovations to fill the gap between two radical innovations.

In addition to the dichotomous categorization of innovations, Damanpour (1987) suggested the inclusion of various types of innovation such as technological, administrative, and ancillary innovations. Although technological innovation drives most organizations, the proof of technological innovation resides in the marketplace, which requires facilitating marketing and administration measures. Technological innovation without comparable levels of innovation from all sectors of an organization significantly reduces the benefits of investing in innovation (Gaynor, 2002; Miller, 2001). Although not all firms should be innovative in the same manner, several scholars have suggested that innovation needs to be directed at new products or services, new organizational structures or administrative systems, new process technologies or new

programs pertaining to organizational members for these typically occur simultaneously (Drejer, 2002; Garcia and Calantone, 2002; Johannessen *et al.*, 2001; Trott, 1998). In addition to the above-mentioned factors, some scholars placed special emphasis on the importance of strategic innovation, because it may change the direction of the company and even the rules of the game in an industry (Markides, 1997; Turock, 2001).

Examining how companies actually practice innovation may unveil the black box of innovation and help translate it from a mere concept into action and competitiveness (Drejer, 2002; Gaynor, 2002; Hussey, 1997). We first surveyed two layers of innovation classification. The first layer examined the nature of innovation, for example, incremental and/or radical. The second layer further probed four different types of innovation, namely technological, marketing, administrative, and strategic innovations for both incremental and radical innovations. The definitions of these four different types of innovation will be provided in the “Measurement” section to avoid redundancy.

Furthermore, investigation of the relationship between innovation and organizational performance is paramount. Previous studies of this link indicated mixed results, some positive, some negative, and some showed no relationship at all (Capon *et al.*, 1990; Chandler and Hanks, 1994; Li and Atuagene-Gima, 2001). Damanpour (1990) argued that the association between innovation and firm performance depends on the performance measurement and the characteristics of a given organization. That is, the utilization of objective or subjective performance indicators such as sales or self-reported performance may lead to different research results. In addition, different types or different combinations of innovation, such as technological innovation alone or the combination of technological and marketing innovations may also result in divergent organizational performances.

According to Pratali (2003), incremental technological innovations help improve company competitiveness with the ultimate aim of increasing company value. Incremental market innovation is about new ways of reading and serving current markets, which ensures firms to provide appropriate offers and yields greater avenues (Johne and Davies, 2000). In addition, Johne et al (2000) reported that innovative marketing aims at increasing product consumption and has a positive influence on firm sales. Furthermore, continuous work process innovation was

regarded as the most important action for improving the short-term profitability (Soderquist, 1996). Terziovski (2000) also reported that an incremental strategy is the major driving force behind any improvement effort. Apparently, incremental innovation leads to the accumulation of day-by-day improvements and is the backbone of organizational performance.

Adopting radical innovation has mixed results. Various scholars commented that radical or breakthrough innovations provide the engine for long-term growth (Leifer *et al.*, 2001). Many small companies also succeeded in introducing more radical innovations because of their genetic makeup (Stringer, 2000). However, some argue that the linkage of radical innovation and performance is an S-curve shape because of diminishing research effort and resource inefficiencies (Foster, 1986). In many cases, the creative destruction effect of radical innovation may not be shown in a short term horizon and even release a negative impact on firm performance (Freel and Robson, 2004).

## **2.3 Models of Innovation**

### **2.3.1 Macro-model of Innovation**

The macro-model focuses on the context of innovation, and concentrates on the environmental drivers of innovation; society's needs and new technological advances, as well as the frequency and rate of innovation development.

**Drivers of innovation;** Innovation is the response to environmental challenges or future opportunities (Hitt *et al.*, 1997; Li and Atuahene-Gima, 2001). It invariably needs a purpose and, therefore, the introduction and identification of a new consumer need or the development of additional technology within the market place usually initiates the process. This is more commonly identified as the push-pull process (Tidd *et al.*, 2001). Consequently, the key precipitating environmental factors for innovation are uncertainty, risk and change (Amit *et al.*, 1993; Braganza and Ward, 2001).

Consumers perceive a new that which leads towards innovation (Rothwell, 1992). Factors that provide the stimulus for the new needs of the organizations, society and the market place, include unexpected events, alterations in demographics or changes in industry structure, and

consumer need recognition (Koontz and Weihrich, 1990). This emphasizes the market-pull aspect of the model (Rothwell, 1992).

New technology also impacts innovation (Roberts, 1988). This emphasizes the technological-push characteristics of the model (Rothwell, 1992). The interplay of technology and need, in turn, influences the market place. New technology has the potential to alter industry structure (Porter, 1998) thereby changing the marketplace and hence influencing consumer needs. Recognition and exploitation of the competitive significance of technological change is important, as this can also change the rules and parameters under which organizations operate (Dooley and O'Sullivan, 2001; Means and Faulkner, 2000; Porter, 1998; Roberts, 1988). Opportunity recognition is, in essence, the development of the idea that the corporate entrepreneur seeks to manage and exploit.

**Innovation process;** Innovation is conceptualized by using Roger's (1995) six-stage innovation model. In the discovery phase the emphasis is on finding an idea that stimulates opportunity finding (Roberts, 1988). There are two distinct stages; opportunity recognition and researching and evaluating the identified opportunity. The application phase is where the development of the idea takes place. Adoption and diffusion of the new product, process or service includes the commercialization and output stages of innovation. During this phase, the output can be defined as either a successful and profitable product launch or an unsuccessful launch, which is a loss maker. These innovation phases will be discussed in more detail in the micro level model, which focuses on supporting roles and processes.

**Relationships between factors;** Innovation leads to both new market and new technological knowledge, which is fed-back to assist with new innovations (Afuah, 2003). This is a continual cycle and may be either radical or purely incremental.

