COMPETITIVE STRATEGIES AND PORTER'S FIVE FORCES MODEL BY THE INSURANCE COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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Signature …………………………………… Date ……………………….

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

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DEDICATION

This research project is dedicated to God for granting me life and good health all through my course work and while undertaking this project

I also dedicate it to my parents, Hassan and Hannat Shao, all my siblings and Adrian Randiki Obudho for being a constant source of inspiration. They have given me the drive and discipline to tackle the research project with great enthusiasm and determination. Without their love and support, completing this project would not have been possible

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LIST OF ABBREVIATIONS

AKI	Association of Kenya Insurers
GDP	Gross Domestic Product
IRA	Insurance Regulatory Authority
KBV	Knowledge-Based View
RBV	Resource-Based View
SPSS	Statistical Package for Social Sciences
SCP	Structure-Conduct-Performance

ABSTRACT

The state of competition in an industry depends on five basic forces. Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy. It is a framework that classifies and analyses the most important forces affecting the intensity of competition in an industry and its profitability level (Porter, 2008). Five forces model is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry (Porter, 2008).Low insurance penetration is one of the challenges facing the insurance industry development in terms of market share, product diversification among other measures. The essence of competitive strategies is coping with competition. This study sought to fill the existing research gap by investigating on the challenges facing insurance companies in building competitive advantage in Kenya. The survey research design method was employed in this research. The survey is a method for collecting information or data as reported by individuals. The population for this study was 47 insurance companies in Kenya which operate under an umbrella body, the Association of Kenya Insurers (AKI) and regulated by the Insurance Regulatory Authority (IRA). The study was done using survey method to conduct the research. Self-administered questionnaires were used to collect primary data. The study generated both qualitative and quantitative data. Descriptive statistics data analysis method was applied to analyze both quantitative and qualitative data. Descriptive statistics helped to compute measures of central tendencies and measures of variability (Bell, 2007).Qualitative data was analyzed using content analysis. The analyzed findings were then presented inform of frequency tables, pie charts and bar charts since they are user friendly and gave a graphical representation of the different responses given by the respondents. The study concludes that the insurance companies in Kenya do apply the Porter's five forces model in establishing competitive strategies to a great extent. The study further concludes that then companies apply the threat of entry force to determine the competitive strategy to adopt in order to discourage entry of new companies into the industry. The powerful supply force has enabled the companies to provide their customers with services at a relatively higher price. Further conclusions can be drawn that insurance companies that apply the threat of substitutes force are able to find about substitute products that pose competition which in turn enables them know which competitive strategy to adopt. The study recommends that companies need to be keen when applying the force of bargaining power of the supplier, since suppliers have strong bargaining power only when there are few suppliers but many buyers. There is need for the insurance companies to differentiate their services so as to stand out from the crowd. This way, the companies will be able to offer unique services that are not being offered by their competitors and will be in a position to retain their customers. The study recommends that insurance companies should adopt the cost leadership strategy due to the fact it is associated with internal strengths such as access to the capital required to make a significant investment in production of their services, since this always presents a barrier to entry that many firms may not overcome.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Competitive strategy is the plan of how a firm will compete, after evaluating how its strengths and weaknesses compare to those of its competitors (Porter, 1980).It is a framework for making decisions which priority actions that create results in a competitive market (Porter, 2008).Competitive strategy is a long term action plan that is devised by an organization to gain sustainable competitive advantage over its rivals. Competitive strategy consists of the actions which are taken to attract customers, to withstand the competitive pressures of the market and also to help and strengthen the firm's market position. The main objective of the competitive strategy is to gain a competitive advantage over organization's rivals. The competitive advantage can be either greater customer value than the competitors or higher operational efficiency than the competitors, or both.

According to Michael Porter (1985) for companies to be able to gain competitive advantage they have to apply the following strategies: Cost leadership strategy, differentiation strategy and focus strategy (Porter, 1985). Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy. It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level (Porter, 2008). This tool is used to evaluate company's competitive position in the industry and to identify what strengths or weakness can be exploited to strengthen that position. The tool is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry (Porter, 2008). The model is used by gathering information, analyzing the findings and then formulating strategy based on the conclusion.

The theoretical basis of this study is the resource-based view (RBV). The resource-based view as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer, 1983 p142, Wernerfelt, 1984, p172; Rumelt, 1984, p557-558; Penrose, 1959). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf, 1993, p180). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991; p117). If these conditions hold, the bundle of resources can sustain the firm's above average returns. The insurance companies can apply this theory in order to gain competitive advantage by: First identifying its potential key resources. Secondly the company should evaluate whether these resources are valuable, rare and in-imitable .Thirdly they should care for and protect resources that possess these evaluations, because doing so can improve organizational performance (Crook *et al*, 2008).

