# "APPLICATION OF PORTER'S GENERIC STRATEGIES BY INSURANCE COMPANIES IN KENYA"

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**BY**

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A Management Research Project Submitted in Partial Fulfillment of the requirements for the M.B.A. Degree, Faculty of Commerce
University of Nairobi

September 2005

# DECLARATION

This management research project is my original work and has not been submitted for a degree in any other university.

Signed: Date: 22:09:2005

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This management research project has been submitted for examination with my approval as the University Supervisor.

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# DEDICATION

To my husband Arch. Andrew Ogolla.

# ACKNOWLEDGEMENTS

I would like to record and express my sincere appreciation and thanks to a number of individuals and groups whose assistance enabled me to complete this research project.

I would like to express my appreciation and special thanks to my supervisor Dr. Martin Ogutu, Chairman of the Department of Business Administration for his inspiration, encouragement and availability for consultation. I am also very grateful to Margaret Ombok, of the Department of Business Administration for her contributions which enabled me to complete this project.

I am very grateful to my colleagues during the MBA programme and those who gave audience during my presentation; the role you played has been highly appreciated. My appreciation also goes to the library staff both at Main (JKML) and Lower Kabete Campuses for the support given in providing the valuable services in these libraries.

My special thanks and appreciation go to my husband and best friend, Arch. Andrew Ogolla for his love, material and moral support, without which this project would not have materialized. I want to thank my children for the support and patience during the entire period of the MBA Programme when I was unavailable for them by being always absent from home. My appreciation and thanks also go

(posthumously) to my late sister Ruth for the assistance and encouragement she gave during the MBA programme.

I am sincerely indebted to the respondents who found the time and interest to attend to my questionnaires during the survey. Without these respondents the project would not have materialized.

Finally I would like to acknowledge the assistance I received from many other people who are not mentioned above; since it is not possible to mention all of you by name, kindly note that I sincerely appreciate all the help given in one form or another and I thank you very much!

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# ABSTRACT

The study sought to establish the application of Porter's Generic Strategies by Kenyan insurance companies and the challenges faced as they applied these strategies. To achieve these objectives, a survey research design was used and primary data was collected between the months of June and August 2005. Semi-structured questionnaires were administered mainly by "drop and pick later" method. The respondents were marketing executives or senior officers in the marketing function. Out of 38 firms contacted, 29 responded, representing 76% response rate which is adequately representative of the population.

Descriptive statistics was used to analyze the data which confirmed the application of Porter's generic strategies by insurance companies in Kenya. Differentiation broad focus was applied by about 21% of the companies and was the most popular, whereas the least popular was cost leadership narrow focus applied by none; however, about 14% of the companies were not particular about generic strategies. Some companies applied one generic strategy while others applied a combination of generic strategies. The main challenge faced was competition characterized by price cutting. There is need for more research in this area to validate these findings.

In the light of the findings, recommendations for policy and practice have emphasized the need for revised legislation by the government and the adoption of differentiation strategies by the insurance industry through innovation to facilitate expansion not only nationally but also regionally.

# CHAPTER ONE

# INTRODUCTION

## 1.1.1 BACKGROUND

The open system model of organization – environment relationship states that an organization does not operate in a vacuum but within an external environment. All organizations are environment serving and they depend on the environment for their inputs and outputs. There are various models of external environment: PESTEL framework categorizes external environmental influences into six main types: political, economic, social, technological, environmental and legal, Johnson and Scholes (2003). Another model states that the external environment is made up of the remote/macro environment, industry environment and the operating environment. Competitors form part of the organization's operating environment. The external environment offers both opportunities and threats for the organization and these will affect the organization's choice of strategy.

Inherent within the notion of strategy is the issue of competitiveness, which is about gaining advantage over competitors. There are many factors in the environment which influence this competitiveness. The five forces framework helps identify the sources of competition in an industry or sector, Johnson and Scholes (2003), Porter (1998). According to Porter (1998), there are five competitive forces that determine competition in any industry: threat of new entrants;

bargaining power of buyers; threat of substitute products, bargaining power of suppliers and rivalry among the existing firms. The collective strength of these forces determines the ultimate profit potential in the industry. In coping with the five forces, there are three potentially successful generic strategies to out perform other firms in an industry: overall cost leadership, differentiation and focus. These strategies can be applied universally to businesses in a wide variety of industrial setting; hence the term generic. The generic strategies are approaches to out performing competitors in the industry.

### 1.1.2 The Insurance Industry in Kenya

The product sold by the insurance industry is management of risk, an intangible product/service. Insurance is based on the concept of spreading risk through the law of large numbers: Many institutions and individuals pay small sums of money to the insurance companies' central pools from which larger payments will be made to those customers who require compensation from the companies.

According to Githiga (2002) the benefits of insurance to a least developed country like Kenya are several and include the following: insurance acts as a risk transfer mechanism, creates a common pool of funds, provides peace of mind and business continuity, is a loss control mechanism, has social benefits, the funds are used to provide shelter, employment and other investments in the economy; the industry plays a vital role in welfare benefits and pension management, it provides medical and health cover and provides sponsorship for further education. The insurance industry is thus an integral part of the economy which should be strengthened by the government to make its benefits be fully utilized.

The players in the Kenyan Insurance Industry include the following: insurance companies, reinsurance companies, insurance brokers, insurance agents, loss assessors, loss investigators, loss settling agents and risk managers. The statute regulating the industry is the Insurance Act; Laws of Kenya, Chapter 487. The office of the Commissioner of Insurance was established under the Act's provisions to strengthen the Government regulation under the Ministry of Finance. There is also self regulation by the Association of Kenya Insurers (AKI). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education.

Insurance business can broadly be classified into Short Term (General) and Long Term (Life) business. Despite this classification the different classes of insurance business can be viewed as lines of business along the profit centre concept. According to KPMG Kenya (2004), the Short Term insurance industry in Kenya is mainly driven by four main lines of business: Motor-Commercial, Fire-Industrial and Engineering, Motor-Private and Personal Accident. The Long Term insurance industry is mainly driven by two main lines of business: Ordinary Life and Superannuation, which includes Group Life Insurance and Deposit Administration.

The Kenyan insurance industry is fragmented. The definition of fragmented industry is given by Porter (1998) as an industry in which no firm has a significant market share and can strongly influence the industry outcome. Fragmented industries are usually populated by a large number of small and medium sized companies, many of them privately held. In 2002, there were 41 insurance companies, 2 reinsurance companies, 197 brokers, 184 loss assessors and investigators,

24 insurance surveyors, 2 claims settling agents, 7 risk managers and 1074 insurance agents (Report of the Commissioner of Insurance 2002). Fragmentation of the industry has resulted in unhealthy competition manifested by price cutting among other unprofessional practices, Ikiara (2001); Wa Maina (2001); Makove (2002) and Wandera (2004).

According to the 2004 Kenya Insurance Survey, the Short Term insurance business is facing two major challenges: The first challenge is to come up with a solution for companies whose viability is threatened by their inability to meet policyholder claims. The second major challenge is how to generate growth for an industry that has significant potential for growing as a percentage of GDP but that has been stagnant. In contrast to the Short Term business, the Kenya Long Term insurance industry has enjoyed a real cumulative average growth rate of 8.6% over the past five years, well over the average growth of GDP for the same period of 1.2%. One serious challenge facing the Long Term insurance industry is the continuing difficulty of managing HIV/AIDS.

Other challenges facing the insurance industry in Kenya include: structural weaknesses, Kimura (2002); fraud by both clients and employees, Mutiga (2003); high claims, delays in claim settlement, delayed premium collection, lack of liquidity leading to collapse of some firms, low economic growth, Wa Maina (2001); Ikiara (2001); KPMG Kenya (2004); poor governance, industry saturation, Makove (2002); and poor image, the Sunday Nation (2004).

## 1.2 Research Problem

According to the 2004 Insurance Survey by KPMG Kenya, the insurance industry plays an important role in capital management of all Kenyan companies. This is partly through the impact

of insurance in protecting existing capital against loss, but also because insurance companies are very significant investors in property, equity and bond markets. The Survey states that on average the short term insurance industry has invested approximately 40% of its Kenya shillings 23.3 billion investment portfolio in illiquid assets and 60% in liquid assets. The main challenges facing the insurance firms identified by the Survey are how to increase market share (premium and investment) and remain competitive in the face of unfavorable internal and external business environment.

Insurance firms are financial institutions; they are custodians of huge sums of money contributed by their customers. Insurance firms invest these funds and they are therefore a source of long term development capital in the Kenyan economy, K'Obonyo and Mwanzi (1996). In 2003, the total industry investment portfolio was about Kenya shillings 56 billion, according to the 2004 Kenya Insurance Survey. These firms are also a source of government revenue through taxation and annual registration fees: In the year 2002, Kenya shillings 25.9 billion was collected by the industry in gross direct premium, Kenya shillings 321.03 million as premium tax and penalties, and Kenya shillings 71.18 million as reinsurance premium tax and penalties, according to the (latest) Report of the Commissioner of Insurance (2002).

Insurance industry is therefore an important sector in the Kenyan economy. The industry can also be considered special because of the unique nature of its products/services which have very few if any substitutes. According to Wandera (2004) the theme of the Insurance Institute of Kenya Conference for 2004, "Paradigm Shift" was derived from the institute's perception of the need for fundamental changes to insurance in the country. The Sigma World Report, quoted by Wandera

(2004), states that, "the level of insurance density and insurance penetration in Kenya is disappointing. To revitalize the insurance industry calls for new strategies at national and corporate levels, strategies founded on insightful situational analysis of the industry."

Study findings on the application of Porter's Generic Strategies in other sectors in Kenya include the following: Gitonga (2003) established that more than 58.3% of the Hospitality Establishments use generic strategies and the major challenges faced were lack of support from stakeholders, changing customer preferences, economic and political problems and HIV/AIDS. Karanja (2002) found that the most popular generic strategy among the Real Estate firms was differentiation with narrow focus whereas the least popular was cost leadership strategy. The challenges included inflation, interest rates, reduced disposable income and competition. It will be important to compare these two research findings with the findings in the Insurance Industry.

Studies on insurance industry in Kenya have addressed various aspects of strategic management: diversification and performance, K'Obonyo and Mwanzi (1996); underwriting practices in response to HIV/AIDS, Tari (1998); strategic planning, Wanjohi (2002); responses in Health Insurance Sector, Arasa (2002); and strategic responses to changes in the environment, Mwarania (2003); following liberalization, the insurance firms are operating in highly competitive environment Abdullahi (2000), Wanjohi (2002). Other stakeholders in the Insurance Industry have also stated that it is faced with unhealthy competition manifested by price cutting among other unprofessional practices, Ikiara (2001); Wa Maina (2001); Makove (2002) and Wandera (2004).