**Rapid development; Rapid** development is concerned with the amount of time it takes for an innovation to evolve from the idea stage to a commercialized product. Rapid innovation development is due to the increased pace of change within the marketplace (Means and Faulkner, 2000; Rigby and Zook, 2002), the high rates and discontinuities of technological change, as well as the orientation of the organization and the individual(s) involved in the innovation process

(Dooley and O'Sullivan, 2001; Rothwell, 1994; Schaffer and Paul-Chowdhury, 2002). Technology tends to evolve in cycles with each stage associated with varying degrees of innovation development (Freeman, 1982). For example, the early stage is associated with rapid and frequent development, which slows down to a more regulated pace as the technology matures (Roberts, 1988).

### **2.3.2 Micro-model of Innovation**

The micro-model highlights the important factors that underpin innovation processes. Innovation activity is often perceived as an unpredictable, illogical process (Blanchard, 1999). As a consequence, innovating can be difficult and it is therefore important to proactively manage the innovation process. The micro model illustrates how innovation can be effectively managed in an environment of high risk and uncertainty.

**Input;** Evidence from the literature suggests that creativity is fundamental in configuring the innovation process (Amabile, 1996a; Couger, 1995). In other words, creativity assists in the emergence of new and novel ideas that will initiate and support the innovation process. It provides the originality of thought based on a platform of existing knowledge and motivation (Amabile, 1996b). Existing knowledge is important because, in order to be creative, innovators must go beyond the established status quo. It is also suggested that knowledge can, and will be packaged and repackaged as different things (Felton and Finnie, 2003). By changing the relationships between different elements of information, new and novel ideas can be developed (McFadzean, 1999; Nagasundaram and Bostrom, 1995). Sternberg *et al.*, 1997) note that: “The years that it takes to build up the necessary knowledge to make a major creative contribution...is not spent on passive learning, but rather in constant experimentation, revising, discarding, playing and pulling one's hair out.” In fact, many innovators have only been successful because of their patience and desire to succeed (Amabile, 1996b). For example, Thomas Edison learned 1800 ways on how not to build a light bulb before he was finally successful (Harrington *et al.*, 1998).

## **2.4 Product Differentiation**

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980).

It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980).

Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Ireland et al., 2001; Dess and Davis, 1984; Porter, 1985)

Successful differentiation is based on a study of buyers' needs and behaviour in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals' products. Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand. Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes.

Kotler (2001) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain.

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network, or customers' service. Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyers' loyalty can also serve as an entry barrier; new firms must develop their own distinctive competence to differentiate their products in some way in order to compete successfully. Examples of the successful use of a differentiation strategy are Hero Honda, Asian Paints, HLL, Nike athletic shoes, Apple Computer, and Mercedes-Benz automobiles. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share

In marketing, product differentiation (also known simply as "differentiation") is the process of distinguishing the differences of a product or offering from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as one's own product offerings. Differentiation is a source of competitive advantage. Although research in a niche market may result in changing your product in order to improve differentiation, the changes themselves are not differentiation. Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of your product and create a sense of value. Marketing textbooks are firm on the point that any differentiation must be valued by buyers (Kotler, Philip and Kevin 2006).

The term unique selling proposition refers to advertising to communicate a product's differentiation (Reeves, 1961). In economics, successful product differentiation leads to monopolistic competition and is inconsistent with the conditions for perfect competition, which include the requirement that the products of competing firms should be perfect substitutes.

The brand differences are usually minor; they can be merely a difference in packaging or an advertising theme. The physical product need not change, but it could. Differentiation is due to buyers perceiving a difference; hence causes of differentiation may be functional aspects of the product or service, how it is distributed and marketed, or who buys it. The major sources of product differentiation are i) Differences in quality which are usually accompanied by differences in price, ii) Differences in functional features or design, iii) Ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing, iv) Sales promotion activities of sellers and, in particular, advertising and v) Differences in availability (e.g. timing and location).

The objective of differentiation is to develop a position that potential customers see as unique. Differentiation primarily impacts performance through reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition. A successful product differentiation strategy will move your product from competing based primarily on price to competing on non-price factors (such as product characteristics, distribution strategy, or promotional variables). Most people would say that the implication of differentiation is the possibility of charging a price premium; however, this is a gross simplification. If customers value the firm's offer, they will be less sensitive to aspects of competing offers; price may not be one of these aspects. Differentiation makes customers in a given segment have a lower sensitivity to other features (non-price) of the product (Sharp and Dawes, 2001).

Viewing distribution as a profit, not cost, center that drives differentiation and growth can help insurers achieve success through better alignment with agents and a multi-channeled approach towards marketing. To do so, insurers need to get closer to the consumer and to their producers and distribution partners, according to Deloitte (2008). Many insurers are finding it worthwhile to enhance communications and support for independent agents (Carrie, 2008). Another place of



opportunity is the retirement market. Unlike competitors such as mutual fund companies, it is able to offer “guaranteed” products (Carrie, 2008). Deloitte (2008) warns though, in the midst of the rush to serve the financial needs of retirees, insurers also must make sure they continue to create products for, and forge relationships with, younger consumers.

## **2.5 Technology**

Currently, technology is fundamentally re-aligning business relationships between insurance companies and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels. This is because consumers no longer express the preference to any single channel. As insurers face new challenges in the electronic payment (e-payment) world, they need to leverage their information technology (IT) strategy to be aligned with business strategy.

The traditional strategy of insurers in the payment innovations is innovative strategy aiming to compete based on the size. Insurance firms with extensive branch networks tend to capture more customers than those with fewer branches. The traditional insurance firms are moving towards integrated delivery channels and the adoption of the click strategy (Pennathur, 2001; Hensmans, et al., 2001). This is because the competitive alternatives in the insurance payment transmission system (e.g. Internet, mobile phones) mean that insurance firms cannot use a network for clearing and settlements as an achievement of innovation. The overall thrust is that insurance realize the importance of having control over the payment networks so that they have market power, and accordingly, competitive advantage over other competitors.

For many insurance firms in Kenya, information and communication technology is viewed as potentially capable of helping achieve innovative strategy. The high rate at which organizations are buying mobile phones, computer hardware and software as well as using the Internet for information and communication is evidence of the increasing awareness of information and communication technology in the Kenyan market. The business benefits of using information and communication technology include efficiency and attainment of increased returns. The vast opportunities brought by the Internet to the insurance industry have therefore attracted much attention from researchers whose efforts apparently group on certain areas of interest.

