STRATEGIC RESPONSES AND FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

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DECLARATION

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

Signed…………………………… Date…………………….

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

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DEDICATION

This project is dedicated to my late father, Michael Kamomoe, whose love for God and education continue to inspire me. Special thanks to my family members for their understanding and support throughout the programme.

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I give thanks to God for journeying with me and granting me wisdom that enabled me to complete this research project. I also owe my gratitude to all the people who contributed towards the completion of this research project especially my supervisor, Dr Winnie Njeru, for her guidance and support. Not forgetting my classmates, especially Joel Monte Nyangoka, for his comradeship.

ABBREVIATIONS AND ACRONYMS

ACII	**:**	Associateship Chartered Insurance Institute
AKI	**:**	Association of Kenya Insurers
GDP	**:**	Gross Domestic Product
IRA	**:**	Insurance Regulatory Authority
PESTEL	**:**	Political, Economic, Social-Cultural, Technological, Ecological and Legal factors
RAO	**:**	Return on Assets
ROE	**:**	Return on Equity
ROI	**:**	Return on Investments
SPSS	**:**	Statistical Package for Social Sciences

TABLE OF CONTENTS

DECLARATION.. i
DEDICATION.. ii
ACKNOWLEDGEMENT.. iii
ABBREVIATIONS AND ACRONYMS.. iv
LIST OF TABLES... viii
LIST OF FIGURES.. ix
ABSTRACT.. x
CHAPTER ONE: INTRODUCTION.. 1
1.1 Background of the Study.. 1
1.1.1 Concept of Strategic Responses...................................... 2
1.1.2 Financial Performance... 4
1.1.3 The Kenyan Insurance Industry..................................... 5
1.2 Research Problem 5
1.3 Research Objectives.. 7
1.4 Value of Study.. 7
CHAPTER TWO: LITERATURE REVIEW 9
2.1 Introduction 9
2.2 Theoretical Foundation... 9
2.2.1 The Open System Theory.. 9
2.2.2 The Resource Dependency Theory................................... 10
2.3 Organization and External Environment................................... 10
2.4 Strategic Responses and Financial Performance.......................... 12
2.4.1 Expansion Strategy.. 12
2.4.2 Product and Technology Innovation Strategy........................ 13
2.4.3 Mergers and Acquisitions Strategy.................................. 14
2.4.4 Strategic Alliances Strategy... 15
2.4.5 Cost and Differentiation Strategy................................... 16
CHAPTER THREE: RESEARCH METHODOLOGY............................ 17
3.1 Introduction.. 17
3.2 Research Design... 17

3.3 Population of the study………………………………………………... 18
3.4 Data Collection Methods……………………………………………… 18
3.5 Data analysis…………………………………………………………... 18
CHAPTER FOUR: FINDINGS AND DISCUSSIONS…………………………... 20
4.1 Introduction…………………………………………………………..... 20
4.2 General information…………………………………………………… 20
4.2.1 Types of insurance firms that participated in the study………… 20
4.2.2 Period the participating insurance companies has operated in Kenya………………………………………………….......... 21
4.2.3 Positions of respondents………………………………………… 22
4.2.4 Highest academic level attained by respondents……………… 22
4.2.5 Strategic responses the companies have adopted to enhance performance…………………………………………………….. 23
4.3 Extent to which insurance companies have adopted various strategic responses ……………………………………………………………… 24
4.3.1 Expansion strategy……………………………………………… 24
4.3.2 Product and technology innovation strategy…………………… 25
4.3.3 Mergers and acquisitions strategy……………………………… 26
4.3.4 Strategic alliance strategy……………………………………… 27
4.3.5 Cost and differentiation strategy………………………………… 28
4.4 Regression analysis…………………………………………………… 29
4.5 Discussions …………………………………………………………… 32
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS………………………………….. 34
5.1 Introduction…………………………………………………………… 34
5.2 Summary of findings………………………………………………… 34
5.3 Conclusion…………………………………………………………… 34
5.4 Recommendations…………………………………………………… 36
5.5 Recommendations for further research………………………………. 36
REFERENCES…………………………………………………………………... 37
APPENDIX I: LETTER FROM THE UNIVERSITY OF NAIROBI……… i

APPENDIX II: QUESTIONNAIRE………………………………………..… ii
APPENDIX III: PART 1 - REGISTERED GENERAL BUSINESS INSURANCE COMPANIES…………………………………………...… vii
APPENDIX III: PART 2 - REGISTERED LIFE INSURANCE COMPANIES……………………………………………………………. ix

LIST OF TABLES

Table 4.1: Position of respondent in the organization…………………………….. 22
Table 4.2: Strategic responses the insurance companies have used to enhance performance ………………………………………………………… 23
Table 4.3: Extent to which insurance firms in Kenya have adopted expansion strategy…………………………………………………………… 25
Table 4.4: Extent to which insurance firms in Kenya have adopted product and technology innovative strategy……………………………………… 26
Table 4.5: Extent to which insurance firms in Kenya have adopted Mergers and Acquisitions strategy………………………………………………… 27
Table 4.6: Extent to which insurance firms in Kenya have adopted strategic alliance strategy…………………………………………………… 28
Table 4.7: Extent to which insurance firms in Kenya have adopted cost and differentiation strategy………………………………………………… 29
Table 4.8: Goodness-of- Fit…………………………………………………… 30
Table 4.9: ANOVA…………………………………………………………….. 30
Table 4.10: Individual Coefficient………………..………………………………. 31

LIST OF FIGURES

Figure 4.1: Type of insurance companies that participated in the study…………. 20
Figure 4.2: Number of years respondent organizations have operated in Kenya 21
Figure 4.3: Highest academic level attained by respondents……………………... 23

