STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL ENVIRONMENT: THE CASE OF KENYA RE-INSURANCE CORPORATION

BY

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DECLARATION

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

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

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DEDICATION

To my mother, Loise Kamau, who taught me the value of education at an early age.

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I acknowledge my family for being beside me all the way. Your support and encouragement has seen me this far.

I also acknowledge my supervisor Mr. Jeremiah Kagwe who guided me throughout the research period.

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ABSTRACT

The environment in which organizations operate is constantly changing with different factors influencing organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves. Decisions by managers have a strategic impact and contribute to strategic change. This study was designed to determine environmental changes that face Kenya Reinsurance Corporation and to identify the responses adopted by the company to deal with the changes in the external environment.

The study was carried out using a case study design. Data was collected using a semi-structured questionnaire which was administered using drop and pick method. Several personal visits to the premises were held to prompt the respondents to respond. The sample size for the study was 15 managers in the company. Secondary data was also used to corroborate the data from the primary sources. Statistical Package for the Social Sciences (SPSS) was used to generate data which was analyzed using descriptive statistics.

The study found out that the company faces a lot of challenges from economic, regulatory to technological factors. The most prevalent challenges came from the economic environment. The company has responded to challenges in the economic environment by increasing the level of capitalization and diversification of investments. To deal with the technological challenges, the company has introduced new systems and automated its operations. Technical staff has also been hired to enable the company venture into highly technical businesses. These findings have implications for the company and the policy makers in the insurance industry.

1.0 CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategic Responses

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization has opened up the markets to environmental forces. Coping with the increasingly competitive environment has called on 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 door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

Aosa (1982) noted that industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changing environment. They adopt strategies such as improved customer services, credit facilities, post-paid cards and provision of convenience goods and services.

Rapid technological change has created a new business environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (1990), 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. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become routine for survival means.

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to best support its long term competitive strategy.

Thus 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.

Ansoff and McDonnell (1990) further argue that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness; secondly, use of real time response through issue management and thirdly, systematic management of resistance to change during strategic implementation.

According to Ross (1996) the firm has to learn, adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, brought about by globalization and trade liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

Kenya Re therefore, should engage itself in strategies that will enable them to respond to the challenges and also act as a prerequisite to transformation into a truly regional body, proactive, an effective and efficient customer driven organization, in order to gain competitive advantage over their competitors and, indeed, even for its continued survival in Reinsurance Industry.

Ansoff and McDonnell (1990) state that successful environment serving organizations are open systems in that continued organizational survival depends on its ability to secure rewards from its environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy. They further argue that a major escalation of environmental turbulence in the 90's has meant a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new consumer's attitudes and new dimensions of social control and above all unprecedented questioning of firm's role in society..

In developing countries, Government systems regulated economic aspects of firm's behavior which hampered competition. This practice encouraged the existence of unprofitable and inefficient firms and blocked new entrants. This restrictive trade practice resulted to benefits accruing to protected firms due to manipulation from the systems rather than from innovation and adoption of new technologies (World Bank Report, 1994).

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."

Increased trade liberalization reduces country-based trade barriers, thus increasing the opportunity for cross-border entry (Ellis and Williams, 1995). With new entrants adopting new technologies and more efficient business operations systems, the competitive intensity has increased, pressuring existing industries to internationalize or globalize.

This study is biased towards responses of Kenya Re as one of the players in the industry, in regards to the challenges of globalization and liberalization of the reinsurance industry. In line with the government policy to refrain from doing business and concentrate more on its core mandate, the government intends to offload some of its shares in the Kenya Re through privatization process (AKI, 2005). This was successfully carried out in 2006.

Ansoff (1987) noted that the environment is constantly changing, and so it makes it imperative for organizations to continuously adapt their activities to succeed. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with the emerging environmental challenges.

The Kenyan business environment has been undergoing drastic changes for sometime now. Some of the changes include the accelerated implementation of economic reforms, the globalization and liberalization of the economy, discontinuation of price controls, privatization and commercialization of the public sector and increased international competition. In this changing environment, organizations have had to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organization's in jeopardy (Aosa, 1998).

Economic reforms in Kenya commenced way back in the 1990's and covered the entire economy. This included gradual decontrol of prices, liberalizing the interest rates and privatization of state owned corporations. The government policy on liberalization and privatization was contained in the sector policy paper (GOK, 1996/8). This policy document outlined the reform measures to be undertaken in all sectors of the economy in order to stimulate growth and development, specifically though the privatization of the state owned corporation.

For sometime, the reinsurance industry has been dominated by the Kenya Re. This was primarily because the range of services offered then were few, capital requirements were high, in that only the government could provide these services cost effectively. With the rapid technological change, the capital requirement for investments has drastically come down and the range of services has increased.

The environment in which Kenyan firms operated therefore became turbulent in the 1990's due to the unfamiliar changes in the business environment and exerted heavily on organizations to face competition (GoK, 1998). The changes came up due to the ongoing economic reforms recommended by the Bretton Wood institutions of the World Bank and International Monetary Funds (IMF). Kenya was forced to accept demands of these institutions as a condition of disbursement of aid which had been suspended in 1991 (Ishrat and Faruquee, 1994).

Accordingly, the Kenya government was forced to liberalize the economy in 1992 while the implementation of the reforms began in 1993 with the liberalization of exchange control and abolition of licensing and removal of price controls (GoK, 1994). Since then many economic reforms have taken place and the program is still ongoing. Hence, from 1992 onwards, a series of persistent and drastic changes took place in various sectors of the economy with the birth of globalization and liberalization which was accompanied by economic uncertainty (GoK, 1993).