While the area of information technology is very wide, the most applicable and highly used is the mobile phone, which is used by majority of Kenyans, both individuals and corporations. A large number of people now use mobile phones for communication purposes this implies that insurance firms can reach a large number of persons through their mobile phones, which are always with them. The adoption of short messages services banking both from clients will, if effectively implemented, lead to substantial cost savings by insurers in the areas of telephone calls and personnel time.

Technological developments particularly in the area of Telecommunications and Information Technology are revolutionizing the way business is done. Electronic commerce (e-commerce) is the activity in which consumers get information and purchase products using Internet technology (Olson and Olson 2000). This revolution in the market place has set in motion a revolution in the insurance sector for the provision of a payment system that is compatible with the demands of the electronic marketplace. Consequently, the potential benefits of e-commerce have been widely touted.

Porter emphasized the use of technology to empower the firm's capabilities. He argued that technology would enable the firm to excel in the competition. Insurance companies are regarded as a vanguard in the use of information and communication technology (ICT) (Barras, 1986, 1990). In the context of insurance, the advancement in technology presents a new opportunity to improve service quality in response to volatile economic environment and changing competitive conditions. At the firm level, apart from adopting technology to integrate delivery channels to develop a close relationship with customers, insurance firms also adopt technology to enable the analysis of information about customer segmentation, demographics, product usage, transaction behaviour that thereby help them to improve the profitability and increase market share. With the use of information technology (IT), the insurance firms can use the cross-selling strategies to sell new banking innovations to their existing customer base. It can be seen that insurer's adoption of technology changes from improving efficiency of back office banking functions towards improving the service quality in servicing the customers. Such changing strategy demonstrates the situation where insurers compete to own the potential customers.

According to Deloitte, (2008) young generation will be entering the workforce en masse, bringing with them their demands for products that have automatic plan features. As an example, the use of social networking, online collaboration and Web conferencing may provide the path for delivering personalized service to this technically adept generation (Carrie B., 2008). Deloitte (2008), suggest that insurers should focus on developing enterprise wide cost-reduction programs and taking advantage of the opportunities offered by off shoring, outsourcing and emerging use of Web and IVR technologies—all the while creating new products and capabilities for service customers in a multi-channel world.

While technology is often a key ingredient in cost-reduction efforts, insurers also are looking to ensure they restrain unnecessary IT expenses. One driver is the cost of maintaining interfaces among multiple legacy systems, which are often the result of a series of acquisitions that have not been fully integrated (Carrie, 2008).

One promising strategy is virtualization or grid computing, where software and data are centralized, moving from PCs to central servers. Zurich North America Commercial for example initially went through a phase of virtualization to consolidate servers and boost utilization. Zurich used virtualization to homogenize hardware and software environment (Carrie, 2008).

The Schaumburg, Ill.-based Company then used virtualization in non-production and, subsequently, production environments. It currently uses virtualized and non-virtualized environments for production; in addition, the company used virtualization to improve application efficiencies by running an application family within a virtual environment.

New analytics tools such as synthetic data and unstructured text applications add to the already powerful analytics repertoire and create opportunities for both profitability and efficiencies in claims administration, underwriting, marketing and distribution (Carrie, 2008). Companies have to capture and analyze multiple sources of data—internally from diverse product databases and claims systems and externally from a range of public domain data sources—to develop insights that enable better and more informed decisions (Carrie, 2008).

## 2.6 Quality Customer Service

Definitions of service quality hold that it is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Lewis and Booms, 1983; Lehtinen and Lehtinen, 1982; Grönroos, 1984; Parasuraman *et al.*, 1994). Lehtinen and Lehtinen (1982) give a three-dimensional view of service quality. They see it as consisting of what they term “interaction”, “physical” and “corporate” quality. At a higher level, and essentially from a customer’s perspective, they see quality as being two-dimensional, consisting of “output” and “process” quality. The model proposed by Grönroos (1984, 1990) highlights the role of technical (or output) quality and functional (or process) quality as occurring prior to, and resulting in, outcome quality. In this model technical quality refers to what is delivered to the customer, be it the meal in a restaurant, the solution provided by a consultant, the home identified by the estate agent, the efficiency of money withdrawal or banking. Functional quality is concerned with how the end result of the process was transferred to the customer. This concerns both psychological and behavioral aspects that include the accessibility to the provider, how service employees perform their task, what they say and how the service is done. Thus while technical quality can often be quite readily evaluated objectively, this is more difficult to do with functional quality. The model also recognizes that customers also have some type of image of the firm, which has a quality impact in itself and functions as a filter. The customers’ perceived quality is the result of the evaluation they make of what was expected and what was experienced, taking into account the influence of the organization’s image.

There can be little doubt that quality is, nowadays, among the most critical aspects for the strategic management of service firms. Customer satisfaction and loyalty – secured through high-quality products and services providing value for money for the consumer – are essential for long-term survival, let alone long-term success (Cina, 1990; Daniel, 1992; Gale, 1994; Reichheld and Sasser, 1990; Shycon, 1992; Zeithaml *et al.*, 1985, 1990; Robledo, 1996, 1998).

