EFFECT OF SERVICE CAPABILITIES ON COMPETITIVE ADVANTAGE OF INSURANCE COMPANIES IN KENYA

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2021

DECLARATION

I declare that this research project is my original and has not in its entirety or in part been presented to this or any other university.

Signature......................... Date: November 29th 2021……………………..

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This research project has been submitted with my approval as the university supervisor

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TABLE OF CONTENTS

DECLARATION ..... **i**

TABLE OF CONTENTS ..... **iii**

LIST OF TABLES ..... **vi**

CHAPTER ONE: INTRODUCTION **1**

1.1 Background to the Study 1

1.1.1 Service Capabilities 3

1.1.2 Competitive Advantage 4

1.1.3 Insurance Companies in Kenya 5

1.2 Research Problem 6

1.3 Research Objective 10

1.4 Value of the Study 10

CHAPTER TWO: LITERATURE REVIEW **11**

2.1 Introduction 11

2.2 Theoretical Review 11

2.2.1 Dynamic Capability Theory 11

2.2.2 Resource Capability Theory 13

2.3 Service Capabilities and Competitive Advantage 15

2.3.1 Back-Office Capabilities 17

2.3.2 Front-Office service Capabilities 18

2.4 Empirical Review and Research Gap 19

3.1 Introduction 21

3.2 Research Design 21

3.3 Population of the Study 21

3.4 Data Collection 22

3.5 Data Analysis 22

CHAPTER FOUR: RESULTS AND FINDINGS **24**

4.1 Introduction..24

4.2 Questionnaire Return Rate..24

4.3 Demographic Information..25

4.3.1 Number of Employees..25

4.3.2 Age of the Organization..25

4.4 Service Capability Dimensions...26

4.4.1 Front Office Capability..27

4.4.2 Back Office Capabilities...29

4.5 Competitive Advantage...31

4.6 Regression Analysis..32

4.6.1 Summary Model..32

4.6.2 ANOVA..33

4.6.3 Coefficients of regression analysis...34

4.7 Discussion of the Findings..35

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.......37

5.1 Introduction..37

5.2 Summary..37

5.3 Conclusion...38

5.4 Recommendations...39

5.5 Limitations...40

5.6 Suggestions for Future Studies...40

APPENDIXES...46

Appendix 1: Letter of Introduction..46

Appendix II: Questionnaire..47

Appendix III: Insurance Companies in Kenya..50

LIST OF TABLES

Table 4. 1 Response Rate 24

Table 4. 2 Number of Employees 25

Table 4. 3 Age of the Organization 26

Table 4. 4 Front Office Capability 27

Table 4. 5 Back Office Capabilities 29

Table 4. 6 Competitive Advantage 31

Table 4. 7 Summary Model 33

Table 4. 8 ANOVA 33

Table 4. 9 Coefficients of regression analysis 34

ABBREVIATION AND ACRONYMS

AIBK	-	Association of Insurance Practice Association of Kenya
AKI	-	Association of Kenya Insurance
IRA	-	Insurance Regulatory Authority
BO	-	Back-Office
CMA	-	Capital Market Authority
CRC	-	Customer Relation Capabilities
DCT	-	Dynamic Capability Theory
FO	-	Front-Office
GPS	-	Geographical Positioning System
MIPAK	-	Medical Insurance Practice Association of Kenya
RCT	-	Resource Capability Theory

ABSTRACT

The main objective of the study was to establish the effect of service capabilities on competitive advantage of insurance companies in Kenya. Service capabilities were represented by the front office capabilities and the back-office capabilities on competitive advantage of insurance firms. The research was anchored on two theories, namely; Dynamic capability theory and the Resource Capability Theory. The research adopted a cross-sectional descriptive research design with the population of the study being 55 insurance firms operating in Kenya. A questionnaire was the data collection instrument while the data was analysed using descriptive measures of mean and standard deviation. The study found that front office capability, with a regression coefficient of 0.420, has a positive effect and significant effect the insurance firm's competitive advantage. In regard to the back-office capabilities, the findings suggest that it has a positive and significant effect on competitive advantage of insurance firms ($\beta=0.873$, $p=0.873$). On overall effect of service capability on competitive advantage, the study established that both front office and back-office capabilities explains 63.0% of the competitive advantage. The study recommends that insurance firms should devise ways of strategizing front office and Back office departments to realize more effective results on competitive advantage outcome. The study further recommends that employees should, on routine basis, subject their employees to training in order to equip them with fresh knowledge on service capabilities both at front door and back door. The study further recommends that customer satisfaction surveys should be undertaken on continuous basis to assess the extent of satisfaction and build on the feedback from the customers

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The service based business sector has taken a prominent role in the current business dispensation as opposed to the traditional manufacturing firms, and as a result, the ability of an organization to harness its internal capabilities has been advocated as a potential source of competitive advantage (Carroll & Helfert, 2015). This is because the corporate success of a firm in the present-day business environment emanates from among others, being able to recognize activities that might create competitive advantage as tough choices are made on what to do. Under such circumstances, an organization's internal capability, that for example, improves its excellence in service offering and ability to retain existing and attract new customers, allows a firm to earn its living today and as a result realise short-term competitiveness. The basic goal of an organizational capability according to Baines et al. (2016) is to convert available resources in organization with an aim of creating value in a business way that by increasing the role of services in product offering, a business organization can be able to differentiate itself from competitors and consequently result in a competitive advantage.

The research was anchored on two theories, namely; the dynamic capability theory (Teece, Pisano and Shuen, 1997) and the Resource-capability theory (Newbert's, 2008). The dynamic capability theory suggests that in a highly competitive and continuously changing world organizations need to be able to foresee changes and ready to make adjustments in their strategy, in order to achieve and sustain competitive advantage. Dynamic capability is the ability to do things in a systematic way. Therefore, the dynamic capability theory explains the acquisition of competitive advantage by a firm through constantly changing its strategies in a way that will match prevailing market demands. On the other hand, the resource-capability theory asserts that neither resources nor capabilities alone will result in improved organizational performance, but rather a combination of both capacities (Morgan, Vorhies, & Mason 2009). The theory therefore advocates complementarity of resources and internal capabilities as a source of competitive advantage – since ability and power is supposed to result in synergy when combined than if only one is present or handled separately.

In any economy that focuses on 360 degrees stability dimension, insurance industry is considered as a vital player for the role it plays in reduction of risks and protection of employees. Consumers also benefit from insurance industry from the fact that when producers have shared the risks of production with the insurer, there is a long-term effect on fidelity of production thus enhancing economic stability. Producers will have an ample economic environment for production and hence expanding production capacity which results to creation of more jobs. These activities assist firms in operating successfully, resulting in more jobs and more economic activity. In the recent past, the number of insurance companies has been rapidly increasing in the industry and therefore the ability of insurance companies to achieve competitive advantage under such a business environment has become a key managerial goal (Mwangi & Iraya, 2014). The Kenyan insurance firms therefore need more than the ordinary capabilities but rather to identify both the front and back-office capabilities that might change its competitive position, more so in a market that has become very competitive as a result of a demanding customer base and also many players in the market chasing after a small market segment. It was essential to carry out a study in order to establish internal capabilities strategies that will be able to differentiate service offering and also determine its impact on competitive advantage of insurance companies.