So far, no study has been carried out on the application of Porter's Generic Strategies by the insurance companies in Kenya despite the state of unhealthy competition in the Industry and the important role this Industry plays in the country's economy. A study of the generic competitive strategies these insurance firms use and the possible challenges faced in the use of these strategies will be important in providing insight that could help this multi-billion shillings industry to determine how best to compete and counteract the challenges for success. This study seeks to address the following research questions:

1. Do the insurance companies in Kenya apply Porter's generic strategies? If so to what extent?
2. What challenges do these insurance companies face in the application of Porter's generic strategies?

## 1.3 Research Objectives

The study has the following two objectives:

1. To determine the use of Porter's generic strategies by insurance companies in Kenya.
2. To determine the challenges faced by the insurance companies in Kenya when they apply these generic strategies.

## 1.4 The Importance of the Study

The study is important because the findings will benefit the following: The insurance industry in Kenya will benefit from the findings since this will help the players to improve on their competitive strategies or adopt more appropriate ones. The identification of major challenges will enable the industry players find ways to deal with them appropriately.

The scholars will benefit from the contribution to the existing knowledge in the insurance industry in Kenya. The study will also document the findings which will aid in further research in this industry and the application of Porter's Generic strategies in general and in other sectors in Kenya.

The government will benefit from the findings which will be useful as guidelines when making legislation or regulations for the Insurance Industry which plays an important role in the economy. The office of the Commissioner of Insurance which is responsible for the regulation will use the findings to make recommendations to the government.

The current/potential investors and other stakeholders will benefit from the findings as they will be useful as a guide in making better decisions regarding the Industry.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

The literature review will look at the concept of strategy as defined by various authors; industry competition in general; competition among the insurance companies in Kenya; competitive strategies in general; Michael Porter's Model of Generic Strategies and finally conclusion.

## 2.2 The concept of strategy

According to Long and Koch (1998), the word strategy comes from the Greek word *strategia* meaning "generalship". The word does not appear in the management literature until the 1950s; Peter Drucker appears to be the first to talk about strategy in the business context in 1954. Drucker spoke about strategy in answer to these questions about organizations: "What is our business? And what should it be?

Strategy has been defined in different ways by various authors, as quoted in Thompson *et al* (1998): In 1962 Alfred Chandler was one of the first to offer an explicit definition of strategy as "the determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary out of these goals"; Hofer and Schendel (1979) define strategy as the "fundamental pattern of present and planned resources deployments and environments and environmental interactions that indicate how the organization will achieve its objectives; and Kenneth Andrews, (1965, 1971) define strategy as "the pattern of

objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in and the kind of company it is to be"

Ansoff (1990) defined strategy as a set of "decisions making rules for guidance of organizational behavior". According to Hax and Majluf (1996) strategy can be seen as a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction and purpose as well as facilitating the necessary changes induced by its environment. Michael Porter (1996) defines strategy as "the creation of a unique and valuable position, involving a different set of activities" and this is the definition which will apply in this study, which draws a lot from the works of Michael Porter.

There are three levels of strategy: corporate, business and functional/operational. Corporate strategies are the strategies for the company as a whole: strategy at this level concerns the direction, composition and coordination of the various businesses and activities that comprise a large and diversified organization, Burnes (2000). Business level strategies are the strategies for each separate business of the company. Functional strategies are strategies for each specific functional unit within a business and operational strategies are strategies for basic operating units such as departments within functional areas. According to Burnes (2000), the three levels of strategies interact in an iterative and dynamic fashion. Mintzberg (1994 as quoted in Burnes 2000) argues that just as business and functional levels of strategy can be seen as imposed or driven by corporate level decisions, so corporate level strategy can be seen as emerging from or being shaped by functional level and business level decisions and actions, it would be wrong to assume that this is always a product of top-down rather than a bottom-up process.

According to Thompson, *et al* (1998), organizations need strategies to set direction, focus effort, define the organization and provide consistency: Organizations need to set direction for themselves and to out smart competitors; strategy is needed to focus effort and promote coordination of activity; strategy is needed to define the organization as a plan, pattern or perspective; finally, strategy is needed to provide consistency in the organization.

There is a wide and often confusing variety of approaches to strategy development which organizations can adopt; however, Teece *et al* (1997, as quoted in Burnes, 2000) argue that there are only three basic models: Competitive Forces Model, The Strategic Conflict Model and the Resource Based Model.

Proponents of the Competitive Forces Model believe that industry structure strongly influences the competitive rule of the game as well as the range of strategies open to the organization. This model was associated with the works of Michael Porter which were first published in 1980. The model has had various criticisms which include: Miller (1992, as quoted in Burnes, 2000) stated that it is too narrow and inflexible and can render organizations vulnerable during rapid changes in the market place; Mintzberg *et al* (1998 as quoted in Burnes, 2000) noted that the assumption of rationality ignores the political nature of organizations. A further criticism is that the big competitive battles of the last thirty years between American and Japanese firms were won by those who had changed the rules of the game such as Toyota and Cannon, Hamel and Prahalad (1989 as quoted in Burnes, 2000).

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The Strategic Conflict Model portrays competition as war between rival firms. This model, according to Burnes (2000) came to prominence with the publication of Carl Shapiro's (1989) article, "The Theory of Business Strategy". According to the model, an organization's ability to increase its profits is dependent on its ability to out-wit, out-bluff and out-maneuver its rivals. Given that conflict based strategies do not take into account the wide range of external and internal factors, which also contribute to an organization's competitiveness, its usefulness may be limited.

The Resource Based Model, sees profitability as coming from superior systems and structures which allow firms to have lower costs or better quality, rather than from tactical maneuvering or product market positioning, Prahalad and Hamel (1990 as quoted in Burnes, 2000); Long and Koch (1998 as quoted in Burnes, 2000) .

## 2.3 Industry Competition

The five forces framework developed by Michael Porter (1988) states that industry competition is driven by the following five forces: threat of new entrants; rivalry among competing firms; threat of substitute products; bargaining power of buyers and bargaining power of suppliers. The collective strength of these forces determines the ultimate profit potential in the industry. The five competitive forces reflect the fact that competition in an industry goes beyond the established players. All the five forces jointly determine the intensity of industry competition and profitability, and the strongest force or forces become crucial from the point of view of strategy formulation.

Once the forces affecting competition in an industry and their underlying causes have been diagnosed, the firm is in a position to identify its strengths and weaknesses relative to the industry. From a strategic standpoint, the crucial strengths and weaknesses are the firm's posture *vis-à-vis* the underlying causes of each competitive force.

## 2.4 Competition among the Insurance Companies in Kenya

Competition in the insurance industry in Kenya has been termed as "cut-throat, stiff, unhealthy, and shallow with destructive consequences", Ikiara (2001), Wa Maina (2001), Makove (2002) and Wandera (2004). According to Wandera (2004), "the number of players has been viewed as excessive against stagnant or shrinking market..." He also observed that the insurance market place has displayed evidence of shallow competitive framework and that the "marketing mix of most companies has been characterized by price-undercutting with destructive consequences."

According to the *Sunday Nation* (2005), Kenya has 40 insurance companies compared to South Africa's 15, but the Kenyan insurance industry is 10 times smaller than the South African one. The newspaper added that the insurance companies argue that "premiums are being driven down by brokers and insurers to uneconomical levels and this might force some insurance companies to collapse." Makove (2003), the Commissioner of Insurance, observed that life insurance has lagged behind the general business, being 20% of gross written premium, this position was again confirmed in 2005; Makove (2005 as quoted in the *Daily Nation*) commented that the life policies lack enough appeal which has resulted in low sales; "out of Kenya's 30 million people, only one million hold any form of life cover." Kariithi (2001) observed that although the insurance sector has a very important role to play in Kenya's financial system, the potential role of the insurance

sector in the economy, especially in the capital markets has not been fully harnessed.

The 2004 Kenya Insurance Survey carried out by KPMG Kenya in conjunction with the Insurance Institute of Kenya (IIK) established the following facts among others: The industry can be divided into three groups on the basis of market share: 30% of gross premium is controlled by three companies; the second group of six control 28% of gross premium and the remaining companies control 42% of gross premium. Fragmentation of the industry has resulted in low growth rate and intensified rivalry among players.

## 2.5 Competitive strategies

According to Porter (1988), at the broadest level, formulating competitive strategy involves the consideration of four key factors that determine the limits of what a company can successfully accomplish. The company's strengths and weaknesses are its profile of assets and skills relative to competitors, including financial resources, technological posture, and brand identification and so on. The personal values of an organization are the motivations and needs of the key executives and other personnel who must implement the chosen strategy. Strengths and weaknesses combined with values determine the internal (to the company) limits to competitive strategy a company can successfully adopt. The external limits are determined by industry and other broader environment. Industry opportunities and threats define the competitive environment, with its attendant risks and rewards. Societal expectations reflect the impact on the company of such things as government policy, social concerns and many others.

According to Thompson and Strickland (1992), competitive strategy is the narrower portion of business strategy dealing with a company's competitive approaches for achieving market success: its offensive moves to secure a competitive edge over rival firms and its defensive moves to protect its competitive position. It consists of all the moves and approaches a firm has taken and is taking to attract buyers, withstand competitive pressures and improve its market position. Managers tailor strategies to fit the specifics of their own companies' situations and market environment, thus there can be as many competitive strategies as there are companies trying to compete. However, according to Michael Porter's model, the generic competitive strategies fall into three categories: cost leadership differentiation and focus.

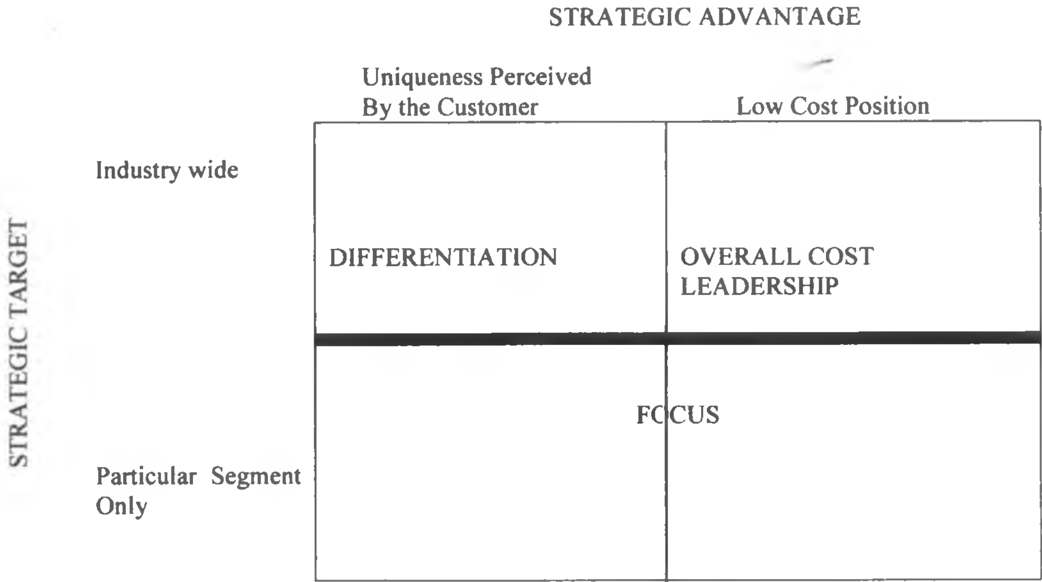
Competitive strategy is about being different and it means deliberately choosing a different set of activities to deliver a unique mix of values, Porter (1996). According to Porter (1998), rivalry among existing competitors takes the form of jockeying for positions using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Price competition is highly unstable and likely to leave the entire industry worse off from the standpoint of profitability. Price cuts are easily and quickly matched by rivals and once matched they lower revenues for all firms unless industry price elasticity of demand is high enough. Advertising battles may expand demand or enhance the level of product differentiation in the industry for the benefit of all firms.