ABSTRACT

The purpose of this study was to examine the relationship between strategic responses and performance of insurance firms in Kenya. The study independent variables were expansion strategy, product and technology innovation strategy, cost and differentiation strategy, strategic alliance and mergers and acquisition strategy, while the dependent variable was firm performance, measured by return on assets and net profits over a period of five years. The study adopted a descriptive cross-sectional survey design. A census of all the 51 insurance companies was undertaken. Out of the 51 questionnaires that were distributed to the respondents, 31 were returned completed (61%) response rate. Data was obtained from both primary and secondary data. Primary data was collected using a semi-structured questionnaire guided by closed and open-ended questions aimed at collecting general information and specific information about the strategic responses and financial performance of insurance firms respectively. In the study, descriptive statistics (mean and standard deviation) and inferential statistics (Pearson correlation and multiple regression) were used to describe and analyze the variables numerically. A Multivariate regression model was used to analyze the relationship between strategic responses and the financial performance of insurance firms in Kenya. Findings show that product and technology innovation strategy and expansion strategy were statistically significant. Limitations of the study included the following: despite the researcher's assurance the information provided would only be used for academic purposes, some of the selected respondents still did not return the questionnaires, citing doubts on confidentiality of the information sought, and some of the targeted respondents declined to participate in the study, citing their organizational policies which stipulate that only the Chief Executive Officer was authorized to divulge information regarding their respective organizations. The following areas are recommended for further study: A similar study could be carried out in other organizations to find out whether the same results will be obtained. The study focused on insurance firms thus the same study should be carried out in other industries such as the banking sector. In addition, similar studies should be undertaken in the insurance sector in other countries for comparison purposes.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations operate within environments that are turbulent with respect to political, economic, social-cultural, technological and ecological factors among others, which are beyond the firm's control yet they affect operations, decisions and performance. Turbulence is defined as "dynamism in the environment involving rapid, unexpected change in the environment sub-dimensions" (Conners, 2003). The business environment in Kenya has been undergoing drastic changes over the last two decades. This has been as a result of implementation of various economic reforms, including but not limited to market liberalization, price decontrol, new regulatory requirements and privatization or commercialization of public corporations, which has opened the country to stiff competition at both national and global levels. This study was biased towards insurance firms whose operating environment is increasingly becoming volatile and uncertain day by day due to the reforms.

The study was guided by theories advanced to explain strategies adopted by firms to improve performance in turbulent environment. The study specifically adopted the Open Systems and Resource Dependence theories in trying to understand the strategic responses adopted by various insurance firms to improve performance. The Open Systems Theory depicts the concept of a *system* as a situation "where all systems are characterized by an assemblage or combination of parts whose relations make them interdependent". According to Robbins (2000) "Open System approach is based on the premise that no organization can survive for long if it ignores government regulations,

supplier relations, or the myriad external constituencies upon which the organization depends". Brown (1977) asserts, "The organization depends on the environment to receive essential inputs, transforms those inputs and supplies outputs that benefit the environment".

The Resource Dependence Theory, developed by Pfeffer and Salancik (1978) utilizing previous environmental literature, is based on the premise that environments provide critical resources which organizations require in order to survive. According to the theory, there is uncertainty and dependence on critical resources thus, the organization is forced to take measures to reduce uncertainty. The theory is commonly used to explain how organizations reduce environmental uncertainty and interdependence.

Previous empirical studies show that many insurance firms have had to implement various strategies in responding to environmental challenges in order to survive and to increase wealth for the shareholders. This study sought to examine the influence of selected strategic responses on performance of Kenyan insurance firms as at 31 December 2015.

1.1.1 Concept of Strategic Responses

Johnson, Scholes and Whittington (2008) observe that strategy is the future capacity and direction of a firm which create advantage in an environment that is changing through its capabilities and organization of resources so as to meet stakeholders' expectations. According to Aosa (2011), strategy implies the creation of a fit between the internal and external characteristics aimed at solving an organization's strategic problem. Porter

(1998) contends that strategy is concerned with succeeding or winning in an environment that is competitive through creation of sustainable competitive advantage.

According to Pearce and Robinson (1997), strategic responses are a combination of actions and decisions that lead to the formalizing and implementing of plans designed to attain firm's objectives. Ansoff and MacDonnell (1990) argue that no organization can hope to stay afloat in a market environment if it fails to come up with proper strategic responses. Porter (1985) states that strategic responses require organizations to align their strategy to the environment and also to reconfigure their internal resources to match the strategy. Pearce and Robinson (2007) suggest that firms have to rethink their strategies in order to cope with the increasingly volatile environment variables.

According to Byars (1991), operational responses are concerned with efficiency of operations but strategic responses affect several areas of operation and, thus call for executive decisions and significant amount of resources, are futuristic and have an effect on the long-term success of the firm and most importantly are dependent on the environment. Thus, a firm adopts strategies that not only match its environment but also those that are supported by the firm's internal capability. Migunde (2000) opines that firms respond to changes in the environment in different ways. For instance, some diversify or divest, others improve products while others employ techniques that ensure operational effectiveness. Insurance firms adopt different strategic responses from time to time but this study discussed expansion, product and technology innovation, mergers and acquisitions, strategic alliance and cost and differentiation strategies.

1.1.2 Financial Performance

According to Pandey (2007), the concern of financial performance is the ability of a firm to utilize its assets to earn sufficient revenue for long run business sustainability. Thus, firm's financial performance is measured on the basis of how much wealth it has created for the shareholder at the end of a given period. There are various measures of financial performance (Almajali, Alamro & Al-Soub, 2012) but most firms adopt financial indicators (Grant, Jammine & Thomas, 1988). This can be determined using liquidity, financial leverage ratios and profitability among others that are dependent upon financial statements or stock market prices (Berger & Patti, 2002). Return on Assets was used by Cohen, Chang and Ledford (1997) to measure assets efficiency in income generation; Clarkson, Richardson and Vasvari (2008) used Return on Assets; Stanwick and Stanwick (1998) used Return on Sales; and Bowman and Haire (1975) used Return on Equity to measure financial performance.

For insurance firms, profit performance measures the difference between premiums earned (revenues) and expenses over a period of time, usually twelve month. Profits are cheap source of funds for firms' expansion and survival in competitive environment (Pandey, 2007). In assessing the profitability of individual insurance firms, AKI and IRA consider the gross earned premiums, re-insurance ceded, investment and other incomes, claims incurred and commissions/expenses from underwriting activities. In order to determine the financial performance of insurance firms in Kenya, the study adopted profitability over a period of five years (2011 – 2015).