1.1.1 Service Capabilities

According to Wu, Melnyk and Swink (2012), Capabilities is the normal routines of a firm at a specific level of operation that impact how efficiently businesses can combine and use available resources to accomplish the tasks required for their company. Similarly, capacities have been described as the collective capacity to establish certain processes in a business in an efficient, and reasonably realistic manner in order to improve organizational outcome (Carroll & Helfert, 2015). Relational capabilities, such as partnership and network capabilities, integrative capabilities, and product capabilities linked to the implementation of integrated solutions, and service capabilities are the four common operational capabilities of a business. The creation, sales, and delivery of services as a method of giving value to clients are all part of service capabilities. This is frequently facilitated by use of information technology (IT) in the organization processes of delivering a service. According to Valtakoski and Witell (2018), service capacity is made up of two parts: back-office and front-office components.

Organizational capabilities linked to the administration of back-office service operations inside the service provider's organizational boundaries are referred to as back-office service capacity. This aids in the effective delivery system, as well as the capacity to predict human resource requirements and the ability to streamline existing service delivery procedures (Gwinner, Bitner, Brown & Kumar, 2005). Management of service capacity and demand, human resource management, service engineering, service operations and adoption of appropriate systems of control of service output are all examples of back-office skills. Front-office (FO) service capacity, on the other hand, is concerned with organizational capabilities associated with front-office operations and service delivery at the firm-customer interface. The capacity to listen and comprehend client demands, as well as competencies in quality control throughout service delivery, are all part of front-office service capability. Front-office service capacity has an impact on how efficiently a company uses its resources to create services, and it enhances company success by improving service quality, customer happiness, and loyalty (Zeithaml, 2000).

1.1.2 Competitive Advantage

The capacity of a company to continuously achieve significant returns on investment above the industry average is referred to as competitive advantage (Porter, 1985). Furthermore, a business experiences a sense of competitiveness when it introduces a value-creating strategy that is not being adopted by any existing or future rival at the same time (Barney, 1991). Similarly, competitive advantage has been defined as implementation of a unique value-generating strategy that is made up of an inimitable combination of abilities and resources within an organization and that a competitor cannot replicate (Elia, Petruzzelli & Ciscitello, 2016). Competitive advantage enables the firm's competitive position in the market to be maintained and improved, a situation that enables a firm to survive over a long term period in the face of competition. Earlier on, Czepil (1992) defined competitive advantage as the ability by a business organization to provide greater market value for posterity.

Porter (1980) highlights that the firm’s ability to compete in the market segment that it operates in emanates from three constructs of competitive strategies, namely; differentiation, focus in a specific market and being able to manage cost of operations. Cost management leadership strategy is concerned with producing goods or services at competitive cost for a given quality, subject to incurring less variable cost, a lower level of marketing expenses, or to achieve a lower level of operating expenses and administrative expenses. Differentiation strategy refers to the differentiating organization’s services or products from competitors by either adding unique characteristics of the services or products by making them attractive than competitors. West et al. (2010) notes that differentiation strategy does not allow the organization to ignore the factor cost and the desire to gain higher prices in the sector through the loyalty of customers who are allergic to lower prices should continue being a dominant goal. The last strategy according to Porter is the focus strategy which aims at achieving competitive advantage through on cost reduction and differentiation in the target market in products and a limited geographical area (Wheelen & Hunger, 2008). It is believed that by directing the marketing efforts to serve a narrow market more effectively or efficiently than competitors who compete on a larger scale (Nyangi et al., 2015).

1.1.3 Insurance Companies in Kenya

In Kenya, the insurance industry is an integral part and plays a critical role in the development of a country and by extension in the world. The explanation is that, by mobilizing savings and redistribution of risk, a well-developed insurance market is a lever for an effective deployment of capital. In Kenya, the insurance sector is regulated under the Cap 487 of the Kenya Insurance Act and operates under the IRA which regulates, licenses and develops the insurance industry. As at the end of 2020, a total of 61 licensed insurance firms had been permitted to provide long term covers, medical covers, general insurance, as well as micro insurance, and miscellaneous products (IRA, 2020). In addition, the Association of Kenya Insurers (AKI), the Association for Insurance Brokers of Kenya (AIBK) and the Medical Insurance Practice Association of Kenya (MIPAK), are also some of the active associations that are also part of the insurance players.

The business performance of the Kenyan insurance firms is majorly supported by the general insurance segment which in 2019 contributed slightly over 62% of the gross premium, while the Motor insurance and medical cover insurance segments accounted for 66.8% of the gross premium income under earned from the general insurance business (IRA, 2019). In Kenya, the performance of insurance companies over the last few years has registered mixed fortunes in terms of profitability. Out of the 8 listed insurance companies, three issued a profit warning in 2019 while out of the 55 insurance companies, eight had issued a profit warning in the same period (CMA, 2019). According to the Insurance Regulatory Authority (2019), over the last ten years, the country has witnessed eight foreign insurance companies entering the Kenyan market - through acquisition or mergers and this has resulted in increased competition to the local insurance firms that have resulted in reduced profits. Considering that the Kenya insurance penetration rate of 4.5% is low as compared to the global average 0f 8.4% of the population, it becomes imperative that the Kenyan insurance firms identify appropriate internal capabilities that will result in improved performance. Internal service capabilities are one such a resource (Ngoima, 2013).

1.2 Research Problem

Both the global and local markets are changing and this has forced business organizations to re-evaluate their internal processes with a view to determining activities that might result in increased competitiveness. The competitive advantage of an organization will be determined, among others by its internal capabilities which when managed effectively will result in the formation of synergy and therefore improved performance (Hidalgo & D'Alvano, 2014). With the transformation of the global economy to being service oriented, the service capabilities within a firm is expected organizational competitiveness and therefore organizations need to identify internal capabilities that will provide it with the necessary capacity to operate under such a changing business environment (Prahalad & Ramaswamy, 2004). This point was further reinforced by Valtakoski and Witell (2018) who averred that a firm need to identify and implement appropriate service capabilities that orchestrate memorable experience to their customers, and which eventually result in increase competitiveness.

In the financial services market in Kenya, the insurance industry forms an important component and that its failure can result in significant negative effect on the country's and regional economies. Positive profits in the insurance companies is attractive to investors, facilitate increase in the organization solvency position, and thus, strengthen consumers' and all other stakeholders' confidence, an attribute that also results in improvement in a country's economy (CMA, 2017). Further, competitive firms need to be profitable in order to operate in the present-day globalized market and therefore it is important that all capabilities within the insurance firms be determined with a view to improving their competitiveness and thus profitability. Under the Capital Markets Authority (2019), there have been declines in earnings for the majority of companies listed in the NSE and 15 of the 67 registered insurance firms registered decline in profits during the 2019 financial year. While it is acknowledged that the negative results might be as a result of different factors, it is plausible to hypothesize that if the insurance firms in Kenya identifies and harnesses positively available service capabilities, then it is possible that their performance will improve. This hypothesis however, is yet to be tested in studies which the current study has identified as a contextual gap.

Different scholars have sought to establish how organizational service capabilities affect performance. Valtakoski and Witell (2018) investigated the influence of service capabilities on servitized software SME performance through the adoption of the contingency on firm age perspective. The results suggest that front-office capabilities had a significant and positive effect on the performance of the firm while the back-office capabilities had the minimal effect on performance but the same reversed in the case of older firms. Carroll and Helfert (2015) investigated the extent of service capabilities within open innovation of technology-based organization and arrived at the conclusion that organizations can unlock their external service capabilities through open innovation. Further, the study suggests that for effective realization of performance from the service capabilities, the organization competencies should be should be aligned with the technology that has been adopted. The need to leverage the capabilities of service-oriented decision support systems was investigated by Demirkan and Delen (2013) and found that in order to achieve better organizational performance, there is need to consider the value resulting from both the service level and quality as well as the duration of the delivered services.

