

**STRATEGIC RESPONSES ADOPTED BY PIONEER ASSURANCE
COMPANY LIMITED TO THE TURBULENT EXTERNAL ENVIRONMENT
IN KENYA**

BY

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Declaration

I the undersigned declare that this is my original work and has not been presented to any other university for academic credit.

Sign  Date 13/11/2009

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The project has been submitted for examination with my approval as the university supervisor.

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Dedication

This project is dedicated to my wife Judy Wairimu and my son Mac Ngige for their endless love, tolerance, encouragement and support. May this be an inspiration to you to strive for even greater heights.

Acknowledgement

While it is not possible to thank everyone who inspired or assisted me in one way or the other in undertaking this work, I wish to recognize the following,

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Am also grateful to my family and friends who had had put up with me during the entire research period .I was not able to be with them all the time and their encouragement and prayers has finally seen me achieve my dreams.

I also appreciate my colleagues at Pioneer Assurance Company Limited for their support while undertaking the interviews.

Finally I thank the almighty God for the life and strength He gave me, His protection has seen me through the turbulent times.

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List of Abbreviations

AKI	Association of Kenya Insurers
IRA	Insurance Regulatory Authority
PAC	Pioneer Assurance Company
CEO	Chief Executive Office
FIMS	Financial Management System
HAIS	Health Administration Insurance System
IT	Information Technology
SACCOS	Savings and credit co-operative Society

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Abstract

The more hostile the external environment is, the more an organization needs to respond to it, the more difficult it is to carry out work and the more defensive the organization must become. The external environment can provide both facilitating and inhibiting influence on organizational performance. Multiple influences in the immediate or proximal environment form the boundaries within which an organization is able to function; these influences likewise shape how the organization defines itself and how it articulates what is good and appropriate to achieve. This has been the situation in Kenya for a long time. The economic environment has been so unpredictable that many firms are forced to always have contingency measures to avert the adverse effects of the highly erratic environment. The insurance industry in particular has been bedeviled by a low market penetration rate due to myriad issues. They include low product awareness, low income levels, perceived low return on insurance policies, cumbersome settlement procedures and general lack of trust in the industry.

This research was an attempt to understand how an organization responds to the influences of the erratic external environment and how the forces outside the organizational boundaries help to shape the organization. The specific objective of the study was to establish the strategic responses pioneer assurance company

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The more hostile the external environment is, the more an organization needs to respond to it, the more difficult it is to carry out work and the more defensive the organization must become. The external environment can provide both facilitating and inhibiting influence on organizational performance. Multiple influences in the immediate or proximal environment form the boundaries within which an organization is able to function; these influences likewise shape how the organization defines itself and how it articulates what is good and appropriate to achieve. This has been the situation in Kenya for a long time. The economic environment has been so unpredictable that many firms are forced to always have contingency measures to avert the adverse effects of the highly erratic environment. The insurance industry in particular has been bedeviled by a low market penetration rate due to myriad issues. They include low product awareness, low income levels, perceived low return on insurance policies, cumbersome settlement procedures and general lack of trust in the industry.

This research was an attempt to understand how an organization responds to the influences of the erratic external environment and how the forces outside the organizational boundaries help to shape the organization. The specific objective of the study was to establish the strategic responses pioneer assurance company

limited has employed to cope with the turbulent external environment. The study used a case design which was the most suitable in this situation where questions like where, how and when are used to investigate on a certain phenomena to describe the real position. An interview guide was used to collect primary data from the top managers of Pioneer Assurance Company limited. The qualitative data collected was then analyzed through narratives. From the study, it was discovered that for the company to remain competitive in the market, it adopted strategies which include; offering a wide range of products and services, engaging skilled staff, automation of business processes,organised distribution network countrywide and intensive marketing

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The external environment is comprised of the forces outside organizational boundaries that are helping to shape the organization. Turbulent environment is an environment where constant changes are a natural part of the business and where these changes very seldom are possible to predict. It is an environment where the market stability is constantly threatened by new products, new technologies, and new competitors. It is an environment where coping with turbulence is the essence of survival for any organization and it seems as no company can keep a lead position.

Kenya has been an economic powerhouse in the East African region for many years and one of the major economies south of Sahara. The country has enjoyed a steady growth for the last seven years coming from a low of -1.5% to a high of 7% economic growth rate. This has been due to improved government policies on major sectors of the economy like education, Agriculture and infrastructure development. This steady growth was experienced up to end of 2007 when it was grossly affected by the post election violence. The skirmishes coupled with the effects of the global financial crisis on remittances and exports, high fuel and food prices and inadequate rainfall in various parts of the country reduced GDP growth to 1.7% by the end of 2008 down from 7.1% in 2007. Kenya's public and

publicly guaranteed debt increased by 14.1% by the end of 2008 to stand at 992.9 billion from 870.6 billion by end of 2007. Over the same period the Kenya external debt increased by 17% from 440 billion to 514.7 billion over the same period on account of the depreciating Kenya shilling against major currencies according to the (Kenya Monthly economic survey, April 2009)

1.1.1 Strategic Responses

In today's turbulent business environment, the only thing that appears to remain constant is change. Social, economic, competitive and technical pressures are forcing organizations to rethink and reengineer the way they provide their service. Changes in environmental factors will require strategies, which in turn call for reformed organizational capabilities. Organizations in industries that are fast changing respond to changes in different ways. While some may resort to improving current market and products, divestiture and diversification, others use techniques that ensure operational effectiveness. All organizations are faced with the challenge of managing strategy. Strategic issues by nature are future oriented and require large amounts of the organizations' resources. They often affect the organization's long-term prosperity and therefore have enduring effects on organizations for better or worse. They are based on what managers forecast, and not what they know. In a turbulent environment, an organization will succeed only if takes a proactive (anticipatory) stance towards change (Migunde, 2000).