In addition, the current global trend of breaking trade barriers and the adoption of the private sector-led development program has resulted in the need to implement economic reforms consistent with this development. It is against this background that the government issued the a sector policy paper (Government of Kenya (GOK) , 1996/8) on liberalization and privatization covering reforms measures to be undertaken in all sectors of the economy, the insurance sector included. In light of this, on 13th March 1997, Kenya Reinsurance Corporation was registered under the Companies Act (Cap.486), with its operations regulated by the Insurance Act Cap 487 of the Laws of Kenya.

These regulations stipulated Restructuring of Kenya Re which involved separation of duties of Kenya Re and Commissioner of Insurance, where Kenya Re was registered to provide a full range of reinsurance services to insurance companies in and out of Africa, while regulatory functions were vested and performed by the office of the Commissioner of Insurance.

Liberalization which led to the opening up of the market brought about new participants of both local and foreign companies in the industry to increase customer's choice and accelerate investments. Economic reforms in Kenya combined with globalization and liberalization of the insurance industry has exposed Kenya Re to stiff competition from experienced newly licensed operators. The environment in which Kenya Re is operating has fundamentally changed. These changes have brought pressure on Kenya Re to adapt new strategies to meet the new challenges facing it. Thus, it's expected that such internal adaptations are taking place in the company (AKI, 2005).

1.1.2 Insurance Industry

The Insurance Industry plays a vital role in the economic and social development of any country. 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 guaranty to indemnify the insured if certain specified losses occur. Hence the principle used is of divided responsibility. As a business, however, insurance is usually recognized as a form of securing a promise of indemnity by the payment of a premium and the fulfillment of certain other stipulations. Insurance is therefore, a mechanism for transferring risk from those exposed to uncertain loss producing events to insurers. Insurance companies in a bid to manage such risks do resort to creating large pools of similar and homogeneous risks in addition to seeking further protection by way of reinsurance (AKI, 2005).

Reinsurance is therefore a practice whereby one party known as rein surer (reinsurance company) in consideration of a premium paid to it agrees to indemnify another party known as reinsured (insurance company) for part or all of the liability assumed by the latter party under a policy or policies of insurance which it has issued. Hence, this leads to an insurer or reinsurer assuming the risk of another under contract. A Reinsurance provider is an organization that is involved in the provision of a wide range of reinsurance services to insurance companies. For example, fire and allied classes, accident, aviation, marine hulls and cargo, motors and life among others (Vels, 1999).

Historically, In government systems in developing countries, as a form of national reinsurance capacity building, indigenous reinsurance companies were created and sanctioned by a law to receive compulsory cession from insurance companies in the country concerned. In Africa, this happened in respect of Zimbabwe Reinsurance Corporation (Zim Re), Nigeria Reinsurance Corporation (Nigeria Re), Egypt Reinsurance Corporation (Egypt Re) and Kenya Reinsurance Corporation (Kenya Re) (Vels, 1999).

Kenya is considered to be among the largest insurance markets in Africa. By the end of 2004, Kenya had 40 insurance companies, 4 re insurance companies; (including Zep Re and Africa Re which are regional bodies) 200 insurance brokers, 250 service providers and about 4000 insurance agents. 5 insurers transact life insurance business only while 21 others transact both life and general business (AKI, 2005). After Kenya got it's independence in 1963, the government saw the need to have some control of the insurance sector. At the time, the insurance market was only dominated by branch offices of foreign insurance companies particularly from United Kingdom (UK) and India. The Insurance Company's Act of 1960, which was in force then, was based on the UK legislation.

In 1978, the minister for finance who is responsible for the insurance sector issued an order stopping the operations of all foreign branch offices and further instructed that all insurance companies must be locally incorporated. In early 1980s, the process of drafting a law to regulate the insurance sector was started by the government with the support of UNCTAD. In 1986, the Insurance Act was enacted with an enforcement date of 1st January 1987. The Insurance Act Cap 487 introduced the office of the Insurance regulator (Known as the Commissioner of Insurance) and further stipulated the various requirements for registration of the insurance companies, reinsurance companies, insurance brokers, insurance agents, loss adjusters, assessors, insurance surveyors and other service providers in the sector.

At the direct market level, the role of government in terms of ownership ended with the collapse of Kenya National Assurance in 1996. The insurance market is pluralistic in nature whereas at the reinsurance level the market is semi monopolistic with the government exercising a limited monopoly restriction to legal cession for Kenya Re.

Out of forty (40) direct writing companies, 22 are composite companies writing both life and non-life business, while 15 are involved in non-life business only and 2 are life offices. The non-life sector of business is therefore the most competitive with 37 insurance companies involved in it. In the distribution channel, there are over 150 registered brokers and over 1061 agents operating in the Kenya market. (AKI, 2005)

The Insurance Act Cap (487) was amended in 1998 to facilitate gradual facing out of mandatory cessions for Kenya Re by the year 2011, or after privatization, whichever comes earlier. The Insurance (Amendment Regulation, 1998) outlines the schedule of gradual removal of Reinsurance treaties (GoK, 1999).

Kenya's insurance industry leads within the East African Community (a trading block of Kenya, Uganda, Tanzania, Rwanda and Burundi), and is a key player in the COMESA region, (Common Market for Eastern and Southern Africa). The industry employs over 10,000 people, underwrites well over Kshs 27 billion premiums, and pays over 70% of the motor business with a similar number handling well over 90% of the property business in the market (AKI, 2005)

1.1.3 Kenya Reinsurance Corporation Limited

Kenya Reinsurance Corporation is a state owned corporation that was established in 1970 under the State Reinsurance Corporation Act of the laws of Kenya Cap 485. Initially, the corporation was referred to as the State Reinsurance Corporation of Kenya. The name was changed to Kenya Reinsurance Corporation under the provision of 1977 Statute Law (Miscellaneous Amendment) Act. The corporation's function is to undertake and transact in any manner reinsurance and insurance business in and out of Kenya.