An effective competitive strategy takes offensive or defensive action in order to create a defendable position against the five forces. This involves a number of possible approaches: positioning the firm so that its capabilities provide the best defense against the existing array of

competitive forces; influencing the balance of forces through the strategic moves thereby improving the firm's relative position; or anticipating shifts in the factors underlying the forces and responding to them, thereby exploiting change by choosing a strategy appropriate to the new competitive balance before rivals recognize it, Porter (1998).

Competitive strategies are therefore aimed at having an edge over the competitors in the market place. Developing a competitive strategy is developing a formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals, Porter, (1979).

## 2.6 Porter's Model of Generic Strategies




Source: Porter (1998). COMPETITIVE STRATEGY Techniques for Analyzing Industries and Competitors (pp 39), Free Press.

Michael Porter (1998) developed a model of generic strategies which firms can use to gain competitive advantage in their industries. The concept implies that there are distinct and mutually exclusive ways for a business to attract customers and achieve competitive advantage. Porter states that a business can enjoy a competitive advantage exclusively by one of the two basic generic strategies: cost leadership or differentiation. These two approaches can be combined with the market scope/focus in which the firm attempts to achieve competitive advantage.

The resultant alternatives lead to four generic strategies depending on whether the firm is seeking a competitive position in the overall industry (broad focus), or whether it will concentrate its activities on one market segment only (narrow focus). The four strategic options are: Cost Leadership-Broad Focus, Cost Leadership-Narrow Focus, Differentiation-Broad Focus, and Differentiation-Narrow Focus.

### 2.6.1 Cost Leadership Strategy

In Cost Leadership strategy the business unit establishes a position that has a significant cost advantage over all its competitors in the industry. Cost leadership requires "aggressive construction of efficient scale facilities; vigorous pursuit of cost reductions from experience, tight costs and overhead control, avoidance of marginal customer accounts and cost minimization in areas such as research and development, service, sales force, advertising, etc…", Porter (1998). Low cost producers typically sell a standard or "no frills" product and place a considerable emphasis on reaping scale or absolute cost advantages from all sources.

Risks of cost leadership include the following according to Hitt *et al* (1997): the low cost leaders could become obsolete because of competitors' technological innovation; due to too much concentration on implementing cost leadership firms may fail to detect changes in customer needs or competitors' efforts to differentiate; and finally there is risk of imitation by competitors. Another risk according to Porter (1998) is that inflation in costs may narrow the firm's ability to maintain enough of the price differential to offset the competitors' brand images or other approaches to differentiation.

### 2.6.2 Differentiation Strategy

Differentiation Strategy also has two alternatives: Broad and Narrow Focus. Differentiation–Broad Focus seeks uniqueness and premium price in the overall market of the industry, whereas Differentiation-Narrow Focus aims at uniqueness and premium price at one market segment only.

Risks of differentiation include the following according to Hitt *et al* (1997): a firm may offer differentiated features that exceed the customer needs; when the differentiation no longer provides value which the customers are willing to pay; imitation by rivals and finally, learning can narrow customers' perceptions of the value of the differentiated products. Another risk by Porter (1998) is that the cost differential between the low cost competitor and the differentiated firm becomes too great for differentiation to hold brand loyalty; buyers will thus sacrifice some of the features, services or image possessed by the differentiated firm for large cost savings.

### 2.6.3 Focus strategy

Focus strategy implies that a firm concentrates on a particular buyer group, segment of product line or geographic market. The focus strategy can be based on broad or narrow market scope, where broad refers to the overall market and narrow refers to one market segment only.

Competitive risks of focus strategies are the same as for cost leadership plus the following according to Hitt *et al* (1997): Competitors may "out focus" the focuser by focusing on a narrower segment; competitor may pursue the same market and the needs for customers being focused may become similar to those in the market at large. According to Thompson and Strickland (1992), the risks of focus are many and include the following: The chance that competitors will find ways to match the focused firm in serving the narrow target market, the potential for the niche buyer's preferences and needs to shift toward the product attribute desired by the market as a whole; such erosion opens the way for rivals with broad market appeal and the chance that the segment will become so attractive that it becomes inundated with competitors, causing profits to be splintered.

### 2.6.4 Stuck In the Middle

According to Porter (1998), a firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle". It possesses no competitive advantage; it is often a manifestation of a firm's unwillingness to make choices about how to compete. The firm stuck in the middle is almost guaranteed low profitability. It either loses the high volume customers who demand low prices or must bid away its profits to get this business away from low cost firms. It also loses high margin business to the firms that are focused on high margin targets and have achieved

differentiation overall. The firm stuck in the middle also probably suffers from a blurred corporate culture and a conflicting set of organizational arrangements and motivation system.

## 2.7 Conclusion

There are as many definitions of the word "strategy" as there are authors, hence no universal meaning exists. The definition of strategy by Michael Porter is adopted as the study will draw heavily from his works. The three levels of strategy are interrelated and interact in a dynamic fashion.

Competitive strategy is that part of the business strategy which seeks to create advantage to a business unit over the competitors. Organizations including insurance companies therefore need competitive strategies to compete successfully; these may be generic or otherwise. The three basic models of strategy development: competitive forces, resource based and strategic conflict models have had criticisms; implying that other models apart from these exist, some of them may have been documented and other are yet to be documented. The model chosen by each insurance company will determine how it will compete in the industry and the challenges it will face.

Industry competition is influenced by factors beyond the traditional boundaries; this applies also to the insurance industry. Competition among insurance companies in Kenya is stiff due to the number of players and the size of the market among other factors; hence there is an urgent need for each company to use competitive strategies, whether generic or otherwise in order to succeed.

The three generic strategies imply differing organizational arrangements, control procedures, and inventive systems. The generic strategies may also require different styles of leadership and can translate into very different corporate cultures and atmospheres, (Porter1998). Studies by various authors questioned Porter's assertion of the dangers of mixing the strategies: Dess and Davis (1984 as quoted in Burnes, 2000) found that there is some evidence to show that businesses with both low cost and high differentiation position can be very successful; Miller (1992 as quoted in Burnes, 2000) also questioned Porter's assertion that firms should only pursue one strategy by pointing out that such specialization can lead to inflexibility and narrow an organization's vision; Gilbert and Strebel (1992 as quoted in Burnes, 2000) point to the success of strategies where a firm enters a market as a low cost producer and then once established, differentiates to capture a larger slice of the market - this was the approach used by Japanese companies to capture Western markets in the 1970s and 1980s. Gitonga (2003) found that 60% of firms in the hospitality industry in Kenya used all the three generic strategies or a combination of the strategies. Gathoga (2001) established that commercial banks in Kenya adopted various competitive strategies which included quality service at competitive prices and appropriate locations. These findings in different industries indicate that companies may or may not use the generic strategies, or they may use more than one generic strategy at the same time and still succeed.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Research Design

The survey method of research design was used because of the need to collect data from many firms in the Insurance Industry to be able to gauge the generic competitive strategies they use and the challenges they face. A case study or an experiment would not be suitable given the nature of the study.

## 3.2 Population of Study

All the insurance companies in Kenya were intended for the survey (census) except two for the following reasons: one of them was under statutory management and the other was under liquidation. The study was carried out within Nairobi City because that is where all the insurance companies in Kenya have their head offices, according to appendix 2. The research was meant to be a census survey due to the number involved; however out of 39 insurance companies contacted, 29 responded, one was placed under statutory management and 9 declined to participate in the survey. This gives the response rate of 76%, which is adequately representative of the population.

## 3.3 Data collection

Primary data was collected by the use of semi structured questionnaire (see appendix 1), divided into three parts as follows:

A – General Information.

B – Data pertinent to the first objective of the study (the Generic Strategies).

C – Data pertinent to the second objective of the study (The challenges).

The two objectives of the study required collection of both quantitative and qualitative data. The respondents were marketing executives or senior officers in the Marketing Function who are expected to be conversant with matters pertaining to strategy in their company. The questionnaires were meant to be completed in the presence of the researcher, but this was not possible for most of the respondents, questionnaires were therefore left with the respondents and picked later after completion.

A letter of introduction (see appendix 3) was hand-delivered to the respondents together with the questionnaires, when seeking the appointments. The appointments were confirmed in advance and telephone reminders were necessary most of the times, before the questionnaires were collected from respondents. A journal was kept and updated regularly to facilitate this process.

### 3.4 Data Analysis

Descriptive statistics was used because it was necessary to come up with the most frequent generic strategies used, the challenges faced and how the various firms differ with respect to these. To analyze quantitative data, Microsoft Excel computer software was used to come up with frequencies, percentages, mean scores and standard deviation, cross tabulation was also used. Content analysis was used to analyze the qualitative data obtained from the open ended questions.

# CHAPTER FOUR

# DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

This chapter presents data analysis and findings of the study based on the questionnaires completed by the respondents. The questionnaires were hand-delivered to 38 insurance companies; however response was received from 29 of these companies, giving the response rate of 76%. The companies which did not participate in the survey were not particularly unique; hence they were adequately represented in the 76% respondents. For the purpose of answering the research questions, the data was summarized and tabulated using frequencies and percentages. The mean score and standard deviation was calculated using Microsoft Excel computer software. The pertinent data is presented in Tables 1 through 15.

The study had two objectives only; the first objective sought to determine the application of Porter's Generic Strategies by insurance companies in Kenya and the second objective sought to determine the challenges facing these companies when they apply these strategies. The presentation is in the following order: first is the general information on the companies, secondly, findings on the first objective of the study and thirdly the findings on the second objective of the study.

