SUSTAINABLE COMPETITIVE ADVANTAGE IN THE INSURANCE INDUSTRY IN KENYA

BY

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DECLARATION

I certify that this research project is my original work and has not been presented for a degree in any other university

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DEDICATION

This study is dedicated to my children, Alexa and Kayla, the lights of my life.

ABSTRACT

With the accelerating pace of competition and innovation, cutting-edge companies are defined by innovative strategies. Industry leaders create a competitive advantage that enables them to drive superior financial performance through boom and bust cycles. They focus on building long-term strategic advantages rather than investing aggressively when the market is strong and summarily cutting programs when the economy and pricing environments weaken. The study was based on the insurance industry and was to provide an understanding of the nature of sustainable competitive advantage adopted by insurance firms in Kenya. The objectives were to establish how insurance companies are creating sustainable competitive advantage and the challenges faced in creating the sustainable competitive advantages. The study adopted a survey design with the population being randomly sampled. Data was collected through questionnaires and analyzed. The results indicated that majority of the firms used cost leadership strategy to create sustainable competitive advantage. They also indicated that all players irrespective of the competitive strategy adopted experienced strategy implementation challenges. The study had some limitations which included the categorization of the firms based on the different services offered as a whole as opposed to their individual categories. Other limitations were not considering process of strategy implementation as a whole and not considering the role of regulation and policy framework in the industry. Based on the study, it is recommended that players in the industry constantly evaluate their strategies with an aim of staying ahead of the competition. This can be done through adopting cost reduction strategies, focus strategy and investing in resources. Further studies can be carried on to determine the strategic responses other firms adopt to different competitive strategies and factors considered when doing so. The study can also be extended to other industries to see if the same strategies are used across industries.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Most companies are loaded with competitive advantages, but don't know what they are. The surest way to increase sales, market share, and profit margins is to uncover a company's competitive advantages and to make them the foundation of its sales and marketing communication.

Industry leaders create a competitive advantage that enables them to drive superior financial performance through boom and bust cycles. They focus on building long-term strategic advantages rather than investing aggressively when the market is strong and summarily cutting programs when the economy and pricing environments weaken. The key is to identify high-value approaches and applications for tomorrow's mass market based on industry insights and proven technology innovations in use by today's early adopters.

Insurers need to transform their processes and operations to meet demands from shareholders and stakeholders. They also must improve profitability while meeting parallel demands from regulators to reduce risk, and from customers to provide products to better meet their needs and improve customer service. At the same time, insurers in the annuities, pensions and non-life markets are rationalizing their product portfolios and reviewing their distribution strategies.

1.1.1 Sustainable Competitive Advantage

Competitive advantage is a company’s ability to perform in one or more ways that competitors cannot or will not match. Companies strive to build sustainable competitive advantages. Competitive advantage is at the heart of a company’s performance in competitive markets. It is about how a company puts the generic strategies into practice and it grows fundamentally out of the value a firm is able to create for its buyers (Porter 1990). It may take the forms of prices lower than competitors for equivalent benefits or the provision of unique benefits that more than offset a premium price. Thompson & Strickland (2002) argue that competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. Competitive advantage in companies grows out of the way the companies organize and perform discrete activities.

Competitive advantage is at the heart of firm's performance. It is concerned with the interplay between the types of competitive advantage, i.e., cost, and differentiation, and the scope of the firm's activities. The value chain plays an important role in order to diagnose and enhance the competitive advantage. A sustainable competitive advantage creates some barriers that make imitation difficult. Without a sustainable competitive advantage, above average performance is usually a sign of harvesting (Porter, 1985).

The secret of a sustainable competitive advantage lies in performing every step in the value chain in an appropriate way. A competitive advantage essentially has to be one that not only merely represents better performance than that of its competitors, but also delivers genuine value to the customer, thus ensuring a dominant position in the market.

The internal resources and capabilities of an organization play a very important role in building competitive advantage.

The potential of an organization's sustainable competitive advantage depends on the rareness and inimitability of its resources and capabilities. The less imitable a competitive advantage is, the more cost disadvantage is faced by the competitor in imitating these competencies. Thus, core competence is an important source of sustained competitive advantage for corporate success and greater is its economic return.

1.1.2 Overview of the Insurance Industry in Kenya

After independence in 1963, the Government of Kenya saw the need to have control over the insurance industry, which was then dominated by branch offices of foreign companies particularly from Europe and India. During this period, insurance operations were governed by the Companies Act 1960, which was based on the UK legislation. There was, therefore no competent body to supervise the industry. There was a great need to localize the branch offices of foreign insurance companies in the country in order to benefit the local investors. This resulted to the need for statutory supervision of the industry. In 1978, the Minister for Finance issued a directive stopping the operations of branch offices of foreign companies and all insurance companies were required to be locally incorporated. Thereafter, in the early 1980's the Government with the support of United Nations Conference for Trade and Development (UNCTAD) started the process of drafting a law to regulate the insurance industry.

In 1986, the Insurance Act CAP 487 was enacted with the commencement date being 1st January, 1987. The Act established the Office of the Commissioner of Insurance as the regulator of the insurance industry and stipulated the mandate and functions of the office. This office was created as a Department in the Ministry of Finance and was mandated to supervise the insurance industry. In order to enhance the supervisory capacity of the regulator the government delinked the Department from the Ministry to give it some autonomy. The Insurance (Amendment) Act 2006 enacted on 30th December, 2006 established the Insurance Regulatory Authority (IRA) to take up the role of regulating, supervising and developing the insurance industry. The Act became effective on 1st May 2007.