Tan and Sousa (2015) performed research to see how marketing capabilities may be used to gain a competitive edge and improve export success. The findings demonstrated that organizational level marketing capabilities plays a significant role in enhancing export performance through sustainability of competitive advantage of an organization. On the other hand, Garrison, Wakefield, and Kim (2015) study focused on the role of management, relational and technical IT-based abilities in enhancing organizational cloud computing performance in the short term and long-term basis. The studyalso linked cloud computing and organizational performance proxied by the operational activities that are supported by cloud computing. The study findings established that among the three aspects of operational activities, relational IT competence is the most significant aspect that determines performance of an organization through cloud computing technique. Although managerial and technical IT capabilities are also important aspects of organizational capabilities in enhancing performance, their impact was not experienced more than the latterin a study conducted by Osisioma, Nzewi, and Mgbemena (2016) in Awka, the researchers aimed to established the extent at which organizational dynamic capabilities affect the overall performance in a some banks in the region. Amongst the commercial banks investigated, it was found that sensing capabilities in United Bank for Africa Plc and First Bank Nigeria Plc and their performance showed a positive association. The effectiveness of organization in the banks was found to be enhanced through talents sensitization which resulted to enhanced performance in the short run and long run.

Kogo and Kimencu (2018) on their part studied the role of organization qualities on performance while focusing on insurance firms in Nairobi City County. The study's findings show that product capabilities in the insurance sector allow for the development of new products as well as the addition of new features to current products. Similarly, it was shown that a strong relationship between human resource and product development demands had a substantial favorable impact on organizational performance. In Kenya, Nyangi, Wanjere, Egessa, and Wekesa (2015) looked at the link between organizational skills and sugar firm performance. The data reveal a statistically significant link between organizational competency and sugar companies' success in Kenya. Similarly, Odhiambo, Kibera, and Musyoka (2015) conducted a study with an aim of establishing the relationship between marketing skills and culture of an organization and performance of kenyan based microfinance institutions. The outcomes of the study show that organizational culture and marketing capabilities have a substantial and favourable impact on MFI performance in Kenya.

The concept of service capability on competitive advantage is still in its infancy. The studies conducted in the area shows that although there is positive association between service capability and competitive advantage, the impact has not been categorized into front and back office particularly on the insurance industry. This has been identified as a contextual gap that the present study sought to bridge by concentrating on developing country by seeking to answer the following research question; how does service capabilities influence competitive advantage of insurance companies in Kenya?

1.3 Research Objective

The objective of the study was to establish the effect of service capabilities on competitive advantage of insurance companies in Kenya

1.4 Value of the Study

The organizational capabilities have proved to be critical component influencing the performance of a firm, but considering the fast pace of changes and servitization of the many industries, the role of service capabilities on the competitive advantage of insurance firms warrants investigation. The investigation on the effect of both front and back-office insurance companies' capabilities is beneficial to not only the insurance companies but also other of service-based organizations like banks. This research has therefore contributed to the service capabilities and overly the service science.

To the management of insurance companies who are always entrusted with the task of improving the organizational performance, they can benefit from the understanding of additional service capabilities analysis as a source of competitive advantage. Through the identification of the available and potential service capabilities, the management is also able to gain greater insights on their service operation by understanding what needs to be adjusted, works well or need to be introduced and consequently facilitate improved service capability matching.

The insurance sector, regulatory body and policy formulators can borrow strategic ideas from the study since the study has articulated appropriate measures that might help in enhancing the practice in the insurance sector. The study has recommended measures relating to policy and regulations governing service delivery from the insurers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the review of the effects of service capability on the organizational performance. The fields reviewed include the theories that underpinned the research discussion on the effect of service capabilities on a firm outcome. Similarly, the chapter contains empirical review, as well as a summary and knowledge gap.

2.2 Theoretical Review

The research was anchored on two theories, namely; Dynamic capability theory and the Resource Capability Theory. The relevance of the theory to this particular research is presented below.

2.2.1 Dynamic Capability Theory

The Dynamic Capability Theory (DCT) was advanced by Teece and Pisano (1994) and was borne out of the realization that the current business environment entails a highly competitive and constantly changing environment and as a result, business organizations need to be expectant of changes. Consequently, the DCT advocate that organizations be ready to make changes in their strategy when the need arises in order to gain and maintain an upper hand in the business line that they operate in. According to Eriksson (2014), an organization's capacity to do this systematically and constantly is referred to as dynamic capability, with the goal of gaining a competitive edge over other comparable businesses in the sector. Organizational dynamic capabilities are internal and external resources that allow a company to integrate, learn, and rearrange its assets and processes in order to improve performance in rapidly changing business settings. Similarly, Dubey, Gunasekaran and Childe (2018) avers that an organizations capability includes its ability to sense and shape opportunities available in the market and at the same time maintain competitiveness through identifying and reconfiguring these resources.

According to the resource-based approach (Barney, 1991), a company may maintain a competitive edge if it has valuable, rare, difficult to duplicate, and substitutable resources. As a result, Peteraf's (1993) resource-based perspective theory stresses the necessity for a business to acquire and amass those resources with a view to attain better performance and competitive favourably, while also highlighting the contrast between a firm's resources and capacity capture business opportunities. The resource-based view's primary flaw is that it tends to explain firm competitiveness in a static environment and does not go far enough to explain why certain organizations have a competitive edge in rapidly changing settings (Janssen et al., 2012). Dynamic capacity, on the other hand, broadens this view by attempting to explain how an organization may use internal resources to achieve a competitive edge in a rapidly changing environment, allowing it to explore new possibilities in novel and possibly productive ways (Zahra, Sapienza & Davidson, 2012).

Firm dynamic skills enable managers restructure, integrate, and create internal competencies to handle constantly evolving environments in uncertain markets, such as the insurance business, where the competitive landscape is altering, and therefore be able to build and sustain a competitive edge. According to Teece (2014), the sensing dynamic capability assists an organization in identifying and shaping threats and opportunities, while the seizing capabilities assist in capturing and making use of those available opportunities, and the reconfiguration capabilities aid in enhancing, reconfiguring and protecting the organization's intangible and tangible assets. As a result, dynamic capabilities enable businesses to take advantage of new possibilities while also transforming organizational resources into both real and intangible assets. It's crucial to recognize, however, that not all organizational skills are relevant in all turbulent business settings; some are more successful in highly volatile and competitive markets, while others are more effective in emerging markets. This is due to the disparity in the needed abilities; as a result, managers must identify and use available organizational skills in the most effective manner feasible to meet changing market conditions (Marinova & Singh, 2014). It's also worth noting that capabilities aren't stand-alone procedures; rather, they should be integrated into corporate processes. This is because, organizational capabilities should be used to renew existing processes and at the same time promote internal innovation in a fast-changing business environment.

2.2.2 Resource Capability Theory

The Resource Capability Theory was hypothesized by Barney and Clark (2007) and avers that the competitiveness of a firm is dependent upon the firm's uniqueness in regard to resource-capability portfolio that is able to acquire, develop and deploy in an organization. A Business organization can achieve long-term success if it is able to nurture talent, develop technologies that is able to facilitate adaptability to the evolving business environments. Karia (2018) further argues that the existing capabilities and resource in an organization should be able to evolve dynamically and suit the nature of opportunities and threats that arise at a particular time – implying that some are important in creating competitive advantage temporarily although they are not sustained. The resource-capability in a particular industry might be unique but will include amongst others relational resources, innovation capability, technology resources, corporate reputation, integration capability, knowledge and ICT. Similarly, Karia and Asaari (2016) identify information equipment resources and human capital as part of the common resources-capabilities that a firm might have and if managed well, will become as source of competitive advantage.