Customer service is the manner in which a product or service is conveyed to the buyer. Good customer care and strategies involve choosing strategically to serve only a specific type of customers or serving all types of customers, Murage, (2001). According to Turban et al, (2002)

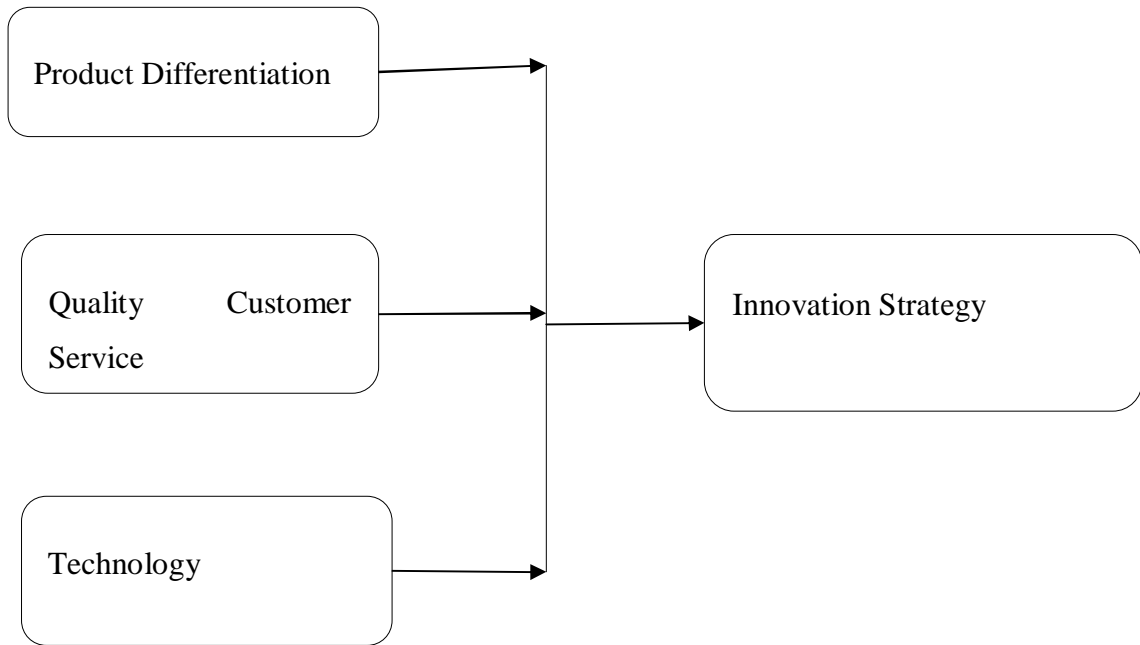
“Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation”. Customer service may be provided by a person (e.g., sales and service representative), or by automated means called self-service. Examples of self service are Internet sites. Customer service is normally an integral part of a company’s customer value proposition.

Models have been developed to find measure and assess the determinants of service quality. SERVQUAL is based on the notion of a gap between what customers expect in terms of service quality from the providers of the service and their assessment of the actual performance of that particular service provider. Since Parasuraman et al, (1988) introduced SERVQUAL instrument; many researchers have used, extended and developed 22-item scale to study service quality in different sectors of the services industry (Fick and Ritchie, 1991; Babakus and Mangold, 1992; Coyle and Dale, 1993; Cronin and Taylor, 1992).

## **2.7 Conceptual Framework**

This is a hypothesized model identifying the variables under the study and their relationships. The schematic representation below shows the conceptual relationship between the research variables. According to the conceptual framework, innovation strategy is the dependent variable while product differentiation, quality customer service and technology are the independent variables.

The conceptual framework is a modification of Michael Poter’s generic strategies (product differentiation, focus strategy and cost leadership). Product differentiation is an innovation strategy that enables one to come up with unique products/service in the industry making consumer be willing to pay extra amount for it. Since a business technological environment changes constantly, of which insurance companies are no exception, keeping abreast of these technological changes by innovatively applying technology that will ensure that insurance industries achieve cost efficiencies is incumbent on the management. Since insurance companies deal in service industries quality customer service come in handy. Quality customer service trickles down to targeting market segments and how the services are positioned in such markets.



**Independent variables**

**Dependent Variable**

*Source: Author 2009*

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter discusses the methodology that was used in gathering the data, analyzing the data and reporting the results. Here the researcher aim at explaining the methods and tools used to collect and analyze data to get proper and maximum information related to the subject under study.

### **3.2 Research Design**

The research design employed in this study was a survey method aimed at establishing the innovation strategies adopted by insurance companies in Kenya. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. A survey was chosen since it eliminates biasness and it is in-depth or thorough in nature.

### **3.3 Population of the study**

As the population was not overly large and all the Companies in the population had their head offices in Nairobi, a census study of the entire population was undertaken covering 43 companies.

### **3.4 Data Collection**

The study relied heavily on primary data obtained through the use of semi-structure questionnaires which were administered using the drop-and-pick later method. The use of questionnaires had the advantage of obtaining objective and accurate data (see appendix I).

### **3.5 Data Analysis**

The data collected through the questionnaires was checked for completion, coded and analysed with the help of the Statistical Package for Social Sciences (SPSS). The analysis was done in terms of descriptive statistics such as mean scores, standard deviation and percentages. The results were then presented using tables, graphs and charts for ease of understanding. This also allowed for the interpretation of the findings generated and a recommendation from the findings.



## CHAPTER FOUR: DATA ANALYSIS

### 4.0: Introduction

This chapter provides statistical presentation and analysis of the data collected. The data has been presented in tables and figures with summaries being given for each table and figure. The objective of this chapter is to explain the data rather than draw conclusions and interpretations. The study aims at indentifying innovation strategies adopted by insurance companies industry in Kenya. A chapter summary that includes the major findings of the study is presented in the last part.

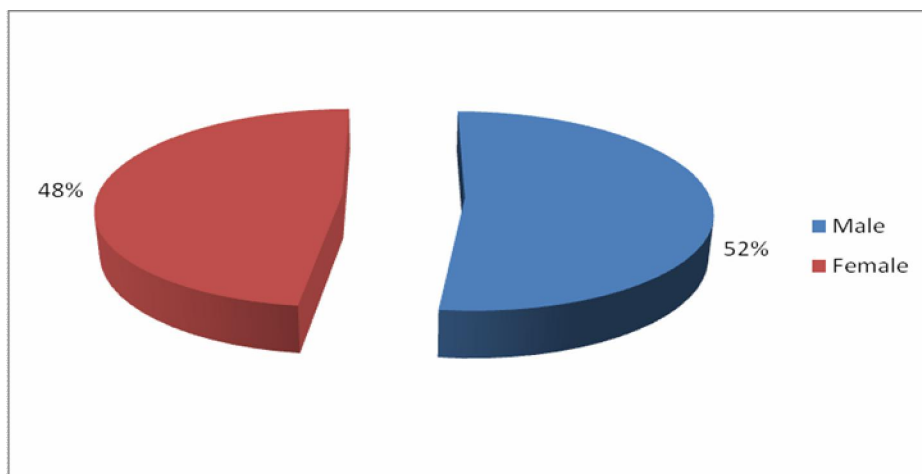
### 4.1 Background of the respondents

This section of the study sought to capture respondent's socio demographic information. Respondents were asked to answer a set of questions detailing on socio demographic information. Results are presented under the following sub sections.