Mutugi (2006) in her studies found that environmental forces affect the type of product developed by an organisation, the nature of positioning, and market segmentation strategies, types of services offered and the choice of business to acquire or sell. These changes have an impact on the staff, clients and the organization portfolio and can create numerous pressures on institutions trying to create self-sufficiency. If ignored environmental changes can ultimately compromise an organization operations, profitability and long term viability. In this respect organizations are forced to devise strategies to counter these environmental changes in form of strategic responses. These responses if well formulated and implemented helps fight off these external pressures that can threaten the wellbeing of an organization.

1.1.2 Organization Strategies and Environment

Strategies are the set of actions that result in the formulation and implementation of plans designed to achieve a firms objective (pierce and Robinson,1991) Strategic adaptations are changes that take place over time to the strategies and objectives of a firm (Thompsons,1997).Strategic responses are therefore organizational actions that are long-term in nature. They are more embracing of an organization as a whole as opposed to departmental decisions .These responses are also known to involve huge amounts of resources. They are reactions of organizations to what is happening in the environment.

Issues related to environmental changes tend to evoke an image of concern for organizations that would wish to be ahead in the market. Changes affect all peoples and all businesses and can seriously hamper the operations of many firms even those with substantial resources. Life assurance industry is mostly susceptible given the small market and low rate of product awareness. These changes have an influence on the staff, clients and the institution portfolio and can create numerous pressures on an organization

trying to maintain financial and operational self sufficiency. If ignored the changes in the environment can ultimately compromise the organizations operations, profitability and long term viability. Therefore companies must perform some critical analysis and planning to mitigate the impact that the changes have both on the company target market and It's own operations.

1.1.3 Life Insurance Business (LIB) in Kenya

Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount called a premium at regular intervals or in lump sums. There may be designs in some policies where bills and death expenses plus catering for after funeral expenses are included in Policy Premium. The value for the policyholder is derived, not from an actual claim event, rather it is the value derived from the 'peace of mind' experienced by the policyholder, due to the negating of adverse financial consequences caused by the death of the Life Assured.

In Kenya, life insurance penetration is very low and is currently at 0.87% mainly due to the poor public perception of life insurance. According to a study carried by one of the insurance companies (British American Insurance Company) only 8% of Kenyans understand the benefits of having an insurance cover. Also life insurance is a capital intensive business and insurers are forced to make heavy investments in distribution infrastructure and systems. However; the future of life insurance in Kenya is bright given the huge untapped market.

The Kenyan economic environment has been so turbulent that companies are forced to carry out a thorough environmental survey in order to properly fit and stay afloat in the highly competitive market. For organizations to meet their stated goals and objectives, they must continuously change to fit in the erratic environment according to Robinson and Pearce (1997). In the recent years Kenya has undergone major changes in its economic environment. Key among them includes privatization of state corporations and also globalization which has been the trend in major world economies. This has forced most organizations to device strategies in order to respond to these changes and remain competitive in the market.

The Life Insurance Industry has an enviable track record among public sector units. It has a Consistent profit and dividend paying record accompanied by a steady growth in its financial resources. Through investments in the Government sector and socially- oriented sectors the Industry has contributed immensely to

the nation's development. The industry is recognized as one of the largest financial institutions in the country after banks. To protect the country's foreign exchange reserves, the life reinsurance arrangements are so organized that maximum retention is made possible within the country while at the same time protecting interests of the policy holders. The insurance industry in Kenya is regulated by the insurance regulatory authority which came into being in the year 2008 to replace the former commissioner of insurance.

1.1.4 Pioneer Assurance Company Ltd

Pioneer Assurance Company Limited underwrites Life Insurance business only. Its predecessor, The Pioneer General Assurance Society Ltd was established in 1930 as the first company in Kenya to insure Africans. It stopped underwriting general insurance business in 1995. The initial owners were businessmen from Thika and Nairobi who came together to form the company.

In its effort to expand and increase its market share, Pioneer Assurance Company Limited acquired the closed life funds of Occidental Insurance Company Limited and Fidelity Shield Insurance Company Limited in the year 2002. This made the company one of the key players in life business in the country. The company has 13 branches countrywide, which are managed by agency managers. There are over 500 agents working for the company. Most of the company's business comes from Teachers Service Commission (TSC), the government ministries and the parastatals.