1.1.3 The Kenyan Insurance Industry

The Kenyan insurance industry falls under the Insurance Act CAP. 487 of the Kenyan Laws, under the regulation of the Insurance Regulatory Authority (IRA), established under the Insurance Act Amendment (2006). According to Association of Kenya Insurers (AKI) Insurance Industry Annual Report (2015), there were 51 companies licensed to transact insurance business. 25 companies wrote non-life insurance business only, 14 wrote life insurance business only while 12 were composite. The report further indicates that the insurance industry generated premium of Kshs.111.93 billion (non-life) and Kshs.61.86 billion (life) in 2015 making a total of Kshs.173.79 billion as compared to Kshs.157.21 billion in 2014, which translates to a 10.55% increase.

The overall insurance penetration also decreased to 2.78% in 2015 compared to 2.93% in 2014 but the figure is projected to grow on account of new risks, which include oil and gas, and micro-insurance. However, previous AKI reports (2012, 2013 and 2014) attributed successive decline in insurance penetration to rebasing of GDP in 2014, lack of awareness by the public about the benefits of insurance and negative perception of the industry. The report further indicates that the insurance industry in Kenya was characterized by mergers and acquisitions between financial service and local insurance companies with the objective of growing revenues, consolidating markets, expanding regionally and enforcing the legal requirement that no individual owns more than 25% of the share capital of an insurance firm.

1.2 Research Problem

Environmental dynamics cut across all fields in business and over the last two decades, firms have been grappling with increased operation cost due to international terrorism,

cybercrimes, armed robberies, accidents, floods and droughts among other catastrophes. According to Motari (2011), these challenges arise from increasing volatility and unpredictability of changes in the environment. Wright (2002) observes that changes in the business environment, if ignored, can ultimately compromise a financial institution's profitability and long term viability.

According to KPMG Kenya Insurance Survey Report (2016), "the past decade has been tumultuous: changing customer demands and expectations, increasing competitive pressures, new regulatory demands, technological and business challenges are all combining to create an era of unprecedented change for the insurance sector in Kenya. Bank assurance and micro insurance are examples of advancement which threaten to shake up the way traditional insurance is transacted (KPMG, 2015). The survey observes that success will not come easily and insurers will have to undergo complete transformation of their processes to prosper in the business.

Previous empirical studies show insurance firms employ various strategic responses to cope with turbulence in the operating environment. According to Kamau (2007), Kenya Re employed expansion and focus, diversification and cost reduction strategies to deal with competition. Wasike (2015) concludes that Old Mutual Kenya responded to the business environment through business process automation, product development, branch network and distribution expansion, aggressive brand campaigns, differentiation, technology advancements and infrastructure refresh and mergers and acquisitions.

Nyamai (2011) reports that Jubilee Insurance Company Limited responded to environmental changes via entering new markets, adoption of state of art of information technology systems, improved customer services, new product development and employee's motivation. Miyienda (2015) reports that mergers and acquisitions positively influence performance of Kenyan insurance companies, especially after the merging and acquisition take place. Okoth (2015) notes the effect of positioning strategies on performance as being improvement on profitability, growth in customer base, customer brand loyalty, market share and customer satisfaction.

However, the empirical studies reviewed are not comprehensive and do not clearly demonstrate the relationship between strategic responses and financial performance of all insurance firms in Kenya yet, high performance is an indicator of the management's' efficiency and effectiveness in usage of the firm's resources (Pandey, 2007). Thus, the study sought to answer the question: What is the relationship between strategic responses and financial performance of Kenyan insurance firms?

1.3 Research Objectives

The objective of the study was to examine the relationship between strategic responses and performance of Kenyan insurance firms.

1.4 Value of the Study

At theoretical level, the study is instrumental for future researchers and academicians who will use the findings to identify research gaps for future research. The study also makes recommendations for further studies which future scholars can follow.

The insurance industry in Kenya is rather volatile and a sound understanding of the environmental changes will enable insurance firms to develop rational and effective strategic responses with a view to improving financial performance. The findings will also enable other stakeholders to make rational choices with regard to risks and investments.

At policy level, the study results create a monograph which will help policy makers in line ministries, regulatory agencies like IRA and marketing agencies like AKI, to plan, implement, monitor and evaluate insurance programmes meant to create conducive environment for insurance firms in Kenya. In addition, the results of this study will boost IRA's regulatory mandate and also assist in enhancing insurance penetration in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines theoretical foundation, organizations and environmental, strategic responses and financial performance. Review of literature review was based on books, journals, thesis and dissertations in relation to the study.

2.2 Theoretical Foundation

The discussion on strategic responses and financial performance of Kenyan insurance companies was based on two theories: the Open Systems Theory and the Resource Based Theory.

2.2.1 The Open Systems Theory

The objective of the open systems approach is to ensure that various functions are clearly structured for effective coordination and interdependence to achieve the overall objectives of the business (Bertalanffy, 1969). The fact that organizations use resources from their environments exposes their systems to outside forces. Open systems are affected by specific or general environmental factors. Among the specific environmental factors are government agencies, distributors, competitors and network of suppliers. The general environment is made up of political/legal, economic environment, cultural values, and education quality that determines the level of influence by technology.

Organizations are thought of as systems with interrelated subsystems (production, supportive, maintenance, adaptive and managerial sub-systems among others) that transforms various inputs from the environment into various outputs to benefit users and

customers. Open systems consists of basic elements of inputs, a transformation process, outputs, feedback and the environment.

2.2.2 The Resource Dependency Theory

The Resource Dependency Theory suggests an organization's external environment is made up of other organizations with diverse interests and objectives, and organizations wield power over a focal firm, and may therefore, put constraints to its behavior if they have control over resources that are of utmost importance to its ongoing operation and cannot be acquired elsewhere (Pfeffer & Salancik, 1978). The theory suggests that firms that lack essential resources have to seek to establish relationships with others so as to acquire the needed resources.