## 4.2 General Information

The respondent companies were established on dates ranging from 1912 to 2003. The date of establishment is either when a company was first incorporated or the date of the formation of a new company as a result of mergers and acquisitions by older companies, a trend which has

become common in the industry. The industry therefore has along history of existence and is therefore well established in the Kenyan economy. Most of these companies have branches within the country and only a few companies have no branches at all. The companies which have branches within Kenya include some with one or two branches out of the country; this shows that the boundaries of the industry go beyond the borders of Kenya due to globalization.

**Table 1: Company Ownership**

| Ownership | Frequency | Percent |
|---|---|---|
| Private | 27 | 93.10% |
| Public | 1 | 3.45% |
| Blank | 1 | 3.45% |
| **Total** | **29** | **100.00%** |

***Source: Survey Data***

Table 1 summarizes company ownership of the respondents as follows: 93.10 % are private, and 3.45% are public companies, while one company declined to answer that question.

**Table 2: Business Licensed to Underwrite**

| Business | Frequency | Percent |
|---|---|---|
| Long Term Only | 3 | 10.3% |
| Short Term Only | 9 | 31.0% |
| Both Short Term and Long Term | 17 | 58.7% |
| **Total** | **29** | **100.0%** |

***Source: Survey Data***

Table 2 summarizes the classes of business for the respondent companies as follows: 58.7% carry out both Long and Short Term (composite) business, 31% carry out Short Term business only whereas only 10.3% carry out Long Term business only.

## 4.3 Application of Porter's Generic Strategies

**Table 3: Generic Strategies Applied**

| Generic Strategy | Frequency | Percent |
|---|---|---|
| Producing one tailor–made product whose uniqueness is perceived by the customer and offering that product to the whole market in the industry at a premium price. | 6 | 21.43% |
| Producing one tailor–made product whose uniqueness is perceived by the customer and offering that product to only one (niche) market segment in the industry at a premium price. | 3 | 10.71% |
| Producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to the whole industry at a price equal to or lower than the competitors' price for the substitute product. | 5 | 17.86% |
| Producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to only one (niche) market segment in the industry at a price equal to or lower than the competitors' price for the substitute product. | 0 | 0% |
| All of the above four strategies together. | 4 | 14.29% |
| Other (combination of two or three strategies). | 6 | 21.42% |
| Not any one of the four strategies in particular. | 4 | 14.29% |
| **Total** | **28** | **100%** |

***Source: Survey Data***

The respondents were asked to indicate one or more generic strategies/unique positions which best describe their organizations' position(s). The findings are presented in Table 3 as follows: The most popular choice of one generic strategy applied is producing one tailor–made product whose uniqueness is perceived by the customer and offering that product to the whole market in the industry at a premium price; this describes differentiation broad focus, being applied by 21.4% of the companies. This has tied in ranking with the application of a combination of two or three generic strategies, with the same percentage.

Secondly, 17.9% of the companies apply cost leadership broad focus; which involves producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to the whole industry's market at a price equal to or lower than the competitors' price for the substitute product.

Thirdly, 14.3% of the insurance companies apply all the four generic strategies together; this percentage ties in ranking with the companies which are not using any one of the four generic strategies in particular.

Fourthly, differentiation narrow focus is applied by 10.7% of the companies; this is described as producing one tailor–made product whose uniqueness is perceived by the customer and offering that product to only one (niche) market segment in the industry at a premium price.

Finally, the least popular generic strategy is producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to only one (niche)

market segment in the industry at a price equal to or lower than the competitors' price for the substitute product; which is a description of cost leadership narrow focus. This generic strategy is not applied by any of the respondents. One company however, declined to answer this particular question, hence the total of 28 and not 29 respondents.

**Application of Various Aspects of the Generic Strategies**

To analyze the respondents' rating on their application of various aspects/characteristics of the generic strategies, the key/rating scale used in the questionnaire is indicated in Table 4. The mean score and standard deviation was computed using Microsoft Excel computer software. A mean score of 5 indicates that the aspect or characteristic of the generic strategies is rated as "extremely high" while a mean score of 1 indicates the use as "not at all".

**Table 4: Key Used For Analysis on Tables 5 and 14.**

| Key | Weight | Mean score |
|---|---|---|
| Not at all | 1 | 1 |
| Extremely Low | 2 | 2 |
| Moderate | 3 | 3 |
| High | 4 | 4 |
| Extremely high | 5 | 5 |

***Source: Questionnaire***

The respondents were asked to rate their application of the aspects on Table 5 and the findings are presented in the same table, as follows: The highest mean score of 4.241 is for substantial capital investment which is a characteristic of differentiation strategy. The mean score implies that the companies surveyed rated as "high" the application of this aspect.

**Table 5: Rating on Application of Aspects of Generic Strategies**

| Aspects of Generic Strategies | Mean score | Standard Deviation |
|---|---|---|
| **Differentiation:** Coordination among functions in the Product Development and Marketing. | 3.724 | 0.943 |
| **Differentiation:** subjective measurements and incentives instead of quantitative measures. | 3.172 | 0.949 |
| **Differentiation:** Amenities to attract highly skilled or creative people. | 3.724 | 0.943 |
| **Differentiation:** Substantial capital investment and access to capital. | 4.241 | 0.773 |
| **Differentiation**: Process reengineering skills | 3.655 | 0.957 |
| **Cost Leadership:** Intense supervision of labor. | 3.276 | 0.979 |
| **Cost Leadership:** Low cost distribution systems. | 3.828 | 0.833 |

***Source: Survey Data***

The lowest mean score of 3.172 is for subjective measurements instead of quantitative measures, this is also an aspect of differentiation strategy which has been rated as "moderate". The general trend for the various aspects of both differentiation and cost leadership strategies is mainly "moderate," with mean scores ranging between 3 and 4 for aspects of both strategies.

**Extent to Which Firms Emphasize Aspects of the Generic Strategies**

To analyze the extent to which aspects of generic strategies are emphasized, the key/rating scale which was provided in the questionnaire is presented in Table 6. The various positions ranging from "not at all" up to "to a very great extent" are assigned weights 1 to 5 respectively.

The mean score and standard deviation were computed using Microsoft Excel computer software. A mean score of 5 indicates that an aspect of the generic strategy is emphasized "to a very great extent" while a mean score of 1 indicates the emphasis as "not at all."

**Table 6: The Key Used for Analysis in Tables 7, 8 and 9.**

| Key | Weight | Mean Score |
|---|---|---|
| Not at all | 1 | 1 |
| To a very little extent | 2 | 2 |
| To a moderate extent | 3 | 3 |
| To a great extent | 4 | 4 |
| To a very great extent | 5 | 5 |

***Source: Questionnaire***

The respondents were asked to indicate the extent to which their organizations put emphasis on the various aspects of the generic strategies which are given in Table 7, using the key/rating scale on Table 6. The findings are summarized in Table 7 as follows: the highest mean score is 4.069 for the differentiation aspect of corporate reputation for quality or technological leadership which is emphasized "to a great extent". The lowest mean score is 2.357 for the differentiation aspect of charging increased prices to cover extra costs of providing more benefits than what is usually available in a product, which is emphasized "to a very little extent".

**Table 7: Emphasis of Various Aspects of Generic Strategies**

| Aspects of Generic Strategies | Mean score | Standard Deviation |
|---|---|---|
| **Cost Leadership:** Advertise product virtues that lead to reduced prices compared to the competitors. | 2.655 | 1.123 |
| **Differentiation:** Charge increased prices to cover extra costs of providing more benefits than what is usually available in a product. | 2.345 | 1.294 |
| **Differentiation:** Building in features that customers are willing to pay. | 3.724 | 1.142 |
| **Differentiation:** Advertise the unique ability to satisfy customers' special needs. | 3.414 | 1.327 |
| **Differentiation:** Strong marketing abilities. | 3.931 | 0.944 |
| **Differentiation:** New product innovation. | 3.897 | 1.185 |
| **Differentiation:** Strong capabilities in basic research. | 3.276 | 1.362 |
| **Differentiation:** Corporate reputation for quality or technological leadership. | 4.069 | 0.907 |
| **Differentiation:** Unique combination of skills drawn from other businesses. | 3.724 | 1.284 |
| **Cost Leadership:** Strong cooperation from channels. | 4.034 | 1.189 |

***Source: Survey Data***

**The Extent to Which Cost Leadership Activities are Applied**

The respondents were asked to state the extent to which their organizations apply the cost leadership activities in Table 8, using the rating scale given in Table 6. The highest mean score is 3.793 for the use of structural organization and responsibility, which is applied to "a moderate extent". The activity with the lowest mean score is incentives based on meeting strict quantitative deadlines, with a mean score of 3.483, this is also applied to "a moderate extent". The general trend here is the application of these activities to a "moderate extent", the mean scores range from 3.483 to 3.793.

**Table 8: Aspects of Cost Leadership Strategy Applied**

| Aspects of Cost Leadership Strategy | Mean Score | Standard Deviation |
|---|---|---|
| Tight cost controls. | 3.759 | 0.934 |
| Frequent detailed control reports. | 3.759 | 0.897 |
| Structural organization and responsibilities. | 3.793 | 0.804 |
| Incentives based on meeting strict quantitative deadlines. | 3.483 | 1.221 |

***Source: Survey Data***

**Generic Strategy Activities Applied to Attract and Retain Customers**

The respondents were required to indicate the extent to which their organizations are engaged in the activities listed in Table 9 which they use to attract and/or retain customers. The key/rating scale applied is given in Table 6 and the findings are presented in Table 9 as follows: the activity with the highest mean score is that of inventing ways to create value for customers, a differentiation strategy activity. This activity has a mean score of 4.414, implying that most respondent companies apply it "to a great extent". The least mean score is 3.897 for the continuous search for cost reduction without sacrificing quality of products/services; this is a cost leadership strategy activity. The activity is used "to a moderate extent" or almost "to a great extent".

**Table 9: Activities to Attract and Retain Customers**

| Activity | Mean Score | Standard Deviation |
|---|---|---|
| Continuous search for cost reduction without sacrificing quality of products/services | 3.897 | 0.803 |
| Invent ways to create value for customers. | 4.414 | 0.766 |
| Tailor-make products to suit a specific customer segment | 4.207 | 1.030 |

***Source: Survey Data***

**Generic Strategies Applied to Customers and Products**

Table 10 shows that about 83% of the respondents have many product lines with strong emphasis on unique features for each customer segment, whereas only about 3% have one basic product with only essential requirements for the whole range of customers.

**Table 10: Products and Customers**

| Products /Customers | Frequency | Percent |
|---|---|---|
| One basic product with only essential requirements for the whole range of customers | 1 | 3.45% |
| Many product lines/variations, wide selection with strong emphasis on the unique features for each product made for each customer segment. | 24 | 82.76% |
| One tailor made product to fit the specific needs of one segment of customers. | 4 | 13.79% |
| **Total** | **29** | **100.00%** |

***Source: Survey Data***

**Table 11: Focus Strategy Applied**

| Customers Segments | Frequency | Percent |
|---|---|---|
| Broad segment of the industry market. | 13 | 45% |
| Narrow segment whose needs and preferences are distinctly different from the whole industry market. | 2 | 7% |
| Both of the above alternatives | 14 | 48% |
| **Total** | **29** | **100%** |

***Source: Survey Data***

Table 11 shows that 48% of the respondents have customers in both broad and narrow segments of the industry market and whose needs and preferences are distinctly different from the whole

industry market. 7% of the respondents have customers in the narrow segment of the market, whose needs and preferences are distinctly different from the whole industry market.