In the contemporary business organizations, the emergent resource-capability has been conceptualized by Haleem and Khan (2017) as multi-dimensional construct that is made up of relational and organizational resources. The relational resources refer to the capacity of an organization manage the flow of services and products from its development or suppliers through the organization system that preserve its integrity to the end customers. This implies that the relational resources need to consider the collaborative nature and sharing of information with suppliers and customers, a move that will require good communication skills and high interaction of individuals (Karia & Wong, 2013). The physical resources that form a source of competitiveness to a firm include warehousing, transport vehicles, physical equipment computer hardware and software, as well as informational technology infrastructure. These resources form an important physical resource-capability nexus that forms important source of competitiveness if its unique and not easily imitated.

The organizational technological capability has been found to be an important source to service organizations since it facilitates integration of stock management system and front office system and facilitate the tracking of customer orders to the meeting of the customer order (Karia & Wong, 2013). In the case of a widespread coverage area, technological capabilities will also involve adoption of geographical positioning system (GPS) to ensure that all customers irrespective of their location receive similar service offering. In addition, Barney and Clark (2007) identify organizational knowledge as an important resource which when developed and harnessed well will result in improved organizational competitiveness. Knowledge resources include skilled people and integrated teams that offer specialized know-how such that competencies in people and firms generate a positive and significant effect on cost management capacities.

Resource-capability theory is of the view that firm performance, especially the non-financial performance, such as customer service, innovation and cost is better improved through utilization of the available resources and capabilities to firm (Lai et al., 2008). Since the impact of resources-capabilities is varied, the organizational performance needs to be measured using such measures as operational efficiency, customer service, innovation success and flexibility. Resultant cost advantage in areas such as distribution, equipment and facility and manpower cost are some of the other outcomes that firms competitiveness over existing rivals.

2.3 Service Capabilities and Competitive Advantage

The competitiveness of a firm has become important and the role that service – dominant business environment has to play towards the realization of the same has been investigated by increased number of scholars. Felin et al., (2012) avers that since a service involves delivering value to customers through ensuring that outcomes that a customer want is delivered, the use of information technology capability to achieve greater business integration, flexibility, and agility has become critical. Organization service delivery is getting increasing influenced by how IT environments adopted by a firm is combined with the prevailing businesses offering to create value because when the two are integrated well, they create value to a firm (Carroll, 2012). Similarly, the product development skills of the business must be capable of generating goods and services that satisfy the demands of targeted consumers by understanding consumer wants within targeted categories. According to Suarez, Cusumano, and Kahl (2013), a market-driven management approach would prioritize product development capabilities as a method of satisfying consumer requirements and creating significant growth prospects for the company. Generally, service capabilities deal with the development, sales and being able to offer service. Therefore, there is need to develop both capabilities in terms of the front service offerings and back office that will result in differentiated offerings and thus firm competitiveness.

The role of customer relationship management on organizational performance through a process-oriented perspective was investigated by Keramati, Mehrabi and Mojir (2010) and the study highlighted the role that organizational service capabilities such as the technology adopted, infrastructure, customer service and available knowledge utilization play in transforming inputs of service delivery to outputs. The study emphasized the importance of customer service in generating sales and the necessity to balance resources and expenditures during client acquisition in order to achieve greater profitability. According to Dutta et al., (2005), because customer relationship management capabilities are diverse, non-substitutable, and difficult to replicate by rivals, they can help a firm gain a competitive advantage through increased efficiency. The study further reconfirms the position that there is need to strike a balance between employment of technological capabilities as wll as other human service offerings since personal touch of a service has been found to be more effective in creating a lasting impression to a customer

In a study at the logistic centres and firms in China by Liu, Grant, McKinnon and Feng, (2010), the objective was to relate organizational capabilities and competitiveness. The research investigated firm level capabilities, including service quality, strategic management, innovation, IT, corporate culture and inventory management. The findings reveal that some of the front office capabilities that resulted in improved firm competitiveness include staff conduct, reliability of service delivery and billing accuracy. In addition, the customer service capabilities found to impact on the organization competiveness include customer claims procedures, customer/claims procedures and response time to delivering a product or service (Jovanovic, et al., 2019).

Wang and Feng (2012) on their part aimed to establish the role of customer relationship capabilities (CRC) in a firm's performance, pointing out that CRM capabilities are integrated in the organization's operations. The front office capabilities were recognized as being able to collect a firm's talents and acquired information in order to discover customers and prospects, develop a long-term connection with appealing customers, and leverage these relationships into customer level profitability. Some of the front office capabilities that were identified by the study to affect the capacity of the organizations to manage in a better way level of customer interaction management which in totality will include customer acquisition, identification, customer relationship upgrading and customer relationship win-back. In the quest to establish the competitive advantage of emerging multinationals, Yamin, Sinkovics and Williamson (2015) found that building innovative processes in the home country to augment and be adapted to the foreign country circumstances proved to be an important factor to successful entry in a foreign country.

The servitization of an organization process suggests that the capabilities resulting thereon is not a uniform construct among firms even in the same sector, but rather there is need to always balance between standardization and customization of the same service (Wu et al., 2012). The difference between the two service constructs is that standardization of processes is concerned most with cost efficiency while customization of services deals with increasing revenue through adding value to the customer. According to Valtakoski and Witell (2018), these service capabilities, can further be categorized into the back-office and front-office capabilities.

2.3.1 Back-Office Capabilities

The back office capabilities are those activities that do not require a customer presence and includes the actual designing of a service or product. It relates to the management of services within the boundaries of the organization and therefore enables successful service system for delivery as well as determining the human resource requirement and competence with a view to adjusting the existing service delivery process Jensen & Szulanski, (2007). The BO capabilities facilitate service offering by establishing resources for the front-office activities and any support activities that are required to be able to deliver a service. Service blueprinting, and operational supervision of service production are some of the tasks covered by back-office service delivery Storbacka (2011). As a result, it appears that BO service capabilities assess how well a company can use its resources to create services by evaluating the cost efficiency and productivity of its service operations.

The effect of back-office capabilities on the competitiveness of an organization is explained by Valtakoski and Witell (2018) as its ability to produce equivalent services using fewer resources and as a result positively affecting the financial performance of an organization. In addition, the BO service capability facilitates standardization of an organization services which consequently led to better usage of available resources. Further, back-office capability enhances the capacity of an organization to predict service resource usage, a move that improves its efficiency and the resultant higher revenue per service due to a satisfied customer.

2.3.2 Front-Office service Capabilities

The front office (FO) capabilities are those that need client engagement and includes such as help desk assistance and involve a customer-employee interaction. The capacity to listen and comprehend client needs, as well as skills in quality control throughout service delivery, is all important components of FO service capability. Service guarantees, customer quality improvement, and customer visits are some of the other particular organizational activities that pertain to FO service competence (Calabrese, 2012). For a service shop, front office capabilities result in improved interaction between customers and organization in service provision since customer feedback is enhanced on how best to improve the current service offering. This interaction also lead to a firm creating value and be able to deliver high service quality because of the associated customer satisfaction (Grönroos & Ojasalo, 2004). In addition, the FO capabilities has been billed to result in the ability of a firm to create value and deliver improved service quality and therefore better revenue generation. Similarly, Mittal et al., (2005) highlights that an improved FO service capability results in customer satisfaction, higher retention of customers and also improved sales to customers.

Valtakoski and Witell (2018) highlights that the FO service capability has a direct effect on the competitiveness of a firm because it changes the way the organization resources are managed. An effective FO service capability is associated with high service offerings that are linked with quality and consequently results customer satisfaction and improved loyalty, a step that in the long- run improves firm performance. Through adoption of FO capabilities, the capacity of a firm to change according to the evolvement of customer needs is met and in most of the times will result in improved ability to meet customer requirements. Zeithaml (2000) point that a firm will be able to anticipate customer needs under a dynamic environment and therefore be able to adapt customer needs as well as customization of the services through value generation and capture. The outcome is increased revenue per service and therefore firm performance.