The Resource Dependency Theory is focused on the exchange or flow of resources between organizations, power differentials and dependencies created as a result of unequal resource exchange, the constraining effects such dependence has on organizational action and the efforts by organizational leaders to manage dependence. Organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them. Within this perspective, organizations are viewed as coalitions alerting their structure and patterns of behavior to acquire and maintain needed external resources.

2.3 Organizations and External Environment

The Organization Theory depicts organizations as open systems that conduct business with their environments. Business environment consist of all the external influences that affect decisions and performance of organizations. Many scholars recognize the

importance of congruence between organizations and their environmental conditions. Ansoff (1987) postulates that all organizations are environment dependent and environment serving. However, changes in the external environment creates uncertainty and constraints that affect organizations to varying degrees. According to Prendergast and Berthon (2000), organizations face turbulence and complexity while interacting with a large number of environment factors, over which they have little or no control. Ofunya (2015) notes that among the environmental factors that lead to business turbulence are political instability, financial sector liberalization, competition, government regulations, socio-cultural factors, changes in customer preferences, and disruptive technologies.

Machuki and Aosa (2011) observe that external environmental changes can either lead to opportunities and/or threats. Therefore, in the turbulent environment, organizations have to continuously undertake environmental scanning to ascertain the changes, employ scenario planning to predict future conditions and accordingly develop appropriate strategic responses. Ansoff and Suvillan (1993) presents a strategic success formula that when the responsiveness of an organization's strategy matches the turbulence in the environment, and the organization's capabilities match aggressiveness of its strategy, great organizational performance is assured. On the other hand, Porter (1985) identifies cost leadership, differentiation and focus strategies as ideal for responding to turbulent environments. Organizations can achieve competitive advantages by endeavoring to differentiate their products and services from competitors, become lowest-cost producers, or focus on the market segments where there is least amount of completion.

2.4 Strategic Responses and Financial Performance

Strategic responses are part of the competitive strategies that an organization develops in an effort to beat competition and improve performance. Kiptugen (2003) suggests that these may include restructuring, marketing, information technology and cultural change. However, the study explored the influence of the strategies: expansion, product and technology innovations, mergers and acquisitions, and strategic alliances, and cost and differentiation, on financial performance of Kenyan insurance companies.

2.4.1 Expansion Strategy

Expansion strategy is guided by the product/market expansion matrix (Ansoff, 1990) which focuses on the organization's potential and presents markets and products, considers means of growth through new and existing products in new and existing markets, and arrives at four possible product – market combinations, namely: product development, diversification, market penetration and market development. Market penetration strategy leverages many of the organization's existing capabilities and resources, and is thus the least risky. Pearce and Robinson (1997) observes that market development entails introducing current products or services into new geographical locations, and is appropriate when an organization's strengths match the customers' instead of the product. Pearce and Robinson further argue that the aim of product development is to increase sales through modification of current products or services.

Diversification is considered the riskiest of the four growth strategies, as it calls for both product and market development. Diversification strategy may take the form of extension of the organization's existing resources and capabilities, or through acquisitions. Roberts (2004) undertook study on growth and performance of firms in UK found that majority of

the businesses that are fortunate enough to experience growth soon discover that success does not mean relaxation and expansion of an organization does not just mean grappling with the same problem on a large scale but rather, understanding, adjusting to and managing a whole new set of challenges. Another study by Kibet (2013) on adoption of growth strategies by African Merchant Assurance Company, Kenya, notes that not all growth strategies that an organization pursues are profitable or yield success. The study suggests that companies should use Ansoff's strategies of market penetration, market development and product development.

2.4.2 Product and Technology Innovation Strategy

Firms use product and technology innovation to boost their business strategy in responding to changes in the operating environment. Kotler (1991) argues that return on innovation accounting statistics show that as high as 50 percent of corporate revenue is innovation driven. According to Walker (2004), innovation has great influence on corporate performance through creation of an improved market position that brings about competitive advantage and superior performance.

Langley, Pals and Ort (2005) define product innovation as the creation of a new product from new materials or the alteration of existing products to meet customer satisfaction. It also refers to the introduction of new products or services in order to create new markets or customers, or satisfy current markets or customers. Product innovation is the master plan that provides direction for business's new product development efforts and it is the essential link between these efforts and business strategy. According to Camison and Lopez (2010), product innovation is one of the important sources of competitive advantage to the firm as it ensures quality products contributes to good performance. A

study by Espallardo and Ballester (2009) on 744 Spanish-firm samples confirms that there is a positive impact of innovation on firm performance. Bayus, Erickson and Jacobson, (2003) conclude that product innovation positively and significantly influence organization performance.

According to Chiesa, Manzini and Pizzurno, (2008), technology is a type of knowledge applied to the development and commercialization of new products or services, emanating from research and technology developments. Innovation is summarized by Roberts and Amit (2003) as a means leading to a competitive advantage and superior profitability. Alberti and Pizzurno (2013) conclude that family firm's performance is positively correlated with new product development, market knowledge rather than technological knowledge.

2.4.3 Mergers and Acquisitions Strategies

Mergers occur when firms come together voluntarily while acquisition result from firms developing their competencies and resources through taking over another organization. Ross, Westerfield and Jaffe (2004) assert that acquisition takes place when one firm completely absorbs another firm. According to Piaskoki and Finkelstein (2004), acquisitions lead to operational efficiencies occasioned by economies of scale and scope.

Mergers and acquisition strategies enable organizations to achieve cost advantage, product differentiation (Porter, 1985). Mintzberg and Quinn (1988) observe that the reason behind mergers is to increase profits and shareholders' value. Kemal (2011) conducted a study on the profitability of the Royal Bank of Scotland following a merger deal with ABN AMRO Bank from 2006-2009 and established that the merger failed to

increase profitability, and was thus a failure. However, a study by Kithitu, Cheluget, Keraro and Mokamba (2012) reveal that the merger improved the profitability of the new institution but more in the second years after the merger/acquisition as compared to immediately after the merger/acquisition.