Today pioneer assurance company limited is rated as the most improved company according (AKI Annual Insurance Industry Report, 2008) The Company had gross written premiums of Kshs.367m in the year 2008 up from Kshs.277m in the previous year. This represented an average growth of 33%.

The remarkable improvement in gross written premiums can be attributed to the company's investment in a good distribution network, an efficient information technology system and the good management skills by the company's managers led by the managing Director Mr. Moses Kimani. The company is managed by nine managers, who include the Managing Director, Finance Manager, Life Manager, Sales and Marketing Manager(ordinary life Business), Sales and Marketing(Group life Business) Human Resources and Administration Manager, Business Development Manager, Customer care manager and I.T. Manager. There are also assistant managers, supervisors and an agency network to assist the management in running the company. The company has continued to entrench itself into the market by developing superior products and engaging professionals so as to meet its stated goals and objectives.

The company's mission is be the preferred insurance company in Kenya by offering innovative professional quality and competitive products and services as it delivers value to its customers and other stakeholders. The vision of the company is to be the top insurance company in Kenya and its purpose is providing health solutions and security for its customers

1.2 Statement of the Problem

The Kenyan economic environment is erratic and only those companies that continuously change to adapt to the environment only withstand the strong economic tides. The life insurance business by its nature of being a service and the low public awareness about its benefits has been mostly affected. Companies in life business continuously review their strategies to respond to the erratic nature of the environment in order to gain a competitive advantage against other players in the industry.

Various studies have been done to evaluate how organizations respond to environmental factors. Mutugi, (2006) carried out a study on strategic responses by micro institutions in Kenya to the turbulent business environment., Mulema (2004) studied the responses to the environment in the service industry with a case study of the Teachers Service Commission, Mwirania (2003) researched on the responses to the environment by Telkom Kenya Ltd. Ndubi (2006) carried out a research on SACCOS to changing operating environment and Lalampaa (2006) studied the responses by higher education loans board to environmental challenges in financing higher education in Kenya. However, with the many studies that have been conducted on various organizations, results obtained cannot be used to absolve another organization owing to the Industrial

differences and inter factors. Ansoff and McDonnell (1990) argued that parts of the challenge agenda faced by different industries and firms are different, thus it's not possible for organizations to adopt similar prescription to all its challenges which would apply to all other industries and firms.

All the above mentioned studies have been carried without any specific attention to strategic responses adopted by pioneer assurance company limited to counter the turbulent external environment in the life assurance business. This study will therefore attempt to fill the existing information gap by evaluating the unique strategies adopted by Pioneer Assurance limited to remain among the leaders in life assurance business. In view of the above observations how has Pioneer Assurance Company Limited responded to changes in the turbulent external environment?

1.3 Objectives of the study

The study seeks to establish the strategic responses pioneer assurance company limited has employed to cope with the turbulent external environment.

1.4 Importance of the study

This study will highly assist the various stakeholders of pioneer Assurance Company limited in evaluating their performance, managerial skills, viability of the decision making process and help plan into the future. The beneficiaries of the study include the following among other;

The firm and staff-The study will serve as a source of information for the company to evaluate itself as an entity and the strategies it has employed.

To the academicians, the study will provide useful basis upon which further studies in the industry can be conducted.

The study will also contribute to the existing body of knowledge in the area of strategic responses in life insurance industry the academicians could use as a basis for further research

The study will assist the government and especially the insurance regulatory authority to understand how the players in the industry respond to the changing environment and will help the authority regulate the industry.

The study will also contribute to the body of knowledge and researcher and scholars who will undertake further studies in a related field. The researcher will gain useful skill and experience that will aid in carrying out future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will review all the literature relevant to an organizations external forces and their responses. It will deal with the meaning of the external environment and the various forms of external forces and the responses adopted to combat these forces. This will guide in understanding the external environment and response in a view to assist in achieving the objectives of the study

2.2. Environmental Turbulence

As a result of constant changes and unpredictability in a turbulent environment, the traditional way of planning does not seem to work anymore. Therefore, new approaches to the external and internal conditions need to develop in order to cope with the environmental turbulence. The external environment is fast-changing and of chaotic nature, where the changes are continuous, emergent, small, big or somewhere in between, and where paradoxes play an important role, it is necessary to develop an organizational structure, leadership, human resource, and corporate culture, in which the objective always is to create dynamics and to build in an acceptance of change.

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Turbulent environment is one where constant changes are a natural part of the business and these changes very seldom are possible to predict. In this environment, market stability is constantly threatened by new products, new

technologies, and new competitors. Coping with this environment is the essence of survival for any organization and it seems as no company can keep a lead position. Organizational success is examined in the context of organizational archetypes of success and failure (Miller & Friesen, 1977; Fleck, 2005). Building on the two approaches, theoretical development suggests that the organizational concern for environmental sustainability contributes variety, and can potentially help neutralize the organizational tendency for triggering simplicity processes. If an organization fails to perceive itself dissociated from the environment, then it misses out from the benefit of environmental uncertainty and to strengthen its chances of long-term survival.