2.4 Empirical Review and Research Gap

The corporate environment is shifting to a servitization process, and many businesses are pursuing service provision. As a result of this shift, new organizational competencies in system integration and service operations are required. Capabilities at the company level have been studied from the product level (Helfat and Peteraf, (2003); Peng et al., (2008)), and are therefore an essential element of a firm's operations strategy, according to Hitt et al., (2016), with data indicating that capabilities impact performance. However, few studies have looked at the influence of skills on the success of servitized firms (Sousa & Da Silveira, 2017;Kohtamäki et al., (2013); S). Rather, the existing research has mostly supported the viewpoint that, in order to achieve the essential competitive advantage, competencies must be aligned with the features of the competitive environment, product, and consumers. Ulaga & Reinartz, Ulaga & Reinartz, Ulaga & Reinartz, Ulaga & Reinartz, Ulaga & Reinartz, Ulaga (2011). In this regard, the present study will look at how service skills influence the competitive advantage of insurance companies operating in countries that are developing.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section of the study provides discussion on the methods that was used in processes involved in achievement of the study objectives. The areas under considerations in this section include research design, the target population of the study, data collection procedures as well as data analysis methods, presentation and interpretation.

3.2 Research Design

The research employed a cross-sectional descriptive survey research design. According to Gill and Johnson (2006), descriptive survey design aims at establishing the common characteristic of a specific population or subjects. It also aids in the establishment of an individual's true views and values in order to assess how the situation is in reference to the related target population. The research was done in a cross-sectional manner. Observational research, or cross-sectional research, is a type of observational study that does not influence respondent perception about a question. In a cross-sectional study, the researcher examines both the outcome and the study participants' exposures at the same time. Because the goal of the study is to evaluate if insurance firms in Kenya are exposed to service capabilities, as well as the effect of incorporating service skills in improving competitive advantage, the researcher utilized the study design. This research methodology is ideal for this study since it allows the researcher to draw conclusions regarding the organization's front and back-office service capabilities.

3.3 Population of the Study

Hancock and Algozzine (2016) describe study population as "a collection of components that may or may not be alive, that a researcher has been interested in investigating over a certain assumption." The target audience for this research is characterized by a variety of factors, including geographical limitations, study scope, availability, and time restrictions.

For the period of 2015 to 2019, the Study's population consisted of 55 insurance firms operating in Kenya. The 55 insurance companies registered with the Insurance Regulatory Authority was the target group or population for this study (Appendix III). As of the end of 2019, all insurance companies were operational. Because the study's population is small, the research was a census.

3.4 Data Collection

A semi-structured questionnaire was used to collect primary data, which included both open-ended and closed-ended items. The open-ended questions were designed to provide respondents the freedom to reply to the questions in either way they see fit depending on their perceptions. The closed ended question, on the other hand, allowed the respondents to rank the available alternatives, allowing them to react more rapidly.

There were three sections to the questionnaire. The demographic information of respondents and organizations was covered in Section A, while the service capacity dimensions were covered in Section B. (front-office and back office). Section C aided in collection of data relating to insurance firms' service skills and their competitive advantage. Each insurance firm got one questionnaire from the researcher. The persons whom the questionnaires –either via the email or physically, were addressed to were the Business development managers or the marketing managers of the respective companies because they were deemed to be knowledgeable on the research subject matter.

3.5 Data Analysis

The questionnaire was revised for correctness, consistency, and completeness after the data has been collected. To assist statistical analysis, the responses were coded into numerical form. Descriptive statistics was computed to examine the distribution of data collected (measures of central tendency and measures of variance).

Analysis of the data collected was based on the details in the questionnaire. The study used appropriate measures of central tendency and dispersion to summarize the data collected in order to create an interpretable grouped data for statistical analysis. Computation of measures of dispersion specifically the standard deviation and measures of central tendency specifically the mean will bring out the extent of similarity or difference existing in the responses obtained.

In addition to descriptive statistics computation, inferential statistics were also computed to establish extent the extent of the inference that can be made between the variables under consideration on the wider population. The dependent variable was organizational competitive advantage while the independent variables will comprise of dimensions of capabilities implemented in the organizations under study. The dependent variable in the study was competitive advantage. The regression model assumed the following form:

Competitive Advantage = $f\ (x_{1,}\ x_{2,})$;

More specifically, the regression was of the form;

$Y = \beta o + \beta_1\ x_1 + \beta\ x_2 + \boldsymbol{\varepsilon}$

Where Y	=	Competitive Advantage
β_o	=	Constant
X_1	=	Front-Office Capability
X_2	=	Back Office Capability
$\boldsymbol{\varepsilon}$	=	Error term

The analysis was done at 5% level of significance

CHAPTER FOUR: RESULTS AND FINDINGS

4.1 Introduction

This chapter discusses the results of the primary data collected via the questionnaires distributed to the targeted respondents in the insurance firms. The questionnaires covered the demographic information about the respondents and the insurance, the service capabilities and it has influenced the competitive advantage of the insurance firms. The results of the analysis were presented using tables and simple linear regression was adapted to represent the regression between the predictor and explanatory variables.

4.2 Questionnaire Return Rate

The insurance companies that were studied were 55. All the insurance companies were administered with one questionnaire that was to be filled by an informed employee in the organization. The study assumed that the higher the response rate the better the representation and thus resulting to effective generalization of the findings.

Table 4. 1 : Response Rate

Questionnaires	Number	Percentage
Filled and collected	48	87.3
Non-response	7	12.7
Total	55	100

The researcher managed to collect 48 dully filled questionnaire constituting 87.3% return rate. As a result, the response rate was regarded suitable to draw inferences and make conclusions on the study topic. Consequently, the current research response rate realised of 87.3% was considered adequate for generation of results that can be generalized among other insurance firms that did not participate in the study.

4.3 Demographic Information

The demographic information about the respondent enables the researcher to assess the capability of the researcher to answer accurately the questions. On the other hand, the demographic information relating to the organization helps in assessment of the organization size and extent to which it has implemented the relevant service capabilities.

4.3.1 Number of Employees

Employee population in an organization helps determine the size of an organization. In other studies however, the size of an organization is assed using the value of the total assets. The findings with regard to the number of employees are presented in Table 4.2.

Table 4. 2: Number of Employees

Category		Frequency	Percent	Cumulative Percent
Valid	31-50 employees	1	2.1	2.1
	51-70 employees	23	47.9	50.0
	Above 70 employees	24	50.0	100.0
	Total	48	100.0	

The study findings in relation to number of employees in insurance firms established that half of insurance firms in Kenya have over 70 employees and that 47.9% of the firms have between 51 and 70 employees. The findings also found that 2.1% of the firms have 31-50 employees who operate in their offices. In this regard therefore, the study findings implies that insurance firms are small-sized organizations, when number of employees was an indicator of firm size.

4.3.2 Age of the Organization

The number of years that an organization has been in operation helps determines the experience of a firm in relation to operating environment. It tells the extent at which an organization has experienced different aspects of the topic under investigation, for the current study, service capabilities.

Table 4. 3 :Age of the Organization

		Frequency	Percent	Cumulative Percent
Valid	Less than 10 years	6	12.5	12.5
	11-15 years	12	25.0	37.5
	16-20 years	14	29.2	66.7
	Over 20 years	16	33.3	100.0
	Total	48	100.0	

From the findings, it was established that a third of insurance firms had operated for over 20 years. In addition, the study found that 29.2% of the firms have an operating age of 16-20 years while a quarter (25%) of firms in insurance industry has been in operation for between 11 and 15 years. From the findings also, 12.5% of the firms under investigation have been operating for less than 6 years. The study findings suggests that the insurance firms have been in operation for a significant period of time and therefore service capabilities in these firms has been greatly adopted due to increased competition that requires a firm to have efficiency in operation to gain competitive advantage.