2.4.4 Strategic Alliance Strategy

This refers to a coalition or cooperation agreement formed between two or more firms to collaborate by sharing resources and activities to pursue a common strategy. The alliance offers firms opportunity to access rare resource inputs, products distribution outlets, new markets and new technology. Acquisition of new technical skills and technological capabilities from partner firms as drivers of alliance. The strategy also facilitates quick entry into new markets where entry risks and development costs are perceived to be high. According to Harrigan (1986), organizations form alliances with other firms within the same industry or within other industries. Other alliances involve suppliers of new products and users as a way of coordination and formulation of dominant designs and technical standards.

Onje and Oloko (2016) reveal that other factors held constant, the increased presence of strategic alliances within the banking sector has greatly contributed to the profitability of Kenyan commercial banks. A related study by Nzengya (2013) notes that mergers are the most popular form of strategic alliance in the banking industry in Kenya with the motive of maximizing profit and revenue as well as gaining competitive advantage. McConnell and Nantell (1985) argue that equity markets reward parent companies' share prices when they announce joint ventures, while Powell, Koput and Smith-Doerr (1996) demonstrate that companies which have formed many alliances experienced accelerated growth rates.

Hagedoorn and Schakenraad (1994) further confirm a positive relationship between entry into technology alliances and innovation rates.

2.4.5 Cost and Differentiation Strategies

Firms engage cost and differentiation strategies mainly to outsmart competitors and remain ahead of competition (Porter, 1985). Porter's Generic Value Chain model suggests that a cost advantage can be achieved through effective control of drivers of the value chain better than competitors or by introducing different sales approach, new distribution channel or new production process. Cost leadership strategy enables a firm to develop a sustainable cost benefit over competition to gain a bigger market share (Ansoff, 1987). To achieve differentiation advantage, a firm needs to alter value chain of individual activities to improve distinctiveness of the end products or services or by introducing structural changes such as forward or backward integration and re-branding. A firm must, therefore, have high level of innovation and technology to develop distinct products and services.

Rajiv, Raj and Arindam (2014) posit that both differentiation and cost leadership strategies positively influence contemporaneous performance. According to the study, differentiation strategy enables a firm to sustain its current performance in the future to a greater extent than a cost leadership strategy, despite the former being associated with higher systematic risk and more unstable performance. Luliya, Sununta, Yuosre and Chotchai (2013) note that firms' differentiation strategy has both direct and indirect significant impact on firm's performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was adopted for the study. This includes the design of the research, target population, procedures of data collection and data analysis.

3.2 Research Design

For purposes of conducting this study, a descriptive cross-sectional survey design was adopted. According to Cooper and Schindler (2003), a descriptive survey makes an attempt at describing a subject by way of creation of a profile of events or people, group of problems, through data collection, frequencies tabulation or their interaction. The design was considered suitable in provision of data that is sufficient to facilitate analysis and generating precise inferences from variables that cannot be manipulated.

A cross-sectional survey was used to gather information on a population at a single point in time. Mugenda and Mugenda (2003) posit that it is easy to obtain high reliability through presentation of all subjects with a standardized stimulus, which facilitates elimination of observer subjectivity. Thus, cross-sectional survey was considered to be ideal for collecting sufficient data on strategic responses and financial performance from a cross-section of insurance firms as at 31 December 2015.

3.3 Population of the Study

Kothari (2011) defines a population as the sum of people with certain characteristics and who the researcher has interest in. AKI (2015) indicates that there were 51 companies licensed to transact insurance business, 25 as general insurance companies, 14 as life insurance companies and 12 as composite insurance companies. In this study, all the 51 insurance firms in operation in Kenya were targeted (census survey).

3.4 Data Collection Methods

Data was obtained from secondary and primary sources. A semi-structured questionnaire was used to collect primary data, which included general information and specific information about the strategic responses and the insurance firms' financial performance. In this case, the respondents were the underwriting, claims and finance managers, and questionnaires were sent to them through electronic mail or hand-delivery. Secondary data was obtained from AKI and IRA industry survey annual reports and audited financial statements of the respective insurance firms. A 5-point Likert type scale was used to measure the output of each item ranging from 1 – Not all to 5 – To very large extent.

3.5 Data Analysis

Data analysis employed the use of descriptive statistics, including standard deviations and means, and conducting inferential statistics (multiple regression) to give a description and analysis of the variables numerically. Snijger and Bosker (2000) explain the rationale for multi regression analysis based on the fact that conclusions can be drawn about the correlations between the dependent variables. A multivariate regression model was used

to analyse the influence of strategic responses on financial performance of the Kenyan insurance firms as depicted below:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

Where;

Y = Firm's financial performance

β_0= Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficients of determination

X_1= Expansion strategy

X_2 = Product and technology innovation strategies

X_3= Mergers and acquisitions strategies

X_4= Strategic alliance strategy

X5= Cost and differentiation strategies

ε = Random Error Term

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents a summary of the data collected through the use of questionnaires. General trends are explained using percentages, tables, figures and descriptions of data as a way to present the findings of the investigation. Out of the 51 questionnaires that were distributed to the respondents, 31 were completed and returned, making a response rate of 61%. According to Mugenda and Mugenda (2003), a response rate of 61% is adequate. The findings are presented as per the objectives and research questions of the study. The section presents the results of the empirical analysis, discusses the findings and interpretations.

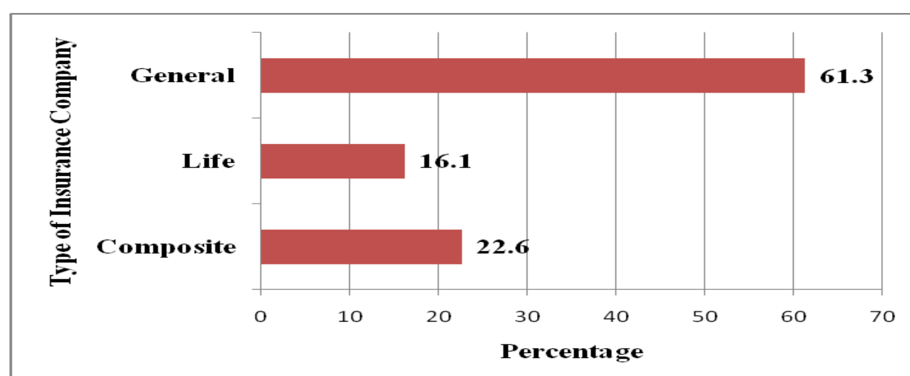
4.2 General information

The general information of the respondents and their respective insurance firms is presented in this section.