As per the IRA website 2011, there are 41 insurance companies and 2 locally incorporated reinsurance companies licensed to operate in Kenya. In addition, there are 152 licensed brokers, 23 medical insurance providers (MIPS), 3,650 insurance agents, 19 loss adjusters, 19 surveyors, 2 claims settling agent, 5 risk managers, 111 loss assessors/investigators and 77 motor assessors.

1.2 Research Problem

Many topics in strategy research have been linked to aiding in the process of creating and maintaining a sustainable competitive advantage. Included in these topics are the concepts of market orientation and business networks. Day and Wensley (1988) suggest using perspectives of both customer and competitor to assess firm performance; this outward focus links the sustainable competitive advantage construct to the concept of market orientation. Through a customer orientation, firms can gain knowledge and customer insights in order to generate superior innovations (Varadarajan and Jayachandran 1999). Because a market orientation employs intangible resources such as organizational and informational resources, it can serve as a source of sustainable competitive advantage (Hunt and Morgan 1995).

According to the Kenya Insurance Industry 2010 report published by the Insurance Regulatory Authority, political problems and a tricky economic climate have not stopped the insurance industry from flourishing in Kenya. The life and non-life subsectors have steadily and strongly grown and this is expected to continue. However, this has not meant consistent profitability across all the companies involved or all business lines. In particular, many of the non-life companies providing health insurance have failed to make a profit from this line. Compared to multinational insurance companies from developed countries few insurance firms in Kenya have a high tolerance of emerging market risks and low exposure to the volatility of capital markets in the wake of the global financial crisis. The industry faces some significant challenges, one of which is the lack of knowledge about insurance. Companies have to deal with a lack of consumer understanding, the lack of incentives to employers, the domination of the market by brokers and cut-throat price competition.

Several studies on sustainable competitive advantage have been carried out in the past. Under the insurance industry, Ouma (2008) observed that insurance firms use value chain analysis to develop competitive advantage over other competing firms thereby reporting better cost management and higher profits. Ouma (2008) recommended that research should focus on why some companies are able to achieve competitive advantage using principles of value chain better than other firms. Kilonzi (2007) observed that intangible assets were widely used by pharmaceutical companies in various ways to help achieve competitive advantage. He proposed that the role of intangible assets in non pharmaceutical could also be studied and documented.

Ngigi (2006) while studying sustainable competitive advantage under conditions of change at East African Packaging Industries observed that cross sectional studies could be carried out to determine how competitive sustainable advantage can be developed per industry. Based on these studies, it is evident that there is a knowledge gap on how firms in the insurance industry develop sustainable competitive advantage. In addition, the dynamism of the insurance industry makes it an interesting field of study. How are insurance companies creating sustainable competitive advantage and what are the challenges faced in creating sustainable competitive advantage?

1.3 Objectives of the Study

The objectives of the study were:

i) To establish how insurance companies are creating sustainable competitive advantage

ii) To establish the challenges faced by insurance firms in creating sustainable competitive advantage.

1.4 Value of the Study

The study will contribute to the existing literature by providing an understanding of the nature of sustainable competitive advantage strategies adopted by insurance firms in Kenya. It will expose the depth of understanding and practise of competitive strategy in the insurance industry. This will be vital for future reference and will contribute to the available body of knowledge.

To players in the industry, the study is also expected to give the management of insurance firms and owners an understanding of the various resources and competitive strategies that they could adopt in order to gain an advantage in the market. To the policy makers, this research will enable them formulate policies that are in tune with the industry demands and hence improve their performance. It will enable them make strategic decisions that will promote the insurance industry. After successful completion, the researcher will partially have fulfilled the requirements to attain her respective Masters accreditation in Strategic Management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Many theories have been proposed to explain strategy and competitive advantage. Although the literature covers a wide variety of theories, this review will explore the concepts of strategy and sustainable competitive advantage while focusing on Porter's generic strategies and the resource-based view strategy. Although the literature presents these theories in a variety of context, this paper will primarily focus on their application to creating sustainable competitive advantage.

2.2 The Concept of Strategy

Different authors have defined strategy in different ways. The various definitions suggest that the authors gave selective attention to aspects of strategy, which are all relevant to our understanding of the concept (Aosa 1992). Chandler (1962) defined strategy as the determination of the basic long-term goals and objectives of an organization, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Chandler considered strategy as a means of establishing the purpose of an organization by specifying its long-term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives.

Schendel and Hofer (1979) argue that strategy may be defined as the broad program of goals and activities to help a company achieve success. They see strategy as the match between an organisations resources and skills and environmental opportunities and risks it faces and the purposes it wishes to accomplish. Organisations have to align their activities to match the new environment. Hayes and Upton (1998) allude that sound strategy formulation and implementation will not only help a company to meet the challenges of competition but it can also enable a company to defend or attack competitors successfully and hence survive and prosper in the current dynamic and turbulent environment.

Strategy helps a firm to keep its customers by meeting customer's expectations and the changing tastes and preferences. According to Grant (2000) there is no agreed all embracing definition of strategy. Indeed, strategy is an elusive and somewhat abstract concept. He argues that this is expected when dealing with an area that is constantly developing. Strategy is the direction and scope of an organisation over a long term. Strategies are systematic choices about how to deploy resources to achieve goals (Safford 2005).

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an interactive process that begins with recognition of where you are now and what you have now. The most dangerous competitors are those that are most like you. The differences between a company and its competitors are the basis of its advantage. If a firm is in business and is self supporting, then it already has some kind of advantage, no matter how small or subtle (Clayton 1997).

The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton 1997). Equally important, a strategy serves as a vehicle for achieving consistent decision-making across different departments and individuals. Hamel & Prahalad (1989) view organisations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such co-ordination requires that the strategy process act as a communication mechanism within the firm. Such a role is increasingly recognised in the strategic planning processes of large companies.