4.4 Service Capability Dimensions

Service capability in scholarly perspective can be measured based on effectiveness of an organization to accomplish required tasks using available resources. These routine operational tasks range from front office to back office. The study aimed to establish the extent of back and front office service capability efficiency in the insurance firms. To achieve this, the researcher structured statements that were to be rated on a five-point Likert scale.

The respondents gave their opinion from 1-strongly disagree to 5-strongly agree. On interpretation of the results, the mean response below 2.5 indicated disagreement with the statement, 2.5 ≤ mean<3.5 indicated neutral response while 3.5≤mean≥5 indicated agreement to the statement. The study also made assumption that standard deviations greater than 1 showed huge response variation within and between while standard deviations less than 1 showed an insignificant response variation.

4.4.1 Front Office Capability

Table 4. 4 : Front Office Capability

Statement	N	Mean	Std. Deviation
Business process are designed to enhance customer satisfaction	48	4.146	.8989
We have good operational control of the services being offered	48	4.125	.9593
Our management focuses on the customer in their decision-making process	48	4.063	1.06003
The organization always establishes service blueprinting before rolling it over	48	3.979	1.2289
The insurance firm has a good process of scheduling staff to all functions	48	3.938	1.0600
There is continuous service re-engineering in the organization	48	3.896	.8810
Customer needs are always focused on when designing new products	48	3.833	1.1547
We have been able to standardize all activities across all our branch network	48	3.813	.9560
Employees' incentives are structured based on how customer satisfaction is met	48	3.625	.9812
We have employed IT in majority of our service activities	48	3.625	1.2312
Valid N (listwise)	48		

The study findings in relation to front office capability established that majority of the respondents agreed that business processes in the organization is designed to enhance customer satisfaction (mean=4.146) and that insurance firms have good operational control of the services being offered (mean=4.125). The study also established that majority of the respondents agreed that the management of insurance firms focus on the customers in their decision-making process (mean=4.063) in that in order to align service delivery to the demand in the market and according to customers' specifications, it always establishes service blueprinting before rolling it over for implementation (mean=3.979). From the findings also, the study established that insurance firms have a good process of scheduling staff to all functions in the organization (mean=3.936) and for continuous scheduling, the study discovered that there is continuous service re-engineering in the organization (mean=3.896).

The management of insurance companies have been trying to align customer needs and that they are always focused when designing new products in order to meet market demands (mean=3.833). Additionally, in aligning front office activities with organizational operations, the study findings established that the organizations have been able to standardize all activities across all their branch network (mean=3.183). It was also agreed by majority of the respondents that employees' incentives are structured based on how customer satisfaction is met (mean=3.625) thus encouraging employees to work extra hard to meet daily targets. Innovation is one of the significant factors that enhance service delivery since information technology improves efficiency of operations. As a result, the respondents agreed on the fact that insurance firms have employed IT in majority of our service activities (mean=3.625) in order to enhance innovative capability in the organizations. The standard deviations in regard to the study findings demonstrate that in majority of the statements, the responses varied significantly but within the scale of measurement (1-5). Standard deviation greater than 1 implies that there was a huge variance in responses and that majority inclined within the mean while few responses scattered outside the line of best fit.

From the findings however, the implication is that majority of insurance firms have implemented various strategies that enhances front office service delivery and capabilities. Majority of office operations starts with front office operations. As a result, effective implementation of front office strategies by insurance firms' management will increase efficiency and consequently service capability. The findings implies that as far as front office capabilities are concerned, insurance firms have moderately achieved its implementation strategy.

4.4.2 Back Office Capabilities

Table 4. 5 :Back Office Capabilities

Statement	N	Mean	Std. Deviation
We are good in establishing relationships with our key customers	48	4.146	.8989
Customer retention is our top priority in service offering	48	4.125	.9593
We are able to listen to our customer priorities	48	4.042	.9216
We apologize or compensate on time to customers for inconvenience cost	48	3.979	1.2289
Our quality of service is high	48	3.958	1.0306
We take corrective action when we find that customers are not happy with our services	48	3.917	.8208
Our employees are trained in customer service on regular basis	48	3.896	.8810
We offer service guarantees	48	3.854	1.1107
Customer visits is one of our strategies	48	3.792	.9884
There exists always a customer quality improvement	48	3.604	1.0260

Valid N (listwise)	48

Back-office activities in an organization are where actual operations take place. From the findings, it was established that majority of respondents agreed that insurance firms are good in establishing relationships with key customers (mean=4.146) since customer retention is top priority in service offering (mean=4.125) among the players in insurance sector. It was also agreed by the majority of respondents that insurance firms are able to listen to customer priorities (mean=4.042) and that the firms' management apologize or compensate on time to customers for inconvenience cost (mean=3.979). As a result of advanced technology in back-office operations, the respondents agreed that the quality of service has increased (mean=3.958) and that the firms take corrective action when they find that customers are not happy with the services being offered (mean=3.917). Additionally, it was also established that various strategies that enhances customer service delivery have been adopted and implemented effectively by the back-office management. These strategies comprised of training of employees on customer service (mean=3.896), offering of service guarantee (mean=3.854), prioritizing customer visits and interactions (mean=3.792) as well as continuous customer quality improvement (mean=3.604). It can be established from the findings that there was a slight variation in responses on some statements since standard deviations were greater than one.

The findings imply that insurance firms have implemented strategies that supports back-offices capabilities and service delivery. As far as service delivery is concerned the findings implies that there has been moderate implementation of organizational projects that are in line with back-office operations.

4.5 Competitive Advantage

Table 4. 6 :Competitive Advantage

Statement	N	Mean	Std. Deviation
Our products have significant advantage over those of competitors	48	4.104	.9728
We respond quickly to customer complains	48	4.083	.9639
We track changes in customer needs and wants	48	4.083	.9639
Our products are difficult to be copied by competitors in the pension sector	48	4.000	1.2204
Our speed of sharing competitor moves in the organization is good	48	4.000	1.2204
Our product changes are unique	48	4.000	1.0719
We respond well to changes in the market	48	3.958	.8241
Our ability to collect strategic information from competitors for use in strategic planning is good	48	3.896	.8810
We offer services at a much lower cost than comparable service	48	3.896	1.1155
There is increased revenue per service	48	3.625	1.0442
Valid N (listwise)	48		

Based on descriptive statistics computed, the study found that to a great extent insurance firms, products have significant advantage over those of competitors (mean=4.104) and that as an indicator of competitive advantage, they respond quickly to customer complains (mean=4.083). In addition, competitiveness of insurance firms has led to tracking of changes in customer needs and wants (mean=4.083) and that tailor making of products makes it difficult to be copied by competitors in the insurance sector (mean=4.000) thus enhancing sustainability of competitive advantage. Majority of the respondents also agreed that speed of sharing competitor moves in the insurance sector is good (mean=4.000) and thus keeping competition at stake which calls a competitive insurance firm to embrace unique product change (mean=4.000). The findings also established that the ability to collect strategic information from competitors for use in strategic planning among insurance industry players is good (mean=3.896) hence creating a competitive platform. Similarly, insurance industry players offer services at a much lower cost than comparable service (mean=3.896) but ensuring that the company does not indulge in loss but to register optimal profits (mean=3.625). The study findings are an implication that as far as competitive advantage is concerned, insurance firms have shown significant evident that front office and back-office operations have enhanced service delivery which has increased competitive advantage of the firms.

