STRATEGIC RESPONSES TO THE BUSINESS ENVIRONMENT
AND PERFORMANCE OF OLD MUTUAL KENYA

BY
WASIKE LINDAH NAKHUMWA

A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2015
DECLARATION

I declare that this project is my original work and has not been submitted for a degree in any other university.

SIGNATURE:………………………………… DATE: ……………………………

LINDAH N. WASIKE

D61/63296/2010

SUPERVISOR

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

SIGNATURE:………………………………… DATE: ……………………………

PROFESSOR ZACHARY B. AWINO

DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
ACKNOWLEDGEMENTS

First I thank the Almighty God for the gift of life, His abundant grace and for good health throughout my studies. Secondly, I sincerely thank my supervisor Professor Zachary B. Awino whose guidance has been invaluable throughout this study and for always availing himself for consultation including early mornings and late evenings. I also wish to thank my mum Gladys Nafula Chetambe, my brother Kennedy Wekesa Wasike and my fiancée Robert Ondimu for the unrelenting support, their prayers, love, care, and encouragement during my entire MBA course without which I wouldn't have made it through this course.

Many thanks to my classmates, colleagues and friends for their support and prayers. Although it has not been possible to mention by name all those people that helped me in one way or another to make my work a success, to you all I say thank you and God Bless you abundantly.
DEDICATION

To my mum Gladys Nafula Chetambe, who sacrificed so much to give me education.
TABLE OF CONTENTS

DECLARATION ........................................................................................................ ii

ACKNOWLEDGEMENTS ................................................................................... iii

DEDICATION ....................................................................................................... iv

ABBREVIATIONS AND ACRONYMS .............................................................. ix

ABSTRACT ........................................................................................................... x

CHAPTER ONE: INTRODUCTION ................................................................. 1

1.1 Background ................................................................................................. 1

1.1.1 The Concept of Strategy ........................................................................ 3

1.1.2 Strategic Response .................................................................................. 4

1.1.3 Business Environment ........................................................................... 5

1.1.4 Organisational Performance ................................................................ 5

1.1.5 Strategic Response, Business Environment and Organisational Performance 6

1.1.6 Insurance Industry in Kenya ................................................................. 7

1.1.7 Old Mutual Kenya Limited ................................................................... 9

1.2 Research Problem ...................................................................................... 10

1.3 Research Objective .................................................................................... 13

1.4 Value of the Study ..................................................................................... 13

1.5 Chapter Summary ..................................................................................... 14
CHAPTER TWO: LITERATURE REVIEW ..............................16

2.1 Introduction........................................................................................................................................16

2.2 Theoretical Foundation ..............................................................................................................16

2.2.1 Chaos Theory.................................................................................................................................16

2.2.2 Resource-based Theory ...............................................................................................................17

2.2.3 Organization Theory ..................................................................................................................18

2.3 The Concept of Strategic Responses .............................................................................................19

2.4 Business Environment ..................................................................................................................22

2.4.1 The Macro Environment ...........................................................................................................23

2.4.2 The Industry Environment .........................................................................................................26

2.5 Strategic Response and Business Environment ................................................................................28

2.5.1 Generic Strategies ......................................................................................................................31

2.5.2 Product Strategies for Growth ...................................................................................................33

2.5.3 Restructuring .............................................................................................................................35

2.5.4 Collaborative Strategies .............................................................................................................37

2.6 Organisational Performance Measurement ....................................................................................38

2.7 Empirical Studies and Research Gaps ............................................................................................39

2.8 Chapter Summary ..........................................................................................................................42
CHAPTER THREE: RESEARCH METHODOLOGY ........................................... 44

3.1 Introduction ................................................................................. 44
3.2 Research Design ......................................................................... 44
3.3 Data Collection ........................................................................... 45
3.4 Data Analysis ............................................................................... 45
3.5 Chapter Summary ......................................................................... 46

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION ........................................... 47

4.1 Introduction .................................................................................. 47
4.2 The Interviewees .......................................................................... 47
4.3 Changes in the Business Environment Affecting Insurance Industry in Kenya ........... 48
  4.3.1 Regulatory Changes ................................................................. 48
  4.3.2 Technological Changes ............................................................ 49
  4.3.3 Political Changes .................................................................... 50
  4.3.4 Economic Changes ................................................................. 50
  4.3.5 Competition ............................................................................ 51
  4.3.6 Other Changes in the Business Environment ......................... 52
4.4 Strategic Responses to the Business Environment and OMK Performance ............ 53
4.5 Challenges Encountered by OMK in Responding to the Business Environment ....... 56
4.6 Future Prospects of the Insurance Industry in Kenya ........................................ 58
4.7 Discussion .................................................................................... 59
4.8 Chapter Summary .......................................................................... 62
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS .............................................................................. 64

5.1 Introduction ..................................................................................................................................................... 64

5.2 Summary ......................................................................................................................................................... 64

5.2.1 Changes in the Business Environment Affecting Insurance Companies in Kenya ........................................................................................................................................................................ 65

5.2.2 Strategic Responses to the Business Environment and OMK Performance ........................................................................................................................................................................ 67

5.3 Conclusion ...................................................................................................................................................... 69

5.4 Recommendations ........................................................................................................................................... 70

5.5 Limitations of the Study .................................................................................................................................. 71

5.6 Implication on Policy, Theory and Practice ..................................................................................................... 72

5.7 Suggestions for Further Research .................................................................................................................. 73

REFERENCES ......................................................................................................................................................... 74

APPENDICES ......................................................................................................................................................... 77

Appendix 1: Interview Guide .................................................................................................................................. 77

Appendix 11: Introduction Letter .......................................................................................................................... 79
ABBREVIATIONS AND ACRONYMS

AAR: Africa Air Rescue
ABSA: Amalgamated Banks of South Africa
DTB: Deposit Taking Bank
EAC: East Africa Community
IPT: Internet Protocol Telephony
IRA: Insurance Regulatory Authority
JVs: Joint Ventures
LTD: Limited
M&A: Mergers and Acquisitions
NHIF: National Hospital Insurance Fund
NSSF: National Social Security Fund
OMK: Old Mutual Kenya
OMS: Old Mutual Securities
PFA: Personal Financial Advisor
PHCF: Policy Holder Compensation Fund
PPP: Personal Pension Plan
RBV: Resource-Based View
SCA: Sustainable Competitive Advantage
SMEs: Small and Micro Enterprises
UAPHL: UAP Holdings Limited
UT: Unit Trust
VOIP: Voice Over Internet
ABSTRACT

Change is the only constant in the world today. Organizations are impacted by this change since they are open systems that rely on the environment for survival. The environment consists of factors and conditions; some of which are beyond the firm’s control, and consequently influences the firm’s strategic choices and its competitiveness in the industry. For organizations to fit in the turbulent environment, there must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide. During the last few years, Kenya’s insurance industry has undergone a series of changes through financial reforms, advancement of communication and information technologies, globalization of financial services and economic development. Those changes have had a considerable effect on efficiency, productivity, market structure and performance in the insurance industry. There is an established relationship between business strategy, innovation and organizational performance. This study adopted a case study approach to investigate the strategic responses to the business environment and performance of Old Mutual Kenya. Data was collected using an interview guide which was administered by face to face meetings with the respondents who were the business unit heads for Strategy, Information Technology, Finance, Tax, Operations, Customer Service, Marketing, Distribution, Risk and Compliance, Human Resources and Business Development. The researcher also used secondary sources of data to supplement information given by some interviewees. The qualitative data collected was analyzed using content analysis technique. The study established that Old Mutual Kenya Limited has adopted strategies similar to those adopted by other players in the financial services sector although it has been more aggressive in some aspects. The study concluded that the changes in business environment that affect the operation of the organization were traditional and non-traditional competition, political instability, economic changes, technological changes, regulatory changes, changing customer needs, talent flight due to changing employees expectations, industry’s poor reputation resulting in low penetration and changing customer needs. The study revealed that Old Mutual Kenya responded to the business environment through mergers and acquisitions, product development and differentiation, aggressive brand campaigns, technology advancements and infrastructure refresh, business process automation, branch network and distribution expansion. The study also confirmed that the strategies adopted were effective and resulted in improved financial performance, enhanced brand visibility, better customer retention and diversified product offering. The study sighted some of the challenges faced while responding to the business environment. These included; increased competition, worsening economic performance, changing regulations and integration challenges. This study recommends that IRA should create a flexible regulatory environment. Insurance companies should be monitored and assessed based on their level of risk. This will ensure a stable insurance industry and will play a major role in increasing the penetration levels. It is recommended that in order to stay ahead of competition, Old Mutual Kenya should be flexible to environmental changes through constant review of its strategy and speedy execution. OMK needs to break down bureaucratic structures to enhance speed of execution. The findings of the study indicated that organizations at times are quick to develop strategies to deal with changes in the business environment but don’t follow through execution to harness the benefits of those responses. Thus strategy execution should be accorded due attention and resources as strategic planning. This will ensure that the firm is ready to encounter any challenges that may be encountered during the implementation of the strategic responses.
CHAPTER ONE
INTRODUCTION

1.1 Background

Change is the only constant in the world today. Organizations are impacted by this change since they are open systems that rely on the environment for survival. The environment provides the organizations with inputs which they transform into outputs through internal processes and then the outputs are given back to the environment (Mwangi, 2007). Strategic responses enable the organizations to align their strategies to the changes in the environment in order to survive. Ansoff and McDonnell (1990) point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to environmental turbulence. For organizations to fit in the turbulent environment, there must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide (Wheelen and Hunger, 1995).

Chaos theory, which is the study of complex nonlinear dynamic systems, is a useful conceptual framework that reconciles the essential unpredictability of industries with the emergence of distinctive patterns (Cartwright, 1991). Levy (1994) concluded that by understanding industries as complex systems, managers can improve decision making and search for innovative solutions. The resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities.
The resource-based view stipulates that in strategic management the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Barney, 1991). Organization theory tends to examine the relationships in organizations between tasks, social structures, resources, and the environment. This literature summary divides organizations into its modifiable parts such as structure, processes, people and culture so that managers can orchestrate organizational change.

Kenya’s business environment has experienced considerable change in many aspects; technology, competition, skills, customer awareness among others. This has impacted the insurance industry that faces the challenge of stagnated growth and low penetration which is less than 4% in 2015. There is need for effective strategic responses by insurance companies in Kenya to enhance penetration levels and boost their business performance.

Old Mutual Kenya (OMK) is a subsidiary of the Old Mutual Group with headquarters in plc London. OMK has experienced decelerated growth and financial losses over the years which necessitated the firm to develop strategic responses that enable the firm to respond to environmental turbulence. OMK has responded to the changing business environment through mergers and acquisitions, product development, brand campaigns, technology advancement, branch network, distribution expansion, digital proposition, internal talent development, improved customer experience, capital injection, implementation of a shared service center, and proactive lobbying with regulators to review.
1.1.1 The Concept of Strategy

A strategy is a long term plan of action designed to achieve particular goal most often “winning” (Thompson et al, 2007). Johnson et al. (2005), defines strategy as the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations. The business environment is a complex adaptive system and therefore has an influence on the choice of strategic activities (Mason, 2007).