The establishment of Kenya Reinsurance Corporation (Kenya Re in short) was necessitated by the Government desire to address the unsatisfactory conditions in the local insurance sector. Specifically Kenya Re was established to pursue the following objectives: first and foremost, to increase retention capacity within the country so as to reduce the need to purchase reinsurance covers from external reinsurance; secondly, to help in regulating the insurance sector, (a function which is now performed by the office of the Commissioner of Insurance); thirdly, to contribute towards the growth and development of local expertise in insurance and reinsurance fields, and lastly to generate funds for investment in the national economy.

Kenya Re's corporate vision reads: "to be a world class re-insurer and market leader offering quality reinsurance and ancillary services". The mission reads:" to provide quality reinsurance and insurance services to our clients in Kenya, rest of Africa, Middle East and Asia". The corporate core values include: committed to professionalism, customer satisfaction, quality services, development of human resources, social responsibility, concern for the environment and integrity.

In 1971, the Corporation commenced underwriting business, initially, underwriting fire risk. In 1972, the corporation expanded its business portfolio when it started underwriting accidents class of business covering the whole range of risks such as burglary, cash in transit, personal accidents and workman's compensation. Between 1973 and 1974, the Corporation commenced underwriting marine and aviation, motor and life classes of business. On 13th March 1997, Kenya Reinsurance Corporation was registered under the Companies Act (Cap.486). Its operations are, however regulated by the Insurance Act Cap 487 of the laws of Kenya.

In 2000, the Corporation converted into a fully-fledged reinsurance offering the full range of reinsurance services to insurance companies in Africa, Middle East and Asia. It is involved in reinsurance, insurance, property management, and investments, with its principal market being the Kenyan insurance market. Kenya Re is the only indigenous reinsurance firm operating in the Kenyan market, under an assured market share monopolistically guaranteed by law by way of mandatory cessations. However, in a turbulent environment, coupled with the increased pressures for globalization which has led to economic liberalization and opening up of the market, compulsory cessions are no longer tenable.

Kenya Re being a state owned corporation has not been spared either from these forces of globalization and trade liberalization combined with the fair trade practices as advocated by the World Trade Organization (WTO) leading to the opening up of the Re-insurance market. This has made the corporation vulnerable, as it has to compete with the other reinsurance companies for the same insurance industry. For an organization to remain truly competitive over time in a turbulent environment, it must closely monitor the changes in events and trends in the industry it operate in, for it to adopt on time (Vels, 1999).

In the year 2000, the first per policy compulsory cessions on insurance policies ceased. However, Kenya Re still enjoys the second, 18 % compulsory cession on any amount of which an insurance company cannot retain. This cession comes to an end in 2011, or full privatization depending on what comes first. Therefore, the Corporation is in the process of transiting from an assured market to freely competitive market where mandatory cessions are no longer tenable in a free market. As Kenya Re prepares itself to adjust to the loss of compulsory cessions as a result of liberalization, with the envisaged privatization it is anticipated the organization will seize this moment to re-invent and repackage itself, changing into a formidable competitor in the reinsurance industry.

The Kenya government intended Kenya Re to address the prevailing unsatisfactory conditions in the local insurance sector. The corporation provides reinsurance and insurance services with an estimated authorized capital of Ksh. 2 billion and a 100% government of Kenya ownership, and receives mandatory cessions from insurance companies.

1.2 Statement of the Problem

It is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention. To succeed in the long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers. Strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful organization has this business self-awareness and every successful business seems to have this clarity of vision, even though it does not arise from a formal planning process (Pearson, 1990).

When selecting the response strategy to be used by the organization, management usually undergoes the following processes: analyzing the competitive environment which includes competitors' strategic move and market signals; analyzing the industry by looking at discreet market segments, changes in industry structure, which strategic group to compete in and selecting a generic competitive strategy based on identified target market segments, strategic options and SWOT analysis (Porter, 1998)

Several studies have been carried out in Kenya, addressing the aspects of Kenyan firms and economic liberalization (Oyoo, 2002; Owiye, 1999; Yatich, 2001 and Kombo, 1997). Similarly, the last few years have seen an unprecedented spate of structural changes in Kenya Reinsurance Corporation. The changes were systematically implemented with a few key objectives as the guiding principle, all aimed at a turn around and privatization of Kenya Re-insurance. A change management approach through a new organizational structure was made by top management based on a new corporate vision and mission. However, the literature cited above indicates that there has been no study focusing on the strategies adopted in response to external environmental changes influencing Kenya Re-insurance.

It is in the light of this that a research need arises to establish the response strategies currently being adopted by Kenya Re-insurance in response to changes in the external environment. The study therefore, undertakes to answer the following question and test the underlying hypothesis: what response strategies are adopted by Kenya Re-insurance Corporation in response to changes in the external environment?

1.3 Research Objectives

The study sought to achieve the following objectives:

1. To determine the environmental changes facing the Kenya Re-insurance Corporation.
2. To identify the responses adopted by Kenya Re-insurance Corporation to these changes.

1.4 Importance of the study

The study will aid various stakeholders; the Re-Insurers will obtain details on challenges facing the industry and the details of responses to the challenges. In addition the study will provide a justification to the responses adopted depending on the success obtained.

The policy makers will obtain knowledge of the insurance industry dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector.

The academicians and researchers in the field of strategic management and environment in the insurance industry will be able to use this study as a source of reference in forming their future research topics and studies.

2.0 CHAPTER TWO: LITERATURE REVIEW

2.1 Strategic Management

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives. It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives. Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and executive team. Strategic management provides overall direction` to the enterprise and is closely related to the field of Organization Studies, (David, 1989).