2.3 The Concept of Sustainable Competitive Advantage

One of the environmental influences to a business arises from competition. Increased competition threatens the attractiveness of an industry and reducing the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. Companies therefore focus on gaining competitive advantage to enable them respond to and compete effectively in the market (Johnson and Scholes 2002).

Through identifying their core competences, firms are able to concentrate on areas that give more lead over their competitors. According to Johnson and Scholes (1997), core competencies are more robust and difficult to imitate because they relate to the management of linkages within the organization value chain and to linkages into the supply and distribution chains. Porter (1980) argues that the essence of strategy formulation is coping with competition. The major sources of barriers to entry are economies of scale, product differentiation, capital requirements, cost disadvantage and access to distribution channels.

Competitive strategies and environment being the link between the competitive strategies used to the performance achieved, it is evidenced that the strategy is a game plan that creates a match between a firms capabilities and the environment. It is an action plan that a firm takes in order to achieve a set goal aimed at responding to changes in the environment. Strategy guides firms to superior performance through establishing competitive advantage (Porter’s 1990).

For a firm to have a competitive advantage it has to have business strategy that improves the competitive position of its products and services. A business strategy can be too competitive if it involves battling out with other competitors or co-operate, working with one or more competitors to gain advantage against other competitors (Johnson and Scholes 2003). Firm’s resources can be classified into capital, human and organisational resources (Barney 1991). There are companies that have a lot of money hence allocate it on research and development as well as corporate brand identity. It is through these resources that they are able to compete on lower costs or better products rather than tactical manoeuvring or product market positioning.

Porter (1995) came up with the value chain, which has a systematic way of examining the activities a firm performs and how the activities interact in order to analyze the source of competitive advantage. Mercy (2006) states that competitive advantage breaks down a firm into its strategically relevant activities in order to understand the behaviour of cost and the existing and potential sources of differentiation. A firm gains competitive advantage by performing the strategically important activities more cheaply or better than its competitor.

Competitive advantage may not always be achieved by competition alone. According to Johnson and Scholes (2003) collaboration between organisations may be a crucial ingredient in achieving advantage or avoiding competition. Organisations may compete in some markets and collaborate in others or even do both. Johnson and Scholes (2003) state that collaboration between potential competitors or between buyers or competitors or between buyers and sellers is likely to be advantageous when the combined costs of purchase and buying transactions (such as negotiating and contracting) are lower through collaboration than the cost of operating alone. Such collaboration also helps build switching of costs.

According to Mintzberg, et al (1999), there are three types of assets that help build a competitive advantage. Organisational and Managerial process is where it involves co-ordinating teamwork and how it responds to the changing environment. Positions is where technological assets in relation to other firms, functional assets that bring out efficiency. Path dependencies is where at the birth of a company, usually it is accompanied with certain orientations that stay with the company for a long time. The path the company takes then determines the development of its competencies.

2.4 Porter's Generic Strategies

Porter (1990) has described a category scheme consisting of three general types of strategies that are commonly used by businesses. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market a firm intends to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular he identified two competencies that he felt were most important: Cost leadership, differentiation and focus.

2.4.1 Cost Leadership Strategy

This is whereby a company sets out to be the low- cost producer. The company has a broad scope and serves many industry segments and may even operate in related industry. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base (Porter 1998). Porter (1998) points out that maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features. Similarly, to be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labor, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital, close supervision of labor, have a tight cost control and incentives based on quantitative targets.

Cost advantage can be achieved through obtaining raw materials at lower prices than competitors, producing more efficiently, being located in an areas where labor cost is low, getting advantages of lower cost distributions, making sure that costs are reduced in operational areas which have great impact on price and going where competitors have a lower market share and consequent higher costs (Johnson and Scholes 2002).

2.4.2 Differentiation Strategy

Porter (1998) points out that differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy (Porter 1998).

Porter (1998) argues that to maintain this strategy the firm should have strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills and incentives based on subjective measures. It should also be able to communicate the importance of the differentiating product characteristics, stress continuous improvement and innovation, attract highly skilled, creative and innovative people.

2.4.3 Focus Strategy

According to Porter (1998) in focus strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. Focus strategy may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments. Cost focus exploits differences in cost behavior in some segments while differentiation focus exploits the special needs of buyers in certain segments. Such difference imply that the segments are poorly served by broadly- targeted competitors who serve them at the same time with others.

A company that engages in the above strategies but fails to achieve any of them is “stuck in the middle”. They hardly get any profits. A company that gets stuck in the middle needs to decide a low cost strategy in a broad or narrow market or offer a differentiated or unique product or service in a broader narrow market (Porter 1998).

Porter's (1990) identified the five forces of competition as the threat of new entrants whereby people are attracted to new products in the market hence want to buy something that is new in the market. The other force is the threat of powerful suppliers and buyers.

A supplier is powerful if the market is dominated by a few companies and it is more concentrated than the industry it is selling to or the product is unique. A buyer is powerful if they buy in large volumes or the products are undifferentiated. The threat of substitute products also is a force identified by Porter. Substitute products are where a customer has an option of buying another product that can be used as a replacement.

2.5 Resource-Based View

The resource-based view (RBV) is a business management tool used to determine the strategic resources available to a company. The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984). A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes can not be imitated by competitors, which ultimately creates a competitive barrier (Mahoney and Pandian 1992).

A firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific. The resource-based view of competition draws upon the resources and capabilities that reside within an organization, or that an organization might want to develop, in order to achieve a sustainable competitive advantage. Resources may be thought of as in puts that enable an organization to carry out its activities. Where organizations in the same industry have similar resources but differing performance we might deduce that they vary in the extent to which they utilize their resources. Resources in and of themselves confer no value to organizations. It is only when they are put to some productive use that value follows.

These resources can be categorized as tangible or intangible. Tangible refer to the physical assets that an organization possesses and include plant and machinery, finance and human capital. Intangible comprise of intellectual/technological resources and reputation. It may be embedded in routines and practices that have developed over time within the organization. They include an organization’s reputation, its culture, its knowledge and its brand.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The preceding chapters presented the background of the study, defined the research problems, explained the results of relevant literature related to factors which may influence concept of creating of sustainable competitive advantage, and presented the theoretical foundation for this study.

This chapter looks at the research design, population of study and the sample design, techniques of data collection and of data analysis.

3.2 Research Design

The study adopted a survey design. Survey designs were used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret data for the purpose of clarification (Orodho 2002). In survey research, the researcher selects a sample of respondents from a population and administers a standardized questionnaire to them.

The survey design is best suited for this kind of study since it allowed the researcher to make comparisons among players in the industry on how they create sustainable competitive advantage across the industry.

3.3 Population

The population of the study comprised of all the insurance companies licensed and operating in Kenya. As at August 2011, according to the Insurance Regulatory Authority data, there were 41 insurance companies and 2 locally incorporated reinsurance companies licensed to operate in Kenya. Of the licensed insurance companies, 21 were general insurers, 9 long term (life) insurers and 12 were composite (both life and general) insurers. These firms served as the population of the study.

3.4 Sample Design

Sampling means selecting a given number of subjects from a defined population as representative of that population. Any statements made about the sample should also be true of the population (Orodho 2002). It is however agreed that the larger the sample the smaller the sampling error.

The study adopted random sampling whereby the respondents were randomly selected among the insurance companies. However, to ensure that the right respondents filled the questionnaires, the researcher targeted the top executives of the firms. A letter of introduction was provided to aid in reaching the targeted respondents.

3.5 Data Collection

Primary data was mainly used in the survey and was collected by way of using the questionnaire which had both closed and open-ended questions. The questionnaire targeted the General Managers or Marketing managers because they mainly possess information regarding their business's strategic vision and operations.

One questionnaire was given for each insurance company which the researcher hand delivered to further develop a rapport with the potential respondents thus steering towards collection of relevant data. To enhance the response rate, a letter of introduction (See

Appendix I) was attached to explain the intentions of the study and hence allay any respondent's fears.

3.6 Data Analysis

The data analysis sought to establish how insurance companies are creating sustainable competitive advantage as well as the challenges they faced in implementing the strategies. After all questionnaires are fully completed and received, they were checked and verified to ensure consistency, exhaustiveness and completeness in the information expected. Measures of central tendencies like mean and standard deviation were used to offer inferences on the objectives of the study.

Descriptive method of data analysis was used to describe the nature of the situation as it exists. This was based on variables such as presence of competitive advantage, resources used, scope of competitive strategies, challenges faced in sustaining competitive advantage among others.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter gives the finding of the research project whose objectives were to establish how insurance companies are creating sustainable competitive advantage and to establish the challenges faced by insurance firms in creating sustainable competitive advantage.

4.2 Data Analysis

The study findings have been analysed using descriptive statistics i.e. mean and frequencies and various inferences made based on the data findings. The researcher successfully obtained data from 32 insurance firms out of the registered 41 representing a response rate of 78%.

4.3 Creating Sustainable Competitive Advantage in the Insurance Industry in Kenya

The first objective of the study was to establish how insurance companies are creating sustainable competitive advantage. The data for this objective was collected by asking respondents the competitive strategies they have adopted to ensure they remain in business. The findings indicated that there is a blend of Porter's generic competitive strategies adopted by Kenyan insurance firms. Out of the total 32 surveyed firms in this research, 45% indicated that they used cost advantage strategy while 35% used differentiation strategy. The remaining 20% adopted focus as their competitive strategy (Table 1).

Table 1: Competitive Strategies

Competitive Strategy	Frequency	Percentage	Cumulative Percentage
Cost Leadership Strategy	14	45	45
Differentiation Strategy	11	35	80
Focus Strategy	7	20	100
	32	**100**	

4.3.1 Cost Leadership Strategy

Under the cost advantage strategy, the study established that players using this strategy perceive their companies as the low cost leaders in the industry. This was shown through a high mean score of 2.49. Similarly, companies using this strategy achieve their economies of scale through providing high volumes of standardized services as well as constantly searching for cost reduction strategies. The mean score on both parameters was 2.41.

The study further established that in the cost advantage strategy, players have been able to reach their target clientele as well as attain a large market share. The mean score on this variable was 2.13. It also emerged that companies using this strategy have a wide branch network that helps maintain the strategy with a mean score of 2.01 (Table 2).

Table 2: Cost Leadership Strategy

Variable	Minimum	Maximum	Mean	Standard Deviation
Low cost leadership	1	5	2.49	1.081
Broad scope and wide clientele	1	4	2.24	0.819
Economies of scale	1	4	2.41	0.987
Cost reduction strategies	1	4	2.41	0.987
Extensive Branch Network	1	4	2.17	0.928
Large Market share	1	4	2.13	1.030
Reaching Target Clientele	1	4	2.01	0.949

The study established that maintaining the cost leadership strategy is largely dependent on ensuring the companies are located near the customers. This is further supplemented by having cost reduction strategies and ensuring low labour costs. Having a large network scored a low mean of 2.38 indicating that the strategy is to an extent dependent on the branch network available.