Corporate level strategies play three key roles. First, it drives a firm's evolution by developing a cognitive representation of the firm's competitive landscape. Second, it paces the company's evolution by alternately shifting the balance of organizational initiatives between static efficiency-based local search strategies, chosen in times of stability or economic slowdown, and dynamic efficiency-based long jump strategies adopted during periods of major environmental turbulence

2.3 Responses to the turbulent Environment

Ansoff and McDonell (1990) noted that strategic responses involve changes to the organization behavior. Such responses may take many forms depending on the

organizations capability and the environment in which it operates. Thompson (1997) defines strategic adaptations as changes that take place over time to the strategies and objectives of an organisation. Such changes can be gradual or evolutionary or more and revolutionary.

Wairegi (2004) in his studies found out that although life insurance companies have responded to changes in the environment by acquiring new processes, new markets, abandoned markets and new competitive strategies, they have not as individual companies pursued one generic strategy as outlined by Michael porter but have pursued all the three in combination and are "stuck in the middle"

Mwangi (2006) reiterates that dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment according to Ansoff and McDonnell (1990) leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. Ansoff and McDonnell (1990) noted that strategic responses involve changes in a firms strategic behaviors to assure success in transforming future environment. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment in which it operates. Properly developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge.

Some of this strategic responses include such processes like restructuring, strategic marketing, diversification, information technology, culture change, integration, acting defensively, pricing, keeping focus on powerful customers, improvement in quality of products and services and the porters generic strategies of cost leadership, differentiation and focus.

2.3.1 Porter's Generic Strategies

Porter (1980) suggests three generic strategies which are seen to be potentially successful approaches to out performing other firms in the industry. These approaches are overall cost leadership, differentiation and focus. Pearce and Robinson (1997) notes that firms could sometimes pursue more than one approach as its primary target. They argued that a long-term or grand strategy must be based on a core idea about how a firm can best compete in the market place. Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development of sales force, and advertising. To achieve this a great deal of managerial attention to cost control is necessary. (Porter, 1980) A low cost position protects the firm against all competitive forces. Such a position provides defense for firms against rivalry from competitors. It usually places the firm in a favorable position vis a vis substitutes relative to its competitors in the industry.

The focus strategy involves narrow market segments products category or certain buyers. This helps firms narrow their operations to specific markets and thus achieve competitive advantage. According to Porter (1980) this strategy rests on the premise that the firm is thus capable to serve its narrow strategic target more efficiently and effectively than competitors who are competing more broadly. The focus strategy therefore helps firms to direct their strategic plans to align themselves to the environment (Chepkwony, 2001)

Differentiation involves differentiating of products or services offered by the firm and creating something that is perceived in the industry as unique. It can be achieved through design or brand name, technology, customer service, dealer networks and other dimensions. Pearce and Robinson (1997) observed that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. They noted that differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to prices. It also causes an increase in margins which avoids the need for a low cost position.

Restructuring is another strategic response to the turbulent external environment. Structures as defined by Watson and Rosenfield (1996) is the established pattern of relationship between component parts of an organization outlining communication, control and authority patterns. In essence structure

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distinguishes the parts of the organization and delineates the relationship between them. One of the major activities of restructuring is the business process re-engineering. According to Hammer (1996) companies can dramatically improve their efficiency and quality by focusing on customers and qualities that create values for them. Outsourcing for instance would enable an organization concentrate on its core business activity while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity.

2.3.2 Information Technology

Technological advancement is another strategy that can be adopted to ensure the firm deals with the turbulent environment. This is how the rapid pace of change in information systems and product innovation affect a business. Technological advancements help to shape a companies way of producing products. Technology changes will occur everyday, every hour, and every second. It is always a way to improve a product and extensive research proves that. Insurance is a technologically intensive industry and companies have to invest heavily in technology in order to be able to serve customers and beat competition. Porter and Miller (1985) argue that information technology can create new business opportunities from within existing activities. McFarlan et al (1983) asserts that information technology offers a scope for product differentiation that enables the company to effectively service the needs of its market niche.

2.3.3 Culture change

This is another strategic response through to the turbulent external environment. As defined by Brown (1998) culture is the pattern of beliefs, values and learned ways of coping with experience that has developed during the course of an organizations history and which tend to be manifested in its material arrangements and in the behavior of its members. Consequently an appropriate and cohesive culture can be source of competitive advantage as it promotes consistency, coordination and control and reduces uncertainty while enhancing motivation and organizational effectiveness all of which facilitate the chances of being successful in the market place. Therefore corporate cultural identity for the marketer is a strategic tool that is used to manipulate consumer perceptions of an organization and its products.

According to Thompson (1997) the potential for changing the culture of an organization is affected by the strength and history of existing cultures, how well the culture is understood the personality and beliefs of the strategy leaders and the extent of the strategic need. He notes that the culture of an organization would need to be changed when it does not fit well and needs major strategic changes if the company is to growing in a changing environment. Culture change and corporate learning are interdependent. The rate of organizational leaning is dependent on culture while the rate and content of organizational leaning fundamentally influences the firms' culture.