Aosa (1992) defines strategy as creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The essence of strategy is to build a posture that is so strong (and potentially flexible) in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes (Mintzberg and Quinn, 1991). Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates (Johnson and Scholes, 2001).

According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. Strategy is a deliberate search for a plan of action that will develop a business’s sustainable competitive advantage and compound it. Strategy is about choosing among and committing to long-term paths or trajectories of competence development (Teece et al, 1997).
1.1.2 Strategic Response

Organizations often respond to challenging environmental conditions, and major shifts in the business environment can make strategies obsolete (Gichangi, 2011). Day and Schoemaker (2005) explain how companies can identify changes in their business environment as they emerge, in time to develop a response to potential threats and opportunities that may be important in the future. They observe that some well-known companies have suffered significant loss of market share because they were unaware of the challenge represented by emerging competitors, products or technologies.

Kamau (2007) established that Kenya RE faced both internal and external challenges that were summarized into social challenges, economic challenges, political challenges and internal challenges. To deal with these challenges, the firm laid out response strategies to counter the wave. These strategies were entrenched in the strategic plan rolled out in 2007 that stated what the organization was set to achieve and what each division and department in the organization was to achieve.

Smith (2002) explains that strategy quality is a function of two things, macro-congruence and micro-congruence; where macro-congruence is the fit between the external market environment and the strategy making process hybrid and micro-congruence is the fit between that process and the organisational culture. Increased competition has created a fundamental shift in the economic environment where no organization can hope to stay afloat if it fails to come up with proper strategic responses (Ansoff and McDonnell, 1990).
1.1.3 Business Environment

The environment has been characterized as complex, dynamic, multi-faceted and having far reaching impact (Kazmi 2002). A fundamental change is occurring whereby the world economies are witnessing the forces of globalization and liberalization of trade. The phenomenon of globalization, according to Hammond and Grosse (2003) refers to “the fact that people around the world are becoming more and more knowledgeable about each other”.

The firm’s environment consists of the remote environment, industry environment and the operating environment (Omollo, 2011). Organizations have to be aware of what is happening in the environment through regular scanning and analysis in order to know how to respond to such changes either proactively or reactively. Failure to align the internal capability of the firm to its environment spells doom for the organization (Pearce and Robinson, 2002). According to Mason (2007), business environment is a complex adaptive system and therefore has an influence on the choice of strategic activities.

1.1.4 Organisational Performance

Organisational performance is viewed as the measure of how a manager utilizes the resources of the organization efficiently and effectively to accomplish the goals of the organization as well as satisfying all the stakeholders (Jones & George, 2009). Performance also refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it.
Performance is the outcome of all of the organization’s operations and strategies (Aaltonen and Ikávalko, 2002). Richard et al. (2009) described organisational performance as the real output measured against the intended or expected output. He viewed organisational performance as a term that is made up of three major areas of firm outcomes; Financial Performance, Product Market Performance and Shareholders return.

1.1.5 Strategic Response, Business Environment and Organisational Performance

According to Mutuku (2014), businesses must be constantly alert to competitive pressures and adjust their business strategies accordingly. Even the best businesses can be knocked off their pedestals by a new market entrant or a major industry innovation. Companies continue to adjust to their markets by remaining dynamic and changing their strategies as changes in their environments dictate.

Ward, Duray, Leong, and Sum (1995) concluded that in environments with higher dynamism (market volatility caused by innovation, changes in technology, or changes in taste), higher performing companies emphasized a strategy based on delivery performance, flexibility, and quality. Low performers emphasized those priorities along with cost reduction, implying that a lack of focus hurt them. In environments with greater competitive hostility, successful firms responded with an emphasis on delivery performance, whereas less successful firms once again lacked focus and emphasized a strategy based on all four competitive priorities. In environments with labor shortages, successful firms focused on achieving flexibility, whereas lower performing companies showed no significant common strategic response.
Ward, Duray, Leong, and Sum (1995) added that successful companies that occupy dynamic or hostile environments are less likely to emphasize cost reduction strategies than poor performers facing the same environmental conditions. In other words, good performers in such environments adopt strategies that enable differentiation based on operations capabilities, whereas poor performers typically pursue differentiation and cost reduction and pay the price for their lack of focus. Ray (2004) observed that though there are relationships between all strategy and performance variables in the proposed direction, only paths connecting scale of business and both the performance variables are statistically significant.

1.1.6 Insurance Industry in Kenya

Insurance is the distribution of risks which is in form of a financial provision against loss from unavoidable disasters. The protection which it affords takes the form of guarantee to indemnify the insured if certain specified losses occur. Life insurance is the protection against loss of income that would result if the insured passed away.

The gross collected premiums for the industry amounted to KES 157.8 billion as at the end of 2014 compared to KES 131 billion recorded as at end of December 2013. Life insurance business grew at 27% while General Insurance business grew by 17% in 2014. According to IRA (2013), the key drivers of the overall growth witnessed in the insurance industry were marketing (21%), staff quality service strategy (14%), dedicated management (14%), development of new products (11%), intensive market research (7%), customer service (7%), claims management (7%) and automation of office and business processes (7%). The industry continues to face a number of challenges that had an influence on realization of further gains in growth. These challenges among others include premium rate undercutting (23%), claims settlement in terms of volume and costs of settlement (9%), delays in premium collection and noncompliance with cash and carry system (9%), inappropriate staff skills in some areas (7%), fraud (7%) and quality of intermediary services and customer retention (7%).

There is a general confidence within the insurance industry of continued stability spurring industry growth with moderate risk exposures that may not have any major destabilizing impact on industry performance. The industry is full of opportunity to be exploited if the existing challenges of dealing with negative industry perception, pricing insurance products for value, insurance fraud, mis-selling and agency force development, adoption of technology enabled platforms in service delivery and optimizing market size and investment channels are addressed. This will enable the industry to respond to the dynamic business environment and thrive in the days ahead.
1.1.7 Old Mutual Kenya Limited

Old Mutual Kenya (OMK) is a subsidiary of the Old Mutual Group with headquarters in plc London. They offer services in long-term savings and life assurance, pension fund and asset management, investment services, stock brokerage, deposit taking and micro lending, general insurance and health insurance. OMK offers a wide range of products that are tailor made to suit customer needs through their customer value proposition surveys.

OMK had a number of noteworthy achievements in 2014 which include enhanced brand visibility administered through the Kenyan celebrity “Anne Kansiime”. Another achievement was expanded distribution which led to improved life sales and recognition of OMK as the employer of choice by Deloitte survey. OMK financial performance in 2014 was an improvement over 2013 at a comprehensive loss of KES 134 million compared to KES 354 million in 2013. Total assets in 2014 closed at KES 14.5 billion, a 21% growth compared to 2013 (Old Mutual Life Assurance Company Limited, Annual Report and Financial Statements as at 31st December 2014).

In 2014, OMK strategy focused on “Gaining Scale in East Africa to enhance the company’s reach beyond Kenya, building a stable base, improved governance and growth”. The company has a great ambition of enabling positive futures and creating a difference in the communities they serve. This is evidenced by the recently launched Old Mutual Foundation with their first task being renovating the emergency wing at the Kenyatta National Hospital to improve the patients’ experience.
OMK has recently acquired a controlling stake in UAP Holdings Limited (UAPHL) that has enabled the company to gain scale and capacity to offer fully integrated financial services. It operates in six countries; Kenya, Uganda, Tanzania, DRC Congo, Rwanda and South Sudan. OMK’s focus is to enhance financial education, develop innovative products, use of technology and adoption of alternative distribution channels to improve penetration levels in Kenya.

1.2 Research Problem

Organizations small and large are environment-dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003). Failure to do this will lead to serious strategic problem characterized by the maladjustment of the organization’s performance growth (Ansoff and McDonnell, 2000).

The insurance industry has been under intense pressure to change for the last few years. The industry still grapples with low penetration levels and stagnated growth. According to IRA (2013), the industry faces challenges of negative industry perception, pricing insurance products for value, insurance fraud, misselling and agency force development, adoption of technology enabled platforms in service delivery and optimizing market size and investment channels. There is need for players in this industry to develop strategic responses to deal with these challenges in order to survive and boost performance of the sector.
Old Mutual Kenya has over the years developed strategic responses which are aimed at enabling the firm’s success and survival. OMK has responded to the business environment through M&A, product development, brand campaigns, technology advancement, branch network, distribution expansion, digital proposition, talent development, improved customer experience, capital injection, implementation of a shared service center, and proactive lobbying with regulators to review. There is need to continuously scan the environment and develop customer centric strategic responses in order for Old Mutual Kenya to grow its market share and enhance insurance penetration.

Previous studies have been done on strategic response of firms to the changes in the environment. According to Johnson, Scholes and Whittington (2005), an organization exists in the context of a complex political, economic, social, technological, environmental and legal world. The environment changes and affects different organizations differently. They argued that how this affects the organization includes an understanding of historical and environmental effects as well as expected or potential changes in the environmental variables.

Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Organizations have to cope with pressures of globalization, changes in technology, rise of e-commerce, situations where customers and suppliers can be both competitors and allies and a change in emphasis from quantity to quality and from products to services.
Managers should formulate strategies that seek to attain a fit or match between internal capabilities and external possibilities (Mintzberg, Ahlstrand and Lampel, 2009). How the management prefers to handle the changing conditions in the environment affects decisions about resources, competences and organizational structures that will pave way for the firm’s competitiveness (Ireland, Hoskisson and Hitt, 2013).

Gichangi (2011) established that Safaricom was quick to adjust to the dynamic environment by forming both short-term and long-term strategies to deal with the changes. For the short-term, Safaricom reduced its prices to remain in line with its competitors while introducing new products and services to retain and attract new customers. Kamau (2007) established that Kenya Re employs various response strategies that touch on cost reduction measures (reducing the number of staff by 40% and privatization to increase efficiency), diversification (by using various insurance mix such as having estates), expansion strategies (by doing business in foreign countries) and focus strategy (by setting up businesses in foreign lands and using the locals to deal with the competition in their native homes).

Wambui (2012) confirmed the observation by (Johnson et al, 2005) that all companies operate in a dynamic and turbulent environment where external forces beyond their control are at play. Macro and micro turbulent environment has impacted negatively on the Matatu subsector in various degrees. Strategic responses to the dynamic environment were formulated by the Matatu Subsector to ensure that they survive and thrive in the market place.
Ramona (2008) found that, for Barclays bank of Kenya to remain competitive in the market, it adopted some strategic responses which were offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff. Firms must continuously survey the environment for signs of future discontinuity and potential surprises.

Old Mutual Kenya needs to position itself strategically to cope with the changes in the business environment in order to boost its performance. This study determined strategic responses to the business environment and performance of Old Mutual Kenya. It answered the following question; what are the strategic responses to the business environment that have impacted the performance of OMK?

1.3 Research Objective
The objective of this study was to determine strategic responses to the business environment and organisational performance.