Chandler (1962) views strategic management as the determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out these goals. According to Quinn (1980), a strategy is the pattern or plan that integrates an organization’s major goals, policies, and action sequences into a cohesive whole.

Lawrence and Lorsch, (1967) argue that effective strategic management should be characterized by; a clear business strategy and vision for the future, a strategic direction endorsed by senior managers, taking account of partners and other stakeholders, a framework for governance at several levels that ensures you can coordinate everything (multiple goals) even when there are competing priorities and different goals. Good strategic management brings about the ability to exploit opportunities and respond to external change (turbulence) by making ongoing strategic decisions with a coherent framework for managing risk -

whether it is balancing the risks and rewards of a business direction, coping with the uncertainties of project risk or ensuring business continuity.

Strategic management is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. It is the highest level of managerial activity, usually performed by the company's top management and executive team and it is aimed at providing overall direction to the whole enterprise. Strategic management is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives (Pearce and Robinson, 2003). According to Thompson and Strickland (1993), strategic management focuses on the total enterprise as well as the environment in which it operates; the direction management intends it to head; management’s strategic plan for getting the enterprise moving in that direction; the managerial task of implementing and executing the chosen plan successfully

According to Thompson and Strickland (1993) there are five tasks of strategic management, all within the strategy formulation and implementation function. These include the following: developing a business concept and forming a vision of where the organization needs to be headed, in effect giving the organization a sense of purpose, providing long term direction and establishing a mission, converting the mission into specific objectives, designing a strategy to achieve the targeted performance, implementing and executing the strategy efficiently and effectively and evaluating the performance, reviewing the situation and initiating corrective adjustments into mission, objectives and strategy, or implementation in light of actual experience, changing conditions, new ideas and new opportunities.

Strategic management refocuses the management process, dealing rather with the long term issues instead of operational issues. Many of the challenges faced by managers during earlier periods were similar to those faced by managers today. Managers continue to face many challenges such as increasing worker productivity; meeting the challenge of international competition; replacing obsolete work methods and equipment with newer; more expensive equipment; developing and introducing new products; maintaining employee motivation and morale.

Strategic management seeks to provide solutions to these issues by maintaining a long term focus to anticipate and deal with issues facing the organization with a view of long term growth, profitability and survival. Strategic management is dynamic, involving a complex pattern of actions and reactions. According to Mintzberg and Quinn (1988) Strategy may be either planned by the organization or emergent from the environment.

Strategic management as a discipline originated in the 1950s and 60s. There are numerous early contributors to the literature on strategic management. Chandler (1962) recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler (1962) also stressed the importance of taking a future looking long term perspective. In his 1962 groundbreaking work, strategy and structure, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He argued that structure follows strategy.

Selznick (1957) introduced the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed into what we now call strengths, weaknesses, opportunities and threats (SWOT) analysis. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment. Ansoff (1965) built on this work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic Corporate Strategy, he developed the "gap analysis" still used today in which we must understand the gap between where we are currently and where we would like to be, then develop what he called "gap reducing actions" (Ansoff, 1965).

Drucker (1954) stressed the importance of objectives. He stated that an organization without clear objectives is like a ship without a rudder. He developed a theory of management based on objectives. This evolved into his theory of management by objectives (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the "knowledge worker" and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

Strategic actions are influenced by the environmental factors. Changes in the environment will lead to changes in objectives and strategy (Pearce and Robinson, 2003). The environment is complex and ever changing and it will continue to change rapidly, radically and unpredictably (Burnes, 1996). Therefore managers have to keep reviewing their strategy to match the environmental demand. In order to enhance preparedness in handling surprising events an organization needs to augment the timeliness of managerial response to the surprising changes. This requires the establishment of real time strategic issue management (SIM) systems.

2.2 Strategy and environment

According to Johnson and Scholes (2003), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

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. 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, in part, to the time consumed in observing, interpreting, collating and transmitting information to responsible managers. In another part, it 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 ironclad 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, different organizations have had to engage various strategies to survive. One such strategy is the corporate turnaround strategy. A turnaround situation is one of pointing out to a new direction. It is a complete change in strategic direction of a firm after it has faced a corporate distress. Such a situation can easily lead to collapse of a company unless a plan of corporate survival and renewal is devised and successfully executed. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson (1997).

Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because they take into consideration fundamental changes in the environment thus making firms proactive rather than reactive (Bett, 1995). Okutoyi (1992) states that strategy has an important role in helping businesses position themselves in an industry.

Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition (Aaker, 1992). Aaker also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kotler (1998) says that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment.

Johnson and Scholes (2002), view strategy as the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a changing environment and fulfill stakeholders expectations. Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength.

Porter (1985) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) also 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. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development.

To be successful over time, an organization must be in tune with its external environment. Pearce and Robinson (1991) show in their model that the external environment consists of two interactive and interrelated segments which are the operating environment and the remote environment. The operating environment consists of competitors, customers, creditors, labor markets and suppliers that is the immediate business environment while the remote environment consists of the economic, political, social and technological aspects which are further a field. The operating environment is easily controllable by the firm. Customer relationships can be cultivated and a successful supply chain can be cultivated.

However, Pearce and Robinson (1991) postulate that the remote environment consists of forces that originate beyond the firm's operating environment and are therefore much harder to manipulate or handle. Economic forces influence inflation rates, unemployment rates, foreign exchange rates and disposable income for instance which the firm must contend with. Politico-legal considerations may influence laws governing firms and dictate specific ways of running organizations through labor laws, anti – monopoly laws, taxation and so on.