The findings indicate a good understanding of the practicability of the cost advantage strategy. Through locating near customers and having cost reduction strategies, the firms cut on their operational costs and hence can compete successfully using this strategy (Table 3).

Table 3: Maintaining Cost Leadership Strategy

Variable	Minimum	Maximum	Mean	Standard Deviation
Near customers location	1	4	1.71	0.956
Large network in the country	1	5	2.38	1.359
Ensuring low labour costs	1	3	1.86	0.727
Having minimal operational Costs	1	5	2.00	1.049
Having cost reduction strategies	1	5	1.81	1.030

4.3.2 Differentiation Strategy

Differentiation involves creating a product that is perceived as unique by the customers. The unique features or benefits ought to provide superior value for the customer if this strategy is to be successful. Under differentiation strategy, firms thrive on understanding the unique customer needs and seeking to meet them. Through this strategy, unique service features provide superior value for the customers. Similarly, the firms using this strategy strive to differentiate their services in such a way that the competitors cannot imitate.

The study established an understanding of the differentiation strategy among the firms owing to the nature of their responses. Though the firms that have adopted this strategy are fewer in comparison with the ones adopting cost advantage strategy, there was evident wealth on knowledge on how to ensure company succeed using this strategy. The surveyed firms indicated that their profitability is pegged on their ability to offer a unique service and charge a premium for it (Table 4).

Table 4: Differentiation Strategy

Variable	Minimum	Maximum	Mean	Standard Deviation
Service Uniqueness	1	3	1.78	0.768
Premium Charging	1	3	1.91	0.799
Maintenance through higher premium	1	4	1.95	0.961
Understanding customers needs	1	2	1.47	0.516
Superior Value for customers	1	2	1.47	0.516
Avoiding Competitor Imitation	1	3	1.47	0.640

Maintenance of the differentiation strategy is mainly pegged on the presence of strong creativity and innovation skills. This was evidenced through the highest mean score of 1.57. Similarly important to the maintenance of this strategy is the presence of strong marketing skills and adequate communication of the services benefits to the customers evidenced with a mean of 1.67 (Table 5).

Table 5: Maintaining Differentiation Strategy

Variable	Minimum	Maximum	Mean	Standard Deviation
Research and Development	1	5	2.19	1.307
Product Engineering	1	5	2.07	1.280
Innovation and creativity	1	4	1.57	0.837
Strong Marketing	1	4	1.67	0.900
Communication of benefits	1	4	1.67	0.900

From the above findings, it is evident that the success of the differentiation strategy among the samples insurance firms in Kenya is pegged on strong creativity and innovation skills coupled with the presence of marketing skills and adequate communication of products benefits to the customers.

4.3.3 Focus Strategy

In the focus strategy, a firm concentrates on an identified target market and focuses on meeting that markets needs. Focus strategy was the least practiced strategy with a representation of 20% among the surveyed firms. Under this strategy, players concentrate on a specific / niche market with a choice of a narrowly competitive scope within the industry. For instance, some sampled insurance companies concentrated on motor vehicles underwriting while others focused on health insurance. This is further blended with tailoring the market mix to meet the specialized markets (Table 6).

Table 6: Focus Strategy

Variable	Minimum	Maximum	Mean	Standard Deviation
Niche market concentration	1	3	1.44	0.726
Choice of narrowly competitive scope	1	3	1.56	0.726
Tailoring products to fit the market	1	3	1.67	0.707
Exploiting cost behaviour	1	4	2.22	1.093
Exploiting special needs of specific targets	1	5	2.67	1.500

The data findings indicated that players in the industry adopting the focus strategy mainly concentrate on a niche market and tailor their products to fit that market. The demarcation between cost focus and differentiation focus was however not clear. This was evidenced by the almost similar mean score of 2.22 on exploiting cost behaviour and 2.67 on exploiting special needs of specific targets. A similar scenario was also witnessed in tailoring products to fit the market and choice of narrowly competitive scope.

4.3.4 Resource Based View

Under the resource-based view a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. Among the sampled insurance it was established that resources are key in creating sustainable competitive advantage.

Among the sampled firms, 82% indicated that they had unique resources that were key in creating sustainable competitive advantage. The remaining 18% indicated that they did not posses unique resources. The study also established that 63% of the sampled firms viewed the unique resources as the main sustaining force of their competitive advantage. The remaining 37% however indicated that the resources were not the main stay of the business.

4.4 Challenges in Creating Sustainable Competitive Advantage

The second and final objective of the study was to establish the challenges faced by insurance firms in creating sustainable competitive advantage. The purpose of probing this was to establish the challenges faced in strategy implementation and make recommendations for policy and practice. The data for this objective was collected by requesting respondents, through the questionnaires, to indicate the varying degrees to which various challenges discussed in the literature review impacted on them as they implemented their strategies.

The data findings indicated that the strongest challenge to competitive strategy implementation was competitor reaction with a mean of 1.60. This could be attributed to the high competition evident in the industry since over 90% of the firms surveyed indicated that their reason for implementing competitive strategies was competition in the business environment.

The study further established that challenges in change management were experienced in a major way with a mean of 2.13 when the firms are implementing their competitive strategies. This is mainly because strategy implementation involves change and people tend to naturally resist change. On the other hand, the challenges of management support and technological competence were minimal with a mean of 3.71 and 3.13 respectively. Inadequate marketing channels also posed minimal challenges with a mean score of 3.18 (Table 7).