2.3.4 Strategic Marketing

This is both a social and managerial process. It is a process by which individuals obtain what they need and want through creating and exchanging products of value with others. Basically its all about satisfying customer needs and wants (Kotler and Armstrong, 1999). Marketing helps to define an organizations mission as well as analyzing the environment competition and business situations. It therefore plays a major role in the organizations strategic planning process. The strategic marketing responses are based on the marketing mix elements of product, price, place and promotion.

2.4 Organization and Environment

The speed and extent of changes in the 21st century have required business to be much more adaptable to the changing environment. The external environment influences an organizations strategic development by creating opportunities and threats. As the environment changes, firms must change strategies to survive. With each new strategy, new capabilities are developed. Pearce and Robinson (2003) observes that changes in the external environment have an impact on the organizations .They described the external environment as all conditions that affect a firms strategic options and or tactical options which a firm has little control. It is further categorized as the remote industry and operating environment. Forces in place are dynamic and include economic, political, technological, competitive and social factors (Kotler and Armstrong, 1990)

Thomson (1998) observes that one of the most valuable resources a company has is the ability to perform a competitively relevant activity well. He defines a core competence as something a company does well relative to other internal activities. It gives a company competitive capability and this qualifies as a genuine company strength and resource.

2.5 The concept of strategy

There is no one universal definition of strategy. It is a concept that embraces all the key aspects and activities of the organization. There are as many definitions as there are strategic scholars. According to Johnson and Scholes (2003), strategy is the direction and scope of an organization over the long term. This gives an organization a competitive advantage through its configuration of resources within a changing environment to fulfill

stakeholder expectations. According to Porter (1998), strategy is basically about competition and the means by which an organization tries to gain competitive advantage. He further states that competitive strategy is a broad formula for how a business is going to compete, what goals should be pursued and what policies will be needed to carry out these goals.

Mintzberg (1994) sees strategy as a plan, a ploy, a pattern, a position and a perspective. According to Hill and Jones (2001), strategy is an action a company takes to attain one or more of its goals. Precisely; it's an action that a company

takes to attain superior performance. To Pearce and Robinson (2003) strategy reflects a company's awareness of how, when, and where it should compete against who and what purpose. Strategy can also be said to be the way an organization responds to changes in the environment. It is the game plan that a firm has in order to acquire a competitive edge in the market arena.

An organization success is dependent on how well it is able to predict and respond to changes in the environment and the requirements of the stakeholders. Those organizations that are unable to accommodate such changes may well lose a large share the market and the worst scenario may be forced out of business (Johnson and Scholes, 2003).The further noted that strategy has characteristics associated with it. It is concerned with the long term direction and way forward for an organization, helps gain competitive edge for the firm, helps define the scope of an organizations activities and it is a process of matching the resources and activities of an organization in the environment in which it operates. They called this as the strategic fit where business opportunities in the environment are identified and matched with the organization resources and competencies to take advantage.

2.6 Environmental Forces

A business does not function in a vacuum. It has to act and react to what happens outside the office walls. These factors that happen outside the business are known as external factors or influences. These will affect the main internal

functions of the business and possibly the objectives of the business and its strategies. Markets are changing all the time and it depends on the type of product the business produces, and if the company fails to react it loses customers. The main factor that affects most business is the degree of competition or how fiercely other businesses compete with the products that another business makes. In the insurance industry competition has been very high owing to the small market as a result of low awareness of the insurance products. Competitors actions affect the ability of the business to make profits, because competitors will continually seek to gain an advantage over each other, by differentiating their product and service, and by seeking to provide better value for money. There are several different uncontrollable and controllable aspects of an external business environment that affect the success of a business. Since everyone has the right to create a business of their own, there is no way to control competition.

Social Cultural factors are all about how consumers, households and communities behave and their beliefs. Brown (1998) defines organization culture as the pattern of beliefs, values and learned ways of coping with experiences that have developed during the course of an organizations history and which tend to manifest in its material arrangements and in behavior of its members. The insurance business in Kenya is only associated with the risk of death. Due to the various believes many communities shun away from insurance covers due to this association.

Government regulations and other legal requirements involve the way in which legislation in society affects the business. In Kenya the government has on various occasions amended the insurance act to streamline the regulation of the industry. Some of these amendments have far reaching effects in terms of companies' capital composition, shareholding and claims settlement. Companies are therefore forced to make quick changes in order to comply.

Economic factors involves how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and the general global market. The economic system is the organization of the economy to allocate scarce resources. The Businesses prosper when the economy is booming and living standards are rising. The Kenyan economy has been affected by the global economic meltdown and companies are forced to come up with products that are affordable due to the reduction in disposable income by customers.

Politics and other issues of governance involves how changes in government policy might affect the business .Kenya was a victim of electoral violence and the economy was greatly affected. Life insurance industry has been no exception in bearing the heat of these pos election violence. Changes in information systems have had an adverse effect if a company is not able to keep up with the new technology. Rayport and sviokla (1995) defines competition in two dimensions,

the physical world of resources and a virtual world of information. Information technology supports and enhances every activity in the organization and it can be a source of added value and hence competitive advantage provided the organization is able to draw that value.