1.4 Value of the Study
The insurance Industry in Kenya has been faced with numerous challenges as evidenced by the low insurance penetration and stagnated growth. The industry has been hit by exit of some insurance companies as a result of inability to pay customer claims and insolvency. The sector has also received new entrants with the latest being the entry of Prudential and entry of ABSA Life.
The findings of this study are valuable for managers in the insurance sector as they empower them to develop strategies that withstand the turbulence in the business environment. The study is of benefit to Old Mutual Kenya Limited and other players in the industry as it enables them to understand the environmental factors that affect their operations and develop superior strategic responses that enables them to survive and thrive. The study also provides a justification to the responses adopted depending on the success obtained.

Insurance industry stakeholders like Company Directors, Regulators, Associations, Policy makers and the government can obtain knowledge of the insurance industry dynamics and the responses that are appropriate. They can obtain guidance from this study in designing appropriate policies that regulate the sector. The findings of this study can help scholars and researchers to further their research.

1.5 Chapter Summary

Change is the only constant in the world today. The environment provides the organizations with inputs which they transform into outputs through internal processes and then the outputs are given back to the environment (Mwangi, 2007). Strategic responses enable the organizations to align their strategies to the changes in the environment in order to survive. This study has been supported by the Chaos theory, which is the study of complex nonlinear dynamic systems, the resource-based perspective and the Organization theory which tends to examine the relationships in organizations between tasks, social structures, resources, and the environment.
Kenya’s business environment has experienced considerable change in many aspects; technology, competition, skills, customer awareness among others. This has impacted the insurance industry that faces the challenge of stagnated growth and low penetration which is less than 4% in 2015. There is need for effective strategic responses by insurance companies in Kenya to enhance penetration levels and boost their business performance. Old Mutual Kenya has experienced decelerated growth and financial losses over the years which necessitated the firm to develop strategic responses that enable the firm to respond to the business environment.

Organizations small and large are environment-dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003). Failure to do this will lead to serious strategic problem characterized by the maladjustment of the organization’s performance growth (Ansoff and McDonnell, 2000).

OMK has over the years developed strategic responses which are aimed at enabling the firm’s success and survival. This study determined strategic responses to the business environment and performance of OMK. It answered the following question; what are the strategic responses to the business environment that have impacted the performance of OMK? The objective of this study was to determine strategic responses to the business environment and organisational performance. The findings of this study are valuable for managers in the insurance sector, OMK Limited and other players in the industry.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers both theoretical and empirical literature for the study. The empirical literature focuses on the past findings or studies on organizational performance and responses to turbulent business environment. The chapter ends with an outline of research gaps.

2.2 Theoretical Foundation

Ansoff (1987) noted that the environment is constantly changing, and so it makes it imperative for organizations to continuously adapt their activities to succeed. Organizations must be responsive to the external demands and expectations in order to survive (Meyer and Rowan, 1977). Managers are applying management theories to obtain fresh insights to deal with environmental turbulence.

2.2.1 Chaos Theory

Chaos theory, which is the study of complex nonlinear dynamic systems, is a useful conceptual framework that reconciles the essential unpredictability of industries with the emergence of distinctive patterns (Cartwright, 1991). As a result of this, long-term planning is very difficult as small disturbances multiply over time because of nonlinear relationships and the dynamic, repetitive nature of chaotic systems. By understanding industries as complex systems, managers can improve decision making and search for innovative solutions to cope with the change.
Chaos theory also suggests that changes in industry structures can be endogenous. While the complexity of industry systems dictates the need for broad strategies, the dynamic nature of chaotic systems mandates that strategies adapt. Chaos theory also points to the importance of developing guidelines and decision rules to cope with complexity, and of searching for nonobvious and indirect means to achieving goals.

2.2.2 Resource-based Theory
The resource-based view stipulates that in strategic management the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Barney, 1991). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Barney (1991) examines the link between firm resources and sustained competitive advantage.

Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability. In Barney (1991), firm resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991).
2.2.3 Organization Theory

Organization theory tends to examine the relationships in organizations between tasks, social structures, resources, and the environment. This literature summary divides organizations into its modifiable parts such as structure, processes, people and culture so that managers can orchestrate organizational change. Richard Scott, an organization theorist, divides organization theoretical definitions of organization into three schools of thought: namely. classical, human relations, and systems perspectives (Scott, 1998).

The classical school, or rational system, definition of an organization is a group of people who collectively contribute to a formally stated purpose. The hierarchical, disciplined, clear-cut structures and the top-down authoritative cultures were dominant in the classical school. This school focuses on formal aspects of organizations such as strategy and mission statements, formal structure and authority, resource allocation systems, standard operating procedure, and technical training.

The human relations school, or natural system, definition is that an organization is a group of people who, for individual reasons, collectively contribute to an overall purpose. This school focuses on the informal aspects of organization such as politics, culture, motivation, skill, and values. Systems analysis or an “open system view” of organizations is that organizations take inputs (information, material and financial resources) from their environments and transform them into outputs. According to Ansoff and McDonnell (1990), organizations are environment dependent and environment serving.
2.3 The Concept of Strategic Responses

Organizations have found themselves in a position where they not only address environmental changes but actually anticipate them. Liberalization and globalization have opened up markets to environmental forces. Coping with an increasingly competitive environment has compelled firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their doors are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

Mwangi (2007) found out that the East African Breweries Limited (EABL) did not respond to all the changes in the environmental conditions but to those changes which were deemed to impact on the company’s activities to a large extent. The study identified the following factors to have elicited responses from the company. In the political-legal environment the key variable had been changes in taxation. In the technological environment the rates of obsolescence and new technological developments had played a major role.

In the economic environment key variables had been the income levels and willingness to spend, cost of factors of production, business cycles and liberalization. In the socio-cultural environment, key variables had been gender, lifestyle changes, income distribution, lobby groups, accident rates and safety concerns. In the physical environment key challenges had been the weather patterns and in the competitive environment the key challenges had been from exports and illicit brews.
These responses were market development, product development and modification, vertical integration, information systems change, innovation, product differentiation, outsourcing, shared services center, culture and structure changes, aggressive marketing campaigns and corporate social responsibility. The study identified that the strategies EABL had employed were consistent with Pearce and Robinson’s (1991) grand strategies. The study concluded that even for a company that was successful strategic responses were still important in order to ensure continued success by aligning the company to the environment it operated in.

Ansoff (1980) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

Systems delay typically occurs in large firms due to the time consumed in observing, interpreting, collating and transmitting information to responsible managers. It is also due to the time consumed by these managers in communicating with one another and establishing a common understanding as well as the time necessary for processing the decisions among the responsible groups and decision levels. A verification delay may be invoked because some managers will argue that, even though the level of impact has reached unacceptable proportions, there is never an assurance that the threat is real and that the impact is permanent.
They will opt for waiting a little longer to see if the threat will “blow itself out”. A political delay may occur if certain managers, whose domain contributes to the crisis, feel that the recognition of a crisis will reflect on their reputation and/or will cause them to lose power. Even if they are convinced that the threat is real, they will want to fight a delaying action to avoid becoming scapegoats, to gain breathing space to develop a line of defense, or to line up a line of retreat. Unfamiliarity rejection delay would contribute to other three if, as is typical in the Western managerial culture, the managers are trained to trust prior and familiar experiences and reject unfamiliar ones as improbable and invalid.

These delays will substantially increase the total cost to the firm. Such response is referred to as reactive management. The organization will incur two types of costs as a result of delayed response to discontinuous changes. These are the cumulative loss of profit and the cost incurred in arresting or reversing the loss. Management problem is to minimize the total losses (Ansoff and McDonnell, 1990). To survive in a dynamic and highly competitive business environment, organizations have had to develop and implement response strategies in order to survive and minimize losses.
2.4 Business Environment

The experiences as evidenced by history show that the pace of change in the business environment has been on the rise (Rigby, 2001). Recent developments such as the global financial crisis and in Kenya, the new political leadership, formation of the “Jubilee government”, increasing costs of running businesses, have posed a myriad of challenges to the manager in the 21st Century (Ochieng, 2014). The external environments create problems for organizations because it is a source of uncertainty and constraints.

Some organizations are affected by a large number of environmental factors while others are affected by few (Pearce and Robinson, 2008). Economic conditions are constantly changing; interests rates fluctuate, consumer tastes and preferences are changing, new government regulations and changing technologies notwithstanding. All these changes create turbulence (Perrot, 2011).

Hedløf & Janson (2000) concluded that the environment is fast-changing and of chaotic nature, where the changes are continuous, emergent, small, big or somewhere in between, and where paradoxes play an important role, it is necessary to develop an organisational structure, leadership, human resource, and corporate culture, in which the objective always is to create dynamics and to build in an acceptance of change. In addition, there is an interrelationship between all of these factors, i.e. the given approach to each and every factor is influenced by how the remaining factors have been dealt with. The business environment can be considered to be in terms of the following layers; macro environment (remote), industry environment and operating environment (micro).
2.4.1 The Macro Environment

According to Pearce and Robinson (2008), the macro environmental influences that might affect organizations can be analysed using PEST framework (political, economic, social and technological). These factors are discussed below;

Political factors; the existence of political uncertainty is a worldwide phenomenon that affects most national bond and stock markets (Beaulieu, Cosset and Essadam, 2005). Jorian and Goetzmann (1999) as mentioned in (Beaulieu, et al, 2005) report that activities of political origin have caused market interruptions in 25 countries including; Chile, France, Germany, Japan and Portugal. A major consideration for most managers when formulating strategy is the direction and stability of a nation (Pearce and Robinson, 2009). Pearce and Robinson maintain that political issues define the legal and regulatory parameters within which firms must operate. Constraints can be placed on firms through tax programs, anti-trust laws, minimum wage legislation, pollution and pricing policies. Ireland et al (2013) argue that regulations formed in response to new laws often influence a firm’s actions.

According to Pearce and Robinson (2008) laws and regulations are commonly restrictive and they tend to reduce potential profits, despite the fact that some political laws are designed to benefit and protect firms – such as patent laws, product research grants and government subsidies. Therefore, in order to deal with the political issues; firms need to develop a political strategy to influence government policies that affect them (Ireland, et al, 2013).
Furthermore, studies by Ozer, Alakent and Ahsan (2010) indicate that as a result of a firm’s propensity for political engagement, organizations get involved in corporate political strategies. In addition; Holburn and Vanden Bergh (2008) say that the need for firms to have an effective political strategy is heightened by the effects of global governmental policies on a firm’s competitive position. The uprisings in the Middle East and throughout the Arab world caused significant turmoil and consequently led to temporary increase in world oil prices (Strumpf, 2011).