Table 12 shows that 51.72% of the respondents offer products with the same attributes as their competitors; 44.83 offer products with attributes distinctly different from the competitors' products; while 3.45% offer both of these alternatives.

**Table 12: Attributes of Products/Services**

| Product Attribute | Frequency | Percent |
|---|---|---|
| The same attributes as the competitors' products. | 15 | 51.72% |
| Attributes distinctly different from the competitors' products. | 13 | 44.83% |
| Both of the above alternatives. | 1 | 3.45% |
| **Total** | **29** | **100.00%** |

***Source: Survey Data***

Table 13 shows that 62% of the respondents charge prices which are almost the same as competitors' prices, while 10% offer products at prices lower than the competitors' prices.

**Table 13: Product Prices**

| Prices | Frequency | Percent |
|---|---|---|
| Lower than competitors' prices. | 3 | 10% |
| Almost the same as competitors' prices. | 18 | 62% |
| Distinctly higher than competitors' prices | 8 | 28% |
| **Total** | **29** | **100%** |

***Source: Survey Data***

## 4.4 Challenges Faced in the Application of the Generic Strategies

The respondents were asked to rate the challenges given in Table 14, using the key/rating scale in Table 4. The highest rated challenge is that competitors may pursue the same market segment where the organization has been concentrating in. This was rated as "moderate" with a mean score of 3.655. The lowest rated challenge is that the unique features of products do not provide value for which customers are willing to pay, this was rated as "extremely low" with a mean score of 2.207.

**Table 14: Rating of Challenges to the Application of Generic Strategies**

| Challenges | Mean Score | Std Deviation |
|---|---|---|
| Competitors' technological innovation could result in your current systems being considered obsolete. | 2.793 | 1.123 |
| Inability to detect changes in customer needs. | 2.690 | 1.367 |
| Imitation of products by competitors. | 3.379 | 1.324 |
| Inflation reduces customers' ability to afford your products | 3.103 | 1.185 |
| The organization's inability to detect competitors' efforts to develop products with unique attributes. | 2.345 | 1.320 |
| Product features exceed customer needs. | 2.379 | 1.243 |
| Lack of information by customers. | 2.724 | 1.111 |
| Unique features of your products do not provide value for which customers are willing to pay. | 2.207 | 1.095 |
| Competitors may pursue the same market segment where your organization has been concentrating in. | 3.655 | 1.092 |
| Competitors may dislodge your company from the niche market by specializing on a narrower segment within it. | 3.034 | 1.066 |
| The special needs of your niche market may turn out to be the same as those of the rest of the market. | 3.517 | 1.071 |

***Source: Survey Data***

The respondents were further asked to mention the challenges they face when they apply the generic (or other) strategies which they use to gain competitive advantage. The results are



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presented in Table 15. The challenge mentioned by all the respondents is competition characterized by price undercutting. The five main challenges mentioned are: Competition and Price undercutting, Lack of information by customers/the general public, Economic factors, Government Policy/Weak Regulations and Poor Image of the Insurance Industry.

**Table 15: Main Challenges**

| Challenges | Total number of Respondents | Frequency | Percent |
|---|---|---|---|
| Competition/Price undercutting | 28 | 28 | 100% |
| Lack of information by customers/the general public | 28 | 9 | 32.14% |
| Economic factors | 28 | 6 | 21.43% |
| Government Policy/Weak Regulations | 28 | 6 | 21.43% |
| Poor Image of the Insurance Industry | 28 | 7 | 25% |
| Fraud | 28 | 3 | 10.71% |
| Industry saturation | 28 | 2 | 7.14% |
| Others such as: HIV/AIDS, Technology, Lack of resources, Brand or company loyalty, Deteriorating professional standards, Claims, ... etc. | 28 | 1 | 3.57% |

***Source: Survey Data***

# CHAPTER FIVE

# CONCLUSION

## 5.1 Introduction

This is the last chapter which covers the summary, discussions and conclusion; it also highlights the limitations of the study, recommendations for further research and recommendations for policy and practice. The two objectives of the study were to determine the application of Porter's Generic Strategies by Kenyan Insurance Companies and to establish the challenges facing these firms as they apply the strategies.

## 5.2 Summary, Discussions and Conclusion

The research findings established that the insurance companies in Kenya applied Porter's generic strategies as follows: 21.4 % applied differentiation – broad focus and the same percentage also applied a combination of two or three generic strategies; 17.9% applied cost leadership - broad focus; 14.3% applied all the four generic strategies together, the same percentage as those that did not apply any of the generic strategies in particular; and 10.7% applied differentiation - narrow focus, none of them applied cost leadership – narrow focus.

These findings show that 86% of the insurance companies applied the generic strategies; either singly or combined and only 14% of them were not particular about the application of these strategies. The findings therefore achieved the first objective of the study by answering the research question which asked whether or not these companies apply Porter's generic strategies and the extent of application.

The Kenyan insurance companies applied these two differentiation strategy activities to a "great extent": invention of ways to create value for customers and making products to suit a specific customer segment. Other aspects of differentiation strategy investigated included: strong marketing abilities which was applied to a "moderate extent", corporate reputation for quality and technological leadership was emphasized to "a great extent" and the use of substantial capital investment, was rated "high".

The insurance companies applied cost leadership activity of continuous search for cost reduction without sacrificing quality of products/services to a "moderate extent". The cost leadership aspect of low cost distribution systems was used to a "moderate extent".

In their description of products and services, about 83% of the respondents indicated that they had "many product lines/variation, wide selection with strong emphasis on unique features for each product made for each customer segment"; about 14% indicated that they had "one tailor made product to fit the specific needs of one segment of customers" both of these choices are an indication of differentiation strategy narrow focus. However, only about 3% indicated that they had "one basic product with only essential requirements for the whole range of customers", implying cost leadership broad focus.

The customers were described by the insurance companies as follows: both broad and narrow segment – 48%; broad segment only - 45%; narrow segment only with unique needs distinct from the whole industry market – 7%. The customer description was therefore a mixture of both broad and narrow segment of the industry market.

For the purpose of achieving the second objective of the study and also answering the second research question; the respondents were asked to rate various challenges of the generic strategies. These challenges were rated by the respondents (mean scores out of 5) as follows: the competitors may pursue the same market segment - 3.655; special needs of niche market may turn out to be the same as those of the rest of the market - 3.517; imitation of products by competitors - 3.379; inflation reduces customers' ability to afford - 3.103; and finally competitors may dislodge the company from the niche market by specializing on a narrower segment within it - 3.034. These challenges which were all rated as "moderate" are more associated with differentiation strategy than cost leadership.

The respondents were further asked to indicate main challenges which they have faced as they applied their respective competitive strategies. This was an open question and the responses received tended to be mainly general challenges, not challenges specific to the generic strategies applied. The challenge which ranked number one was mentioned by all the respondents as competition characterized by price undercutting – 100%; the next challenge was lack of information by customers/general public, which was mentioned by 32.14% of the respondents; poor image of the industry – 25%; economic factors - 21.43%; and finally government policy/weak regulations – 21.43%. Other challenges mentioned included fraud, industry saturation, HIV/AIDS and deteriorating professional standards, among others.

The subsequent paragraphs give discussions and conclusion on the research findings regarding the application of the generic strategies by insurance companies in Kenya, and the challenges facing these companies as they apply the generic strategies.

**Differentiation – Broad Focus**

The popularity of differentiation – broad focus could be attributed to the following factors among others: the number of players in the industry, the nature of insurance products, the channels of distribution and the need to achieve huge sales volumes to cover not only overheads and operating costs, but also insurance claims.

In the year 2002, there were 41 insurance companies (appendix 2); this number was considered too large compared to the market capacity which had not experienced any significant growth. This had resulted in industry saturation and the stiff competition experienced in the industry. The insurance industry could also be described as fragmented and the companies had more or less the same products. This situation of the insurance industry in 2002 still holds true to date. The fact that the insurance companies are many and the products are perceived by customers as uniform could therefore mean that competitive advantage will mainly be achieved through differentiation, by those companies which specialize in product innovation.

The insurance products are intangible (services) and so the competitive advantage would be mainly based on providing unique services and products compared to competitors. The aim is to achieve higher market share than competitors, which in turn could yield cost benefits by offering better products/services at the same price or enhanced margins by pricing slightly higher, Johnson and Scholes (2003). Another unique feature of the insurance products is that the insurance company receives small amounts of money from the customers with an obligation to pay out larger amounts (determined in advance or not) in the form of maturity or claims at a later date (either known or not). These products are mainly distributed by brokers and agents who

form the majority of the industry players and they are spread over broad customer segments and geographical areas, hence the broad focus.

The broad focus can also be explained by the fact that insurers need huge volume of sales due to the nature of claims which the business experiences; some of these are long term, running over several years or "long –tailed", for instance the increase in liability claims. Other heavy claims arise from both the private and public service transport sectors, fire and floods damage, bank robberies, the general insecurity in the country, the HIV/AIDS pandemic, and the increase in chronic and terminal illnesses.

The popularity of differentiation strategy by Kenyan insurance companies can be compared to the findings of Karanja (2002), where it was found that focused differentiation was the most popular strategy followed by differentiation broad in the Real Estate Industry in Kenya. This is a service industry like the insurance sector with the major differences in products and players, which could explain the slight differences in their choices of the generic strategies. Despite these differences, both findings show generally that differentiation strategy is used to gain competitive advantage in the service industry in Kenya.

**Combination of Two or Three Generic Strategies**

The insurance companies which applied a combination of two or three generic strategies were the same percentage (21.4%) as those that applied differentiation broad focus. The application of a combination of more than one generic strategy in business has been proved successful by various authors: Dess and Davis (1984 as quoted in Burnes 2000), found that there is some evidence to

show that businesses with both low cost and high differentiation position can be very successful; Miller (1992 as quoted in Burnes 2000) also questioned Porter's assertion that firms should only pursue one strategy by pointing out that such specialization can lead to inflexibility and narrow an organization's vision. Gitonga (2003) found that 60% of firms in the Hospitality Industry in Kenya used all the three generic strategies (cost leadership, differentiation and focus) or a combination of these strategies. These findings indicate that firms can use a combination of strategies and still compete successfully.