4.2.1 Types of insurance firms that participated in the study

The types of insurance firms that participated in the study are presented in Figure 4.1.

Figure 4.1: Type of Insurance Companies that participated in the study



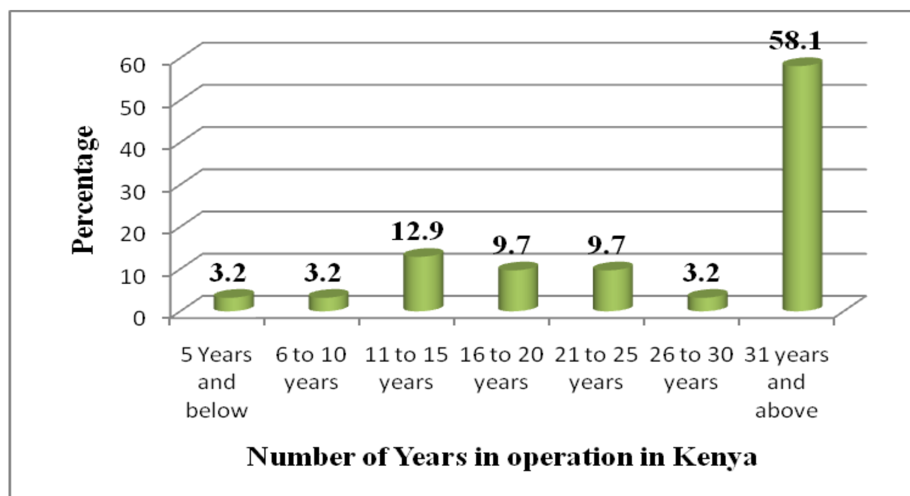
Source: Primary data

The results in figure 4.1 confirm that the respondents were drawn from three types of insurance companies. Majority (61.3%) being drawn from general insurance companies, (22.6%) of the respondents were drawn from composite insurance companies and (16.1%) were drawn from life insurance companies.

4.2.2 Period the participating insurance companies have operated in Kenya

The period (years) that the respondent insurance companies had operated in Kenya are presented in Figure 4.2.

Figure 4.2: Number of years respondent organizations have operated in Kenya



Source: Primary data

The results indicate (58.1%) have been in operation in Kenya for over 30 years, whereas only (3.2%) have operated in Kenya for a period not exceeding 5 years. The results show that the greatest proportion of insurance firms that participated in the study have operated in Kenya for a period long enough to understand the Kenyan business environment, and hence they are expected to provide objective responses to the questions presented in the questionnaire.

4.2.3 Positions of respondents

The study had targeted the persons responsible for Underwriting, Claims and Finance. Presented in table 4.1 below are the positions of the actual persons who represented the 31 insurance companies that participated in the study.

Table 4.1: Position of respondent in the organization

Position in the organization	Frequency	Percentage
Actuarial Analysts	3	9.7
Deputy manager	3	9.7
Claims manager	9	29.0
Underwriting manager	2	6.5
Head of distribution	2	6.5
Manager	4	12.9
Director Operations	3	9.7
Chief Executive Officer	3	9.7
Assistant General Manager	1	3.2
Sales Manager	1	3.2
Total	**31**	**100**

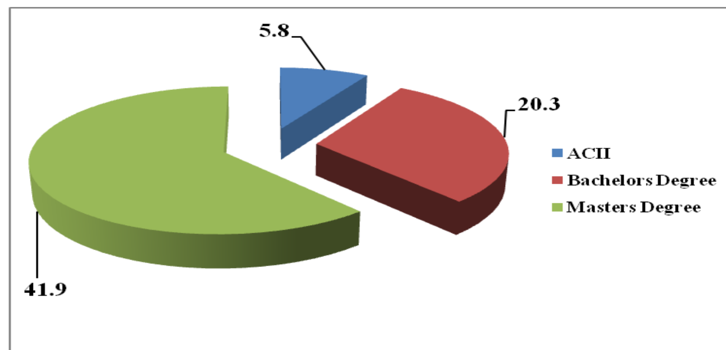
Source: Primary data

The actual respondents were: Claims managers (29.0%), Managers (12.9%), Chief Executive Officers, Directors of Operations, Deputy managers, and Actuarial Analysis (9.7%) each, Deputy managers and Underwriting managers (6.5%) each, Assistant General Manager and Sales Manager (3.2%). The finding confirms that the researcher's objective was met since all the respondents are senior managers in their respective organizations, with a sound understanding of the issues that required to be responded to and were thus expected to provide objective answers.

4.2.4 Highest academic level attained by respondents

The highest academic level attained by the respondents is presented in Figure 4.3.

Figure 4.3: Highest academic level attained by respondents



Source: Primary data

The results indicate that (41.9%) had attained a Masters Degree, (20.3%) had attained a Bachelors Degree while the rest (20.3%) had attained ACII. Further, the findings revealed that majority of the degree holders were also holders of ACII and other professional qualifications. The respondents thus had sound knowledge of issues raised in the questionnaire and were expected to provide objective responses.

4.2.5 Strategic responses the companies have adopted to enhance performance

The respondents were provided with a listing of possible strategic responses and asked to indicate the ones their respective organizations had adopted. Multiple responses were allowed. The results are presented in table 4.2.