#### 4.1.1 Gender

Respondents were categorized as being either male or female. Majority of the respondents (52%), were male and 48% were female. Figure 4.1 shows the results.

**Figure 4.1 Gender**

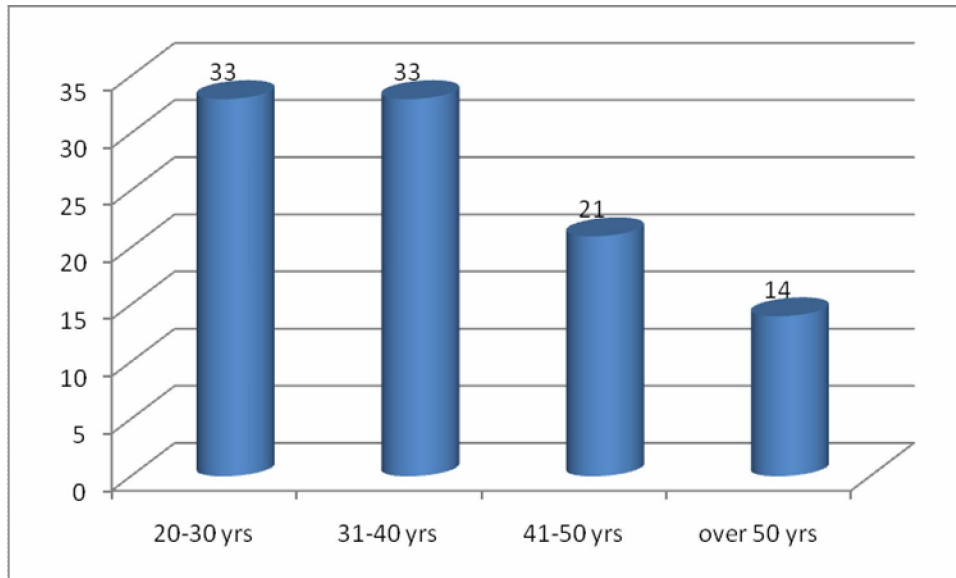


The figure above shows that majority of the interviewed respondents were male with 52 percent and female with 48 percent.

#### 4.1.2 Age bracket

This section aimed at indentifying the age bracket of the interviewed respondents.

**Figure 4.2 Age bracket**



Data presented in the figure above shows that majority of the respondents were between the age bracket of 31-40 years and 20-30 years comprising 33 percent. 21 percent were in the age bracket of 41-50 years and 14 percent were over 50 years.

#### 4.2 Line of insurance business

Property and casualty insurers currently make the most money from their auto insurance line of business. Generally better statistics are available on auto losses and underwriting on this line of business has benefited greatly from advances in computing. This part of study aimed at indentifying the various lines of insurance of business of the interviewed insurance companies. Table 4.1 shows the results.

**Table 4.1 Line of insurance business**

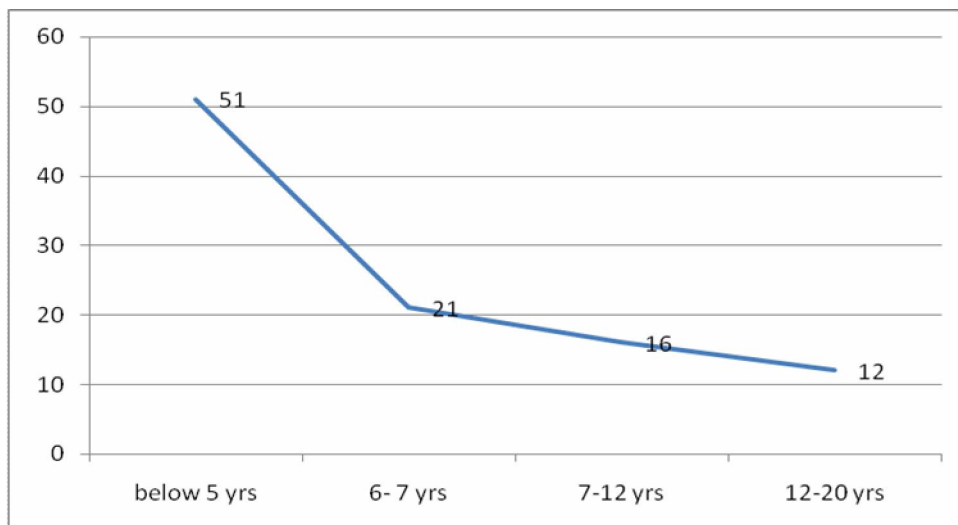
	<b>Frequency</b>	<b>Percent</b>
General	26	60
Life	11	26
Composite	6	14
Total	43	100

The study revealed that majority of the respondents was in the general line of insurance business while 26 percent were in life insurance line. Only 14 percent were in composite line of insurance.

### **4.3 Years of work**

The study went further to establish the number of years of work that the insurance companies had been in existence.

**Figure 4.3 Years of work**



The study established that majority of the companies had worked for 5 years and below,(51 percent) with 21 percent having worked for 6 to 7 years.16 percent had been working 7 to 12 years while 12 percent had worked for 12 to 20 years.

#### 4.4 Innovative strategies

Different companies take different approaches to the use of innovation in attempting to improve their performance. This section aimed at indentifying the various strategies focused by the interviewed insurance companies.