Table 7: Challenges in Creating Sustainable Competitive Advantage

Variable	Minimum	Maximum	Mean	Standard Deviation
Challenges of Change management	1	5	2.13	1.307
Implementation Time frame	1	5	3.13	1.502
Resources Adequacy	1	5	2.93	1.587
Management Support	1	5	3.71	1.517
Technological competence	1	5	3.13	1.714
Competitor Reaction	1	5	1.60	1.116
Inadequate marketing Channels	1	5	3.18	1.709

The findings indicated that all players irrespective of the competitive strategy adopted experienced strategy implementation challenges. On particular significance was the finding that management support was not a big challenge in strategy implementation. This is a pointer that management of these firms are committed to the implementation of the strategies.

4.5 Discussion

The objectives and findings of the research project have been compared with the theoretical background. It has also been compared to other empirical studies based on sustainable competitive advantage.

4.5.1 Link to Theory

The literature review explored the concepts of strategy and sustainable competitive advantage while focusing on Porter’s generic strategies and the resource-based strategy.

Under the cost leadership strategy, companies set out to be the low- cost producer in the industry. Companies adopting this strategy usually have a broad scope and serve many industry segments and may even operate in related industries. Through constantly seeking for cost reduction avenues, players adopting the cost advantage strategy can offer their services at low costs and hence derive their profits from high volume sales. Similarly, players adopting this strategy maintain it through ensuring they are located near their clients. They also ensure that they have cost reduction strategies. This is the reason why majority of the respondents who have adopted this strategy indicated that their firms have a big branch network.

In differentiation strategy the companies create a product that is perceived as unique by the customers and based on the perceived superior qualities of the product, they charge a premium for it. Among the insurance firms in Kenya that adopt differentiation strategy, profitability is pegged on ability to offer unique service. The strategy is maintained through strong creativity and innovation skills that are complemented by strong marketing skills and adequate communication of the products benefits to the customers.

Though not very popular among the insurance firms in Kenya, focus strategy entails concentrating on an identified target market and focuses on meeting that market needs. The focus strategy can be either differentiation focus or cost focus. The maintenance of the strategy is mainly pegged on niche market concentration and the choice of a narrowly competitive scope. Under the resource based view, firms have resources that they perceive as strategic and giving them an advantage above their competitors.

The challenges that insurance firms in Kenya face in sustaining their competitive advantage mainly include competitor reaction, change management and resources inadequacy. These challenges are in line with the theoretical understanding about strategy implementation. The fact that Government policy was not considered a challenge by the players in this industry may allude to the presence of a good legal and policy framework that allows the players implement their competitive strategies without any legal or policy problems. The players hence have to learn how to address the challenges they face in implementation.

4.5.2 Link to Other Empirical Studies

Other studies have been done on competitive advantage but only one has been done under the insurance industry. Ouma (2008) observed that insurance firms use value chain analysis to develop competitive advantage. His study did not however discuss if value chain creates sustainable competitive advantage. Kilonzi (2007) observed that resource-based strategy was widely used by pharmaceutical companies to achieve competitive advantage. Ngigi (2006) observed that cross sectional studies could be carried out across industries to determine how competitive sustainable advantage can be developed per industry.

The above studies show how companies have created competitive advantage over their competitors but none show if those advantages are sustainable or not. In comparison to my study, the above studies are just a means of creating an advantage but the strategies and resources are not necessarily sustainable. A cross sectional study across the industries will be able to show if different industries use different strategies to sustain their competitive advantage.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the research findings where the main objectives were to establish how insurance companies are creating sustainable competitive advantage and to establish the challenges faced by insurance firms in creating sustainable competitive advantage.

It provides a summary of findings based on the objectives of the study and the literature review. Conclusions based on the study findings, limitations of the study, suggestions for further research and recommendations for are also discussed in this chapter.

5.2 Summary of Findings

The results of the study are hereby summarised and the findings categorised according to the objectives of the study. Under the objectives, the findings have been linked to the theory of the study so as to emphasize the most widely used strategy in the industry.

5.2.1 Creating Sustainable Competitive Advantage

The first objective of the study was to establish how insurance companies are creating sustainable competitive advantage. The study established that the three generic competitive strategies i.e. cost advantage; differentiation and focus were all applied in the industry. Cost advantage is most widely spread with 45% of the firms adopting it. Under the cost advantage strategy, the players have established themselves as cost leaders in the markets and achieve their economies of scale through providing high volumes of standardized services as well as constantly searching for cost reduction avenues. Similarly, under this strategy, firms have a wide branch network that helps maintain the strategy.

The findings from players that have adopted differentiation strategy, who accounted for 35% of the interviewed respondents indicate that to ensure survival under this strategy, the company has to be innovative and possess creative skills. These are blended with strong marketing skills and adequate communication of the benefits of the unique services offered by the companies. Profitability under this strategy is maintained through constantly offering unique and quality services and charging a premium for it. This is in line with the position established by Porter when elaborating on differentiation strategy.

Though not very popular, focus strategy is applied by 20% of the insurance firms interviewed in this study. In this strategy the players have successfully identified their niche / target markets and seek to meet the needs of that target market. The players who have adopted focus strategy exploit cost behaviours to benefit from the strategy while those that have adopted differentiation focus exploit special needs of the target market through tailoring specific services for them.

Under the resource-based view, insurance it was established that resources are key in creating sustainable competitive advantage. Among the sampled firms, 82% indicated that they had unique resources that were key in creating sustainable competitive advantage. The remaining 18% indicated that they did not posses unique resources. The study also established that 63% of the sampled firms viewed the unique resources as the main sustaining force of their competitive advantage.