2.7 Leadership and Environmental change

According to Kotler (2000) leadership is about coping with change. In recent years the business environment has become more volatile and competitive hence the need for leadership. Leadership gives the organization direction and means of translating the stated goals and objectives into reality. As more changes take place in the organization the more leadership is needed. Pierce and Robinson (2003) observe that organization leadership involve action that guide an organization towards dealing with constant change, clarifying strategic intent and the culture to fit with opportunities and challenges. It also identifies and recruits for the organization managers prepared and willing to provide leadership and vision to the organization.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The major objective of this study will be to find out the strategic responses Pioneer Assurance Company limited has taken to counter changes in the turbulent environment. This chapter strives to explain the procedures that will be taken to achieve the objectives of the study and answering the research problem. Areas covered are research design, data collection and analysis.

3.2 Research Design

This research design is a case study of Pioneer Assurance Company Limited aimed at identifying the strategic responses towards changes in the environment. This research has been chosen because the objectives of the study requires an in depth and intensive scrutiny of the responses Pioneer Assurance Company Limited has adopted to remain in business and sustain growth. Research design can be thought of as the structure of research – it is the "glue" that holds all of the elements in a research project together. It is often describe a design using a concise notation that enables us to summarize a complex design structure efficiently. The research will be carried out through individual interviews to the respondents using a questionnaire. The research will be done in the company's head office located in Nairobi. The respondents will comprise of the managers who are involved in policy formulation and assistant managers who implement the policies to sure the company moves towards achievement of stated objectives.

3.3 Data Collection

This is the term used to describe a process of preparing to obtain information which can be kept on record, to make decisions about important issues and to pass information on to others. The researcher will collect primary data by personally interviewing the top managers and taking down their responses for further analysis. Also drop and pick method will be used for those managers who have limited time to give an interview.

Secondary data will be collected from the existing information in form of company annual accounts, company annual budgets, operation manuals and policy documents. The association of Kenya insurance annual industry analysis will also provide vital information to compare with other companies.

3.4 Data analysis

Data will be analyzed using content analysis because most of the responses are expected to be descriptive in nature this being a case study. The qualitative data gathered will then be modeled and transformed with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. After the data has been analyzed, it will be audited and checked for accuracy.

4.1 Introduction

The chapter presents the analysis of the data collected and its implementation. The study focused on one major objective to establish the strategic responses pioneer assurance company limited has employed to cope with the turbulent external environment. Personal interviews which were conducted with the top level management of pioneer Assurance Company Limited selected from the various departments of the company enabled collection of primary data. An interview guide was designed for purposes of the interview. The interview guide used comprised mainly of open-ended questions.

The data was mainly analyzed by content analysis which sought an objective, systematic and qualitative description of a manifest content of communication between the researcher and the representatives of the company and the results are provided. Various responses comprised of changes in the vision, mission, goals and corporate plans in response to the challenges of the turbulent external environment.

4.2 Response rate

The study targeted nine interviewees who are the CEO of the company and other eight heads of departments. This selection was done mainly to eliminate duplicity of data obtained had other interviewees been contacted. The response

rate was 100% since all the interviewees responded satisfactorily to the interview and the data obtained was analyzed as explained in Table 1.

Table 1. Managers' duration of stay

Duration of stay	Frequency	%
Over 3 years	5	56
Between 1-3 years	3	33
Less than 1 year	1	11
Total	9	100

4.3 Company Bio Data

The findings indicate that the company continues to attract, develop and retain a pool of qualified and experienced staff so as to maintain their competitive edge. The analysis of the company's age structure was done. The study identified a total of 77 members of staff and Fig 2 present details. This shows that most of the employees will reach retirement age at the same time and hence the company needs to develop a succession plan. The distribution of staff by departments was also analyzed and it is presented in Fig 2. The analysis shows that the staffs are fairly distributed and professionalism has been given a major consideration. The findings reveal that the customer care department needs properly staffed if the company is to meet its increasing customer needs.

Table 2. Staff Distribution per department

Department	No. of Staffs	Below 30years	Over 30years	With full qualifications
Marketing(excluding Agents)	17	6	11	10
Finance	8	4	4	7
Human Resource	21	6	15	10
IT	6	1	5	5
Customer Care	9	1	8	3
Medical	8	4	4	7
Underwriting	11	2	5	4
Group life	4	0	4	4
Total	84			

4.4 Changes and challenges in the environment

The interviewees were asked what changes in the external environment affect the company and from their responses, all of them were unanimous on several changes. One of them is the technological advancement which has brought the

development of new products and delivery of services to the clients. Clients are able to pay their premiums from the comfort of their homes via the M-pesa money transfer system. Plans are also underway to link all the company branches so that the clients can have real-time access to their accounts from near where they come from. The regulatory guidelines promulgated by the insurance regulatory authority have been posing major challenges to the organization. For example the newly introduced law that all increased the capital outlay of life insurance companies to 100 million and 150 millions for composite companies has big financial impact on company. The shareholders are forced to dig deeper from their pockets to comply with the new rules.

New entrants in the industry also pose a challenge to the company. This is mainly because the market is small but the players are increasing every day. Currently there are forty two companies in the market and each comes with new products and service delivery. This makes the industry very competitive which ends in price wars and undercutting of premiums which sometimes hurts the market.