Technological factors; in a bid to evade obsolescence and promote innovation, a company must be aware of technological changes that might influence its industry (Pearce and Robinson, 2008; Euchner, 2011; Sinha and Noble, 2008). Ireland et al (2013) says that the importance of awareness efforts is supported by the findings that early adopters of technology often achieve higher market share and earn high returns. It is therefore of paramount importance to firms to continuously scan their external environment, to identify new emerging technologies that could give them a competitive edge. According to Pearce and Robinson (2008) companies operating in turbulent environments must scan their environments for an understanding both of the existing technological advances and probable future advances that can affect their products and services. The importance of technological forecasting cannot be overstated since it can help protect and improve the profitability of firms in growing markets.
The internet is a significant technological development – with a remarkable capability to provide quick access to information. Many companies continue to study the opportunities availed by the internet to be able to create more value for customers and anticipate future trends (Ireland, et al, 2013). Technological developments have enhanced performance. For example eBay’s iPhone application is arguably the largest mobile commerce in the world; registering $600 million in volume in 2009 to between $1.5 billion and $2 billion in 2010 (Ignatius, 2011).

Social factors; societal factors that affect firm operations involve beliefs, attitudes, opinions and lifestyles of persons’ in the firm’s external environment (Ireland, et al, 2013; Pearce and Robinson, 2009). The scholars contend that these elements are as a result of cultural, ecological, demographic, religious and ethnic conditioning. As social attitudes change, the demand for various products and services also change. Profound social changes in the recent years that continue to affect firms include: shift in age distribution; accelerating interest of consumers and employees in quality-of-life issues; and entry of a large number of women to the labor market (Pearce and Robinson, 2009). Pearce and Robinson agree that forecasting social changes effects on business can be a daunting task; however, informed estimates of alterations such as ethical standards, religious orientations, changing work values- can help a strategizing firm in its attempts to flourish.
Economic factors; economic environment refers to the nature and direction of the economy in which a firm operates (Chua and Tsiaplias, 2011; Pearce and Robinson, 2009). Ireland et al (2013) states that firms generally seek to compete in relatively stable economies with potential for growth. Because of the changing consumption patterns in the industry, firms must continually consider economic trends that would affect them (Ireland, et al, 2013; Pearce and Robinson, 2009). Managers should consider the following factors both at national and international level: the availability of credit, the level of disposable income, the propensity of the people to spend, inflation rates, trends in the growth of the gross national product.

2.4.2 The Industry Environment

Pearce and Robinson (2009) define industry environment as; the general conditions for competition that influence all businesses that provide similar products and services. In comparison to the remote environment, the industry environment has a direct impact on the firm’s strategic competiveness and ability to earn above-average returns (Tarzijan and Ramirez, 2011). Ireland et al (2013) says that an industry’s profit potential is determined by the five forces of competition: the threat posed by new entrants, the bargaining power of suppliers and customers, product substitutes and the industry of rivalry. The collective strength of these forces determines the ultimate profit potential in an industry (Porter, 1979).
New entrants to a market pose a threat because they bring new production capacity, the desire to gain market share and resources (Pearce and Robinson, 2009; Ireland et al, 2013). Porter (2008) writes that the threat of entry puts a cap on the profit potential of an industry. He maintains that when the threat is high, the existing companies must hold down their prices or boost investment to deter new competitors. According to Karake (1997) an industry with above average rate of entrance in the market is likely to be associated with higher environmental turbulence.

Karake (1997) defines supplier power as the capability of suppliers to bargain on prices. Karake maintains that an input supplier can raise prices, thereby, leading to increase in environmental turbulence. Suppliers can exert bargaining power by increasing prices or reducing quality of goods and services (Porter, 2008; Pearce and Robinson, 2009; Ireland et al, 2013; Dess, Lumpkin, Eisner, 2008).

Bhattacharyya and Nain (2011) argue that customers bargain for higher quality, greater levels of service in order to reduce their costs. Peace and Robinson (2009) argue that consumers can play competitors against each other by demanding low prices, high quality or more services. According to Ireland et al, (2013) customers are powerful when: they purchase a large portion of an industry’s output; they could switch to another product at little. Karake (1997) adds that the more bargaining power customers have the more environmental turbulence firms’ face.
Porter (2008) defines a substitute as a product or service that performs the same or similar function as an industry’s product by different means; videoconferencing is a substitute for travel. Porter maintains that when the threat of substitutes is high industry profitability suffers and it offers an attractive price-performance trade-off to the industry’s product. According to Karake (1997) the level of environmental turbulence and uncertainty is also affected by product substitutes.

Ireland et al (2013) postulate that actions taken by one firm in an industry will invite competitive responses. Sirmon, Hitt, Arregle and Campbell (2010) argue that companies within an industry are rarely homogenous since they differ in capabilities and resources as they seek to differentiate themselves. Porter (2008) in “the five competitive forces that shape strategy” states that rivalry among existing firms takes forms such as: price discounts, new product introduction, advertising campaigns and service improvements.

2.5 Strategic Response and Business Environment

Organizations large and small are environment-dependent. They depend on the environment for their survival and they have to scan the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003). Failure to do this will lead to serious strategic problem characterized by the maladjustment of the organization’s performance growth (Ansoff and McDonnell, 2000). Managers should therefore formulate strategies that seek to attain a fit or match between internal capabilities and external possibilities (Mintzberg, Ahlstrand and Lampel, 2009).
Organizations must continuously forecast and predict future changes and thereby develop strategies to cope in the environment besides closely monitoring the changing environmental conditions (Karake, 1997). Organizations therefore have a mandate to gather information about their environments in order to address issues of uncertainty and dynamism. How the management prefers to handle the changing conditions in the environment affects decisions about resources, competences and organizational structures that will pave way for the firm’s competitiveness (Ireland, Hoskisson and Hitt, 2013).

With increasing environmental turbulence, strategic issues crop up more rapidly that challenge the way the organization formulates and implements its strategy (Perrot, 2011). The type of response taken in order to survive must be informed by the level of turbulence. For instance, an organization might respond by making operational changes but few strategic changes at relatively low levels of turbulence (Perrot, 2011).

Ansoff and McDonnell (1990) postulates that for a firm to achieve optimal return on investment, the firm’s strategic aggressiveness and general management capability must be aligned to the environmental turbulence. Instinctively the urge is to cut costs and go into “lock–down” until things get better. However, for every downturn is an opportunity to challenge the status quo. Managers and employees alike must realize that the firm cannot continue to behave as it did in the past. A downturn lowers resistance to change and cuts through complacency, allowing managers to harness the energy released by these events and make radical changes to an organization’s strategy, structure and culture (KPMG, 2009).
There is a common assumption that relatively few companies survive as independent entities for very long periods of time. For example, of the top 100 U.S. based industrial companies listed in Fortune Magazine in 1965, only 19 remained in the top 100 in 2005, 15 fell out of the top 100 and only 66 were acquired or disbanded (Burgelman and Grove, 2007). An organization has to develop competitive strategy to out compete the competitors.

Strategy links organizations to the environment (Mintzberg, Ahlstrand and Lampel, 2009). To achieve its objective the organization chooses strategies that align them properly with environment (Ansoff and McDonnell, 1990). The choice of strategies to employ at a given time is informed by different factors within and without the organization (Ireland, et al, 2013). Different firm’s strategies differ from organization to another which is influenced by the external and internal factors.

The choice of strategy is an important step in the strategy development process. The difference in factors involved in various firms explains the difference in strategy chosen which eventually is reflected by the organization performance which can be measured using different methods (Pearce and Robinson, 2008). According to Ireland, Hoskisson and Hitt (2009) a competitive response is a strategic or tactical action that a firm takes to counter effects of competitor’s action. Dess, Lumpkin and Eisner (2008) argue that before initiating a response a firm needs to evaluate what the competitor’s action is likely to be. According to Irelant, et al (2009) responses are part of the competitive strategies that an organization develops in an effort to beat competition.
There are two types of responses to environmental changes: strategic and tactical responses (Dess, Lumpkin and Eisner, 2008; Ireland, Hoskisson and Hitt, 2009). A strategic response is a market-based move representing a significant commitment to specific and distinctive organization resources (Dess, et al, 2008). It is difficult to implement and to reverse, for example, the introduction of an innovative product into the market (Dess, Lumpkin and Eisner, 2008; Ireland, Hoskisson and Hitt, 2009). Strategic responses require the organization to change their strategy to match the environment (Ansoff and McDonnell, 1990) and also to transform or redesign their internal capabilities to match its strategy.

Tactical responses are taken to fine-tune a strategy, unlike strategic responses, they are relatively easy to implement and reverse (Juma, 2007). Examples of tactical responses involve cutting prices, improving gaps in service. These responses have more immediate impact, for example pricereduction could increase demand in the short run. Operation responses involve changes in standard operating procedures and are founded on efficiency (Juma, 2007).

2.5.1 Generic Strategies

According to Pearce and Robinson (2008), a generic strategy is a core idea about how a firm can best compete in the market place. Lynch (2008) defines generic strategies as the three fundamental strategies of cost leadership, differentiation and focus. Porter (1980) as mentioned in Lynch (2008) claimed that there were only three strategies that a business could undertake.
Low cost leadership is a set of actions taken to produce goods or services that are acceptable to customers due to the uniqueness of low price charged relative to competitors (Porter, 1980). Lynch (2008) says that the low cost leader in an industry has to build its structures and operations in a way that will deliver the lowest costs in that market. Lynch maintains that having low costs can create competitive advantage. Gehlhar, Regmi, Stefanou and Zoumas (2009) postulate that appropriate process innovations are necessary for successful use of cost leadership strategy. Ireland et al (2013) argue that firms associated with low cost strategy normally sell standardized goods or services. Low-cost leaders take advantage of the economies of scale; they implement cost-cutting techniques, press for reductions in overhead cost and consequently use volume sales technologies to push them up in the learning curve (Pearce and Robinson, 2008).

Customers with a special sensitivity for a particular product attribute are commonly targeted with differentiation dependent strategies (Pearce and Robinson, 2008). Pearce and Robinson maintain that by stressing the product attribute customer loyalty is built which primarily translates in a firm’s ability to charge premium prices for its products. Lynch (2008) says that success in this strategy can be achieved through injection of extra cash to cater for advertising. Firms opt for focus strategy to utilize their core competencies to serve the needs of a specific niche market (Ireland et al, 2013).
2.5.2 Product Strategies for Growth

Ansoff (1990) proposed a matrix that can be of much help to organizations when it comes to responding to the environmental issues. These strategies are seeking growth: Market penetration: by pushing existing products in their current market segments. Market development: by developing new markets for the existing products. Product development: by developing new products for the existing markets. Diversification: by developing new products for new markets.

The matrix depicts the kind of risk a particular strategy will expose one to; adopting a new strategy will always represent its own risks. According to Jobber (2010) one can achieve market penetration by winning competitors’ customers. Firms can achieve this by effectively utilizing promotion or distribution and price cuts. For example Apple used price to achieve market penetration in the launch of the 3G iPhone.