Low insurance penetration is one of the challenges facing the insurance industry development in terms of market share, product diversification among other measures. In Kenya, insurance growth was 2.84% in year 2009 compared to 2.63% in previous year while South Africa whose growth was 12.9% with a population of 44 million (AKI

2009). According to National financial access survey (2009) only 6.8% of Kenya population has purchased insurance cover with an overwhelming 91% never having embraced insurance cover either in life or property (Kiragu, 2014). In regard to the above concept insurance firms have to formulate competitive strategies for each to have credible market share by using Porter's five forces model as an analysis tool

1.1.1 Competitive Strategies

Competitive strategy is the plan for how a firm will compete, after evaluating how its strengths and weaknesses compare to those of its competitors (Porter, 1980). It is a framework for making decisions which priorities actions that create results in a competitive market. The main objective of the competitive strategy is to gain a competitive advantage over organization's rivals. The competitive advantage can be either greater customer value than the competitors or higher operational efficiency than the competitors, or both. There are several ways that insurance companies can apply to gain competitive advantage of the rivals in the industry. Among them are the Michael Porter's Generic Competitive strategies which include cost leadership, differentiation, and focus. In cost leadership, a firm sets out to become the low cost producer in its industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average (Porter, 1985).

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others, (Porter, 1985).

Other strategies that have been used to earn competitive advantage include: The Ansoff's strategies, the strategy as a compilation of simple rules and the blue ocean strategy. The Ansoff's Strategy includes the market penetration strategy, the market developing strategy and Diversification strategy. The market penetration strategy is a strategy in which the business corporation tries to increase the product sales or service sales in the existing market. In fact the market penetration strategy's aim is to increase the sales of the business corporation without becoming part of a new market. The reasons for implementing this strategy are: To make a better usage of the producing capacities, to be against the new entering potential competitors, and to develop new technologies. The corporation should keep the reputation of the biggest innovator in the market and the general participation in the market should be protected (Lynch, 2006). Diversification strategy means a situation in which Business Corporation starts to produce new products in new markets (Lynch, 2006).

The strategy as a compilation of simple rules is a more modern approach to the strategies focused on achieving competitive advantage. The essence of this strategy is to grasp and use the opportunities given at the moment to the business organizations while moving in a flexible way from one opportunity to another and always focusing on the basis of the actual movements and potential future changes of the external market factors. In this case managers concentrate on some simple rules which they follow very carefully while they are managing the company (Eisenhardt, 2002).

With the blue ocean strategy one of the main aspects is overcoming the competition. In fact, the organization insists that it pursues its development path without any importance on the steps the competitors take. This concept is known as the innovation of value and comes as a result of tendencies *(*Kim, Mauborgne 2005). This strategy is based on six main principles divided in two groups, where in the first group formulating strategies take place like: reconstruction of market confines, look at the big picture and do not focus too much in numbers, look beyond the existing demand, look after the functioning of strategic process. Whereas in the second group principles take place which are related with the implementation of strategies like: exceed the main organization problems, convert self-implementation in a strategy. This strategy is based on 4 main actions like: create, Increase, decrease and eliminate (Kim, Mauborgne, 2005).

1.1.2 Porter's Five Forces Model

Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy. It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level (Porter, 2008). Five forces model was created by M. Porter in 1979 to understand how five key competitive forces are affecting an industry. These forces determine an industry structure and the level of competition in that industry.

The tool is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry are (Porter, 2008).

The five forces identified are: Threat of new entrants which determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants. Threat of new entrants is high when; Low amount of capital is required to enter a market, existing companies can do little to retaliate, existing firms do not possess patents, trademarks or do not have established brand reputation, there is no government regulation, customer switching costs are low (it doesn't cost a lot of money for a firm to switch to other industries), there is low customer loyalty, products are nearly identical, and economies of scale can be easily achieved (Porter, 2008).

The other force is bargaining power of suppliers. Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers. This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when; There are few suppliers but many buyers, suppliers are large and threaten to forward integrate, few substitute raw materials exist, suppliers hold scarce resources, and cost of switching raw materials is especially high (Porter, 2008).

The other force is bargaining power of buyers. Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Buyers exert strong bargaining power when: Buying in large quantities or control many access points to the final customer, only few buyers exist, switching costs to other supplier are low, they threaten to backward integrate, there are many substitutes, and buyers are price sensitive (Porter, 2008).

The other force is threat of substitutes. This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost (Porter, 2008). The other force is Rivalry among existing competitors. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when: There are many competitors, exit barriers are high, growth of industry is slow or negative, products are not differentiated and can be easily substituted, competitors are of equal size, and low customer loyalty. But how to use this tool? We have identified the following steps: Step one is to gather the information on each of the five forces, Step two is to analyze the results and display them on a diagram; step 3 is to formulate strategies based on the conclusions (Porter, 2008).

1.1.3 The Insurance Industry in Kenya

At the apex of the insurance sector in Kenya are two reinsurance companies, the quasi-public Kenya Reinsurance Corporation (Kenya Re) and East African Reinsurance Company. By 2010, short and long-term underwriters were 44, of which 21 provide medical insurance. Others are 3,788 insurance agents and 158 insurance brokers. To date the industry is served by 48 insurance companies, of which 23 are in life insurers and 36 are in non-life insurers (including personal accident and health insurance).The Insurance Industry recorded gross written premium of Kshs. 130.65 billion in 2013 compared to Kshs. 108.54 billion in 2012, representing an increase of 20.40%. Gross earned premium increased by 16.36% to stand at Kshs. 107.18 billion in 2013 compared to Kshs. 92.11 billion in 2012. Profit before tax increased to Ksh 18.18 billion from Ksh 14.637 billion in 2012. The overall insurance penetration increased to 3.44% in 2013 compared to 3.16% in 2012. The low penetration highlights the significant opportunities that exist in the Kenyan Insurance Market especially in commercial lines such as oil, real estate and infrastructure (Kenya Insurance Report, 2015).