Hence, 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). The speed or response time to the environment challenges has been identified (Pearse and Robinson, 1997) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It is thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events.

In his 1980 classic Competitive Strategy: Techniques for Analyzing Industries and Competitors, Porter simplifies the scheme by reducing it down to the three best strategies. They are cost leadership, differentiation, and market segmentation (or focus).

Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope. Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche.

Firms in the middle were less profitable because they did not have a viable generic strategy. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation, (Porter 1980).

2.3 Response Strategies

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage in the industry. He brings forward the five forces driving industry competition which are threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat from substitute products or services and rivalry among existing firms.

Porter (1980) believes that once these five forces have been identified clearly in a particular industry, a SWOT analysis of the firm should be done to determine the firm's competitive position in the industry. This will then enable the firm to decide which strategies to apply in order to combat the competition.

Johnson and Scholes (1997) postulate that organizational strategies exist at three levels: corporate level, business or competitive level and operating level. Corporate level strategies involve the overall structural scope of the organization while business level strategies use strategic business units (SBU's) to compete successfully. Operational level strategies deal with internal procedures and standards.

The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, Porter (1980) points out that a diversification strategy stands apart from the other three strategies.

The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit, (Ansoff 1980).

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization.

Porter prescribes three generic competitive strategies. These are cost leadership, differentiation and focus. Cost leadership aims at being efficient in production and operations to reduce costs by having controls to this effect. Differentiation means targeting different market segments and catering for each individually to gain maximum value. Focus involves concentrating on one particular market niche to position oneself in the market.

Hill and Jones (1999), argue that focus strategy concentrates on serving a particular market niche, which can be defined geographically, or through the type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, more often than not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

3.0 CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This is a case study; it seeks to achieve the objectives of the study, which were to establish the strategic response to external environment of Kenya Re. The importance of a case study is emphasized by Young (1960) and also by Kothari (1990) who both acknowledge 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. It's a method that drills down, rather than cast wide. The interview guide covered the various aspects of the study, which include the objective, mission, vision of the organization, the challenges (both internal and external), customer care, organizational structure, and strategic management, issues among others that could appear relevant to the study.

3.2 Data collection

The researcher used a structured questionnaire as the primary data colletion instrument. The questionnaire was designed to give a brief introduction of the environmental changes targeted. The questionnaire was administered using a drop and pick method targeted to the employees in management posisitons at Kenya Re-insurance Corporation. Fifteen respondents were targeted for the research. These were in management positions especially heads of various business units at Kenya Re-insurance Corporation. Those interviewed included heads of departments (divisions) from eight departments. The departments were strategy and business development, risk and compliance, human resources, local business unit, international business unit, legal, finance, and information technology department.

For secondary data, the researcher used the corporation's annual report, and company strategic paper.

3.3 Data analysis

Data collected was analyzed based on content analysis. The quantitative data was analyzed by the use of descriptive statistics and then presented through percentages, means, standard deviations, frequencies and charts. The researcher used the data with an aim of presenting the research findings in respect to the use of strategic responses to the external environment adopted by Kenya Re-insurance Corporation.

4.0 CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the analysis and findings of the study.

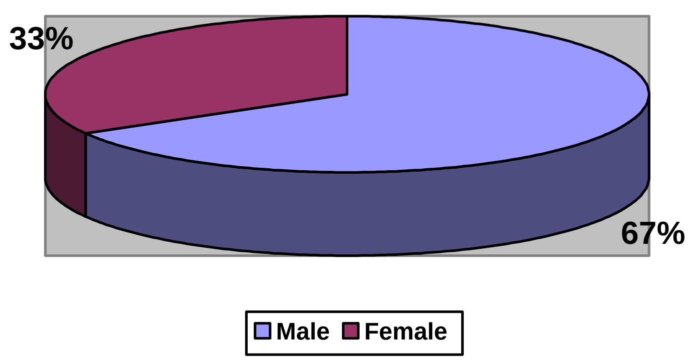
4.2 Response Rate

The questionnaire was distributed to fifteen managers out of which twelve were fully completed and collected by the researcher for data analysis. This gives a response rate of 80%.

4.3 Gender of Respondents

The respondents were asked to state their gender. It was found that 33 per cent of the respondents were female while 67 per cent were male. This is presented in the figure below.

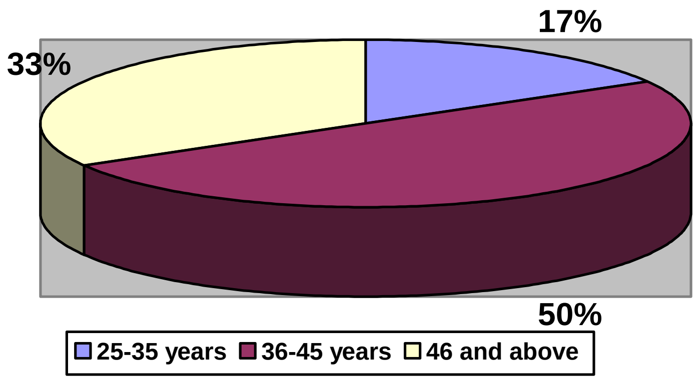
Figure 4. 1: Gender of respondents



The study also found out that 33 per cent of the respondents are aged 46 and above while 50 per cent are aged between 36 and 45 years. Only 17 per cent of the respondents are aged below 35 years. This is presented in the figure below.

4.4 Age of Respondents

Figure 4. 2: Age distribution of respondents



4.5 Professional Qualification of Respondents

On the professional qualification of the respondents, the study found out that 58.3 per cent of the respondents were CPA (K) holders while 41.7 per cent had finished ACII. The rest of the analysis can be observed from the table below.