Jobber (2010) says that another way of gaining market penetration is by way of buying or acquiring the competitors. For example, a supermarket chain (Morrisons), bought Safeway, a competitor, in order to gain market penetration (Jobber, 2010). According to Havila, Johanson and Thilenius (2004) the market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. The development of products involves creating new products for existing markets (Edwards, 2008). Jobber (2010) says that one of the variants is to expand the existing product lines and give the consumers variety.
Etzel, Walker and Stanton (2007) argue that an organization develops new products to sell to its present markets. For example the Apple company has extended the product lines; the original iPod has been succeeded by the launches of the iPod nano, shuffle and touch. This has given its target market a greater variety to choose from in terms of capacity, size and price (Jobber, 2010).

Market development options include the pursuit of additional market segments or geographical regions. According to Etzel, et al., (2007) firms engage in market development to spread their risk especially when the firms involved depend on a few customers. The authors mention that the firms continue to sell their existing products but to a new market altogether.

The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment (Jobber, 2010). Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. Jobber (2010) adds that market development could entail getting overseas opportunities for exploitation. Perreault, Cannon and McCarthy (2011) argue that firms strive to improve their sales by selling current products and services in new markets.
Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm (Jobber, 2010). Consider the case of Honda’s move from motorcycles to cars, and Apple Computer’s introduction of the iPod mobile music player, which has the capacity to download music via a computer (Mitchell, 2005). In fact, this quadrant of the matrix has been referred to by some as the "suicide cell".

Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk. Ireland et al (2013) say that diversification strategies can lead to strategic competitiveness and above average returns. However, according to Wowak and Hambrick (2010), if a firm’s governance mechanism is not strong, the executives may diversify the firm to the point that it fails to earn even average returns. Hayward and Shimizu (2006) warn that over diversification can lead to a decline in firm performance, after which units in the business are divested.

2.5.3 Restructuring

This is a strategy that would enable a firm change its businesses or its financial structure (Lee and Madhaven, 2010; Bergh and Lim, 2008). Pearce and Robinson (2008) define restructuring as changing an organizational structure with an intention of emphasizing and enabling activities most critical to the firm’s strategy to function at maximum effectiveness. Pearce and Robinson maintain that it is based on the notion that some activities in a business value chain are more critical to the success of its strategy than others.
The types of restructuring that firms’ use include; downsizing, Business process reengineering, downscoping and leveraged buyouts (Ireland et al., 2013; Pearce and Robinson, 2008). Jones and Hill (2013) give the following reasons as to why firms opt for restructuring; a change in the industry environment that could not have been predetermined; changing technology that could have rendered the firm’s products obsolete; a firm having excess capacity because the company’s products or services no longer appeal to customers.

Business process reengineering is the fundamental re-thinking and radical redesigning of the business processes to achieve significant improvement in critical contemporary measures of performances such as costs, quality, and speed (Hammer and Champy, 1993). According to Pearce and Robinson (2008) downsizing is doing away with a certain number of labor force in an organization, particularly middle level management (Pearce and Robinson, 2008).

Pearce and Robinson maintain that globalization of the marketplace, information technology and rivalry in competition has caused many firms to reevaluate middle management to ensure that there was value addition to an organization’s products and services. Research indicates that downsizing does not necessarily lead to good performance as exemplified by U.S and Japanese firms (Ireland et al., 2013). Ireland et al., (2013) define downscoping as a means of eliminating businesses that are unrelated to a firm’s core business. According to Bergh and Lim (2008) downscoping has a positive impact on the performance of a firm compared to downsizing.
2.5.4 Collaborative Strategies

Firms may enter into collaborative arrangement with other industry players, either domestic or foreign, such collaboration can take the form of strategic alliances, mergers, acquisitions, and joint ventures, licensing and franchising (Juma, 2007). Johnson, Scholes and Whittington (2008) say that in reality and practice few acquisitions would be hostile and also few mergers would be joining of equals to form an entity. Firms would prefer developing through acquisition or merger in order to stay competitive in the changing environment (Johnson et al., 2008).

According to Sadler (2004), a strategic alliance is whereby to or more companies reach an agreement to share knowledge or resources to their mutual benefit. Sadler adds that, alliances are increasingly getting popular among companies as a strategy for the future in comparison to simply “going it alone”. Sadler (2004) notes that synergy is the most evident reason and advantage of an alliance. The partnership therefore must be more effective and efficient in operations than if each individual partner was performing the similar tasks individually.

Gupta, Gollakota and Srinivasan (2007) writing on franchising, describe it as giving another company (franchisee) the right to use the company’s trademark, and providing assistance in setting up and running the business. In return, the franchisee has to pay fees and royalties, and has a responsibility of maintaining standards set by the franchisor. The advantages of franchising include; the firms are able to get a revenue stream without much investment.
2.6 Organisational Performance Measurement

Organisational performance measurement plays an important role in; identifying and tracking progress against organisational goals; identifying opportunities for improvement, and comparing performance against both internal and external standards. Reviewing the performance of an organization is an important step when formulating the direction of the strategic activities. It is important to know where the strengths and weaknesses of the organization lie, and as part of the ‘Plan –Do – Check – Act’ cycle, measurement plays a key role in quality and productivity improvement activities (www.dti.gov.uk/quality/performance).

A good performance measurement framework will focus on the customer and measure the right things. Performance measures must be: meaningful, unambiguous and widely understood, owned and managed by the teams within the organization, based on a high level of data integrity, such that data collection is embedded within the normal procedures, able to drive improvement, linked to critical goals and key drivers of the organization. There are four key steps in a performance measurement framework - the strategic objectives of the organization are converted into desired standards of performance, metrics are developed to compare the desired performance with the actual achieved standards, gaps are identified, and improvement actions initiated. Organisational performance measurement is needed to; ensure customer requirements have been met, be able to set sensible objectives and comply with them, provide standards for establishing comparisons, provide visibility and a “scoreboard” for people to monitor their own performance level, highlight quality problems and determine areas for priority attention.
2.7 Empirical Studies and Research Gaps

In an ideal world, managers could formulate a long-term strategy, methodically implement it and then sustain the resulting competitive advantage. Reality, however, is rarely so neat and tidy. Technologies evolve, regulations shift, customers make surprising choices, macroeconomic variables fluctuate and competitors thwart the best-laid plans. Thus, to execute strategy as circumstances change, managers must capture new information, make midcourse corrections and get the timing right because being too early can often be just as costly as being too late (Sull, 2012). But how can managers implement a strategy while maintaining the flexibility to roll with the punches? There is need to further the research on implementation of strategic responses.

The below studies suggest a set of hypotheses that may be tested empirically. Although these studies are consistent with the results of past studies, their specific predictions need to be investigated. As a metric for assessing environmental change impact on organization strategies, we may look to the variable of perceived environmental uncertainty. Several strategic responses studies have operationalized way of responding to the dynamic business environment by measuring subjects' responses to changes in the environment. Ansoff and Mc Donell (1990) note that strategic responses involve changes to the organization behavior such responses may take many forms depending on the environment in which it operates. According to Johnson, Scholes and Whittington (2005), an organization exists in the context of a complex political, economic, social, technological, environmental and legal world. The environment changes and affects different organizations differently.
Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Organizations have to cope with pressures of globalization, changes in technology, rise of e-commerce, situations where customers and suppliers can be both competitors and allies and a change in emphasis from quantity to quality and from products to services. Managers should therefore formulate strategies that seek to attain a fit or match between internal capabilities and external possibilities (Mintzberg, Ahlstrand and Lampel, 2009). How the management prefers to handle the changing conditions in the environment affects decisions about resources, competences and organizational structures that will pave way for the firm’s competitiveness (Ireland, Hoskisson and Hitt, 2013).

Gichangi (2011) established that Safaricom was quick to adjust to the dynamic environment by forming both short-term and long-term strategies to deal with the changes. For the short-term, Safaricom reduced its prices to remain in line with its competitors while introducing new products and services to retain and attract new customers. Kamau (2007) established that Kenya Re employs various response strategies that touch on cost reduction measures, diversification, expansion strategies and focus strategy (by setting up businesses in foreign lands and using the locals to deal with the competition in their native homes). Wambui (2012) concluded that macro and micro turbulent environment has impacted negatively on the Matatu subsector in various degrees. Strategic responses to the dynamic environment were formulated by the Matatu Subsector to ensure that they survive and thrive in the market place.
Ramona (2008) found that, for Barclays bank of Kenya to remain competitive in the market, it adopted some strategic responses which were offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff. Firms must continuously survey the environment for signs of future discontinuity and potential surprises. Muchira (2013) concluded that strategy implementation influences organization performance where organization use various measures such as projected performance of competitors, organization goals, Past performance of the business and projected performance of organization in other industries to access their performance. On the same, the study concluded that strategy implementation improves corporate image, business excellence and operations management.

Conceptualizing environments as dynamically heterogeneous suggests a need for corresponding conceptualizations of strategy that can help a firm sustain its competitive advantage. Existing strategy frameworks fall short in this respect. Most of the suggested reconceptualizations (Morgan, 1983; Daneke, 1990; Mitroff, 1990; Prahalad and Hamel, 1990; Loasby, 1991; Nonaka, 1991; Quinn, 1992; Fransman, 1994) emphasize, in one way or another, the view that organizational knowledge and learning are important sources of sustained performance in turbulent environments. There is need to take that argument a step further by explaining the specific strategic responses that makes it useful for survival in turbulent environments.
2.8 Chapter Summary

Theories adopted for this study include; Chaos theory, the resource-based and the organization theory. A strategy is a long term plan of action designed to achieve particular goal most often “winning” (Thompson et al, 2007). Aosa (1992) defines strategy as creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The experiences as evidenced by history show that the pace of change in the business environment has been on the rise (Rigby, 2001). The business environment is a complex adaptive system and therefore has an influence on the choice of strategic activities (Mason, 2007). Organizations have found themselves in a position where they not only address environmental changes but actually anticipate them. Ansoff (1980) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate.

The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. According to Pearce and Robinson (2008), the macro environmental influences that might affect organizations can be analysed using PEST framework (political, economic, social and technological). Pearce and Robinson (2009) define industry environment as; the general conditions for competition that influence all businesses that provide similar products and services. The industry environment is further analysed using porter’s five forces (the threat of new entrants, the bargaining power of suppliers, the bargaining power of customers, the threat of substitutes, and competitive rivalry).
Organizations must continuously forecast and predict future changes and thereby develop strategies to cope in the environment besides closely monitoring the changing environmental conditions (Karake, 1997). Organizations therefore have a mandate to gather information about their environments in order to address issues of uncertainty and dynamism. How the management prefers to handle the changing conditions in the environment affects decisions about resources, competences and organizational structures that will pave way for the firm’s competitiveness (Ireland, Hoskisson and Hitt, 2013).

Organisational performance measurement plays an important role in; identifying and tracking progress against organisational goals; identifying opportunities for improvement, and comparing performance against both internal and external standards. Reviewing the performance of an organization is an important step when formulating the direction of the strategic activities. It is important to know where the strengths and weaknesses of the organization lie, and as part of the ‘Plan –Do – Check – Act’ cycle, measurement plays a key role in quality and productivity improvement activities (www.dti.gov.uk/quality/performance).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter consists of the research methodology that was used in completing the study of strategic responses to the business environment and performance of Old Mutual Kenya. This includes the research design, data collection, respondents and data analysis.