Kenya's insurance industry is expected to perform well throughout the remainder of the forecast period through to 2019. It is expected that real GDP growth will average over 6% between 2015 and 2019, indicating growing capacity for spending on a range of insurance products. Despite this economic growth and notwithstanding that particular companies have had success with micro-insurance, low household incomes remain a constraint on the development of life insurance. However, many of the companies are achieving growth through developing innovative products and/or new distribution arrangements. The Kenyan insurance industry is small in global terms, however it is competitive. There is expected to be 6% growth between 2015 and 2019. This will translate intense competition and for the companies to excel they will have to have well-structured competitive strategies that will enable them gain competitive advantage over other industry players (Kenya Insurance Report, 2015). It is a dynamic industry and has a lot of potential for growth in the future and this study will be beneficial for the industry.

1.1.4 Insurance Companies In Kenya

The Insurance companies in Kenya operate under an umbrella body, the Association of Kenya Insurers (AKI), which was established in 1987. Before then, it was called the Insurance Association of Eastern Africa. Membership is open to any registered insurance company. Its main objective is to promote prudent business practices, create awareness among the public and accelerate the growth of insurance business in Kenya. Under the 2011 amendments to the Insurance Act, an insurer wishing to open a branch or a new place of business in Kenya, or to change the location of a branch, or an existing place of business, applies to the Authority for approval. Insurance Regulatory Authority now holds directors of the insurer to be jointly and severally liable for the recovery of the assets in case of mismanagement. The Authority was also given powers to manage assets of an insurance company in the public interest and take any other action in this regard (www.akinsure.com, 15/10/08).

1.2 Research Problem

The state of competition in an industry depends on five basic forces. Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy. It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level (Porter, 2008). Five forces model was created by M. Porter in 1979 to understand how five key competitive forces are affecting an industry. These forces determine an industry structure and the level of competition in that industry. The stronger the competitive forces are in the industry the less profitable it is. An industry with low barriers to enter, having few buyers and suppliers but many substitute products and competitors will be seen as very competitive and thus, not so attractive due to its low profitability. It is every strategist's job to evaluate company's competitive position in the industry and to identify what strengths or weakness can be exploited to strengthen that position. The tool is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry (Porter, 2008).

Low insurance penetration is one of the challenges facing the insurance industry development in terms of market share, product diversification among other measures. In Kenya, insurance growth was 2.84% in year 2009 compared to 2.63% in previous year while South Africa whose growth was 12.9% with a population of 44 million (AKI 2009). According to National financial access survey (2009) only 6.8% of Kenya population has purchased insurance cover with an overwhelming 91% never having embraced insurance cover either in life or property (Kiragu, 2014). In regard to the above concept insurance firms have to formulate competitive strategies for each to have credible market share by using Porter's five forces model as an analysis tool.

The essence of competitive strategies is coping with competition. Yet it is easy to view competition too narrowly and too pessimistically. While one sometimes hears executives complaining to the contrary, intense competition in an industry is neither coincidence nor bad luck. Moreover, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry (Porter, 2008).

International studies done are; Karnani (2006) who did a study on Generic competitive strategies—An analytical approach, Carpenter et al (1998) who did a study on Competitive Strategies for Late Entry into a Market with a Dominant Brand and McDougall et al (1990) who did a study on New Venture Strategies: An Empirical Identification of Eight "Archetypes" of Competitive Strategies for Entry. One study on Porter's five forces; Davies et al (2000).

Local studies done include: Ouma (2007) did on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009) investigated on the internet as a source of competitive advantage for insurance firms in Kenya; Kiragu (2014) did a study on assessment of challenges facing insurance companies in building competitive advantage in Kenya: A survey of insurance firms. Therefore this study sought to fill the research gap by investigating on the challenges facing insurance companies in building competitive advantage in Kenya. Ogutu *et al (*2012) who did a study in Strategies Adopted by Multinational Corporations to Cope with Competition in Kenya. There are no studies on the exact topic that I am studying on and this will close the gap on this particular research. The study sought to answer the research question: Do insurance companies in Kenya apply the Porter's five forces model in establishing competitive strategies?

1.3 Objective of the study

To establish the extent of application of Porter's five forces model in establishing competitive strategies by the insurance companies in Kenya.

1.4 Value of the study

The study will provide useful information to policy makers and regulators to design targeted policies and programs that will actively stimulate the growth and sustainability of the insurance companies in the country. Regulatory bodies like Insurance Regulatory Authority can use the study findings to improve on the frame work for growth of insurance market in the country.

The study findings will benefit management and staff of insurance companies who will gain insight into the importance of Porter's five forces in establishing effective competitive strategies to enhance competitive advantage.

The study is expected to add value to researchers and Scholars as it will contribute to the literature on the application of Porter's five forces in establishing competitive strategies in the insurance industry in Kenya. It is hoped that the study will be useful to the academicians, who may find useful research gaps that will stimulate interest in further research in future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relating to relationship between Porter's Five forces and selection of competitive strategies by the insurance companies in Kenya. The literature review covers the theoretical framework and studies on the relationship between Porter's five forces and competitive strategies of insurance companies in Kenya.