4.6 Regression Analysis

The aim of the study was to determine the influence of service capabilities on competitive advantage of insurance companies in Kenya, regression analysis was computed. Regression analysis aids in computation of a linear model that will relate dependent and independent variables together. The dependent variable was competitive advantage while independent variables were the dimensions of service capabilities; front office and back-office capabilities.

Regression analysis creates three tables for interpretation; Summary model, analysis of variance (ANOVA) table and the coefficient table. The study discussed each table as a subsection of regression analysis based on scientific interpretation criterion.

4.6.1 Summary Model

The summary model of a regression analysis presents the R, the R square, adjusted R square and the standard error of the estimate. The R coefficient is referred to as the coefficient of correlation which shows the extent of correlation between the dependent and independent variable. The R-square is the coefficient of determination that shows the extent of variation in dependent variable explained by independent variables considered in the study.

Table 4. 7: Summary Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794[a]	.630	.613	.80069

a. Predictors: (Constant), Back office, Front office

Table 4.7 findings suggest indicate that the coefficient of correlation (R) as 0.794. As a result, it was concluded from the findings that service capability measured by back and front office capabilities and competitive advantage of insurance firms are positively related. The study also established that the extent of correlation between the variables was moderately strong. Based on the findings in relation to the R-square, the coefficient of determination, the study found that back office and front office capabilities explains 63% (R-square=0.63) of the overall performance of the firms. The study findings implies that on average, the insurance firms are doing well in front office and back office capabilities in attaining competitive advantage.

4.6.2 ANOVA

Table 4. 8 :ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.067	2	24.533	38.267	.000[b]
	Residual	28.850	45	.641		
	Total	77.917	47			

The ANOVA results presented in Table 4.12 shows that the F statistic is 38.267 and the level of significance being 0.000 which is less than 0.05. the findings imply that the regression model was significantly fit to model the regression data.

4.6.3 Coefficients of regression analysis

Regression coefficients provide information concerning a unit effect realized on the outcome variable as a result of change in individual predictor variables. Table 4.13 presents the coefficients of the variables in the regression model.

Table 4. 9: Coefficients of regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.537	.638		-2.411	.020
	Front office	.420	.114	.340	3.688	.001
	Back office	.873	.103	.781	8.471	.000

a. Dependent Variable: Competitive advantage

Using the unstandardized regression coefficients, the resulting linear model is;

$Y=-1.537 + 0.420X_1 + 0.873X_2 + \varepsilon$

Which can also be expressed as;

Competitive advantage= -1.537 + 0.420 (front office capability) +0.873 (back-office capability).

From the findings, it is shown that with back office and front office capabilities, competitive advantage of insurance firms will reduce by 1.537 units. In addition, a unit advancement in front office capability leads to an increase in competitive advantage by a factor of 0.420.

Furthermore, enhancing strategies under back-office capability causes an increasing effect on competitive advantage of insurance firms by a factor of 0.873 in every single unit of effort or resource. From the column of significant values, front office (0.001), and back office (0.000), it implies that front office and back-office effect on competitive advantage is positive (from the coefficients) and significant (from the significant values).

4.7 Discussion of the Findings

The aim of the study was to establish the relationship between service capabilities and competitive advantage of insurance companies. The study incorporated two dimensions of service capabilities that are exercised in organizational setup. These includes front office and back-office service capabilities. From the descriptive statistics, the study established that insurance firms have greatly implemented front office services to suit competitive nature in the market. Similarly, drawing from respondents' opinions, the study established that back-office operations determine success or failure of an organization. As a result, it was finds that insurance firms are greatly concerned with customers' demand and act upon any complain through implementation of back-office operations.

Based on inferential statistics, the study established that front office service capabilities positively affect insurance firms' competitive advantage. The findings demonstrate that with additional resources devoted towards froth office capabilities, a positive significant effect is realized on competitive advantage of the firm. The findings are in tandem with Valtakoski and Witell (2018) that the FO service capability has a direct effect on the competitiveness of a firm because it has the potential to change the way the organization resources are managed.

In addition, the study also established that back-office service capability affects competitive advantage positively. In enhancing customer satisfaction, the firms have enhanced customer relations which encourages customer feedback. The firms on the other hand use customer feedback to improve on service quality leading to customer satisfaction and hence loyalty. The findings supports Valtakoski and Witell (2018) that the effect of back-office capabilities on the competitiveness of an organization is that the organizational service capability segment has the ability to produce equivalent services that enhances customer satisfaction with other service capabilities within a firm using fewer resources and as a result positively affecting the financial performance of an organization.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings arrived at, draws relevant conclusions thereof and makes a recommendation arising from the findings for purposes of policy and further studies that can be carried out to bridge the gap. The conclusions and recommendations drawn were in quest of addressing research objective. The chapter concludes by citing the major limitations and suggestion for future studies.

5.2 Summary

The aim of the study was to determine the effect of service capability on competitive position of insurance firms in Kenya. Descriptive statistics established that strategies to enhance front office capability have been implemented effectively as indicated by the number of respondents that agreed with the statements pertaining front office strategies. The study findings also established that there has been moderate implementation of back-office practices for sustainable competitive advantage. By incorporating effective appropriate back-office practices, effective customer relations is maintained and therefore insurance firms obtain feedback from customers thus leading to tailor-making products to meet customers' specifications.

Regression analysis was computed to establish the effect of service capability on competitive advantage of insurance firms. The study established that front office capability, with a regression coefficient of 0.420, has a positive effect on competitive advantage. As a result, an additional unit of front office activity, increases competitive advantage of an insurance firm by a factor of 0.420. The study also found that the effect of front office capability on competitive advantage was significant give a significance value of 0.001 which was less than 0.05 acceptable significance level. The effectiveness of front office capability had led to good operational control of the services being offered and that insurance firms have a good process of scheduling staff to all functions. The study also found that the management is focused on motivating front office employees because organizational incentives were structured based on how customer satisfaction was met. As a result, the incentive strategy enhanced employees' engagement and commitment to meeting customer satisfaction.

Furthermore, the study found that back-office capability had a positive effect on competitive advantage of insurance firms. Inferential statistics found a positive regression coefficient (0.873) and significant value (0.000) attached to the variable. From the findings therefore, it implies that back-office capability greatly affects competitive advantage of insurance firms. Perhaps, additional resources devoted towards back-office capability resulted to an increase in competitive advantage by a significant factor of 0.873. In addition to having an effective back-office capability, the study established that customer retention is a priority of the firms and that employees are trained in customer service on regular basis.

On overall effect of service capability on competitive advantage, the study established that both front office and back-office capabilities explains 63.0% of the competitive advantage. Due to effective implementation of front office and back-office capabilities, the study found that the insurance firms have been able to respond to customer complains quickly and majority of companies that have effective service capabilities have significant advantage over competitors.

5.3 Conclusion

Based on the study findings in relation to the effect of service capability on competitive advantage of insurance firms, the study established that much has been done in insurance sector as far as service capability for competitive advantage is concerned. The study concludes that front office capability plays a crucial role in linking customers to the organization. As a result, customer needs are always focused on when designing new products for matching the market demands and customer specification. In order to avoid collision of employee duties at the front office, insurance firms have a good process of scheduling staff to all functions thus enhancing further the front office service capabilities.

In regard to back-office capabilities and competitive advantage, the study concludes that an increase in service capabilities at the front office enhances competitive advantage of insurance firms. As a result, the main focus of back office has been retention of customers. Customer retention has been top priority in service offering among the insurance firms, a task that is accomplished with effective back-office capabilities. To further improve back-office capabilities, the study concludes that employees of insurance firms are trained in customer service on regular basis.