5.2.2 Challenges in Creating Sustainable Competitive Advantage

The second and final objective of this study was to establish the challenges faced by the firms as they implement these strategies. The strongest challenge to competitive strategy implementation was competitor reaction. This is a possible indicator to the high degree of competition in the industry. This is also pegged on the biggest reason for strategy adoption that was competition. The other challenges include resistant to change and inadequate resources. Challenges that pose minimal threat to competitive strategy implementation include technological competence, inadequate marketing channels and lack of management support.

5.3 Conclusion

From the findings, it can be concluded that insurance firms in Kenya use cost leadership strategy to create sustainable competitive advantage in Kenya. There is an excellent understanding of the theoretical foundations of cost advantage strategy that enables the players successfully adopt the strategy and reap benefits from it.

Creating sustainable advantage through adoption of differentiation strategy is second in practise among insurances firms in Kenya while focus strategy is the least practised.

Resources are also seen as key in the creation of sustainable competitive advantage among insurance companies in Kenya.

5.4 Recommendations

Based on the findings of this study, it is recommended that players in the industry constantly evaluate their strategies with an aim of staying ahead of the competition. With the bulk of the interviewed firms indicating their preference of cost advantage strategy, it is important to invest in expanding the branch network of such companies and constantly adopting cost reduction strategies.

The Insurance Regulatory Authority has a set limit of rates that insurance companies can use to dictate their costs. Insurance companies have then manipulated these costs so as to gain cost leadership advantage and hence create sustainable competitive advantage. Currently, the market focuses on cost as their determining factor for which company to go to for service.

Though the focus strategy is not popular in the industry, it can be a key avenue for reaching target markets. It is hence recommended that more players look into the various market segments and adopt the focus strategy that will enable them serve such segments.

Finally, it is important that the players invest in resources so as to cement the gains attained through adoption of various competitive strategies.

The study has given the management of insurance firms an understanding of the competitive strategies they could adopt in order to gain an advantage in the market. The study will help policy makers formulate policies and strategies that are in tune with the industry demands hence enable them make strategic decisions that will promote the industry.

5.5 Limitations of the Study

This study concentrated on the creation of sustainable competitive advantage adopted by insurance firms in Kenya as a whole. This was done without classifying the firms among the different services that are offered. The different categories of insurance firms have different orientations and the fact that they were viewed in the same breath is one limitation of this study.

The study similarly did not consider the process of strategy implementation as a whole but concentrated on implementation alone. This is a limitation since it ought to have considered the strategy process as whole i.e. from strategic objectives setting, planning, analysis and choice, implementation and evaluation. Thirdly, the study did not consider the role of regulation and policy framework in the industry in enhancing competitiveness in the industry hence serving as a limitation.

5.6 Suggestions for Further Research

Further studies can be carried on analysing the strategic responses of the firms in insurance industry to different competitive strategies adopted by the insurance firms. Similarly, studies can be done to investigate the factors that the firms in this industry consider when choosing their competitive strategies.

Due to the size of the population, a census study as a research method would have been more appropriate. Further research can be done as a census to establish if the results yielded will be the same. Studies on competitive strategies can also be extended to other industries in order to contribute to the body of knowledge on competitive advantage strategies.

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APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

RE: MBA STRATEGIC MANAGEMENT RESEARCH PROJECT

I am a postgraduate student at the University of Nairobi currently conducting a research study as a requirement for the fulfilment for the Award of Masters of Business Administration Degree.

The research is to establish how insurance companies are creating sustainable competitive advantage and the challenges they face while doing so. I would like to ask you some questions and assure you that the information obtained is purely for academic purposes and will be treated with confidentiality.

Your assistance will be highly appreciated.

Yours faithfully,

Christine Mutena Ilovi
D61/P/7211/2004
Student.

APPENDIX II: LIST OF INSURANCE FIRMS

	NAME	SURVEYED	DATE
1	Africa Merchant Assurance Company Limited	YES	September 2011
2	APA Insurance Company Limited	YES	October 2011
3	Apollo Life Assurance Limited	YES	October 2011
4	British-American Insurance Co. (K) Ltd	YES	August 2011
5	Cannon Assurance (Kenya) Ltd	YES	October 2011
6	Chartis Kenya Insurance Company Limited	YES	September 2011
7	CIC Insurance Group Limited	YES	October 2011
8	Corporate Insurance Company Ltd	YES	October 2011
9	Directline Assurance Company Limited	NO	-
10	Fidelity Shield Insurance Company Limited	YES	September 2011
11	First Assurance Company Limited	YES	August 2011
12	GA Insurance Limited	YES	August 2011
13	Gateway Insurance Company Limited	YES	September 2011
14	Geminia Insurance Company Ltd	NO	-
15	Insurance Company Of E.A. Ltd	YES	August 2011
16	Intra Africa Assurance Company Limited	NO	-
17	Invesco Assurance Company Limited	YES	October 2011
18	Kenindia Assurance Company Limited	YES	October 2011
19	Kenya Orient Insurance Limited	YES	October 2011
20	Lion of Kenya Insurance Company Limited	YES	August 2011
21	Madison Insurance Company Kenya Ltd	YES	August 2011
22	Mayfair Insurance Company Limited	YES	September 2011
23	Mercantile Insurance Company Limited	YES	October 2011
24	Metropolitan Life Insurance Kenya Limited	NO	-
25	Occidental Insurance Company Limited	NO	-
26	Old Mutual Life Assurance Co. Limited	YES	August 2011
27	Pacis Insurance Company Limited	YES	September 2011

28	Pan Africa Life Assurance Limited	YES	October 2011
29	Phoenix Of E.A. Assurance Co. Ltd	YES	October 2011
30	Pioneer Assurance Company Limited	YES	October 2011
31	Real Insurance Company Limited	YES	October 2011
32	Shield Assurance Company Ltd	NO	-
33	Takaful Insurance Of Africa Limited	NO	-
34	Tausi Assurance Company Limited	NO	-
35	The Heritage Insurance Company Limited	YES	August 2011
36	The Jubilee Insurance Company Of Kenya Limited	YES	August 2011
37	The Kenyan Alliance Insurance Co. Ltd	YES	October 2011
38	The Monarch Insurance Company Limited	YES	October 2011
39	Trident Insurance Company Limited	YES	September 2011
40	UAP Insurance Company Limited	YES	August 2011
41	Xplico Insurance Company	NO	-

APPENDIX III: INSURANCE FIRMS QUESTIONNAIRE

SECTION 1: COMPANY DEMOGRAPHICS

1) How many employees does your organization have?