**Table 4.2 Innovative strategies**

Strategy	Extreme extent		Large extent		Moderate extent		Not at all	
	F	%	F	%	F	%	F	%
Product	21	50	17	41	6	9	0	0
Human resource	21	50	17	40	5	10	0	0
Marketing	21	50	10	25	6	15	3	8
Customer care	19	45	18	43	6	12	0	0
Technology	18	40	23	54	2	6	0	0

Data presented above shows that product, human resource and marketing were the various strategies focused by the interviewed insurance companies with 50 percent while 25 percent had a large extent on the focus of marketing., Technology as a strategy had been moderately agreed by 6 percent while 6 percent had a no view at all on marketing as an innovative strategy

#### **4.4.2 Other Innovative strategies**

The study went further to ask the interviewed respondents on other innovative strategies. Claim process was an innovative strategy with 7 percent, while Information communication technology had a 5 percent majority. Product pricing was agreed upon by 5 percent of the respondents. 36 percent however gave no response.

**Table 4.3 Other Innovative Strategies**

	<b>Frequency</b>	<b>Percent</b>
No response	36	83.72093
Claim process	3	6.976744
ICT market response	2	4.651163
Product pricing	2	4.651163
Total	43	100

#### **4.5 Rating on how insurance companies use competitive advantage to gain innovative advantage**

The increasing competition and consolidation in the financial services, property and casualty, is continuing to make product differentiation difficult, relegating insurance and other financial products to commodities often chosen on price alone. This section aimed at indentifying the various rating of respondents concerning how their companied used competitive advantage to gain innovative advantage.

**Table 4.4 Rate of competitive strategy on innovative advantage**

<b>RATE</b>	<b>Mean</b>	<b>Std.deviation</b>
market focus	1.9268	.78709
differentiation	1.8780	.74817
cost leadership	1.8611	.72320
Note 1= Extreme extent while 4=Not at all		

The above table shows that majority of the respondents rated cost leadership as the highest competitive strategy on innovative advantage with a mean of 1.8611 while differentiation was second with a mean of 1.8780 and market focus had the least extent with a mean of 1.9268.

#### **4.6 Innovative strategies that have contributed to firm's profitability**

Innovation is a process, the way resources are used to affect the common weal (a sound, healthy, or prosperous state), or to create a new resource. An innovation is the result of that process. Resources include people, capital, knowledge, relationships, tools, facilities, land and nature. The activities within the process of innovation (or projects) act on the resources within the context of an organizational, community or national culture. The innovative behavior of a firm can also be characterized by who it looks to for its source of innovation and the importance it places on Research and Development.

This section of study sought to indentify the various innovative strategies that the interviewed companies used to contribute to their firm's profitability.

**Table 4.5 Factors influencing innovative strategies**

<b>Strategy Used</b>	<b>Very greatly</b>	<b>Greatly</b>	<b>Moderately</b>	<b>Not at all</b>	<b>Mean</b>
<b>Quality Customer care</b>	67	26	7	0	1.395
<b>Marketing strategy</b>	66	24	10	0	1.461
<b>Product differentiation</b>	62	25	14	0	1.487
<b>Technology</b>	58	35	7	0	1.375
<b>Human resource management</b>	37	44	16	3	1.837

The study concluded that Quality Customer care was a very great factor that influenced innovative strategy with 68 percent and Marketing strategy followed closely with 66 percent. In addition Technology was a great factor with 25 percent while Human resource management was considered a moderate factor with a 16 percent

**4.7 Years of working - factors influencing innovative strategies-technological factors Cross tabulation**

**Table 4.6 Years of working - factors influencing innovative strategies-technological factors Cross tabulation**

Years of working	Yes	No	Total
Below 5 yrs	19	3	22
6- 7 yrs	8	1	9
7-12 yrs	7	0	7
12-20 yrs	4	1	5
Total	38	5	43

This section aimed at identifying technological factor as a factor influencing innovative strategies cross tabulated with Years of working Majority of the companies which had worked below 5 years (19) agreed to the factor while those that had worked for 12 to 20 years (4) disagreed,

**4.8 Years of working - market Cross tabulation**

This section aimed at identifying market as a factor influencing innovative strategies cross tabulated with Years of working .The greater part of the companies (20) which had worked below 5 years agreed to the factor while those that had worked for 7 to 12 years(7) disagreed,

**Table 4.7 Years of working- market Cross tabulation**

	Yes	No	Total
below 5 yrs	20	2	22
6- 7 yrs	8	1	9
7-12 yrs	7	0	7
12-20 yrs	5	0	5
Total	40	3	43



#### 4.9 Years of working - religious factors Cross tabulation

This area of study was aimed at indentifying religious factors as a factor influencing innovative strategies cross tabulated with years of working. The study revealed that only 2 of the companies which had worked for 6 to 7 years agreed to the factor while 22 that had worked for less than 5 years disagreed.

**Table 4.8 Years of working \* religious factors Cross tabulation**

	Yes	No	
below 5 yrs	0	22	22
6- 7 yrs	1	8	9
7-12 yrs	0	7	7
12-20 yrs	2	3	5
Total	3	40	43

#### 4.10 Years of working - economic factors Cross tabulation

This section aimed at indentifying economic factors as a factor influencing innovative strategies cross tabulated with Years of working

**Table 4.9 Years of working - economic factors Cross tabulation**

	Economic factors		Total
	Yes	No	
Below 5 yrs	17	5	22
6- 7 yrs	8	1	9
7-12 yrs	3	4	7
12-20 yrs	4	1	5
Total	32	11	43

Majority of the companies which had worked below 5 years (17) agreed to the factor while 4 of those that had worked for 12 to 20 years disagreed.

#### **4.11 Years of working - regulatory/legal factors Cross tabulation**

This area of study was aimed at identifying religious factors as a factor influencing innovative strategies cross tabulated with Years of working. The study revealed that only 2 of the companies which had worked for 6 to 7 years agreed to the factor while 22 that had worked for less than 5 years disagreed.