Table 4.2: Strategic responses the insurance companies have used to enhance performance

Type of strategic response	Frequency	Percentage
Expansion strategy	21	30.4
Product and technology innovation strategy	17	24.6
Cost and differentiation strategy	12	17.4
Strategic alliance strategy	11	15.9
Mergers and Acquisitions strategy	8	11.6
Total	**31**	**100**

Source: Primary data

Out of the 31 insurance companies that participated in the study, (30.4%) adopted expansion strategy, (24.6%) adopted product and technology innovation strategy, (17.4%) adopted cost and differentiation strategy, (15.9%) adopted strategic alliance strategy and (11.6%) adopted mergers and acquisition strategy.

4.3 Extent to which insurance companies have adopted various strategic responses

This section presents findings related to the objective of the study "to examine the relationship between strategic responses and performance of Kenyan insurance firms". The respondents were provided with various statements relating to different strategies and asked to indicate the extent to which their respective organizations had adopted them by ticking as appropriate along a scale, where: (1) = Not at all; (2) = To a small extent; (3) = To some extent; (4) = To a large extent and (5) = To a very large extent.

4.3.1 Expansion Strategy

The study sought to establish the extent to which Kenyan insurance firms have adopted expansion strategy, and the results are presented in table 4.3.

Table 4.3: Extent to which insurance firms in Kenya have adopted expansion strategy

Expansion strategy statement	1	2	3	4	5	Mean	Standard deviation
The firm has established mechanisms to enable it grow via existing products and new products in existing markets	-	-	16.1	41.9	41.9	4.26	0.729
The firm leverages its existing resources and capabilities in order to remain competitive	-	9.7	25.8	38.7	25.8	3.81	0.946
The firm has put in place systems to ensure that its product development process is in line with the customers as opposed to the products.	3.2	9.7	25.8	35.5	25.8	3.71	1.071
The firm endeavors focuses on introducing present products or services into new geographical areas	-	9.7	38.7	45.2	6.5	3.48	0.769
Diversification strategy has enabled the firm grow, enter new market segments, increases sales volume and gain market share	-	19.4	32.3	41.9	6.5	3.35	0.877
The firms' service and product development is biased towards increasing sales by modifying present products or services	-	3.2	25.8	58.1	12.9	3.81	0.703
n = 31							

Source: Primary data

The results in table 4.3 reveal that "the firm has established mechanisms to enable it grow courtesy of new and existing products in" was the highest ranked item, with a mean of 4.26 and a standard deviation of 0.729 while "diversification strategy has enabled the firm grow, enter new market segments, increases sales volume and gain market share" was the least ranked item with a mean of 3.35 and a standard deviation of 0.877.

4.3.2 Product and Technology Innovation Strategy

The study sought to establish the extent to which Kenyan insurance firms adopted product and technology strategy, and the results are presented in Table 4.4.

Table 4.4: Extent to which insurance firms in Kenya have adopted product and technology innovation strategy

Product and technology strategy statements	1	2	3	4	5	Mean	Standard deviation
The firm has well established Research & Development (R & D) department and commits significant amount of resources for its operations.	19.4	41.9	16.1	19.4	3.2	2.45	1.121
The firm's product innovation is driven by advancing technologies.	6.5	22.6	29.0	22.6	19.4	3.26	1.210
The firm innovate products and services in tandem with the changing customer needs, shortening product life cycles, and increasing global competition.	3.2	12.9	41.9	29.0	12.9	3.35	0.985
The firm relies on new products and technologies to advance its business strategies and create customer value.	6.5	12.9	35.5	35.5	9.7	3.29	1.039
The firm's innovations has enabled it enter new markets and increase its market share in existing markets.	9.7	9.7	25.8	38.7	16.1	3.42	1.177
The firm's product innovation provides an essential link between its product development efforts and overall corporate strategy	6.5	9.7	41.9	29.0	12.9	3.32	1.045
The firm's higher growth rate can be attributed to its commitment to Research & development	12.9	22.6	38.7	16.1	9.7	2.87	1.147
n = 31							

Source: Primary data

The results in table 4.4 reveal that "the firm's innovations has enabled it enter new markets and increase its market share in existing markets" was the highest ranked item with a mean of 3.42 and a standard deviation of 1.177 while "the firm has well established Research & Development (R & D) department and commits significant amount of resources for its operations" was the least ranked item with a mean of 2.45 and a standard deviation of 1.121.

4.3.3 Mergers and Acquisitions Strategy

The study sought to establish the extent to which Kenyan insurance firms adopted mergers and acquisition strategy, and the results are presented in table 4.5.

Table 4.5: Extent to which insurance firms in Kenya have adopted mergers and acquisitions strategy

Mergers and Acquisitions statements	**1**	**2**	**3**	**4**	**5**	**Mean**	**Standard deviation**
The firm develops its resources and competencies by taking over other organizations	64.5	3.2	16.1	12.9	3.2	1.87	1.284
The firm's endeavor to take over other firms has brought operational efficiencies emanating from economies of scale and scope	30.4	3.2	22.6	6.5	-	1.68	1.045
The firm has put in place mechanisms that have enabled it combine the operations and achieve operating economies	38.7	25.8	9.7	22.6	3.2	2.26	1.290
The firm's engagement in mergers has strengthened its competences and competitiveness	61.3	6.5	12.9	6.5	12.9	2.03	1.494
The firm's undertaking in mergers and acquisitions has enabled it open up avenues of new market opportunity	58.1	3.2	16.1	12.9	9.7	2.13	1.477
The firm is involved in acquisitions through extension of the company's existing capabilities and resources to build its core competency	61.3	12/9	3.2	16.1	6.5	1.94	1.389
n = 31							

Source: Primary data

The results in table 4.5 establish that "the firm has put in place mechanisms that have enabled it combine the operations and achieve operating economies" was the highest ranked item with a mean of 2.26 and a standard deviation of 1.290, while "the firm develops its resources and competencies by taking over other organizations" was the least ranked item with a mean of 1.68 and a standard deviation of 1.045.

4.3.4 Strategic Alliance Strategy

The study sought to establish the extent to which Kenyan insurance firms adopted strategic alliance strategy, and the results are presented in table 4.6.