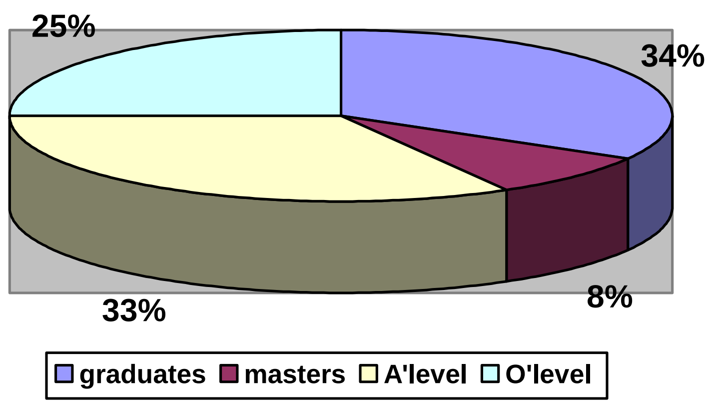
Table 4. 1: Professional qualification of respondents

	Number of respondents	Percentage
FCII	2	16.7
ACII	5	41.7
ACII (1-9 papers)	3	25
Actuarial	3	25
CPA (K)	7	58.3
CPA (Various stages)	2	16.7
Lawyer/CPS	3	25
MISK	2	16.7
ICPS	2	16.7
HD/HRM	1	8.3

4.6 Academic Qualification of Respondents

The researcher also sought to know the highest academic qualification of respondents. From the analysis, it was found that 33 per cent of the respondents had graduate degrees while 8 per cent had masters. A' level graduates were 33 per cent of the sample while 25 per cent had O' level certificates. The analysis of the academic qualifications of respondents can be observed from the figure below.

Figure 4. 3: Academic qualification of respondents



4.7 Challenges and Response Strategies

4.7.1 Responses Strategies to Economic Environmental Challenges

The respondents were asked to state whether or not management had faced major challenges in the economic environment. The majority of respondents (75%) said that the corporation faced major challenges from the economic environment. The results are shown in the table below.

Table 4. 2: Challenges from economic environment

Response	Frequency	Percent (%)
Yes	9	75
No	3	25
Total	**12**	**100.0**

On what challenges had specifically affected the firm form the external environment, the respondents listed several of them. One of the major challenges identified by the respondents was competition. They reiterated that Kenya Re faces direct local competition from other reinsurance companies namely PTA Re, Africa Re and East Africa Re. Indirect competition comes from other insurance companies in the country. The respondents also said that Kenya Re also faces international competition for its international market from other reinsurance companies in other countries. Internationally, direct competition comes from Nigeria Re, Egypt Re, and Zim Re among others.

The researcher also sought to investigate whether the respondents had ever sought for response strategies to mitigate the effects of any major challenge posed by changes in the economic environment. All the respondents agreed that the company had sought strategies to counter the challenges in the market. The response strategies to the economic environmental challenges are presented below.

i. Increases capitalization

As to what specific strategies the company had adopted to respond to the challenges, the study found out that the company had a capitalization level of 2 billion shillings which the respondents said would enable the company to accept more business. Stability as the company accepts more business is a key concern and the level of capitalization cushions the firm against any eventualities. The company is also offering training to the local insurance companies in the market and partnering with them so as to remain competitive in the market. The introduction of attachment programmes for the staff of other organisations and offering of scholarship to those seeking further degrees is also strategies that Kenya Re has adopted.

ii. Diversification of investment

The corporation has invested substantially in commercial office buildings which include Anniversary Towers, Reinsurance Plaza in Nairobi, Mombasa and Kisumu and Kenya Re Towers. Besides office buildings, Kenya Re has also invested in major housing schemes in various parts of the country. These include the following housing estates, Bogani and Ndege, Waiyaki way, Villa Franca and South C Flats. Other housing schemes including, Migosi Estate in Kisumu and Meru Housing Scheme in Meru. Kenya Re has also invested in Government Securities, Marketable securities, Mortgage loans and Fixed deposits.

iii. Expansion to other foreign countries

The study also found out that Kenya Re plans to aggressively continue to attract more business from the West African Region. In line with this, Kenya Re staffs have been trained in French speaking and underwriting skills and plans are underway to recruit more French speaking underwriters. This is in response to the growing international competition brought about by globalization. The company also plans to support and quote on company programmes as this has continued to boost the company's premium income in these markets. The study further found out that Kenya Re also plans to continue to open up new markets and to carry out aggressive marketing in those areas they are present in, to get a bigger market share. Another strategy that the company is planning is reducing of the workforce. Kenya Re is also set to reduce its workforce by 40% to a level of 60 employees in a bid to reduce its costs.

iv. Privatization exercise

It is believed that the recent privatization of Kenya Re Privatization will see it boost its efficiency which is a must have in the private sector due to competition. The 40% privatization is seen as an opportunity to boost the company's financial flexibility with the potential entrance of new shareholders. However it must be noted that, the exercise will come with a realignment of the workforce. It's expected that the workforce may be slashed by 40%.

v. Venturing into West African Region

40% of the company's business is drawn from outside the country, where the company does not enjoy the cessions. This means that the company is not purely dependant on the Kenyan market and therefore incase there were changes on the compulsory cessions its risk is well mitigated. Kenya Re derives a competitive advantage from its long experience of the market, as well as its established client relationships with direct insurance companies. The company is expected to increase its reliance on brokers as it grows its international portfolio in Africa (where brokers provide most of the business).

The majority of respondents who said that they adopted response strategies claimed to have experienced high levels of success with corporate level strategies. This is illustrated in the table below whereby, 25% recommended strategic level response strategies, 62.5% recommend corporate level strategies, while 12.5% recommend business level response strategies.