2.2 Theoretical Review

This study was guided by the following theories; Resource based theory, Knowledge based theory, network based theory and dynamic capability theory, these theories explain competitive advantage.

2.2.1 The Resource-Based View (RBV)

The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a driver for competitive advantage and emphasises the resources that firms have developed to compete in the environment. During the early strategy development phase of Hoskisson's account of the development of strategic thinking (Hoskisson et al. 1999), the focus was on the internal factors of the firm. Researchers such as Ansoff (1965) and Chandler (1962) made important contributions towards developing the Resource-Based View of strategy (Hoskisson et al., 1999). From the 1980s onwards, according to Furrer et al. (2008), the focus of inquiry changed from the structure of the industry, e.g., Structure-Conduct-Performance (SCP) paradigm and the five forces model) to the firm's internal structure, with resources and capabilities (the key elements of the Resource-Based View (RBV). Since then, the resource-based view of strategy (RBV) has emerged as a popular theory of competitive advantage (Furrer et al. 2008; Hoskisson et al. 1999). The origins of the RBV go back to Penrose (1959), who suggested that the resources possessed, deployed and used by the organization are really more important than industry structure. The term ‘resource-based view’ was coined much later by Wernerfelt (1984), who viewed the firm as a bundle of assets or resources which are tied semi-permanently to the firm (Wernerfelt 1984).

Prahalad and Hamel (1990) established the notion of core competencies, which focus attention on a critical category of resource – a firm’s capabilities. Barney (1991) also argued that the resources of a firm are its primary source of competitive advantage. According to Ramos-Rodríguez and Ruíz-Navarro’s (2004) bibliometric study of the Strategic Management Journal over the years 1980–2000, the most prominent contribution to the discipline of strategic management was the Resource-Based View of strategy. In addition, the papers written by Wernerfelt (1984) and Barney (1991) are the two most influential articles in strategic management research (Ramos-Rodríguez &Ruíz-Navarro 2004).

Early researchers simply classified firms’ resources into three categories: physical, monetary, and human (Ansoff, 1965). These evolved into more detailed descriptions of organisational resources (skills and knowledge) and technology (technical know-how) (Hofer & Schendel 1978). Amit and Shoemaker (1993) proposed an alternative taxonomy involving physical, human and technological resources and capabilities. Lee et al. (2001) argued for a distinction between categories: property-based and knowledge-based.

Barney (1991) suggested that other than the general resources of a firm, there are additional resources, such as physical capital resources, human capital resource and organisational capital resources. Later, Barney and Wright (1998) add human resource management-related resources to this list of additional resources of a firm.

These resources can be tangible or intangible (Ray et al. 2004). Wernerfelt (1984) also discussed that resources might be tied semi-permanently to the firm. Barney (1991) drew attention to 'all assets, capabilities, organizational processes, firm attributes, information, knowledge etc., controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness'. Ultimately, firms that are able to leverage resources to implement a 'value creating strategy not simultaneously being implemented by any current or potential competitor' (Barney 1991) can achieve competitive advantage. Researchers subscribing to the RBV argue that only strategically important and useful resources and competencies should be viewed as sources of competitive advantage (Barney 1991).

Core competencies are distinctive, rare, valuable firm-level resources that competitors are unable to imitate, substitute or reproduce (Barney 1991; Prahalad & Hamel 1994). Distinctive competencies refer to all the things that make the business a success in the marketplace (Papp & Luftman 1995) Wang (2004) outline an approach to firm-level analysis that requires stocktaking of a firm's internal assets and capabilities. The assets in question could be physical assets, knowledge assets (intellectual capital) as well as human resources, which in turn determine the capabilities of a firm. Maier and Remus

(2002, p. 110) use the term ‘resource strategy’ and define three steps in a firm’s resource strategy - competence creation, competence realization and competence transaction. Competence creation defines and analyses the markets, product and service. Competence realization involves the execution of services, procurement, and production.

2.2.2 The Knowledge-Based View

While most researchers subscribing to the RBV regard knowledge as a generic resource, some researchers (Murray 2000; Teece et al. 1997; Tiwana 2002) suggest that knowledge has special characteristics that make it the most important and valuable resource. Hamel and Prahalad (1994) argue that knowledge, know-how, intellectual assets and competencies are the main drivers of superior performance in the information age. Evans (2003) and Tiwana (2002) also suggest that knowledge is the most important resource of a firm. Evans (2003) pointed out that material resources decrease when used in the firm, while knowledge assets increase with use. Tiwana (2002) argued that technology, capital, market share or product sources are easier to copy by other firms while knowledge is the only resource that is difficult to imitate. Grant (1996) argued that there are two types of knowledge: information and know-how. Beckmann (1999) proposed a five-level knowledge hierarchy comprising data, information, knowledge, expertise and capabilities.

Zack (1999) divides organisational knowledge into three categories: core knowledge, advanced knowledge, and innovative knowledge. Core knowledge is the basic knowledge that enables a firm to survive in the market in the short-term. Advanced knowledge provides the firm with similar knowledge as its rivals and allows the firm to actively compete in the short term. Innovative knowledge gives the firm its competitive position over its rivals. The firm with innovative knowledge is able to introduce innovative products or services, potentially helping it become a market leader (Zack 1999).