5.4 Recommendations

The study established a positive relationship between service capability and competitive advantage of insurance firms. The study also established that front office and back-office capabilities both have a positive effect on competitive advantage of insurance firms. As a result, the study recommends that insurance firms should devise ways of strategizing front office and Backoffice departments to realize more effective results on competitive advantage outcome. The study further recommends that employees should, on routine basis, subject their employees to training in order to equip them with fresh knowledge on service capabilities both at front door and back door.

The study further recommends that customer satisfaction surveys should be undertaken on continuous basis to assess the extent of satisfaction and build on the feedback from the customers. In addition, the management should devote adequate resources to research and development in order to identify appropriate insurance products that meet customer specifications and market demands.

5.5 Limitations

The study did not encounter significant number of limitations however, with the emergence of Covid-19, there was restriction in movement and therefore forcing data collection to follow online format. In addition, with interruption in economy, businesses have closed down and firms have laid down some employees. However, the researcher devised alternative ways of curbing the challenges thus creating an ample environment for successful completion of the study.

In addition, the study was confined towards the insurance sector. Therefore, the study was limited in terms of scope in relation to study population. Based on study design, the study was limited to descriptive study design. The time for carrying out the study was also limited but the researcher planned well in order to balance the time frame provided for the completion of the project.

5.6 Suggestions for Future Studies

The current study aimed to establish the effect of service capabilities on competitive advantage of insurance firms in Kenya. It is yet to be determined whether the findings are applicable in other sectors of the economy. Therefore, it is upon potential scholars to carry out a same study in other sectors in order to compare with the current study.

The study was done using a descriptive study design. The study suggests future studies to consider using explanatory design that will cover a lengthy period of time hence strategic orientation can be analyzed over a period of time. Service capability is a management tool that applies to service firms that focuses on profit maximization. As a result, the study suggests that future studies should focus on other firms in public sector that are not profit oriented.

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APPENDIXES

Appendix 1: Letter of Introduction

Hassan Ali Ahmed

P.O Box 1003 -00630

Nairobi.

Dear Respondent,

<u>REQUEST TO FILL THE QUESTIONNAIRE FOR RESEARCH PURPOSE</u>

This is to appeal to you to kindly complete the enclosed questionnaire for analysis.

The study focuses on how service competence affects insurance firms' competitive advantage in Kenya. The information you provide will be treated with the utmost secrecy and will only be used for academic purposes. I ask for your assistance in this exercise so that I can achieve my academic objectives..

With kind regards,

…………………………………………..

Hassan A. Ahmed

Appendix II: Questionnaire

Section A: Background Information

1. Name of the organization (Optional)…………………………………….

2. How many employees are there in your organization?

a) Less than 30 ( ) b) 31 – 50 ( )

c) 51 - 70 ( ) d) Over 71 ( )

3. What is the age of the organization?

a) Less than 10 year ( ) b) 11 – 15 ( )

c) 16 - 20 ( ) d) Over 21 Years ( )

Section B: Service Capabilities

6. Below are the service capabilities that have been taken by your organization. The researcher request you to indicate you rate of agreement with the statements provided by ticking (√) in the box that it is the most appropriate according to your perspective. In reference to these, a five-point Likert-scale is used:

Key; 5) strongly agree; 4) Agree; 3) Neutral; 2) Disagree; 1) Strongly disagree;

a. Back-Office Capability

	Statement	**5**	**4**	**3**	**2**	**1**
1	The insurance firm has a good process of scheduling staff to all functions					
2	We have good operational control of the services being offered					
3	The organization always establishes service blueprinting before rolling it over					
4	There is continuous service re-engineering in the organization					
5	Business process are designed to enhance customer satisfaction					
6	Customer needs are always focused on when designing new products					
7	Employees' incentives are structured based on how customer satisfaction is met					

8	We have been able to standardize all activities across all our branch network					
9	We have employed IT in majority of our service activities					
10	Our management focuses on the customer in their decision making process					

b. Front-Office Capability

	Statement	**5**	**4**	**3**	**2**	**1**
1	Our employees are trained in customer service on regular basis					
2	We are able to listen to our customer priorities					
3	Our quality of service is high					
4	We are good in establishing relationships with our key customers					
5	We apologise or compensate on time to customers for inconvenience cost					
6	We take corrective action when we find that customers are not happy with our services					
7	Customer retention is our top priority in service offering					
8	We offer service guarantees					
9	There exists always a customer quality improvement					
10	Customer visits is one of our strategies					

Section C: Competitive Advantage

7. Below are organizational competitive advantage indicators. Please indicate the extent to which these indicators have been achieved in the organization.

Key:

5 - Very great extent 4 - Great extent 3 - Moderate extent 2 - Little extent

1- No extent

	Statement	1	2	3	4	5
1	Our products are difficult to be copied by competitors in the pension sector					
2	We respond well to changes in the market					

3	We track changes in customer needs and wants					
4	Our product changes are unique					
5	Our products have significant advantage over those of competitors					
6	Our speed of sharing competitor moves in the organization is good					
7	Our ability to collect strategic information from competitors for use in strategic planning is good					
8	We respond quickly to customer complains					
9	We offer services at a much lower cost than comparable service					
10	There is increased revenue per service					

THANK YOU SO MUCH FOR YOUR TIME

Appendix III: Insurance Companies in Kenya

1. Xplico Insurance Company
2. UAP Life Assurance Company Ltd
3. UAP Insurance Company Ltd
4. Trident Insurance Company Ltd
5. The Monarch Insurance Company Ltd
6. Kenya Alliance Insurance Company Ltd
7. Jubilee Insurance Company Ltd
8. Heritage Insurance Company Ltd
9. Tausi Assurance Company Ltd
10. Takaful Insurance of Africa Ltd
11. Saham Assurance Company Ltd
12. Sanlam General Insurance Company Ltd
13. Sanlam Life Insurance Company
14. Resolution Insurance
15. Prudential Assurance Company
16. Pioneer General Insurance Company Ltd
17. Pioneer Life Assurance Company Ltd
18. Phoenix Assurance Group
19. PACIS Insurance Company Ltd
20. Old Mutual Life Insurance Company
21. Occidental Insurance Company Ltd
22. Metropolitan Canon Life Assurance Company Ltd
23. Mayfair Insurance Company Ltd
24. Madison Insurance Company Ltd
25. Liberty Life Assurance Company Ltd
26. Kenya Reinsurance Company Ltd
27. Kenya Orient Insurance Company Ltd
28. Kenya Orient Life Assurance Limited
29. KenIndia Assurance Company Ltd
30. Invesco Assurance Company Ltd
31. Intra Africa Assurance Company Ltd

32. ICEA LION Life Assurance Company
33. ICEA LION General Insurance Company
34. Geminia Insurance Company Ltd
35. GA Life Insurance company Ltd
36. GA Kenya Insurance Company Ltd
37. First Assurance Company Ltd
38. Fidelity Shield Insurance Company
39. East Africa Reinsurance Company Ltd
40. Direct Line Assurance Company Ltd
41. Corporate Insurance Company Ltd
42. Continental Re-Insurance Company Ltd
43. CIC Life Assurance Company Ltd
44. CIC General Insurance Company
45. Capex Life Assurance Ltd
46. Canon Assurance Company Ltd
47. Britam Life Assurance Insurance Company
48. Britam General Insurance Company
49. Barclays Life Assurance Kenya Ltd
50. APA Life Insurance Company Ltd
51. APA Insurance Company Ltd
52. Allianz Insurance Company of Kenya
53. AIG Kenya Insurance Company Ltd
54. Africa Merchant Assurance Co. Ltd
55. AAR Insurance Company Ltd Kenya

Sources:

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