3.2 Research Design
The research adopted a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomenon to give facts of the situation as it is, without interference by the researcher. This design is where background, development, current conditions and environmental interactions of one or more individuals, groups, communities, businesses or institutions is observed, recorded and analyzed for stages of patterns in relation to internal and external influences (Mutuku, 2014).

Yin (1984) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. Kothari (1990), acknowledged that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.
3.3 Data Collection

This study focused on primary data which is facts, assumptions or premises obtained directly from the field. The researcher used an interview guide as the primary data collection instrument. The interview guide was developed by use of relevant literature review and personal perception.

The respondents for this study were the functional and line managers at Old Mutual Kenya. Eleven respondents were interviewed. The respondents included business unit heads for Strategy, Information Technology, Finance, Tax, Operations, Customer Service, Marketing, Distribution, Risk and Compliance, Human Resources and Business Development. The study targeted these employees since they are accountable for the organization performance and drive the strategic responses to adopt in the changing business environment.

3.4 Data Analysis

The qualitative data collected was analyzed using content analysis technique. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. According to Kothari (2000), content analysis uses a set of categorization for making valid and replicable inferences from data to their context.
Content analysis is the best method of analyzing the open ended questions because of its flexibility and allows for objective, systematic and quantitative description of the content of communication (Cooper and Schindler, 2006). This technique was successfully used by other scholars such as Gichangi 2011, Kamau 2007 and Ramona 2008.

3.5 Chapter Summary

The research adopted a case study design. This study focused on primary data which is facts, assumptions or premises obtained directly from the field. The researcher used an interview guide as the primary data collection instrument. The interview guide was developed by use of relevant literature review and personal perception.

The respondents for this study were the functional and line managers at Old Mutual Kenya. Eleven respondents were interviewed. The qualitative data collected was analyzed using content analysis technique. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. According to Kothari (2000), content analysis uses a set of categorization for making valid and replicable inferences from data to their context.
CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, results and discussions of the study as set out in the research methodology. The study objective was to determine strategic responses to the business environment and organisational performance. The data was thereafter analyzed based on the objective of the study. Content analysis was used in analyzing the qualitative data that had been collected.

4.2 The Interviewees

The interviewees in this study were business unit heads for Strategy, Information Technology, Finance, Tax, Operations, Customer Service, Marketing, Distribution, Risk and Compliance, Human Resources and Business Development at OMK Ltd who are involved in the formulation and implementation of the strategic responses that were the subject of the study.

Majority of the interviewees have held senior management positions at OMK Ltd for over five years. The rest were new entrants both from within and outside the Insurance Industry. Thus, their contributions to the strategic responses by OMK Ltd to changes in the business environment in Kenya are drawn from broad experience and knowledge. There was general consensus that the strategic responses adopted were effective to deal with the changes in the business environment.
4.3 Changes in the Business Environment Affecting Insurance Industry in Kenya

In this section, the researcher identified the main changes in the business environment that have impacted Old Mutual Kenya. The following factors were considered to have greatly affected the insurances’ operations.

4.3.1 Regulatory Changes

The study established that most respondents strongly agreed that there are several legislative changes made in recent years that have had an impact on the insurance industry in Kenya. These include increased capital requirements for insurers, the implementation of EAC Common Market Protocol which require member states to open up business opportunities to East Africans, introduction of penalties on late claims settlement, expansion of the role of the Policy Holder Compensation Fund (PHCF) to include participation in the liquidation of insurance companies and expansion of the mandate of the IRA to include the protection of the interests of policyholders and insurance beneficiaries in any contract.

Other regulatory changes include: increase in the solvency margin for long term insurers, introduction of “cash and carry” rules which will require that insurers shall assume risk upon receipt of the premium, relaxation of investment limits for general insurers and change in the rules on taxation of long term insurance business and taxation of dividend income earned by a financial institution. Insurers also must submit more disclosures to the regulator, including a Financial Condition Report for each financial year that is signed off by the insurer’s appointed actuary.
IRA came up with a Micro Insurance policy paper which maps out the future path of regulation and supervision of micro insurance business in Kenya. The paper proposed the creation of a micro insurance licence which is less onerous than the existing insurance licence in terms of capital requirements but limits the type of products that can be sold. The intention of the policy paper is to extend insurance services to the mass market who are financially excluded from the existing services due to cost. This licence will open up the market to non-traditional competitors such as Safaricom and Equity Bank who have substantial distribution reach in the entry level segment.

4.3.2 Technological Changes

Technological advancements are a major change affecting the Insurance industry in Kenya. Technology has created new opportunities for marketing, product innovation, improved customer service and new efficient ways of doing things. Changes in technology such as e-mobile, wifi internet and website marketing also led to adaptation of insurance companies to change in relation to changing times.

The insurance companies are also affected by optic fiber networking technology and Voice Over Internet (VOIP) through Internet Protocol Telephony (IPT) whose aim is to reduce calling costs. Players in the industry have continued to use technology that is tried and tested in the market for applications and operating systems. To support this agile approach to technology, companies have developed ICT strategies that ensures they realize their vision in the most efficient, consistent and cost effective way.
4.3.3 Political Changes

Political instability was also identified as a major challenge facing the insurance industry. Calls for a referendum by the opposition, corruption, numerous strikes by civil servants for example, teachers, nurses, doctors, constant conflict between the Parliament and the Senate, security threats by Al Shabaab, and ICC cases were the major political factors sighted by respondents. The security environment remains a challenge following the killing of Ahmed Abdi Godane the Al Shabaab leader believed to be the mastermind behind the Westgate attacks in September 2013.

One is not able to predict how the political environment will look tomorrow. Political uncertainty has affected major sectors of the economy for example, the tourism industry due to constant travel alerts being issued discouraging tourist and potential investors from coming to Kenya. These issues mean that investors coming to Kenya must take additional measures to shield themselves against abnormal risks resulting from political instability and terrorist attacks to protect their businesses.

4.3.4 Economic Changes

The rising cost of living was cited as one of the major issues affecting the insurance industry in Kenya. The country’s economic performance is dismal characterized by spiraling inflation and a volatile shilling. The economy, whether it is doing poorly or well, affects the insurance business just like it does any other business. Respondents said that since insurance companies make money by investing premium payments, the economy can greatly impact an insurance business.
Respondents also agreed that when the economy is down, fewer small businesses and individuals have savings to spend on insurance. This means the demand for insurance is low and providers have to compete for a smaller saturated market. As the financial landscape change, insurance companies that hope to survive have to change also. This means altering their business models. For example, insurance companies may merge in order to reap economies of scale. Insurance companies will also have to alter their investment strategies which may include; re-evaluating acceptable equity risk and changing credit evaluation procedures. Companies will also have to explore new investment opportunities to gain stability of investment returns.

4.3.5 Competition

Competition was a major issue which was found to originate from the existing competitors and new entrants. Some of the insurance industry players were found to engage in “gorilla” games, such as price undercutting, employees poaching and customer incentives. The Kenyan Insurance industry has over 53 insurance companies all competing for an insurance market whose penetration level is less than 4%.

Competition in the industry was also increased by conversion of AAR and Resolution Health into fully-pledged insurance firms and entry of ABSA Life and Prudential Insurance into the Kenya market. The insurance industry is also being faced with non-traditional competition from telecommunication companies and banks that are offering insurance products. At the same time substitute products from non-insurance firms such as the NHIF and NSSF resulted to a competitive run for the industry.
4.3.6 Other Changes in the Business Environment

Other changes sighted by the respondents were; changing customer needs as the customers become increasingly aware of their consumer rights and exposure to a wide pool of financial service providers in Kenya. In order to address the constantly changing customer needs and preferences, organizations have to provide superior quality products and services that meet customer expectations through enhanced customer experience, treating customers fairly, consistency in quality of output, personalized service approach, flexibility, and value pricing. Organizations have been forced to implement the one stop shop business model in order to provide a full range of integrated financial services under one roof in order to attract and retain customers.

Talent flight was also highlighted as a major change in the business environment due to changing employee expectations. Organizations have taken proactive measures to bridge the gap between employee demands and employer satisfaction of those demands. Most organizations have been forced to continuously review their remuneration models in order to retain top performers. Old Mutual developed a talent programme that offers employees training and development options, secondment opportunities and launch of the Stars of Africa incentive program where employees who offer superior services are nominated to participate in the offshore convention.
4.4 Strategic Responses to the Business Environment and OMK Performance

Mergers and Acquisitions (M&A) continue to be a strategic tool for growth for Old Mutual. OMK recently acquired a controlling stake in UAPHL. This acquisition has given OMK the scale and capacity to offer fully integrated financial services including Life insurance, General insurance, Medical insurance, Asset Management, Stock Broking, Unit Trust (UT) and Property Investment. In 2013, OMK also acquired a controlling stake in Faulu Deposit Taking Bank (DTB). This offered OMK a piece of Kenya’s banking business and deepened its one stop shop model. OMK also acquired Reliable Securities now Old Mutual Securities (OMS) in 2010 in order to provide stock brokerage services. The new strategic acquisitions fit into Old Mutual’s global ambitious growth plan of becoming a leading financial services champion in Africa and beyond.

OMK has developed and modified its products to appeal to a wider range of customers. OMK launched i-invest, a mobile based UT account that offers customers a platform to register and manage a unit trust account from the convenience of their mobile phones. All instructions to invest, withdraw, switch between selected funds and static information change can be submitted and processed over the Kenyan registered mobile phone. Old Mutual also launched a Personal Pension Plan (PPP) in order to provide a retirement savings vehicle to Personal Financial Advisors (PFAs) and other independent individuals. The product allows for optional pension savings for retirees and those without access to pension funds. OMK also launched the Umbrella scheme that provides a retirement vehicle for Small and Micro Enterprises (SMEs).
OMK has been involved in aggressive Brand campaigns with the aim of increasing brand visibility and promote Brand awareness across the country. The most recent campaign is the unity campaign dabbed “SISI” that was carried out in Kenya, Uganda, Tanzania, Rwanda, South Sudan and DRC Congo to integrate the three brands; Old Mutual, UAP and Faulu. In 2014 Old Mutual carried out the questions campaign whose aim was to increase insurance awareness to Kenyans. The campaign strategy was by use of local celebrities like “Anne Kansiime” to leverage their talents in educating masses about the OMK Brand and importance of insurance. OMK also held a fun day at the Kasarani Stadium at the end of 2014 as part of the initiatives to promote its brand image.