**Cost Leadership Broad Focus**

Cost leadership broad focus was applied by 18% of the insurance companies. The cost leadership aspect of strong cooperation from channels was used to a great extent and the following aspects of cost leadership were used to a moderate extent: use of tight cost controls, frequent detailed reports, structural organization and responsibilities, incentives based on meeting strict quantitative deadlines, intense supervision of labor and low cost distribution system.

A low cost leader's basis of competitive advantage is lower overall costs than competitors. According to Thompson and Strickland (1992), competitive power of low cost leadership is greatest when rivals' products are essentially identical, price competition dominates, most buyers use the product similarly and want similar features, buyers' switching costs are low, and large customers shop aggressively for the best price. These conditions appear to be describing the Kenyan insurance industry, and therefore it would be expected that cost leadership strategy should be the most popular among the insurance companies. However, Thompson and Strickland (1992) add that the product is "commodity-type item readily available from a variety of sellers".

Since the insurance product is an intangible product (service), this may explain why differentiation – broad focus strategy was most popular. Insurance companies which applied cost leadership had an edge over rivals in appealing to buyers who based their purchase decision on low price.

**Stuck In the Middle**

The insurance companies which applied all the four generic strategies at the same time were 14% of the companies surveyed. According to Porter (1998), these companies are "stuck in the middle," that is, they are aiming at all the generic strategies at the same time. The firm stuck in the middle is almost guaranteed low profitability because it loses high margin profits to firms that are either broad or narrow focused; such a firm also probably suffers from a blurred corporate culture and a conflicting set of organizational arrangements and motivational systems.

The fact that some of the insurance companies were "stuck in the middle" could explain why competition in the industry was (and still is) characterized by price wars. According to Porter (1998), price competition is highly unstable and likely to leave the entire industry worse off from the standpoint of profitability; price cuts are easily and quickly matched by rivals and once matched they lower revenues for all firms unless industry price elasticity of demand is high enough. This factor among others, may explain why some insurers have been experiencing liquidity problems which have resulted in the closure of such companies in the recent past; and the latest casualty was placed under statutory management when this project was being carried out.

**Differentiation Narrow Focus**

Differentiation narrow focus was applied by about 11% of the respondents; these insurance companies served niche market segments. This was closer to 7% of the companies which indicated that they served niche markets only. The small percentage may explain the difficulty facing focusers in the industry as they strive to retain their niche market from competitors. It may also indicate that with the intangible nature of the insurance products, the companies find it very difficult to demonstrate the differentiated attributes of their products and also to justify premium prices. Thus only a few companies are able to differentiate their products and convince the customer to pay a premium price in an industry characterized by price wars (premium undercutting).

**Cost Leadership Narrow Focus**

Cost leadership strategies would require huge volume sales in order for a company to operate profitably, and cost leadership narrow focus would not therefore achieve the sales volumes required. Consequently the findings which indicated that none of the respondent companies applied this strategy *per se* can therefore be justified. The fact that there are insurance companies which applied a combination of two to four generic strategies implies that cost leadership narrow focus is applied in combination with the other generic strategies but not alone.

**Companies Which Do Not Apply the Generic Strategies**

There were 14% of the insurance companies which were not particular about the application of the generic strategies. This implies that they could be getting their competitive advantage from other strategies or factors. Gathoga (2001) found that commercial banks in Kenya had adopted

various competitive strategies which included delivery of quality service at competitive prices in appropriate locations. According to Johnson and Scholes (2003), for an organization to compete on the basis of the service it provides, (for example insurance) there is no physical product; hence the competitive advantage is likely to be much more related to the extent to which customers value the less tangible aspects of the firm. This could be for example, the soundness of the advice given, the attitude of the staff, the ambience of the offices and the swiftness of the service. The insurance companies in Kenya (including the 14 %) can gain competitive advantage from those intangible aspects including the following: the brand name, location, the rate of claims settlement, the number and amounts of claims experienced, ownership, associated companies and political and ethnic connections.

**Products and Customers**

The attributes of products sold by insurance companies were generally the same as their competitors' products, according to 51% of the respondents. This may be attributed to the generic nature of these products; hence the features can not be easily differentiated and also the absence of ready substitutes outside the insurance industry. Another reason could be due to the fact that the industry generally lacks in product innovation and concentrates in copying the few innovators in the industry. Other insurance companies today still sell the traditional insurance products in their original forms; this can be seen in the wording of their policy documents, some of which contain very archaic and irrelevant wordings and clauses.

In their description of products and services, about 83% of the respondents gave a description indicating differentiation strategy narrow focus (many products), and about 14% described

differentiation strategy narrow focus (one product) while only 3% indicated cost leadership broad focus. These percentages differed from the findings on the choices of the generic strategies applied which were 10.7% - differentiation narrow focus and 17.9% - cost leadership –broad focus. The reasons for these differences could be attributed to the wordings of the questionnaire, the kinds of choices given in the respective questions or even the interpretation of these questions by the different respondents, among other factors.

The prices for the insurance products were almost the same as the competitors' prices, as indicated by 62% of the respondents. This could be attributed to fact that prices are fixed by the insurance industry regulators. Another factor is that the customers generally choose where to purchase insurance based on the price; being the only attribute of these products that these customers understand best and also due to economic reasons. Finally, this could also be due to price undercutting, a challenge faced by all the respondents implying that almost all companies practice it.

The customer description was a mixture of both broad and narrow market segments, generally due to the difference in their needs. The broad segment mainly needs the mandatory insurance covers such as motor- third party cover, while the narrow segments have specific needs such as special life products serving diverse customer needs. While the end-consumers of insurance products are very important, the strategic customers are the brokers and agents; if they do not distribute insurance products, it may never reach most of the consumers. In Kenya the bulk of insurance business is controlled by these intermediaries.

**Challenges Faced by Insurance Companies**

The following five challenges to the application of the generic strategies were rated by the respondents as "moderate": competitors may pursue the same market segment; special needs of niche market may turn out to be the same as those of the rest of the market; imitation of products by competitors; inflation reduces customers' ability to afford; and finally competitors may dislodge the company from the niche market by specializing on a narrower segment within it.

The challenge of competition pursuing the same market segment applies generally to all the competitive strategies, competition is a factor which is always present in all industries. As a challenge to the generic strategies, competitors may out-focus the focuser by focusing on a narrower segment, they may also pursue the same market and the needs of the customers being focused may become similar to those in the market at large, Hitt *et al* (1997).

Competition was ranked highest among the challenges facing the insurance companies; each of the respondents listed various insurance companies as competitors. This implies that these insurance companies do not perceive competition in terms of Porter's five forces model where industry competition is driven by the following five forces: threat of new entrants, rivalry among competing firms, threat of substitutes, bargaining power of buyers and bargaining power of suppliers, Porter (1988). These companies see competition on a very narrow perspective, to be involving only their rivals within the Kenyan insurance industry which is only one force of Porter's model; this appears to be the strongest of the five forces. The strength of rivalry among competing firms can be attributed to the number of insurance companies and the kind of products offered in the industry, and also the large number of intermediaries who distribute the bulk of the

business. Although the other four forces of the model were not considered by the respondents, these forces also affect competition in the insurance industry; some being stronger than others.

There were insurance companies with branches out of Kenya. This fact together with the increased globalization and e-commerce raise the issue of global competition which was also not perceived by any of the insurance companies.

Price undercutting was also a challenge mentioned by all the respondents; however, 62% of the respondents stated that their prices are almost the same as the competitors' prices. Price undercutting could be mainly attributed to the intermediaries who literally control the distribution of insurance products and in some cases dictate the prices. According to Porter (1998), price competition is highly unstable and likely to leave the industry worse off from the stand point of profitability. Porter states that advertising battles may expand demand or enhance the level of product differentiation in the industry for the benefit of all firms. Advertising would also deal with the lack of information on insurance products by the public/customers and the poor image of the industry, which were cited as major challenges. These two challenges are not due to the use of generic strategies but due to other factors.

Product imitation by competitors is a major challenge to differentiation strategy where the basis of competitive advantage is a product whose attributes differ significantly from the products of rivals. Rapid imitation means that firms never achieve real differentiation because the competing brands keep changing in like ways despite continued efforts to create uniqueness. According to Thompson and Strickland (1992), differentiation is most likely to produce an attractive, longer

lasting competitive edge if based on the following attributes which tend to be harder for rivals to copy quickly and profitably: technical superiority, quality, more customer support services and more value for money.

The challenge of inflation is associated with cost leadership strategy where inflation in costs may narrow the firm's ability to maintain enough of the price differential to offset the competitors' brand images or other approaches to differentiation, Porter (1998). Inflation is also a challenge to differentiation strategy where the company finds it difficult to recover the Research and Development costs which are incurred over a long period. Further, if the premium price is too high, very few customers will afford the product and it will not be economically viable. The insurance products are also affected by inflation due to the fact that insurance claims are payable in the future and are thus affected by the time value of money.

Other challenges facing the insurance companies included the following: economic factors, poor image of the industry, weak government policy/regulations, fraud, industry saturation, HIV/AIDS and deteriorating standards. These challenges were not specific to the generic strategies; for instance economic factors have affected all the industries in the Kenyan economy. The rest of challenges mentioned were specific to the insurance industry, or specific to particular companies.

### 5.3 Limitations of the Study

According to Backstrom and Hursch (1981 as quoted in Aosa 1992), surveys have the following limitations: Surveys are obtrusive, thus the respondents were aware that they were being

interviewed and such awareness could potentially affect their response. Secondly, the information obtained through the survey was through self reporting; the respondents gave information about their companies, such self reporting may not be accurate all the time. Thirdly, the use of structured questionnaire; the researcher predetermined the questions which the respondents were expected to answer. The researcher assumed that all the questions could be answered by all the respondents; however, it has been noted that there may have been cases where respondents just answered questions even when they did not understand them.

The other limitations were inherent in the nature of the study: there was a lot of suspicion due to the information required and some respondents felt that the information required in the questionnaire was confidential, while some respondents declined to answer various questions citing the same reason. This attitude of the respondents could have affected the answers given in the questionnaire.

The researcher had intended to conduct all the interviews personally, but due to the busy schedule of the respondents, not all respondents were interviewed, the "drop and pick later" method was used. With personal interviews, the researcher could obtain more information by providing clarifications where the respondents did not understand the questions well and probe further in other areas. In "drop and pick later" method, the researcher had no control on who completed the questionnaire and this may affect the answers provided.

Despite the above factors, the researcher is confident that the limitations did not significantly impair the study results.

## 5.4 Recommendations for Further Research

Similar studies have been carried out in other sectors in Kenya but there is no evidence of study on the application of Porter's model of generic strategies in the insurance industry in Kenya and specifically on the insurance companies. More research is therefore required in order to validate the results of this study.

Finally, the study was confined to the insurance companies which are part of the insurance industry in Kenya; further research is required on other major players in the industry especially the intermediaries made up insurance brokers and insurance agents who form the bulk of the industry and control the distribution of insurance business.