2.2.3 The Capability-Based View

Grant (1991) argued that capabilities are the source of competitive advantage while resources are the source of capabilities. Amit and Shoemaker (1993) adopted a similar position and suggested that resources do not contribute to sustained competitive advantages for a firm, but its capabilities do. Haas and Hansen (2005), as well as Long and Vickers-Koch (1995),supported the importance of capabilities and suggest that a firm can gain competitive advantage from its ability to apply its capabilities to perform important activities within the firm. Amit and Shoemaker (1993,) defined capabilities in contrast to resources, as ‘a firm’s capacity to deploy resources, usually in combination using organizational processes, and effect a desired end. They are information-based, tangible or intangible processes that are firm-specific and developed over time through complex interactions among the firm’s resources’. Teece et al. (1997) define dynamic capabilities as, ‘the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments’.

Grant (1996) defines organizational capability as, ‘a firm’s ability to perform repeatedly a productive task which relates either directly or indirectly to a firm’s capacity for creating value through effecting the transformation of inputs to outputs’. Grant (1996) also divides capability into four categories: cross-functional capabilities, broad-functional capabilities, activity-related capabilities and specialized capabilities. Sirmon et al. (2003) stressed the importance of organizational learning. They suggest that capabilities and organizational learning implicitly and explicitly are a part of any strategy within a firm. It has been argued (Zack 1999) that the ability to learn and create new knowledge is essential for gaining competitive advantage. Lee et al. (2001) discussed the influence of internal capabilities and external networks on firm performance.

2.3 How Five Forces Shape Competitive Strategies

Competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry. The state of competition in an industry depends on five basic forces (Porter, 1979). In the economists' perfectly competitive industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure, of course, offers the worst prospect for long-run profitability. The weaker the forces collectively, however, the greater the opportunity for superior performance. Whatever their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favor.

The collective strength of the forces may be painfully apparent to all the antagonists; but to cope with them, the strategist must delve below the surface and analyze the sources of each. For example, what makes the industry vulnerable to entry, what determines the bargaining power of suppliers? Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats. Understanding these sources also proves to be of help in considering areas for diversification (Porter, 1979).

2.3.1 Threat Of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Companies diversifying through acquisition into the industry from other markets often leverage their resources to cause a shake-up, as Britam acquired Real Insurance Company. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that entrants can expect. If barriers to entry are high and newcomers can expect sharp retaliation from the entrenched competitors, obviously the newcomers will not pose a serious threat of entering (Porter, 1979). When the situation is vice versa then existing players should expect sharp competition from the newcomers. This factor will enable the players in the industry to be predicting the growth of the market and it will guide them as what competitive strategy to adapt in order to remain competitive in the market.

2.3.2 Powerful Suppliers & Buyers

The other force is bargaining power of suppliers. Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers. This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when; There are few suppliers but many buyers, suppliers are large and threaten to forward integrate, few substitute raw materials exist, suppliers hold scarce resources, and cost of switching raw materials is especially high (Porter, 2008). This force will enable the players in the industries to know how many suppliers are in the industry, know how powerful they are and this will guide them on what competitive strategy to adopt in order to remain dominant in the market.

The other force is bargaining power of buyers. Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Buyers exert strong bargaining power when: Buying in large quantities or control many access points to the final customer, only few buyers exist, switching costs to other supplier are low, they threaten to backward integrate, there are many substitutes, and buyers are price sensitive (Porter, 2008). This force will enable the insurance companies to know the buyers and their power and this will enable them to decide which competitive strategy to adopt such as cost leadership or differentiation.

2.3.4 Substitute Products

The other force is threat of substitutes. This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost (Porter, 2008). This force will enable players in the industry to find about substitute products that pose competition which in turn will enable them know which competitive strategy to adopt for instance they use cost leadership, focus or differentiation.

2.3.5 Rivalry Among Companies

The other force is Rivalry among existing competitors. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when: There are many competitors, exit barriers are high, growth of industry is slow or negative, products are not differentiated and can be easily substituted, competitors are of equal size, and low customer loyalty (Porter, 2008). This will enable the players in the industry to know who its rivals are, how they are performing and this will guide in choosing which competitive strategy to adapt for instance where there is little differentiation a company can differentiate to remain.

2.4 Summary Of Literature Review

This chapter has reviewed the existing literature on the relationship between porter's five forces and competitive strategies. It has discussed in detailed the theories that are used in gaining competitive advantage. It has also discussed how the five forces are used in guiding a company in establishing its competitive strategies in order to dominate the market.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology refers to methods and procedures used by the researcher to collect information that was needed in the study work. This chapter outlines the methods, the researcher applied in the collection of data and techniques adopted in sampling of the population.

3.2 Research Design

Dooley (2007) notes that a research design is the structure of the research, it is the ‘‘glue’’ that holds all the elements in a research project together. The survey research design method was employed in this research. The survey is a method for collecting information or data as reported by individuals. Surveys are questionnaires (or a series of questions) that are administered to research participants who answer the questions themselves. The information that is obtained may be concerned with the prevalence, the distribution, and/or the interrelationships between variables within these participants. Since the participants were providing the information, it is referred to as self-report data. Surveys are used to get an idea of how a group or population feels about a number of things. Additionally, surveys can be a way for people to measure how often or how little people engage in different behaviors (Shuttleworth, 2008). It emphasizes on ascertaining frequency with which something occurs or the extent to which variables are related. In this case it helped to establish the relationship between the porter’s five forces model and competitive strategies applied by the insurance companies in Kenya.