As a business enabler, Technology has been extremely vital to the success of OMK. Majority of the respondents sighted technology advancement and infrastructure refresh as key strategic initiatives that have enabled OMK respond to market changes. This was achieved through business-aligned technology strategy and innovation. To improve on connectivity, all obsolete network equipment was replaced in order to improve network reliability and reduce down times. Some manual processes were automated, while new functionality has been introduced which supports new financial products offered by the insurance Company. The financial reporting has been enhanced through improved document management and information risk mitigation. Successful implementation of technical upgrade of the Asset Management System “Hiportfolio” and the financial system “Great Plains”. Innovation & transformation comprising the provision of external value-added services from the company to its customers as well as the internal revitalization of the IT organization to a more agile posture have being embraced.
Old Mutual opened branches in major towns in Kenya to expand its reach and enhance accessibility to the customers. The branches are strategically located across major towns in Kenya including Nairobi, Mombasa, Thika, Nyeri, Meru, Machakos, Nakuru, Eldoret, Bungoma, Kisumu and Kisii. The branch network has enabled Old Mutual to align itself with the changing customer needs and economic realities. Faulu DTB acquired by OMK has 105 distribution points comprising 27 full bank branches, 26 marketing outlets and 52 deep rooted satellite offices with additional access to the Post Office 500 branches. This creates an ideal footprint for OMK to sale all its products through to a wide range of customers.

Most respondent’s confirmed that distribution expansion was a key strategic initiative in OMK’s “six point plan”. The aim of this initiative was to come up with innovative distribution through; developing bancassurance, strengthening traditional distribution channels and cross-selling, developing & leveraging Joint Ventures (JVs) & partnerships and investing in non-traditional and cost effective distribution channels based on a technology strategy. This initiative has enabled OMK increase its footprint and grow sales adviser numbers that has resulted in increased productivity and sales performance.

OMK had a number of noteworthy achievements as a result of strategic responses adopted to respond to changes in the business environment. These include; enhanced brand visibility, expanded distribution and recognition of OMK as a best company to work for by Deloitte survey. OMK CVP surveys led to increased customer growth from 105 thousands in 2013 to 540 thousands in 2014.
The financial performance of the company was an improvement over the prior year at a comprehensive loss of Kshs 134M in 2014 compared to a comprehensive loss of Kshs 354M in 2013. The major drivers of this improvement were; 16% growth in net earned premium due to increased group life premiums received and 42% growth in investment income. Total assets in 2014 closed at Kshs 14.5B, a 21% growth compared to 2013 due to positive returns on the main investment classes and the successful capital injection. The company raised equity capital amounting to Kshs 2.1B in 2014 to fund growth initiatives whilst strengthening its balance sheet to maintain prudent solvency margins.

4.5 Challenges Encountered by OMK in Responding to the Business Environment

All respondents agreed that Old Mutual faced a number of challenges while responding to the business environment. These challenges include; increasing competition, worsening economic performance, changing regulation and integration challenges. OMK adopted various strategies to respond to the environmental challenges.

The worsening economic performance has affected insurance companies in Kenya in their quest to respond to environmental changes. The insurance industry is under immense pressure as a result of; increased lending rates by commercial banks, depreciation of the Kenya shilling against the major world currencies and increase in the price of commodities. The 2015-2016 budget saw an increase in the fuel levy resulting in the increase in transportation costs and knock on impact to the price of commodities.
Respondents sighted the regulatory environment as being too slow and stiff for the rapid changes in the business environment and customer demands. This controlled environment leads to slow decision making and perceived bureaucracy. When change processes drag for long due to pending regulatory approvals, they are overtaken by events. Government regulations affect the competitiveness of the Insurance Companies in many ways. Effect of regulation is especially significant in life companies where return on investment have big impact on profitability and fund growth. Regulation requiring greater capital investment is restricting entry of firms while at the same time encouraging mergers and buyouts.

As a result of increased M&A activities, respondents sighted integration challenges as having slowed down strategic benefits realization. Merging different organisational cultures, policies, processes, technology, systems, people, and governance models is a daunting task for most organizations. It’s a sobering fact that M&As are actually more likely to destroy shareholder value than create it. According to some reports, between 50 and 70 percent of M&As either fail outright or fall short of their goals. In the first year following a merger, a company’s market value can fall by as much as 10 percent. One of the most common causes of failure is that the acquiring organization simply doesn’t manage the end to end M&A process effectively. While the overall strategy and up front due-diligence may actually be solid, it’s the execution that goes off the rails.
In order to face these challenges, respondents recommended constant review of the business environment to identify any challenges that could impact execution of the strategy. This is possible through; defining the benefits and goals for the business and then focusing on their realisation, and ensuring stakeholders are closely managed and communications are regular, relevant and clear.

4.6 Future Prospects of the Insurance Industry in Kenya

There is optimism by the respondents that the overall economic performance will improve in the long run. This will be driven by implementation of key infrastructure projects, solid private sector credit growth and an increasing amount of long term foreign direct investment. As a result of this, the insurance sector has high potential for growth.

There will also be increased insurance awareness through enhanced financial education, development of innovative products, use of technology, adoption of alternative distribution channels and brand campaigns. There will be new entrants in the insurance sector as the regulator starts to licence non-traditional competitors through implementation of the Micro Insurance policy.
4.7 Discussion

The objective of the researcher’s study was to determine strategic responses to the business environment and organisational performance. In line with this and based on other studies discussed in the researcher’s literature review, it is evident that the business environment is ever changing and the survival of organizations is highly dependent on the organizations’ ability to scan potential threats in the environment and develop strategic responses to deal with the changes in order to ensure superior performance and survival.

Aosa (1998) noted that in changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities as failure to do this may put the future of the organization in jeopardy. According to Zahra & Covin (1993), there is an established relationship between business strategy, innovation and organizational performance. In response to new technology-driven global markets, companies have increased their use of advanced technologies as well as their innovation efforts. The increasingly competitive environment in the financial services market has resulted in pressure to develop and utilize alternative delivery channels (Pearson & Robinson, 2007). The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002).
The Resource-Based View (RBV) stipulates that in strategic management the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Mills, Platts & Bourne, 2003; Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Hoopes, Madsen and Walker (2003) examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability. In Hoopes, Madsen and Walker (2003) firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc.

The resource-based view contends that the answer to Sustainable Competitive Advantage (SCA) lies in the possession of certain key resources, that is, resources having the characteristics of value, barriers to duplication and appropriability (Fahy, 2000). This view is not dissimilar to that proposed by Barney (1991). A SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximize returns (Fahy, 2000). In summary, following Fahy (2000), the essential elements of the resource-based view are as follows: sustainable competitive advantage and superior performance; the characteristics and types of advantage-generating resources; and strategic choices by management.
Rono (2013) noted that there are forces that are driving the rate of change. These included; competition, customers, technology, and change of customers’ tastes and preferences which is significant over time and there is need for willingness within organizations to challenge methods and assumptions to meet their customers’ ever changing demands. The two findings are in line with the results of this study that changes in the business environment which affect organizations are changes in technology, changes in customer tastes and preferences, political changes and economic changes. Kilonzi (2012) identifies changes such as Government policies, competition and advancement in technology as some the changes in the environment affecting the banking industry in Kenya.

Wairegi (2004) found that life insurance companies responded through such initiatives such as new product development, development of new distribution channels, restructuring, investment in human resource development and computerization of the core business processes. In summary, the strategic responses established by this study are in agreement with other strategic responses identified by other scholars in their studies. Different changes occur in the business environment in different time frames and this call for different tactics by organizations in order to survive. Organizations can only ignore changes in the business environment at their own peril.
Respondents of this study were found to be professionals and were experienced in their areas of operations. As Kimberly and Evanisko (1981) found that administrators with higher levels of education were most likely to adopt technological (new production/process technology) and administrative (new information system technology) innovations, it is evident that organizations need competent human resources to enable them to respond to changes in the business environment effectively. It is evident that managers with higher levels of education may be exhaustive in their information search activities, yielding richer information set for formulating strategic decisions (Hambrick and Mason, 1984). Old Mutual has also invested heavily in marketing and Research.

Respondents cited TV and radio campaigns, billboards advertising and road shows as some of the responses adopted by the organization to counter competition which was identified as a major threat affecting the company.

4.8 Chapter Summary

The researcher identified the main changes in the business environment that have impacted Old Mutual Kenya to be; regulatory changes, technological changes, political changes, economic changes, competition, changing customer needs and Talent flight. The strategic responses adopted by OMK to counter the changes in the business environment included; mergers and acquisitions, product development and differentiation, aggressive brand campaigns, technology advancements and infrastructure refresh, business process automation, branch network and distribution expansion. The financial performance of the company was an improvement over the prior year at a comprehensive loss of Kshs 134M in 2014 compared to a comprehensive loss of Kshs 354M in 2013.
Old Mutual faced a number of challenges while responding to the business environment. These challenges include; increasing competition, worsening economic performance, changing regulation and integration challenges. In order to face these challenges, respondents recommended constant review of the business environment to identify any challenges that could impact execution of the strategy.

There is optimism by the respondents that the overall economic performance will improve in the long run. This will be driven by implementation of key infrastructure projects, solid private sector credit growth and an increasing amount of long term foreign direct investment. As a result of this, the insurance sector has high potential for growth.

According to Zahra & Covin (1993), there is an established relationship between business strategy, innovation and organizational performance. The increasingly competitive environment in the financial services market has resulted in pressure to develop and utilize alternative delivery channels (Pearson & Robinson, 2007). The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). The Resource-Based View (RBV) stipulates that in strategic management the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Mills, Platts & Bourne, 2003; Peteraf & Bergen, 2003).
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary, conclusions and recommendations from the research findings, highlights the limitation of the study as they relate to the objective of the study and includes suggestions for further research.

5.2 Summary

Organizations need to continuously scan the environment in a bid to detect any changes and respond to changes in the business environment in order to survive and OMK is not an exception. In line with this, this study sought to determine the strategic responses to the business environment and performance of Old Mutual Kenya. The researcher interviewed eleven business unit heads for Strategy, Information Technology, Finance, Tax, Operations, Customer Service, Marketing, Distribution, Risk and Compliance, Human Resources and Business Development in order to achieve the objective of the study. The interviewees were both male and female and majority of them had worked with the company for more than 5 years.

The study sought to answer the following question; what are the strategic responses to the business environment that have impacted the performance of OMK? The objective of this study was to determine strategic responses to the business environment and organisational performance. Content analysis was done for qualitative data and then results were presented in narrative format.
From the findings, the researcher confirmed that the Insurance industry is greatly affected by changes in the business environment. The study further confirmed that Old Mutual Kenya had implemented strategic responses in order to cope with the changes in the business environment in order to remain competitive and successful.

5.2.1 Changes in the Business Environment Affecting Insurance Companies in Kenya

The business environment is very turbulent and it changes at a very high rate. Competition was a major issue which was found to originate from the existing competitors and new entrants. The Kenyan Insurance industry has over 53 insurance companies all competing for the same customers all over the country. Competition in the industry was also increased by non-traditional competition from banks and telecommunication companies, new entrants like Prudential Insurance and ABSA Life and licensing of firms which were not full insurance firms that converted to fully-pledged insurance firms such as AAR and Resolution Health.