The study revealed that the company has been experiencing various challenges from the external environment and they have had quite an impact for at least the last ten years. One of these challenges includes technological advancement. This has had quite an impact on the company because of the cost that comes with it. The company has invested heavily on technology in its effort to remain

competitive. This includes introduction of biometric cards to capture customer medical details and spending, acquiring an integrated system for internal operations and the ambitious plan of interconnecting the company branches which is underway.

4.5 Strategies to counter environmental turbulence

From the findings of the study, various strategies were identified that the company has adapted to counter the effects the turbulent environment. Upgrading of the information technology infrastructure is one of the key strategies. The company has moved from the over reliance on one software (oracle) to an integrated system (FIMS and HAIS) that gives faster and more accurate reports on one platform.

In its bid to expand its market share, the company acquired the life funds of occidental insurance company and fidelity Shield Insurance Company in the year 2002. This gave the company a firm clientele base in the life insurance business. The management has also been involved in negotiations with other firms in its effort to acquire another life fund.

The company has also come up with new innovative products as a strategy for changing times. The new super investor policy is very appealing to the customers because of its investment portion in the formulation of its premiums. The customer is able to invest and at the same time enjoy the benefits of a life

cover. This was an effort by the company to tap into the lucrative unit linked market where the investment portion of the policy earns interest in tandem to the performance of the market interest rates. There is also the medlife policy which has a medical portion in its premium composition. This was an effort to tap into the micro insurance market where there are masses in low income bracket who do not have a medical cover. This shows the company has properly segmented its products according to the target market. Also the study found that there is product differentiation to make them appealing to the customers. The study also found that the company is currently engaged in advertising and promotion exercise to sensitize target markets on its services. The current target markets include teachers in tertiary institutions of learning and the low and middle income earners who are yet to embrace micro insurance. In this drives the company is working with NGOs and donor institutions who will help in subsidizing the prices of the products so that they are within the reach of low income earners.

The research also found out that the company has been recruiting qualified staff to join the company. The minimum qualification for any employee to before joining the company is a university degree. Those already engaged are encouraged to enroll for courses in their field. Training and development is also a continuous process in the companies where the company pays for staff to attend training and seminars and also pays for subscription to professional bodies.

4.6 Strategic Fit

According to respondents, some of the responses made by the company to the turbulent external environment are inadequate. They stated that the company should undertake more proactive initiatives and less reactive responses to facilitate management of its environment. The respondents also emphasized that it is important at corporate level to assess the attractiveness and performance of the various products offered by Pioneer assurance .This makes it possible to identify the best products and the poorly performing ones.

However the respondents also noted that the current strategic plan looks at all the activities of the company which are embraced in its mission and vision statements. As a future orientation the company seeks to be leading in provision of quality insurance services and attractive products which are in line with the needs of its customers. Thus the new strategic plan is to focus on the mission and vision to ensure that the functions and activities match the company's new strategies. Its mandate to be the preferred insurance company in Kenya by offering innovative professional quality and competitive products and services as it delivers value to its customers and other stakeholders.

The company needs a strategic plan is to focus the organization on upgrading its products ,arcicalities and service delivery, writing over 1 billion annual premium income, staff competence by employing qualified staff, Strengthen linkages with stakeholders, strengthen the financial base, governance and human resource, computerize all departments, expand existing infrastructure and enhance social responsibility programs.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

5.1.1 Introduction

This chapter presents the summary, conclusions and the recommendations from the findings. The study was based on the objective of the study which was to establish the strategic responses pioneer assurance company limited has employed to cope with the turbulent external environment.

5.1.2 Corporate strategies

From the study the researcher found that the company has a formal mission and vision which is reviewed after every five years. The current mission and vision are in line with the corporate strategies and objectives of the company's strategic plan dubbed 'vision 2011'. The interviews which were done with the managers from the various departments of the company with the aid of an interview guide revealed that the company was facing threats from the external environment. The major threats from the external environment include economic decline, legislation changes, increasing levels of customer demands and preferences, technological advancement, and intense competition.

The company has however responded by modernizing its technological facilities, intense marketing, re-capitalisation, introduction of innovative products and employee empowerment. However the respondents felt that there is still more to be done by the company in order for it to match the environment in which it

operates. The study further established that Pioneer Assurance has the necessary capability to adapt the strategies that would facilitate effective response to the turbulent external environment. This can be inform of allocation of resources in the areas of product research and development, strategies formulation and implementation and staff recruitment and compensation

5.2 Limitations of the Study

One major limitation of the study was the fact that the top managers were very busy and many short interviews had to be done. Secondly, the time allocated for the study was limited. The environmental changes are still taking place presenting various competitive elements for the organization Pioneer Assurance company limited is still responding to the turbulent external environment. Thirdly the study focused on management perspective. It would have been of value to obtain the views of other stakeholders such as middle level manager, surbonate staffs and even the customer to get a broader view.