Table 4. 3: Strategies experiencing high level of success

Response Strategy	Frequency	Percent (%)
Strategic level strategies	2	25
Corporate level strategies	5	62.5
Business level strategies	1	12.5
Total	**8**	**100.0**

4.7.2 Responses Strategies to Regulatory Environmental Challenges

83.3% of the respondents claimed that there were changes in regulation policies that affected their operations, while the remaining 16.7% were of the opinion that there were no major challenges posed by changes in regulation policies. This is presented in the table below.

Table 4. 4: Impact of regulatory policies

Response	Frequency	Percent (%)
Yes	10	83.3
No	2	16.7
Total	**12**	**100.0**

The findings presented in the table below are based on the question, "rate the extent to which the regulation has affected your operations?" 50% of the respondents answered high, 33.3% answered moderate, while 16.6% answered that the effect was low.

Table 4. 5: Extent to which regulation has affected operations

Answer	Frequency	Percent (%)
High	6	50
Moderate	4	33.3
Low	2	16.6
Total	**12**	**100.0**

As evident from the table below, 66.6% of the respondents claimed that there were changes in the political environment that affected their operations, while the remaining 33.7% were of the opinion that there were no major challenges posed by changes in the political environment.

Table 4. 6: Impact of political environment on the company

Response	Frequency	Percent (%)
Yes	8	66.6
No	4	33.7
Total	**12**	**100.0**

58.3% of the respondents claimed that there were changes in technology that affected their operations, while the remaining 41.7% were of the opinion that there were no major challenges posed by technological changes or advancements.

The study further revealed that the company had faced a lot of challenges posed by the regulatory environment. One of the challenges relates to the compulsory cessions. It is expected that compulsory cessions will come to an end after the public listing, thus Kenya Re will be robbed of the 18% of the treaty business in

Kenya. This will expose the company to more competition as the free market forces take effect. New entrants may enter into its core business. Kenya Re being fully owned by the government has been operating in near monopoly but this is expected to change after privatization.

Another challenge regards the investment risk. Fears abound on the high credit risk associated with the company's reinsurance with non-rated reinsures (which increases the potential risk of non-recovery of outstanding claims), though the proportion of ceded premiums is low at approximately 10-15%. The company also faces country risk (just like any other company operating on the Kenyan soil), mainly from political stability in the country.

The recent unearthing of the corrupt deals not only delayed the first phase of privatization of the corporation through an IPO, but has also led to the suspension of some former directors suspected to be behind the deals. This has triggered a negative perception from the public. The response strategies to the regulatory challenges are presented below.

i. Insurance investment mix

Lack of a level playing field as the other Reinsurance companies will continue to receive cessions while Kenya Re may cease to receive the 18 per cent cession that insurance companies pay to Kenya Re. Kenya Re’s insurance investment mix will cushion the firm against the disadvantages brought about by not receiving the 18% mandatory cessions from other insurance companies.

ii. Foreign operations and accounts

To handle the issue of currency fluctuations, Kenya Re has opened a foreign currency account in Europe (UK). The company has also employed under-writers from other foreign countries like French speaking countries, Arab speaking countries and other foreign countries to overcome the problem of language barrier in the international market. Foreign clients only feel comfortable dealing with one of their own hence the reason for the company to employ foreigners in those nations.

4.7.3 Responses Strategies to Technological Environmental Challenges

As presented in Table 4.7 below, 58.3% of the respondents said that technology had affected the company while 41.7% said that the technological changes had not affected the company.

Table 4. 7: Effect of technology on the company

Response	Frequency	Percent (%)
Yes	7	58.3
No	5	41.7
Total	**12**	**100.0**

The respondents were also asked to state the areas in which technology had specifically taken toll in the company. The study revealed that technology had revolutionized the way the company operates affecting all the divisions and departments in the organization. More specifically, the study revealed that the accounting division was the most affected one in the company as all the operations in the department have been automated.

The study also found out that the ICT department is dogged by several challenges including having to continuously train the staff on the use of modern technology, constantly maintaining systems to meet users needs and maintaining the network infrastructure and securing it from any external threat. The response strategies to the technological challenges are as follows.

i. Automation of operations

The respondents were then asked to state what strategies the company had used to respond to technological challenges. The company has responded to these challenges by employing strategies such as using quarterly performance reports, online budget control, e-commerce, enhancement of team work, equipping staff with necessary skills and training and exposure and upholding highest standards of ethics in the accounting department.

ii. Introduction of Systems specific Applications

The company has also responded to the challenges by setting up strategies to aid in system specific applications and disaster recovery and business continuity planning. For system specific applications, the company has placed computer systems that process business data in specific areas such as Remas. The Remas system has replaced the old system and improvements are continually being made. The company has also resorted to improve on core areas of reporting on voids and percentage occupancy in the tenancy system. This is done by identifying vendors and assessing their software for further improvement. The department has also decided to have one financial system to replace Informix database applications and COBOL programming language that processes all the information.

iii. Use of Technical Staff

For technical businesses in nature like those in the aviation industry, Kenya Re has employed technical staff as underwriters including engineers. The company has also decided to re-insure with nearby insurance company both locally and internationally.

75% of the respondents agreed that performance had improved as a direct result of the technological strategies employed by the company. This is presented in the table below.

Table 4. 8: Effect of technology on performance improvement

Response	Frequency	Percent (%)
Yes	9	75
No	3	25
Total	**12**	**100.0**

4.8 Involvement in Strategy Formulation

As evident on table 4.9 below, 25% of the respondents claimed that they were involved in the formulation of the response strategies, while the remaining 25% claimed that they were not involved in the strategy formulation.