**Table 4.10 Years of working - regulatory/legal factors Cross tabulation**

	Regulatory/legal factors		Total
	Yes	No	
Below 5 yrs	15	7	22
6- 7 yrs	7	2	9
7-12 yrs	5	2	7
12-20 yrs	5	0	5
Total	32	11	43

#### **4.12 Years of working - political factors Cross tabulation**

This area of study was aimed at indentifying political factors as a factor influencing innovative strategies cross tabulated with Years of working. The study revealed that only 2 of the companies which had worked for 6 to 7 years agreed to the factor while 17 that had worked for less than 5 years disagreed.

**Table 4.11 Years of working - political factors Cross tabulation**

	Political factors		Total
	Yes	No	
Below 5 yrs	5	17	22
6- 7 yrs	2	7	9
7-12 yrs	2	5	7
12-20 yrs	4	1	5
Total	13	30	43

**4.13 Future terms of innovation**

In addition, respondents were asked whether their companies had any plans of innovation. Surprisingly, all interviewed insurance companies had plan of future innovation

## **CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATION**

### **5.1 Introduction**

This chapter presents a summary and conclusions derived from the findings in the previous chapter. The purpose of these conclusions is to answer the research questions. Finally, recommendations for management, and suggestion for future study are presented.

### **5.2 Summary of the findings**

The study revealed that majority of the interviewed respondents were male with 52 percent and female with 48 percent..In addition, majority of the respondents were between the age bracket of 31-40 years and 20-30 years comprising 33 percent.21 percent were in the age bracket of 41-50 years and 14 percent were over 50 years

The study also established that majority of the respondents had worked for 5 years and below,(51 percent) with 21 percent having worked for 6 to 7 years.16 percent had been working 7 to 12 years while 12 percent had worked for 12 to 20 years.

On the area of focus on innovative strategies, 25 percent had a large extent on the focus of marketing, Technology as a strategy had been moderately agreed by 6 percent while 6 percent had a no view at all on marketing as an innovative strategy

Majority of the respondents rated cost leadership as the highest competitive strategy on innovative advantage with a mean of 1.8611 while differentiation was second with a mean of 1.8780 and market focus had the least extent with a mean of 1.9268.

Quality Customer care was a very great factor that influenced innovative strategy with 68 percent and Marketing strategy followed closely with 66 percent. In addition Technology was a great factor with 25

The study also concluded that majority of the respondents who had worked below 5 years (19) agreed to technology as an innovative strategy factor while those that had worked for 12 to 20 years (4) disagreed,

In addition, respondents were asked whether their companies had any plans of innovation. Surprisingly, all interviewed insurance companies had plan of future innovation

In conclusion, the study revealed that only 2 of the companies whose respondents had worked for 6 to 7 years agreed to the marketing strategy as an innovative strategy factor while 22 that had worked for less than 5 years disagreed.

### **5.3 Discussion**

Insurance companies need to spotlight on customer focused insurance and financial services and this calls for innovation and a customer focused product delivery through development of new and exciting products in the market.

In addition, for insurance companies to grow, the institutions must meet the challenges to be truly customer centric and this presents challenges in management of transactions and information. This requires significant investment in technology and IT skills.

Companies need to complete the implementation of a robust life information management system and plan to select and implement new medical insurance management systems. Implementing electronic document management systems makes documents available electronically and automates workflows. This enhances customer service, disaster management and business continuity capability.

## 5.4 Innovative strategies

An innovation that meets an emerging need is much more likely to be accepted and have a longer life than one that attempts to create a new need, or of course, one that meets a past or declining need. As the process of innovation requires time, leading the process requires foresight. The foresight horizon must extend into the future at least as far as the innovation process is long. And, the coupling between views of the future and the innovation process must be tight in order to adjust the target of the innovation process over time.

McGuinness and Little (1981) argue that marketing skills are a complement to innovation in achieving success. Similarly, Utterback (1988) states that "marketing activities play a pivotal role in the success of small firms. Fast growers take an active role in the marketing of their products. Additionally, marketing efforts that result in the penetration of foreign markets are important, as Edmunds and Khoury (1986) have noted that exporting is a key to success. Developing a significant export market allows firms to reduce risks by diversifying across dissimilar markets and to prolong the marketability of their products.

Input strategies and investment behavior are also key factors behind success. The importance of maintaining a competitive position in the production arena is emphasized by Teece (1986), who notes that "innovating firms without the requisite manufacturing and related capabilities may die, even though they are the best at innovation.

Financing innovative behavior is often perceived to be a problem for several reasons. First, innovation involves new activities whose success is difficult to evaluate. Secondly, it often requires investment in development work that does not produce hard assets. Innovative ideas cannot be easily offered as collateral. Thus, innovation, it is sometimes said, requires high cost funds that come from venture capital groups or from internally generated funds. However, Utterback et. al.(1988) have found that firms that must fund themselves primarily through growth in retained earnings are less likely to succeed. The issue then is whether innovative firms rely less on external funds or whether the mix of outside funds differ for innovative and non-innovative firms.

## **5.5 Conclusion**

Companies with strong technology-enabled innovation strategies are more likely to secure competitive advantage and create superior shareholder value. A formal innovation strategy helps firms achieve success in new product development.

Technology-enabled innovation strategy is concerned firstly with understanding the role of innovation to support profitable growth for your business; then secondly making the most appropriate decisions concerning technology sourcing and development to best underpin the innovation strategy. Overall the effect should be to maximize shareholder value creation.

There are many types of innovation – often companies merely equate innovation with new product development (and increasingly incremental development at that). But depending on the competitive position and the maturity of the industry insurance companies should also consider service innovation, customer experience innovation, process innovation, business model innovation etc. to all be part of the innovation portfolio.

A good technology-enabled innovation strategy should clearly deconstruct the reasons why a company is (or will be) successful - its unique value proposition and competitive advantage - considering the market both as it stands today, and how it could be in future: This can be achieved by drawing on market / customer insight into hidden needs and fundamental “jobs to be done” and technology insight into novel applications of technology to meet customer needs better.