3.3 Target Population

The population for this study was 47 insurance companies in Kenya which operate under an umbrella body, the Association of Kenya Insurers (AKI) and regulated by the Insurance Regulatory Authority (IRA).

3.4 Data Collection

The study was done using survey method to conduct the research. Self-administered questionnaires were used to collect primary data. Information on whether Porter's five forces are applied to establish competitive strategies by insurance companies in Kenya was studied. The required data was collected by both closed and open-ended questions, which are mainly structured.

Self-administered questionnaires were used and it had two sections. Section one enquired general information about the insurance companies and section two was about Porter's five forces and competitive strategies. The respondent for the questionnaires were individuals who have had considerable experience within the 47 insurance companies and preferably individuals in the business development or sales department who can easily relate the company with the rest of the industry players.

The questionnaires were then physically and/or through emails distributed to each insurance company and after identifying the respondent they were left to look at the questions and requested to have it completed within seven days of which they were collected for analysis and interpretation.

3.5 Data Analysis

The study generated both qualitative and quantitative data. Descriptive statistics data analysis method was applied to analyze both quantitative and qualitative data. Data obtained from the questionnaires was processed through editing and coding and then entering the data into a computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 20, which offered extensive data handling capabilities and numerous statistical analysis procedures that analyses small to very large data statistics (Bell, 2007). Descriptive statistics helped to compute measures of central tendencies and measures of variability (Bell, 2007).

Descriptive analyses are important since they provide the foundation upon which correlational and experimental studies emerge; they also provide clues regarding the issues that should be focused on leading to further studies (Mugenda & Mugenda, 2003). Qualitative data was analyzed using content analysis. The analyzed findings were then presented inform of frequency tables, pie charts and bar charts since they are user friendly and gave a graphical representation of the different responses given by the respondents.

CHAPTER FOUR

DATA ANALYSIS FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents and the findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 47 respondents from which 34 filled in and returned the questionnaires making a response rate of 72.3 percent. This response rate was satisfactory to make conclusions for the study. The response rate was representative. According to Mugenda and Mugenda (1999), a response rate of 50 percent is adequate for analysis and reporting; a rate of 60 percent is good and a response rate of 70 percent and over is excellent. Based on the assertion, the response rate was considered to be excellent.

4.2 Demographic Information

4.2.1 Type of Insurance Company

The study requested the respondents to indicate their type of insurance company.

Table 4.1: Type of Insurance Company

Education Level	Frequency	Percent
Life	18	52.9
General	10	29.4
Composite	6	17.6
Total	**34**	**100.0**

From the study findings, majority of the respondents as shown by 52.9% indicated that they work in a life insurance company, 29.4% of the respondents were in genera insurance company while 17.6% of the respondents were in composite insurance company. This is an indication that the respondents were from all the types of insurance companies.

4.2.2 Length of Operation

The study sought to determine the length of time the companies had been in business. The findings revealed that all the companies involved in the study had been in operations for a period between 4 and 10 years. This depict that the insurance companies had been in operation for a long period enough to understand the competitive strategies and porter's five forces model adopted.

4.2.3 Companies' Customers

The respondents sought to determine who makes most of the companies' customers.

Table 4.2: Companies' Customers

Source	Frequency	Percent
Individuals	16	47.1
Cooperate	6	17.6
Both	12	35.3
Total	**34**	**100.0**

The findings revealed that most of the respondents as shown by 47.1% indicated that individuals make most of their companies' customers, 35.3% of the respondents indicated both individuals and cooperate make most of their companies' customers, while 17.6% of the respondents indicated cooperate.

4.3 Application of the Porter's Five Forces Model in Formulation of Competitive Strategies.

The study sought to determine the competitive strategies applied in the insurance companies to win over the market. The study findings revealed that insurance companies adopt the Michael Porter's Generic Competitive strategies which include cost leadership strategy, differentiation strategy as well as the focus strategy. This is done so as to remain competitive since there are often many new incoming companies in the industry, which seem to pose a threat.

The differentiation strategy helps the companies to provide unique services in its industry along some dimensions that are widely valued by their clients. The study revealed that the insurance companies use this differentiation strategy with the aim to select one or more aspects that many of their clients in the industry perceive as important, and uniquely positions themselves to meet those needs. The findings also revealed that when there are new companies entering industry, the insurance companies adopt the cost leadership strategy, where they sets out to become the low cost producer in the industry. They may include the pursuit of economies of scale and proprietary technology. These findings were found to be consistent with the findings of Porter (1985) that if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

The study also sought to determine what the respondents consider before picking a service provider. The findings revealed that price, quality and availability of the services are all considered before picking a service provider. This is because buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs.

The study established that insurance companies have come up with strategies that will discourage newcomers from entering the industry. Such measures taken by the companies have involved lowering the price of services provided which makes the industry appear non profitable. However, this has forced them to ensure efficiency in the production of their services to as to lower the production cost. This way, the companies will be in a position to comfortably respond to price sensitive customers, without being afraid of incurring losses. These findings concur with those of Porter (1979) that if barriers to entry are high and newcomers can expect sharp retaliation from the entrenched competitors, obviously the newcomers will not pose a serious threat of entering.