Another major threat is in relation to economic changes. The economy, whether it is doing poorly or well, affects the insurance business just like it does any other business. Respondents agreed that since insurance companies make money by investing premium payments, the economy can greatly impact an insurance business. Respondents agreed that negative impact on the economy was evident through high rates of inflation, high foreign exchange rates and high interest hence Kenyans cannot afford to buy insurance products resulting to low penetration levels.
Technological advancement was sighted as a major change affecting the Insurance industry in Kenya by the respondents. Technology has created new opportunities for marketing, product innovation, improved customer service and new efficient ways of doing things. Changes in technology such as e-mobile, wifi internet and website marketing also led to adaptation of insurance companies to change in relation to changing times. New players in the insurance industry have become change agents, especially because these competitors are aggressive and employ new approaches to courting customers or creating products.

Political instability was another change identified facing the insurance industry in Kenya. Calls for a referendum by the opposition, corruption, numerous strikes by civil servants e.g. teachers, nurses, doctors, constant conflict between Parliament and the Senate, security threats by Al Shabaab, and ICC cases were the major political factors sighted by respondents. The security environment remains a challenge following the killing of Ahmed Abdi Godane the Al Shabaab leader believed to be the mastermind behind the Westgate attacks in September 2013.

Another change cited by respondents was changes in regulation. Respondents agreed that the financial rules and regulations posed to insurance companies sometimes negatively affect the policyholders where insurance companies have to raise premiums in order to comply with certain capital requirements. Such activities can be important in promoting regulatory objectives and potentially lessening the need for more intrusive regulatory constraints and mandates.
Other changes sighted by the respondents were; changing customer needs as the customers become increasingly aware of their consumer rights and exposure to a wide pool of financial service providers in Kenya. Talent flight was also highlighted as a major change in the business environment due to changing employee expectations. Organizations have taken proactive measures to bridge the gap between employee demands and employer satisfaction of those demands.

5.2.2 Strategic Responses to the Business Environment and OMK Performance

OMK has responded to the business environment through mergers and acquisitions. The recent acquisitions of controlling stakes in UAPHL and Faulu DTB has given OMK an edge over competitors. These acquisitions have given OMK the scale and capacity to offer fully integrated financial services including Life insurance, General insurance, Medical insurance, Banking, Asset Management, Stock Broking, Unit Trust and Property Investment. OMK has also expanded regionally to extent its products and services to Uganda, Tanzania, Rwanda, DRC Congo and South Sudan.

OMK has developed and modified its products to appeal to a wider range of customers. OMK launched i-invest, a mobile based UT account that offers customers a platform to register and manage a unit trust account from the convenience of their mobile phones. All instructions to invest, withdraw, switch between selected funds and static information change can be submitted and processed over the Kenyan registered mobile phone. These has enabled OMK to compete in the digital market and automate its UT offering.
OMK has been involved in aggressive marketing and Brand campaigns with the aim of increasing brand visibility and promote Brand awareness across the country. The most recent campaign is the unity campaign dabbed “SISI” that was carried out in Kenya, Uganda, Tanzania, Rwanda, South Sudan and DRC Congo to integrate the three brands; Old Mutual, UAP and Faulu. In 2014 Old Mutual carried out the questions campaign whose aim was to increase insurance awareness to Kenyans. OMK also held a fun day at the Kasarani Stadium at the end of 2014 as part of the initiatives to promote its brand image.

Majority of the respondents sighted technology advancement and infrastructure refresh as key strategic initiatives that have enabled OMK respond to market changes. The company has heavily invested in modern technology and infrastructure to enable it offer differentiated services to the customers and ensure that all branch operations are run seamlessly and efficiently. OMK has websites for facebook and twitter that enable online customer servicing. Customers can enquire about OMK products and services through facebook or twitter.

OMK expanded its branch network in major towns in Kenya including Nairobi, Mombasa, Thika, Nyeri, Meru, Machakos, Nakuru, Eldoret, Bungoma, Kisumu and Kisii. The acquisition of UAPHL and Faulu DTB has increased OMK’s national reach and customers can now purchase OMK products and access OMK services from close proximity. The branches are expected to increase the client base of the organization and help serve existing clients better.
Distribution expansion was a key strategic initiative adopted by OMK to compete in the insurance industry. The aim of this initiative was to come up with innovative distribution through; developing bancassurance, strengthening traditional distribution channels and cross-selling, developing & leveraging Joint Ventures (JVs) & partnerships and investing in non-traditional and cost effective distribution channels based on a technology strategy.

The study has shown that the strategies the company has employed to respond to business environment have been successful. This was evident by the success of the company through enhanced brand visibility, expanded distribution which led to increased sales, increased customer numbers and recognition of OMK as a best company to work for by Deloitte survey. The financial performance of the company was an improvement over the prior year at a comprehensive loss of Kshs 134M in 2014 compared to a comprehensive loss of Kshs 354M in 2013.

5.3 Conclusion

Change is the only constant, OMK has been able to keep pace with the changing business environment through adoption of response strategies. The study concludes that the changes in business environment that affect the operation of the organization were traditional and non-traditional competition, political instability, economic changes, technological changes, regulatory changes, changing customer needs, talent flight due to changing employees expectations, industry’s poor reputation resulting in low penetration and changing customer needs.
OMK had adopted strategies to respond to the business environment changes. These included; mergers and acquisitions, product development and differentiation, aggressive brand campaigns, technology advancement and infrastructure refresh, business processes automation, branch network, distribution expansion, digital proposition, systems upgrade, internal talent development, improved customer experience, capital injection, implementation of a shared service center, change management, regional expansion and proactive lobbying with regulators to review regulation in order to improve the financial services business environment.

5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that:

Although OMK has been successful in implementing strategic responses they need to break down bureaucratic structures to enhance speed of execution. The current organization is too tall with management structures ranging from the country, to Africa and Plc Level. This slows down decision making and before some of the strategic responses are implemented, further changes happen in the business environment.

Firms would also be recommended to always analyse strategic responses very carefully before implementing them. To execute strategy as circumstances change, managers must capture new information, make midcourse corrections and get the timing right. Respondents also recommend that the change management process should be managed carefully in order to get buy in by all stakeholders. The company should work on its culture and should align its strategies to the culture.
5.5 Limitations of the Study

This was a case study of one company and the data obtained may differ from that found in other insurance companies since they use different strategies to respond to the challenges posed by the business environment and organizational performance. However, the researcher made an effort to construct an effective research instrument that sought to elicit general and specific information on the strategic responses that companies adopt to respond to changes in the business environment.

The researcher faced difficulties while obtaining the data since the information required on the organizations strategies was considered sensitive and managers were careful not to reveal too much. The employees were granted permission to respond to the interview questions by focusing on the general view. The limitation was reduced by looking for other sources of data like secondary sources from OMK publications/financial reports, the internet and related links and comparing the data with the information provided.

The study faced both time and financial limitations. The study was conducted within a short period and hence exhaustive and extremely comprehensive research could not be carried on the company’s strategic responses to the business environment and performance impact. Time available to complete the study was inadequate. In most cases the researcher had to make several visits to conduct interviews due to unavailability of some managers. Due to limited finances and time, the study could not be carried on the other branches of Old Mutual Kenya Limited. Never the less, the researcher minimized this by conducting the interview at the company’s headquarters.
5.6 Implication on Policy, Theory and Practice

The policy makers, regulators and government in general will have an opportunity in understanding the appropriate legislations and policies for the industry to face the challenges in the business environment and can form a basis to partner with Kenyan companies to formulate competitive strategic responses which guarantee success in the competitive business environment. The regulator of the insurance industry should create a flexible regulatory environment to enable the insurance companies respond to the business environment and boost their performance.

The results of this study will also facilitate appropriate responses. The study will give managers and staff an insight on issues of organizational responses, which they must be mindful of since the survival of the organization in the changing environment depends on how well it is able to adapt to the changes. Information obtained will be useful in providing insights to enhance customer experience. To OMK, this study will be more of an evaluation on how the company has dealt with change in a strategic manner. An evaluation will enable the company to recognize faults and room for improvement to make its future experiences better.

The results of this study will be useful to scholars and researchers as a basis for further research. It will contribute to theory building particularly in strategic responses and the dynamic business environment. The findings of this study will enrich existing knowledge. It will provide the required direction on research methodology, literature review and formulation of research objectives and questions.
5.7 Suggestions for Further Research

The study identifies OMK is facing stiff competition and in order to survive, OMK should start marketing innovation and creativity. This is because, time and speed have become essential in the world of financial services and depends on innovation in this world of competition in order to deliver the best products and services to achieve competitive advantage and gain customer satisfaction and loyalty.

The study identifies the regulatory environment as being too slow and stiff for the rapid changes in the business environment and customer demands. The study recommends that the regulation within the industry should be eased by removing unnecessary sections in the insurance Act that do not add value, and also, the annual changes in the finance bills should be reduced to give the industry players ample time to adapt to the changes recommended.

The study identifies that as a result of increased M&A activities, OMK was experiencing integration challenges in their attempt to merge different organisational cultures, policies, processes, technology, systems, people, and governance models. In order to face these challenges, OMK should plan meticulously to identify the risks upfront, manage the integration programme in a structured way, know what the business objectives are and understand the vision, define the benefits and goals for the business and then focus on their realisation, and ensure stakeholders are closely managed and communications are regular, relevant and clear.
REFERENCES


http://ijsse.org/articles/ijsse_v1_i11_467_490.pdf

http://www.bjournal.co.uk/paper/BJASS_6_2/BJASS_06_02_05.pdf.


75


APPENDICES

Appendix 1: Interview Guide

This Interview Guide seeks to identify the strategic responses to the business environment and performance of Old Mutual Kenya.

Section A

1. Respondent’s job title in the company________________________________
2. Respondent’s department/Section____________________________________
3. How long have you been in the department____________________________

Section B: Strategic responses to the turbulent business environment and performance

1. Please highlight the major changes in the business environment which in your own opinion have affected the performance of Old Mutual Kenya.
2. Did you make any arrangements to mitigate the consequences of these changes?
3. If yes above, indicate the strategies that were adopted by Old Mutual Kenya to respond to the changes? Briefly explain.
4. How would you rate the effectiveness of strategic responses adopted by Old Mutual Kenya?
5. Is there a correlation between the strategic responses adopted by Old Mutual Kenya and its performance?
6. If yes above, please explain.
7. Are there other strategic responses that you think should be adopted by Old Mutual Kenya?

8. If yes above, which are these strategic responses?

9. Are there challenges that Old Mutual Kenya has encountered in responding to changes in the business environment?

10. If yes above, what are these challenges?

11. Do you think these challenges could hold Old Mutual Kenya back from achieving its set targets?

12. How would you rate effect of the challenges on Old Mutual Kenya response to changes in the business environment?

13. What would you recommend should be done to face these challenges?

14. What are the future prospects of the insurance industry in Kenya?

Thank you very much for participating.
Appendix 11: Introduction Letter

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAMME

Telephone: 020-20539162
Telegram: "Varsity", Nairobi
Telex: 22605 Varsity

DATE: 28/08/2015

TO WHOM IT MAY CONCERN

The bearer of this letter, LINDAH N. WAIHIRE,

Registration No. 66163296/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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 your assistance to enable him/her collect data in your organization.

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.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

28 AUG 2015