In addition, technology underpins the unique value proposition that the company already has, or plans to develop and defines how all the key technology assets supporting the unique value proposition are developed in-house or sourced from outside, and exactly how and from whom.

## **5.6 Recommendations**

The study recommends that insurance companies need to develop robust technology-enabled innovation strategies that define how a company source’s and develops technology to help

deliver compelling new products, services, customer experiences and business models while simultaneously creating barriers to entry.

In addition, and with regards to compensation, innovative companies were suggested to give top Research & Development executive's salaries that are competitive within the industry since it encourages them to accept the high risks associated with innovative environments.

In conclusion, the study recommends that Insurance companies should encompass the agility, focus, ease of communication, and flexible culture that simplify the implementation of innovation management.

### **5.7 Area for Further Research**

The study was carried out in the insurance industries on the innovation strategies they adopt in order to stay competitive in the drastically changing business environment. The researcher further recommends that the same study be done on other companies and other financial institutions so as to find out the innovation strategies they employ in order to stay competitive since each company do approach a different strategy.

### **5.8 Implications of the study for Policy and Practice**

The relevant insurance industries departments should be involved to facilitate sustainability and adoption of improvements through the adoption of various innovation strategies. The study also identified that for any innovation strategy to achieve its intended goals managers should and the management in general should be proactive and pioneer the innovation. A formal innovation strategy should be employed by all insurance industries to help them achieve success in new product development.



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## APENDICES

### Appendix I: Questionnaire

#### PART A: BACKGROUND INFORMATION

1. State your gender?

Male

Female

2. State your Age Bracket?

20-30 years

31-40 years

41-50 years

Over 50 years

3. Insurance company worked for.

.....  
.....

4. Line of insurance business?

General

Life

Composite

Reinsurance

5. How long have you worked for the insurance company?

Below 5 Years [ ]

6-7 Years [ ]

7-12 Years [ ]

12-20 Years [ ]

Over 21 Years [ ]

**PART B: INNOVATION STRATEGIES**

1. To what extent has the insurance company focused its innovation strategy on the following areas?

Strategies	Extreme extent	Large extent	Moderate extent	Not at all
<b>Technology</b>				
<b>Customer care</b>				
<b>Product</b>				
<b>Human resources</b>				
<b>Marketing</b>				

I. Any other (please specify?)

.....  
 .....  
 .....

2. Rate on how the insurance company has used the following generic competitive strategies to gain the innovative advantage.

Strategies	Extreme extent	Large extent	Moderate extent	Not at all
<b>Differentiation</b>				
<b>Market Focus/Niche Strategy</b>				
<b>Cost Leadership</b>				

3. Have other firms in the industry implemented these innovative strategies and how successful have they been?

.....

.....

.....

.....

.....

4. Please rate on how the innovation strategies adopted have contributed to the firms profitability

<b>Innovation Strategy</b>	<b>Very Greatly</b>	<b>Greatly</b>	<b>Moderately</b>	<b>Not at All</b>
Technology				
Quality Customer care				
Product Differentiation				
Human Resource Management				
Marketing Strategy				

a.) Please motivate your answer to the question above,

.....  
.....  
.....  
.....  
.....  
.....  
.....

**PART C: FACTORS INFLUENCING INNOVATION STRATEGIES**

1. Have changes in the following factors affected the adoption and implementation of the strategies at your insurance company?

- I. Technological factors [ ]
- II. Market [ ]
- III. Religious factors [ ]
- IV. Economic factors [ ]
- V. Regulatory/legal factors [ ]
- VI. Political factors [ ]
- VII. Any other (please specify).....

Explain.....  
.....  
.....  
.....  
.....  
.....

2. Does the company has a future in terms of innovation?

Yes [ ]

No [ ]

Why.....  
.....  
.....  
.....

**Thank you for your time.**

## **Appendix II: Sample Frame**

1. Africa Merchant Assurance Company Ltd.
2. A.I.G Kenya Insurance Co. Ltd. P
3. APA Insurance Company Ltd
4. Apollo Insurance Company Limited
5. Blue Shield Insurance Company Limited
6. British American Insurance Co. (K) Limited
7. Cannon Assurance (K) Limited
8. Concord Insurance Company Limited
9. CFC Life Assurance Company (K) Ltd.
10. Co-operative Insurance Company Limited
11. Corporate Insurance Company Limited
12. Directline Assurance Company Limited
13. Fidelity Shield Insurance Company Limited
14. First Assurance Company Limited
15. Gateway Insurance Company Limited
16. Geminia Insurance Company Ltd.
17. General Accident Insurance Company Ltd.



18. Heritage A.I.I. Insurance Company Ltd.
19. Insurance Company of East Africa Ltd
20. Intra Africa Assurance Company Limited
21. Jubilee Insurance Company Limited
22. Kenindia Assurance Company Limited
23. Kenya National Assurance (2001) Limited
24. Kenya Orient Insurance Company Limited
25. Kenyan Alliance Insurance Co. Ltd.
26. Lion of Kenya Insurance Company Ltd.
27. Madison Insurance Company Kenya Limited
28. Mayfair Insurance Limited
29. Mercantile Insurance Co. Ltd
30. Metropolitan Life Insurance (K) Co. Ltd
31. Occidental Insurance Company Limited
32. Old Mutual Insurance Company Limited
33. Pacis Insurance Company Limited
34. Pan Africa Life Assurance Limited
35. Phoenix of East Africa Insurance Co. Limited
36. Pioneer Assurance Company Limited

- 37. Real Insurance Company of East Africa**
- 38. Standard Assurance Kenya Limited**
- 39. Tausi Insurance Company Limited**
- 40. The Monarch Insurance Company Limited**
- 41. Trident Insurance Company Limited**
- 42. Trinity Life Assurance Company Limited**
- 43. UAP Provincial Insurance Company Ltd.**

Source Association of Insurers Insurance Industry Report for the year 2007