The findings further revealed that the quality of services provided highly affect the company's profitability. This is because the customers demand services of high quality which definitely implies a cost of production. In addition to high quality, the study revealed that customers demand the high quality services at a lower price. This leaves the companies with a challenge on how to meet their customers' demands. The findings established that the companies use the bargaining power of suppliers force which allows them provide higher priced or low quality services to their customers.

The findings further established that the insurance companies do consider substitute products as s threat especially in the case where the substitutes are of lower prices and higher quality. To deal with the threat, the insurance companies use the substitute product force to determine if their customers have any other offers in the industry that their customers can opt to take. In case where there is a possibility of substitution, the findings revealed that the companies engage in differentiation strategy where they make their services unique and appealing to their customers. These findings were found to be consistent with the findings of Porter (2008) who noted that the substitute force is threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. He further added that this force will enable players in the industry to find about substitute products that pose competition which in turn will enable them know which competitive strategy to adopt for instance they use cost leadership, focus or differentiation.

4.4 Discussion

The study sought to determine the competitive strategies applied in the insurance companies to win over the market and revealed that insurance companies adopt the Michael Porter's Generic Competitive strategies which include cost leadership strategy, differentiation strategy as well as the focus strategy. This is done so as to remain competitive since there are often many new incoming companies in the industry, which seem to pose a threat. The differentiation strategy helps the companies to provide unique services in its industry along some dimensions that are widely valued by their clients. When there are new companies entering industry, the insurance companies adopt the cost leadership strategy, where they sets out to become the low cost producer in the industry. They may include the pursuit of economies of scale and proprietary technology. These findings were found to be consistent with the findings of Porter (1985) that if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. The study also that price, quality and availability of the services are all considered before picking a service provider. This is because buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs.

The study established that insurance companies have come up with strategies that will discourage newcomers from entering the industry. Such measures taken by the companies have involved lowering the price of services provided which makes the industry appear non profitable. However, this has forced them to ensure efficiency in the production of their services to as to lower the production cost. This way, the companies will be in a position to comfortably respond to price sensitive customers, without being afraid of incurring losses. These findings concur with those of Porter (1979) that if barriers to entry are high and newcomers can expect sharp retaliation from the entrenched competitors, obviously the newcomers will not pose a serious threat of entering.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study. The researcher had intended to establish the extent of application of Porter's five forces model in establishing competitive strategies by the insurance companies in Kenya.

5.2 Summary of the Study

The study revealed that insurance companies adopt the Michael Porter's Generic Competitive strategies which include cost leadership strategy, differentiation strategy as well as the focus strategy. The differentiation strategy helps the companies to provide unique services in its industry along some dimensions that are widely valued by their clients. When there are new companies entering industry, the insurance companies adopt the cost leadership strategy, where they sets out to become the low cost producer in the industry. They may include the pursuit of economies of scale and proprietary technology.

The study also revealed that price, quality and availability of the services are all considered before picking a service provider. This is because buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs.

The study established that insurance companies have come up with strategies that will discourage newcomers from entering the industry. Such measures taken by the companies have involved lowering the price of services provided which makes the industry appear non profitable. However, this has forced them to ensure efficiency in the production of their services to as to lower the production cost. This way, the companies will be in a position to comfortably respond to price sensitive customers, without being afraid of incurring losses.

The findings further revealed that the quality of services provided highly affect the company's profitability. This is because the customers demand services of high quality which definitely implies a cost of production. In addition to high quality, the study revealed that customers demand the high quality services at a lower price. This leaves the companies with a challenge on how to meet their customers' demands. The companies use the bargaining power of suppliers' force which allows them provide higher priced or low quality services to their customers.

The findings further established that the insurance companies do consider substitute products as s threat especially in the case where the substitutes are of lower prices and higher quality. To deal with the threat, the insurance companies use the substitute product force to determine if their customers have any other offers in the industry that their customers can opt to take. In case where there is a possibility of substitution, the findings revealed that the companies engage in differentiation strategy where they make their services unique and appealing to their customers.

5.3 Conclusion

The study concludes that the insurance companies in Kenya do apply the Porter's five forces model in establishing competitive strategies to a great extent. The study further concludes that then companies apply the threat of entry force to determine the competitive strategy to adopt in order to discourage entry of new companies into the industry. The powerful supply force has enabled the companies to provide their customers with services at a relatively higher price. Further conclusions can be drawn that insurance companies that apply the threat of substitutes force are able to find about substitute products that pose competition which in turn enables them know which competitive strategy to adopt.

5.4 Recommendations

The study recommends that companies need to be keen when applying the force of bargaining power of the supplier, since suppliers have strong bargaining power only when there are few suppliers but many buyers. In such a case, suppliers are many and threaten to forward integrate, few substitute raw materials exist, suppliers hold scarce resources, and cost of switching raw materials is especially high.

There is need for the insurance companies to differentiate their services so as to stand out from the crowd. This way, the companies will be able to offer unique services that are not being offered by their competitors and will be in a position to retain their customers.

From the findings, the study recommends that insurance companies should adopt the cost leadership strategy due to the fact it is associated with internal strengths such as access to the capital required to make a significant investment in production of their services, since this always presents a barrier to entry that many firms may not overcome.