## 5.5 Recommendations for Policy and Practice

The challenge of competition which was cited by all the companies surveyed is mainly due to the number of insurance companies which are operating in the market, among other factors. This number has been considered by the stakeholders as excessive in relation to the market, and these companies have more or less the same products. Mergers and acquisitions are recommended to consolidate these companies to enable them offer better services and to rid the industry of unhealthy competition. Merges and acquisitions are also important due to globalization which has made the definition of industry boundaries go beyond national and regional borders, thus insurance companies should be larger and stronger to cope with global competition.

The findings indicate that most insurance companies gain their competitive advantage through differentiation strategy. Insurance companies are therefore encouraged to focus on product

innovation through uniqueness or improvement of products by investing in Research and Development and building on innovatory capabilities in the organization. Generally, lack of product innovation has resulted in situations where insurance companies copy each others' products and also compete on the basis of price with consequent softening of premiums thus writing business with no commercial viability. This entrenched practice greatly undermines the long-term survival of the insurance industry. The insurance companies also need to create products that meet the current needs of the market and stop producing what they think the consumers need.

The insurance industry plays a very significant role the Kenyan economy; hence the sector should not be taken for granted by the government. The insurance Act, the Office of the Commissioner of Insurance and government regulations should be improved or strengthened to encourage growth and prosperity of this sector. This would ensure for instance that remedial measures can be enforced before an insurance company collapses rendering the insured public vulnerable. Improved insurance legislation should also aim at encouraging the expansion of insurance sector both nationally throughout Kenya and regionally in the East African Community countries. The improved legislation should also address the issue of dissemination insurance information to the public.

From the foregoing, the following conclusions can be made: first, the study has confirmed the application of Michael Porter's generic strategies by insurance companies in Kenya; differentiation broad focus is the most popular strategy and cost leadership narrow focus the least popular. Secondly, insurance companies should seek to provide differentiated products which customers need. The implication is that a business following a differentiation strategy has to review bases of differentiation continually and keep changing with time and changes in customer

needs (aim at a moving target). Thirdly, to cope with unhealthy competition and price wars mergers and acquisitions together with product innovation are recommended.

The final conclusion is a quotation from Lindstrom (2000), "despite all the technology insurance is, and is likely to remain, a people business; and people, staff, customers, shareholders must ultimately be the first concern of successful management. Inattention in this area will not only stifle innovation, it will destroy the business". This observation also applies to insurance companies in Kenya.

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## Appendix 1

# QUESTIONNAIRE

**SECTION A:**

1. Name and designation of respondent ..................................................

2. Name of the company ..............................................................

3. Date established .....................................................................

**4.** Ownership of the company: **(indicate with a tick (√) where applicable)**

Private ................ [ ]

Public .................. [ ]

5. Business licensed to underwrite: **indicate with a tick (√)**

Long term only .................................. [ ]

Short term only .................................. [ ]

Both Short Term and Long Term ............... [ ]

**6.** Does your company have branches and/or associated companies? **Yes/No** (Delete what is not applicable)

If yes, how many:

In Kenya ......................

Out of Kenya .................

7. Please indicate the number of employees currently working in your company ......

## Appendix 1

8. Please indicate the annual gross premium income during the past five years in Kshs:

| Year | Long Term Business | Short Term Business |
|---|---|---|
| 2000 | ……………………… | ……………………….. |
| 2001 | ……………………… | ……………………….. |
| 2002 | ……………………… | ……………………….. |
| 2003 | ………………………. | ……………………….. |
| 2004 | ………………………… | ……………………….. |

**SECTION B:**

1. Please list your organization's main product lines in the order of their importance:

a) ………………………………………………………………………………………

b) ………………………………………………………………………………………

c) ………………………………………………………………………………………

d) ………………………………………………………………………………………

e) ………………………………………………………………………………………

f) ………………………………………………………………………………………

2. Which companies/ organizations would you consider as being your firm's competitors? (List in order of importance)

a) …………………………………………………………………………………………

b) …………………………………………………………………………………………

c) …………………………………………………………………………………………

## Appendix 1

d) ………………………………………………………………………………………

e) ………………………………………………………………………………………

f) ………………………………………………………………………………………

**For each of the following questions (3 – 6), please indicate your answer with a tick (√) where applicable:**

3. Which **one** of these alternatives best describes your organization's customers?

a) A broad segment of the industry market …………………………………… [ ]

b) A narrow segment of customers whose needs and preferences are distinctly different from the whole industry market ………………………………………………… [ ]

c) Both alternatives (a) and (b) above …………………………………….......... [ ]

d) Other (specify) ……………………………………………………………………..

………………………………………………………………………………………

4. Would you generally consider the prices which you offer to your customers to be:

a) Slightly lower than your competitors' prices. ……………………………… [ ]

b) Almost or the same as your competitors' prices …………………………… [ ]

c) Distinctly higher than your competitors' prices ………………………….…… [ ]

d) Other (specify) ……………………………………………………………….……...

5. Generally would you consider the products/services which your organization offer to be:

a) With the same attributes / quality as those of your competitors ……………... [ ]

b) With attributes / quality distinctly different from those of your competitors … [ ]

c) Other (specify)……………………………………………………………………..

## Appendix 1

6. Which **one** of the following statements best describes your organization's product (s) and customer(s):

   a) One basic product with only the essential requirements for the whole range of customers ................................................ [ ]

   b) Many product lines /variations, wide selection with strong emphasis on the unique features for each type product made for each segment of customers .................................. [ ]

   c) One tailor made product to fit the specific needs of one segment of customers ........................................................ [ ]

   d) Other (specify) ........................................................................

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

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

**Please use the scale below to answer the questions numbered 7, 8 and 9:**

**1 = not at all; 2 = to a very little extent; 3 = to a moderate extent; 4 = to a great extent; 5 = to a very great extent.**

**(Indicate with a tick (√) where applicable)**

## Appendix 1

7. Every organization aggressively strives to satisfy and retain current customers and also to attract potential customers. To what extent would your organization engage in any of the following activities in this connection?

| | [1] | [2] | [3] | [4] | [5] |
|---|---|---|---|---|---|
| a) A continuous search for cost reduction without sacrificing quality and essential features of your products/services. | [ ] | [ ] | [ ] | [ ] | [ ] |
| b) Invent ways to create value for customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| c) Tailor-make products to suit a specific customer segment. | [ ] | [ ] | [ ] | [ ] | [ ] |

8. To what extent does your organization make use of the following?

| | [1] | [2] | [3] | [4] | [5] |
|---|---|---|---|---|---|
| a) Tight cost controls. | [ ] | [ ] | [ ] | [ ] | [ ] |
| b) Frequent detailed control reports. | [ ] | [ ] | [ ] | [ ] | [ ] |
| c) Structural organization and responsibilities. | [ ] | [ ] | [ ] | [ ] | [ ] |
| d) Incentives based on meeting strict quantitative deadlines. | [ ] | [ ] | [ ] | [ ] | [ ] |

# Appendix 1

9. To what extent does your organization put emphasis on the following?

| | [1] | [2] | [3] | [4] | [5] |
|---|---|---|---|---|---|
| a) Advertising product virtues that lead to the reduced prices compared to the competitors. | [ ] | [ ] | [ ] | [ ] | [ ] |
| b) Charge increased prices to cover extra costs of providing more benefits than what is usually available in a product. | [ ] | [ ] | [ ] | [ ] | [ ] |
| c) Building in features which customers are willing to pay for. | [ ] | [ ] | [ ] | [ ] | [ ] |
| d) Advertise the unique ability to satisfy customers' special needs. | [ ] | [ ] | [ ] | [ ] | [ ] |
| e) Strong marketing abilities. | [ ] | [ ] | [ ] | [ ] | [ ] |
| f) New product innovation. | [ ] | [ ] | [ ] | [ ] | [ ] |
| g) Strong capability in basic research. | [ ] | [ ] | [ ] | [ ] | [ ] |
| h) Corporate reputation for quality or technological leadership. | [ ] | [ ] | [ ] | [ ] | [ ] |
| i) Unique combination of skills drawn from other businesses. | [ ] | [ ] | [ ] | [ ] | [ ] |
| j) Strong cooperation from channels. | [ ] | [ ] | [ ] | [ ] | [ ] |

## Appendix 1

**Please use the following scale to answer question 10 and question 1 in section C:**

**1 = not at all; 2 = extremely low; 3 = moderate; 4 = high; 5 = extremely high**

**(Indicate with a tick (√) where applicable)**

10. How would you rate your organization in the following aspects?

| | | [1] | [2] | [3] | [4] | [5] |
|---|---|---|---|---|---|---|
| a) | Coordination among functions in Product Development and Marketing. | [ ] | [ ] | [ ] | [ ] | [ ] |
| b) | Subjective measurements and incentives instead of quantitative measures. | [ ] | [ ] | [ ] | [ ] | [ ] |
| c) | Amenities to attract highly skilled labor or creative people. | [ ] | [ ] | [ ] | [ ] | [ ] |
| d) | Substantial capital investment and access to capital. | [ ] | [ ] | [ ] | [ ] | [ ] |
| e) | Process reengineering skills. | [ ] | [ ] | [ ] | [ ] | [ ] |
| f) | Intense supervision of labor. | [ ] | [ ] | [ ] | [ ] | [ ] |
| g) | Low cost distribution systems. | [ ] | [ ] | [ ] | [ ] | [ ] |

## Appendix 1

**SECTION C**

1. As the organization strives to gain competitive advantage, it will encounter various challenges. How would you rate the following as challenges faced by your organization as it strives to gain advantage over competition in the industry?

| | | [1] | [2] | [3] | [4] | [5] |
|---|---|---|---|---|---|---|
| a) | Competitors' technological innovation could result in your current systems being considered obsolete. | [ ] | [ ] | [ ] | [ ] | [ ] |
| b) | Inability to detect changes in customer needs. | [ ] | [ ] | [ ] | [ ] | [ ] |
| c) | Imitation of your products/ services by competitors. | [ ] | [ ] | [ ] | [ ] | [ ] |
| d) | Inflation which reduces your customers' ability to afford your products. | [ ] | [ ] | [ ] | [ ] | [ ] |
| e) | Your organization's inability to detect the competitors' efforts to develop products with unique attributes. | [ ] | [ ] | [ ] | [ ] | [ ] |
| f) | Product features exceed customer needs. | [ ] | [ ] | [ ] | [ ] | [ ] |
| g) | Lack of information by customers. | [ ] | [ ] | [ ] | [ ] | [ ] |
| h) | Unique features of your products do not provide value for which customers are willing to pay | [ ] | [ ] | [ ] | [ ] | [ ] |

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| | | [ 1 ] | [ 2 ] | [ 3 ] | [ 4 ] | [ 5 ] |
|---|---|---|---|---|---|---|
| i) | Competitors may pursue the same market segment where your organization has been concentrating in. | [ ] | [ ] | [ ] | [ ] | [ ] |
| j) | Competitors may dislodge your company from niche market by specializing on a narrower segment within it. | [ ] | [ ] | [ ] | [ ] | [ ] |
| k) | The special needs of your niche market may turn out to be the same as those of the rest of the market. | [ ] | [ ] | [ ] | [ ] | [ ] |

2. Porter's model of generic strategies (unique positions) states that there are distinct and mutually exclusive ways for a business to attract customers and achieve competitive advantage. Which of the following best describe your organization's unique position(s)?