Table 4. 9: Involvement of managers in strategy formulation

Response	Frequency	Percent (%)
Yes	3	25
No	9	75
Total	**12**	**100.0**

The findings on table 4.10 below are based on the question, "Do you consider the various response strategies adopted by Kenya Re-insurance to be proactive or reactive to the changes in the corporation's external environment?" 33.3% of the respondents were of the opinion that the response strategies were proactive, while 66.7% of the respondents perceived the response strategies adopted as reactive to the challenges posed by changes in Kenya Re-insurance external environment.

Table 4. 10: Perception on the type of strategy adopted by the company

Response	Frequency	Percent (%)
Proactive	4	33.3
Reactive	8	66.7
Total	**12**	**100.0**

5.0 CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

The ensuing discussion majors on the findings of the study against the backdrop of the objectives this study was designed to achieve.

From the study, the researcher found out that the majority of the respondents (75%) perceived economic factors as the most challenging external environmental factors.

The study also established that 56.6% of the respondents did not actively participate in the formulation of response strategies to be adopted by Kenya Re-insurance Corporation, but were involved in the implementation of the corporation's strategic plan.

The decision making tasks in respect to strategy formulation was mainly undertaken by top managers and communicated to other employees in management positions for implementation. A majority of 30% answered that they would appreciate and be more proactive in the implementation of the response strategies if they were involved in the formulation of such strategies.

The study also established that a majority of the managers (66.7%) concur that Kenya Re-insurance Corporation adopts reactive response strategies to changes in the external environment rather than being proactive in the development of such response strategies.

The respondents recommended that the Kenyan Government should encourage and educate its staff and members and appoint more qualified and competent managers to the various departments as a way of improving the efficiency of the corporation especially in the current privatization efforts spear headed by the Ministry of Finance.

5.2 Conclusion

This study was designed with two main objectives. One, to determine the environmental changes facing Kenya Re and two, to identify the response strategies adopted by the company to the changes. It can be concluded that the challenges that Kenya Re faces are numerous. These challenges are both internal and external. These include loss of mandatory cessions, liberalization of the market, competition, rapid technological changes, rating of companies, language barriers, risk profile and fluctuation of the currency. These challenges can be summarised into social challenges, economic challenges, political challenges and internal challenges.

To deal with these challenges, the firm has laid out response strategies to counter the wave. These strategies are entrenched in the strategic planned rolled out in 2007 that states what the organisation is set to achieve and what each division and department in the organization will achieve as their main objectives and the tactics that shall be used to achieve the objectives. The organisation has set up branches in other parts of the world and employed locals in those areas to transact business on behalf of the company. This also erases the problem of currency fluctuations. The company also reinsures with other companies locally and internationally.

The company has also employed highly professional staff to deal with the technical issues so as to enable the firm engage in technical businesses. The study also found out that the organization trains the staff on new developments both in technology and the core business aspects.

It can therefore be concluded 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).

5.3 Recommendations

For Kenya Re-insurance Corporation to succeed in its response to challenges in its external environment, it should involve its managers in the formulation of such strategies and give them adequate decision making authority in the implementation of the response strategies. All the stakeholders in the insurance industry should incorporate the findings of this study, especially the identified challenges facing the industry in making their decisions.

The policy makers should also take cognizance of the dynamics facing the insurance sector when formulating policies for the industry. The dynamics presented in this study are an important pointer to enlightening the policy makers on the direction to which the policies should be made.

5.4 Suggestions for further research

The study proposes that a similar study be undertaken focusing on response strategies adopted by other Re-insurance Corporations and the level of success experienced by such corporations in dealing with changes in their external environment.

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Appendix 1: Questionnaire

Part A: General Information

1. What is your gender?

Male [ ]

Female [ ]

2. What is your age?

Below 25 [ ]

25-35 [ ]

36-45 [ ]

Above 45 [ ]

3. What is your professional qualification? Please tick appropriately

FCII [ ]

ACII [ ]

ACII (1-9 papers) [ ]

Actuarial [ ]

CPA (K) [ ]

CPA (Various stages) [ ]

Lawyer/CPS [ ]

MISK [ ]

ICPS [ ]

HD/HRM [ ]

Others [ ]

4. What is your highest academic qualification?

A' Level [ ]

Graduate [ ]

Masters [ ]

O' Level [ ]

Primary level [ ]

1. Have you faced major challenges in the economic environment?

YES ( )

NO ( )

2. List the challenges that have had major impact on your operations from the economic environment.

………

………

………

………

………..

3. Did you make any arrangements to mitigate the consequences of these challenges?

YES ( )

NO ( )

4. If yes above, indicate the strategies that were adopted to respond to the challenges? Briefly explain.

………

………

………

………

…………

5. Which responses led to fruitful results? Indicate briefly why.

Strategic level strategies ( )

Corporate level strategies ( )

Business level strategies ( )

6. Has there been any changes in regulation policies that have affected your operations?

Yes ( )

No ( )

7. Rate the extent to which the regulation has affected your operations.

High ( )

Moderate ( )

Low ( )

8. Indicate any changes that have taken place in your industry due to political climate?

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9. Has there been any technological changes that have affected your operations?

Yes ( )

No ( )

10. If yes above, briefly indicate the areas in which technology has taken toll?

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11. To respond the above technological changes, what strategies have been put in place to achieve the appropriate changes?

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12. Has there been any improvements in performance owing to this technology adoption?

Yes ( )

No ( )

13. Are you involved in the formulation of any of the response strategies highlighted in any of above questions?

Yes ( )

No ( )

14. If your answer is No in the above question, would you be more effective in the implementation of such response strategies?

Yes ( )

No ( )

15. Do you consider the various response strategies adopted by Kenya Re-insurance to be proactive or reactive to the changes in the corporation's external environment?

Proactive ( )

Reactive ( )

Thank you for your time.