(a) Less than 50 ()

(b) Between 50 and 100 ()

(c) Between 100 and 200 ()

(d) Above 200 ()

2) How would you classify the ownership of your organization?

(a) 100% Foreign owned ()

(b) 100% Locally owned ()

(c) Over 51% Foreign owned ()

(d) Over 51% Locally owned ()

3) How many clients does your firm serve?

(a) Over 50 ()

(b) Below 50 ()

SECTION 2: SUSTAINABLE COMPETITIVE ADVANTAGE

4) Does your organization have a competitive advantage over its competitors?

a) Yes ()

b) No ()

5) Did the firm consider the competition from other players in the industry before adopting the competitive strategies?

a) Yes ()

b) No ()

6) Which of the following best describes your competitive strategies?

a) We offer low cost services ()

b) We provide an unique service and charge a premium for it ()

c) We focus on a niche market and serve it only ()

7) If your answer in 6 above is (a) using a scale of 1 – 5 where 1 is Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree and 5 strongly disagree, respond to the following statements that describe low cost competitive strategy.

VARIABLES ON LOW COST	1	2	3	4	5
Our company is the low cost leader in the industry					
Our company has a broad scope and serves many clients					
We achieve our economies of scale through providing high volumes of standardized services					
We maintain our strategy by constantly searching for cost reduction avenues or ways					
Our extensive branch network enables us to maintain our low cost strategy					
Our low cost strategy has enabled us to attain a large market share					
We have been able to meet our target clientele using our low cost strategy					

8. On a scale of 1 – 5 where 1 is Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree and 5 strongly disagree, indicate the extent to which the following factors enable you to provide your services at low cost.

FACTORS FOR SUSTAINING LOW COST	1	2	3	4	5
Being located near the customers					
Having a large network in the country					
Ensuring low labour costs					
Having minimal operational cost					
Having cost reduction strategies					

9) If your answer in No. 6 above was (b) kindly respond to the following questions that describe differentiation strategy. Using a scale of 1 – 5 where 1 is Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree and 5 strongly disagree, respond to the following statements.

VARIABLES ON DIFFERENTIATION STRATEGY	1	2	3	4	5
Our company has designed services perceived as unique by our clientele					
Our profitability is pegged on our ability to offer a unique service and charge a premium for it					
We maintain our differentiation strategy by constantly looking for ways of charging a premium that exceeds the cost of differentiating.					
Our differentiation is based on the understanding of unique customer needs and seeking to meet them.					
Through differentiation, our unique service features provide superior value for our customers					
We always strive to differentiate our services in such a way that our competitors cannot imitate us.					

10. On a scale of 1 – 5 where 1 is Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree and 5 strongly disagree, indicate the extent to which the following factors enable you to sustain your differentiation strategy

FACTORS FOR SUSTAINING DIFFERENTIATION	1	2	3	4	5
Strong research and development skills					
Strong product engineering skills					
Strong creativity and innovation skills					
Presence of strong marketing skills					
Adequate communication of the benefits of our products					

11) If your answer in No. 6 above was (c) kindly respond to the following questions that describe focus strategy. Using a scale of 1 – 5 where 1 is Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree and 5 strongly disagree, respond to the following statements.

VARIABLES ON FOCUS STRATEGY	1	2	3	4	5
Our company concentrates on a specific / niche market					
Our focus strategy rests on the choice of a narrow competitive scope within the insurance industry					
We strive to meet the needs of our niche market by tailoring our market mix to these specialized markets					
Through our cost focus, we exploit cost behaviours in specific market segments					
Through our differentiation focus we exploit the special needs of buyers in specific segments					

RESOURCE BASED VIEW

12) Does the organisation have unique resources that enhance its competitive advantage?

a) Yes ()

b) No ()

13) Are these resources the main sustainability for the organisational competitive advantage?

a) Yes ()

b) No ()

14) How can the organisation categorise its resources?

a) Tangible ()

b) Non-tangible ()

15) What were the reasons for the implementation of your Competitive Strategies?

	Yes	No
a) Changes in business environment	()	()
b) Competition in business environment	()	()
c) Active pursuit of strategic benefits	()	()
d) Opportunities offered by new technologies	()	()
e) Financial condition of the company	()	()

f) Other (Please specify)

……………………………………………………………………………….……………

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16) To what extent were the following risks or implementation problems experienced? (Please note 1 = Very High, 2 = High, 3 = Moderate 4 = Minimal and 5 = Not at all)

RISK / IMPLEMENTATION PROBLEM	**1**	**2**	**3**	**4**	**5**
Challenges of Change management					
Implementation Time Frame					
Resources Adequacy					
Management support					
Technological competence					
Competitors reaction					
Inadequate marketing channels					

17) Have any of the above strategies or resources enabled you sustain your competitive advantage?

a) Yes ()

b) No ()

Thank you for your time and cooperation in filling this questionnaire. Kindly check the questionnaire to ensure that you have not skipped any questions.