5.3 Recommendations

The environment in which organizations operate is turbulent and force organization to have strategic responses which are well developed and if properly adopted are powerful tools for acquiring and sustaining a competitive advantage. Such weapons have to be constantly adapted or even transformed to achieve the desired advantage. In view of this and from the findings of the study, Pioneer Assurance should become more proactive rather than reactive in managing its turbulent external environment. This can be achieved by formulating and implementing strategic initiatives that would preempt any

anticipated adverse changes in its dynamic environment. From the study it emerged that Pioneer Assurance has very superior products which are correctly priced but are not doing very well in the market. There is therefore need for the company to aggressively market its products through the print and electronic media in order to attract more business. The findings of the study also show that there are major threats posed by competitors in the industry. The study recommends that the managers be on the look out for any possible factor that has an implication on the operations and restructure appropriately. So far the response strategies have been successful but more needs to be done so as to maintain the status of the company in the industry. Generally the changes that were found to have great impact on the operations of the company include technological advancement, government regulatory guidelines, and losing trained staffs to competitors.

5.4 Conclusions

The researcher concluded that the company needed to offer a wide range of products and services, engage more skilled staff, automate all its business processes and do more promotion and advertising. There is also greater need for products research and development to have competitive and attractive products and staff recruitment and proper compensation to avoid poaching by competitors.

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5.5 Areas for Further Research

This study concentrated on the responses adopted by the company which may not apply to the whole industry. More research can be done to establish the strategic responses the insurance industry as a whole is adopting to remain profitable especially with the global economic downturn. Further studies can also be carried to establish whether new and innovative products that the company is introducing into the market are sustainable in the near future with the increasing competition and technological advancement.

5.6 Implication on policy and practice

The policy and legislative framework under which Pioneer Assurance company limited operates has not kept pace with the changes in the external environment. The organizations capacity to fulfill its mandate as stipulated in its mission and vision statements has therefore been curtailed. Pioneer Assurance company limited needs to be proactive in policy implementation and compliance with regulators requirements to ensure its sustainability.

The findings of this research project have revealed loopholes in strategy implementation and if the recommendations are implemented, they would greatly assist the company in achieving its goals. Some of the strategies already in place seem to be working for the company but due to the changing nature of the business environment there is need to have contingency measures in place to take care of the unexpected. For instance, the recommendation on proper

training of the customer care staffs is very crucial as customer retention and customer referrals keep the company growing by fighting off competition. Also heavy investment in information technology makes the company competitive and innovative which keeps it at par with competitors. In general if the strategies already in place are properly practiced and the recommendations of this project implemented, the company would find it easy to withstand any adverse effects of the turbulent external environment.

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APPENDIX 1

The management
Pioneer Assurance Company Limited
P.O Box 20333-00200
Nairobi

Dear sir/Madam

RE: DATA COLLECTION

I am a post graduate student at the University of Nairobi, school of business I am undertaking a management research project on the strategic responses adopted by Pioneer Assurance Company limited to the turbulent external environment in Kenya.

This is to request you to assist me collect data by filling the accompanying questionnaire.

The information provided will be used exclusively for academic purposes only and shall be treated with utmost confidence.

Your co-operation will be highly appreciated.

Thank you in advance

Yours faithfully,

Patrick Kariuki Ngige

Student

Dr. Zachary Awino

University Supervisor

School of Business

APPENDIX 2
INTERVIEW GUIDE
TOP LEVEL MANAGEMENT

Background Information

1. What is your position in the company management?

.....

2. For how long have you worked in this company?

.....

3. How many members of staff do you have in your department?

.....

Strategic Responses

4. Does Pioneer Assurance Company Limited have a strategic plan?

(Yes)

(No)

5. If yes above, how important would you consider such plans to be responsive to the turbulent environment in the insurance industry?

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.....

6. Has there been a change in the long-term planning at Pioneer Assurance Company Limited in response to the turbulent external environment

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7. What role does Pioneer Assurance Company Limited play as an insurer?

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8. In what ways does the government support Pioneer Assurance Company Limited to perform its roles?

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9. What controls has It put in place to ensure these functions are performed effectively?

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10. Describe the current external environment of Pioneer Assurance Company Limited.

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.....

11. What strategies has Pioneer Assurance Company limited adopted to respond to the turbulent external environment?

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.....
12. What major changes has Pioneer Assurance Company Limited undertaken since the year 2(XX) and what were the objectives of the changes?

.....
.....
13. Has there been corporate restructuring at Pioneer Assurance Company Limited in the last 5 years?(tick as appropriate)

(Yes)

(No)

14. If yes above describe the nature of the restructuring?

.....
.....
15. Has Pioneer Assurance Company Limited recently been training staff, recruiting staff, outsourcing experts, improved IT and adopted aggressive marketing strategies in response to the changes in the external environment?

.....
.....
Strategic Marketing

16. Who are the other players in the insurance industry?

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.....

17. How easy is it for a policy holder to switch from one insurer to another?

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....

18. What challenges have the entry of new players posed on Pioneer Assurance Company Limited operations?

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19. What are the products currently marketed by Pioneer Assurance company Limited?

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20. Please indicate any other response that Pioneer Assurance Company Limited has made as a result of increased changes in the environment?

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