5.5 Recommendations For Further Research

The study sought to establish the extent of application of Porter's five forces model in establishing competitive strategies by the insurance companies in Kenya. The study recommends that a study should be done on the challenges faced when determining the competitive strategy to adopt in insurance companies in Kenya.

5.6 Limitations Of The Study

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or the Insurance Company. Some respondents may even turn down the request to fill questionnaires. The study handled the problem by carrying an introduction letter from the University and assuring them that the information they give would be treated confidentially and it would be used purely for academic purposes.

Insurers operate on tight schedules; respondents are not able to complete the questionnaire in good time and this might overstretch the data collection period. The researcher may also encounter problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively.

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APPENDICES

Appendix I: Authorization Letter

Appendix II: Survey Questionnaire

The aim of this questionnaire is to gather information regarding applicability of Porter's five forces by insurance companies in Kenya in establishing competitive strategies. All the results gathered from this questionnaire will be used solely for academic purposes and responses will be treated in confidentiality.

By completing and returning the questionnaire you are hereby giving full consent to use this data in this research project.

Definition

1. Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy
2. Competitive strategy is the plan for how a firm will compete, after evaluating how its strengths and weaknesses compare to those of its competitors.

SECTION 1: COMPANY DETAILS

1. What type of an insurance company are you?
    - Life
    - General
    - Composite
2. How long has the company been in business? ______________________________
3. Which number is your company ranked in the industry? _____________________
4. Who are your main competitors in the industry? Name at least three
    a. ____
    b. ____
    c. ____
5. Who makes most of your customers?
    a. Individuals
    b. Corporate
    c. Both

d. others

SECTION TWO: PORTER'S FIVE FORCES

1. What competitive strategies do you apply to win over the market?

____

____

____

____

____

2. Do you pay attention to new incoming companies in the industry?

____

____

____

____

____

3. Do you consider them as a threat?____

4. Would new companies entering the industry make you change your strategy?_______________

5. What strategies do you apply to counter new companies entering the industry?____

____

____

____

6. What do you consider before picking a service provider?

a. Price

b. Quality

c. Availability

7. What do you do when service providers are very few in the market?____

____
____

8. Do you put in mind price sensitive customers?____

9. Do you respond to high quality service needs that customers have even when it’s costly to the company?____
____
____

10. What competitive strategies do you apply to maintain price sensitive customers?____
____
____
____

11. Do you consider substitute products as a threat?____

12. What strategies do you apply to counter substitute products?____
____
____
____

13. Do you operate with other competitors in mind?____

14. Does the rate of industry growth influence your strategies? ______________________________

15. Are your products differentiated?____

16. Are you products:

a. The cheapest

b. Medium priced

c. Expensive?

17. Do you keep track of customers switching loyalties?________________________________

18. What overall competitive strategies do you apply to gain a bigger market share?____

____

____

____

Thank you for your participation.

Appendix III: List Of Insurance Companies In Kenya

List of Insurance Companies in Kenya. They are regulated by the Insurance Regulatory Authority:

1. AAR Insurance Kenya
2. APA Insurance - Part of Apollo Investments Company
3. Africa Merchant Assurance Company - AMACO
4. Apollo Life Assurance - Part of Apollo Investments Company
5. AIG Kenya Insurance Company
6. British-American Insurance Company (Kenya) - Part of British-American Investments Company
7. Cannon Assurance - A subsidiary of MMI Holdings Limited
8. Capex Life Assurance Company
9. CIC General Insurance - Part of the CIC Insurance Group Limited [2]
10. CIC Life Assurance - Part of the CIC Insurance Group Limited [3]
11. Continental Reinsurance
12. Corporate Insurance Company
13. Directline Assurance Company
14. East Africa Reinsurance Company
15. Fidelity Shield Insurance Company
16. First Assurance Company
17. GA Insurance - Part of the I&M Bank Group
18. Geminia Insurance Company
19. ICEA LION General Insurance Company - Part of the ICEA LION Group
20. ICEA LION Life Assurance Company - Part of the ICEA LION Group
21. Intra Africa Assurance Company
22. Invesco Assurance Company
23. Kenindia Assurance Company
24. Kenya Orient Insurance
25. Kenya Reinsurance Corporation
26. Liberty Life Assurance Kenya Limited - Part of Liberty Kenya Holdings Limited
27. Madison Insurance Company Kenya
28. Mayfair Insurance Company
29. Mercantile Insurance Company
30. Metropolitan Life Insurance Kenya - A subsidiary of MMI Holdings Limited
31. Occidental Insurance Company
32. Old Mutual Life Assurance Company
33. Pacis Insurance Company
34. Pan Africa Life Assurance
35. Phoenix of East Africa Assurance Company
36. Pioneer Assurance Company
37. Real Insurance Company - Part of British-American Investments Company
38. Resolution Insurance Company
39. Takaful Insurance of Africa - Associate of the CIC Insurance Group Limited
40. Tausi Assurance Company

41. Heritage Insurance Company - Part of Liberty Kenya Holdings Limited
42. Jubilee Insurance Company Limited
43. Monarch Insurance Company
44. Trident Insurance Company
45. UAP Insurance Company - Part of UAP Holdings
46. UAP Life Assurance - Part of UAP Holdings
47. Xplico Insurance Company

Source, AKI (2015)