   **(Indicate with a tick (√) one or more unique position(s) as applicable)**

   a) Producing one tailor-made product whose uniqueness is perceived by the customer and offering that product to the whole market in the industry at a premium price .... [ ]

   b) Producing one tailor-made product whose uniqueness is perceived by the customer and offering that product to only one (niche) market segment in the industry at a premium price............................................................................ [ ]

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c) Producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to the whole industry at a price equal to or lower than the competitors' price for the substitute product ............................... [    ]

d) Producing one basic product with only the essential requirements (no frills), at the lowest cost possible and offering that product to only one (niche) market segment in the industry at a price equal to or lower than the competitors' price for the substitute product... [    ]

e) All of the above four alternatives (a – d) ........................................... [    ]

f) Not any one of the four alternatives (a - d) in particular ......................... [    ]

3. What are the main challenges facing your organization in its unique position(s) in question two (2) above?

   a) ..........................................................................................

   b) ..........................................................................................

   c) ..........................................................................................

   d) ..........................................................................................

   e) ..........................................................................................

   f) ..........................................................................................

THANK YOU!!!

**Appendix 2**

# LIST OF INSURANCE COMPANIES IN KENYA

| | Company: | Address & Telephone Contact: |
|---|---|---|
| 1. | Africa Merchant Assurance Company Limited. | P. O. Box 61599<br>Tel. 312121/340022<br>Transnational Plaza,<br>Mama Ngina Street,<br>Nairobi. |
| 2. | AIG Kenya Insurance Company Limited | P.O. Box 49460<br>Tel. 2877000<br>CFC House,<br>Mamlaka Road,<br>Nairobi. |
| 3. | APA Insurance Company Limited | P. O. Box 30065,<br>Tel. 2862000<br>Hughes Building ,<br>Kenyatta Avenue,<br>Nairobi. |
| 4. | Apollo Life Insurance Company Limited | P. O. Box 30389,<br>Tel. 223562-3<br>Hughes Building ,<br>Kenyatta Avenue,<br>Nairobi. |
| 5. | Blue Shield Insurance Company Limited | P. O. Box 49610,<br>Tel. 339406,<br>Raghvani House,<br>Tom Mboya Street,<br>Nairobi. |
| 6. | British - American Insurance Company (K) Limited | P. O. Box 30375,<br>Tel. 710927/38,<br>British American Centre,<br>Mara /Ragati Roads,<br>Nairobi. |

| | | |
|---|---|---|
| 7. | Cannon Assurance Company (K) Limited | P. O. Box 30216,<br>Tel. 335478,<br>Cannon House,<br>Haile Selaissie Avenue,<br>Nairobi. |
| 8. | CFC Life Insurance Company (K) Limited | P. O. Box 30364,<br>Tel. 2866000<br>CFC House,<br>Mamlaka Road,<br>Nairobi. |
| 9. | Co-Operative Insurance Company Limited | P. O. Box 59485,<br>Tel. 330123/4,<br>CIC Plaza<br>Mara Road,<br>Nairobi. |
| 10. | Corporate Insurance Company Limited | P. O. Box 34172,<br>Tel. 717617,<br>Corporate Place,<br>Kiambere Road,<br>Nairobi. |
| 11. | Fidelity Shield Insurance Company Limited | P. O. Box 47435,<br>Tel. 443063,<br>Arcade Shopping Complex,<br>Parklands Road,<br>Westlands,<br>Nairobi. |
| 12. | First Assurance Company Limited | P. O. Box 30064,<br>Tel. 567374/6/9,<br>First Assurance Building,<br>Clyde Gardens,<br>Off Gitanga Road,<br>Lavington,<br>Nairobi. |

| | | |
|---|---|---|
| 13. | Gateway Insurance Company Limited | P. O. Box 60656,<br>Tel. 713131,<br>Gateway Place,<br>Milimani Road,<br>Nairobi. |
| 14. | Geminia Insurance Company Limited | P. O. Box 61316,<br>Tel. 223940,<br>Agip House,<br>Haile Selassie Avenue,<br>Nairobi. |
| 15. | General Accident Insurance Company Limited | P. O. Box 42166,<br>Tel. 711633,<br>General Accident House,<br>Ralph Bunche Road,<br>00100-Nairobi. |
| 16. | Heritage A.I.I. Insurance Company Limited | P. O. Box 30390,<br>Tel. 351406/8, 749118,<br>C.F.C Centre,<br>Chiromo Road,<br>Nairobi. |
| 17. | Insurance Company of East Africa Limited | P. O. Box 46143,<br>Tel. 340365,<br>ICEA Building,<br>Kenyatta Avenue,<br>Nairobi. |
| 18. | Intra Africa Assurance Company Limited | P. O. Box 43241,<br>Tel. 712610<br>Williamson House,<br>4th Ngong Avenue,<br>Nairobi. |

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| 19. | Invesco Assurance Company Limited | P. O. Box 52964,<br>Tel. 248243/248526,<br>Cotts House,<br>City Hall Way,<br>Nairobi. | |
| 20. | Jubilee Insurance Company Limited | P. O. Box 30376,<br>Tel. 229930,<br>Jubilee Insurance House,<br>Wabera Street,<br>Nairobi. | |
| 21. | Kenindia Assurance Company Limited | P. O. Box 44372,<br>Tel. 333100,<br>Kenindia House,<br>Loita Street,<br>Nairobi. | |
| 22. | Kenya Arab Orient Insurance Company Limited | P. O. Box 34530,<br>Tel. 728603/4,<br>Capital Hill Towers,<br>Cathedral Road,<br>Nairobi. | |
| 23. | Kenyan Alliance Insurance Company Limited | P. O. Box 30170,<br>Tel. 241626/336500,<br>Chester House,<br>Koinange Street,<br>Nairobi. | |
| 24. | Lakestar Insurance Company Limited | P. O. Box 44997,<br>Tel. 245415/246893,<br>Lakestar House,<br>Upper Hill Road,<br>Nairobi. | **(in Liquidation)** |

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| 25. | Liberty Assurance Company Limited | P. O. Box 47732,<br>Tel. 717282,<br>Prudential Building,<br>Wabera Street,<br>Nairobi. | **(Under statutory Management)** |
| 26. | Lion of Kenya Insurance Company Limited | P. O. Box 30190,<br>Tel. 710100,<br>Williamson House,<br>4th Ngong Avenue<br>Nairobi. | |
| 27. | Madison Insurance Company (K) Limited | P. O. Box 47382,<br>Tel. 721970/1,<br>Madison House,<br>Off Upper Hill Road,<br>Nairobi. | |
| 28. | Mercantile Life & General Assurance Company Limited | P. O. Box 49581,<br>Tel. 218211/219486,<br>Fedha Towers,<br>Muindi Mbingu Street,<br>Nairobi. | |
| 29. | Occidental Insurance Company Limited | P. O. Box 1684/39459,<br>Tel. 227661,<br>Post Bank House,<br>Market Street,<br>Nairobi. | |
| 30. | Old Mutual Life Assurance Company Limited | P. O. Box 30059,<br>Tel. 221187/8, 335407,<br>Old Mutual Building,<br>Mara/Hospital Road,<br>Nairobi. | |

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| 31. | Pan Africa Life Assurance Company Limited | P. O. Box 62551,<br>Tel. 339511 – 9<br>Pan African House,<br>Kenyatta Avenue,<br>Nairobi. |
| 32. | Phoenix of East Africa Assurance Company Limited | P. O. Box 30129,<br>Tel. 338781,<br>Ambank House,<br>University Way,<br>Nairobi. |
| 33. | Pioneer Assurance Company Limited | P. O. Box 20333,<br>Tel. 220814/5,<br>Pioneer House,<br>Moi Avenue,<br>Nairobi. |
| 34. | Royal Insurance Company of East Africa Limited | P. O. Box 40001,<br>Tel. 712620,<br>Royal Ngao House,<br>Hospital Road,<br>Nairobi. |
| 35. | Standard Assurance Kenya Limited | P. O. Box 28759,<br>Tel. 224721/221862,<br>Reinsurance Plaza,<br>Taifa Road,<br>Nairobi. |
| 36. | Tausi Insurance Company Limited | P. O. Box 28889,<br>Tel. 746602/3/17,<br>Tausi Court,<br>Tausi Road,<br>Off Muthithi Road,<br>Westlands, Nairobi. |

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| 37. | The Monarch Insurance Company Limited | P. O. Box 44003,<br>Tel. 330042/3/54,<br>Prudential Building,<br>Wabera Street,<br>Nairobi. | |
| 38. | Trident Insurance Company Limited | P. O. Box 55651,<br>Tel. 721710,<br>Capital Hill Towers,<br>Cathedral Road,<br>Nairobi. | |
| 39. | Trinity Life Assurance Company Limited | P. O. Box 12043,<br>Tel. 244282/244277,<br>Reinsurance Plaza,<br>Taifa Road,<br>Nairobi. | |
| 40. | UAP Provincial Insurance Company Limited | P. O. Box 43013,<br>Tel. 2712175/2850000,<br>Bishop's Garden Towers,<br>Bishop's Road,<br>00100 – Nairobi. | |
| 41. | United Insurance Company Limited | P. O. Box 30961,<br>Tel. 227345,<br>United Insurance Towers,<br>Westlands Road,<br>Nairobi. | **(under Statutory Management)** |

**Source:** Adapted from the Report of the Commissioner of Insurance 2002 (pp.73 – 77)

APPENDIX 3

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 4184160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 27th June 2005

## TO WHOM IT MAY CONCERN

The bearer of this letter MARGARET A. OGOLLA

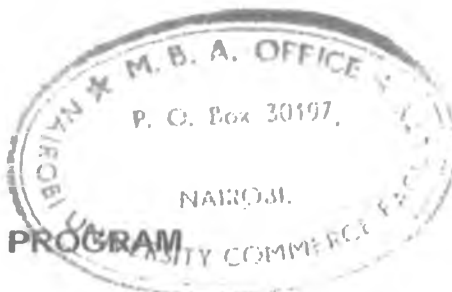
Registration No: D/61/P/7961/02

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.




JACKSON MAALU
CO-ORDINATOR, MBA PROGRAM