Table 4.6: Extent to which insurance firms in Kenya have adopted strategic alliance strategy

Strategic Alliance statements	1	2	3	4	5	Mean	Standard deviation
The firm is involved in Value creation to leverage unique resources and capabilities of the strategic partners	9.7	29.0	25.8	16.1	19.4	3.06	1.289
The firm is founded on Mutual Ownership and Governance Relationship with its key strategic partners	12.9	19.4	25.8	12.9	29.0	3.26	1.413
The firm endeavors in Coordination and Appreciation among the collaborating partners	9.7	9.7	22.6	29.0	29.0	3.58	1.285
The firm undertakes proper scrutinizing in selecting suitable strategic partners	9.7	3.2	19.4	35.5	32.5	3.77	1.230
The firm is involved in designing and setting up appropriate authority and control to take care of the alliance.	9.7	6.5	22.6	32.3	29.0	3.65	1.253
The firm is undertaking continuous vale capture through knowledge sharing among key strategic partners	9.7	9.7	16.1	48.4	16.1	3.52	1.180
The firm has established shared objectives and mutual needs	9.7	6.5	32.3	29.0	22.6	3.48	1.208
The firm has established strategic fit/complementary structures	9.7	22.6	19.4	32.3	16.1	3.23	1.257
The firm's senior management champion involvement in the alliance processes	16.1	3.2	25.8	22.6	32.3	3.52	1.411
The firm has put in place mechanisms to facilitate: shared risk; shared reward; and appropriate scope.	9.7	12.9	25.8	25.8	25.8	3.45	1.287
n = 31							

Source: Primary data

The results in table 4.6 confirm that "the firm undertakes proper scrutinizing in selecting suitable strategic partners" was the highest ranked item with a mean of 3.77 and a standard deviation of 1.230, while "the firm is involved in value creation to leverage unique resources and capabilities of the strategic partners" was the least ranked item with mean of 3.06 and a standard deviation of 1.289.

4.3.5 Cost and Differentiation Strategy

The study sought to establish the extent to which Kenyan insurance firms adopted cost and differentiation strategy, and the results are presented in table 4.7.

Table 4.7: Extent to which insurance firms in Kenya have adopted cost and differentiation strategy

Cost and differentiation strategy statements	1	2	3	4	5	Mean	Standard deviation
The firm undertakes price variations to stay ahead of its competitors	9.7	6.5	45.2	35.5	3.2	3.16	0.969
The firm's profit is determined by its effectiveness in cost management to ensure that the amount the customer is willing to pay for the products and services exceed the cost of activities in the value chain	6.5	3.2	32.3	41.8	16.1	3.58	1.025
The firm has invested in high level innovation and technology to create unique products and services while minimizing production costs	9.7	-	51.6	22.6	16.1	3.35	1.082
The firm's differentiation strategy allows it sustain its current performance in the future to a greater extent visa-vis cost leadership	6.5	9.7	38.7	38.7	6.5	3.29	0.973
The firm has established mechanisms that creates a cost advantage by controlling drivers of the value chain better than competitors	6.5	12.9	41.9	32.3	6.5	3.19	0.980
The firm builds its core competency by introducing structural changes such as new production process, new distribution channels or different sales approach	6.5	9.6	32.3	38.7	12.9	3.42	1.057
N = 31							

Source: Primary data

The results in table 4.7 reveal that "the firm's profit is determined by its effectiveness in cost management to ensure that the amount the customer is willing to pay for the products and services exceed the cost of activities in the value chain" was the highest ranked item with a mean 3.58 and a standard deviation of 1.025, while "the firm undertakes price variations to stay ahead of its competitors" was the least ranked item with a mean of 3.16 and a standard deviation 0.969.

4.4 Regression Analysis

In order to meet the objective of the study "to examine the relationship between strategic responses and performance of insurance firms in Kenya", multiple regression analysis of the variables was employed. The analysis was carried out at 95% confidence level. The results are presented in Tables 4.8, 4.9 and 4.10.

Table 4.8: Goodness-of-fit

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.280[a]	.784	.789	0.02
a. Predictors: (Constant), strategic responses				
b. Dependent Variable: Performance				

Source: Primary data

Table 4.8 above depicts results related to variance which is explained by predictor variables. The results show an R Square of 0.784, translated to 78.4% of the variance in the dependent variable, as shown in the variables that are independent in the model, the rest 21.6%.

Table 4.9: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.687	5	.537	22.63	.000
	Residual	10.410	25	.416		
	Total	13.097	30			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Strategic responses						

Source: Primary data

The ANOVA table describes the overall variance accounted for in the model. The *p* value (Sig. of 0.000) suggests that the model adopted for the current study is statistically significant for predicting performance of insurance firms.

Table 4.10: Individual Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.339	.449		0.933	.535
	Product and technology innovation strategy	.392	.254	.205	1.933	.027
	Expansion strategy	.324	.239	.235	1.827	.008
	Cost and differentiation strategy	.141	.166	.196	1.555	.052
	Strategic alliance	.181	.156	.136	1.437	.061
	Mergers and acquisitions	.165	.148	1.52	1.465	.067
R-Square = 0.684 , Adjusted R-Squire = 0.467, F = 22.63 , Sig. = 0.000, Std error of the estimate =0.02						
a. Dependent Variable: Performance of insurance firms (Return on Assets and Net profit over 5 year period)						

Source: Primary data

The results in table 4.10 show the contribution of each variable in explaining the performance of Kenyan insurance companies as depicted by the unstandardized beta values. As suggested in the conceptual framework, the study equation can be presented as:

Y = 0.339 + (0.392 = Product and technology innovation strategy) + (0.324 = Expansion strategy) + (0.141 = Cost and differentiation strategy) + (0.181 = Strategic alliance) + (0.165 = Mergers and acquisitions) + 0.02. Thus $Y = 0.339 + 0.392\,x_1 + 0.324\,x_2 + 0.141\,x_3 + 0.181\,x_4 + 0.165\,x_5 + 0.02\,\acute{\varepsilon}$. This means that even without the five variables under study, performance of the insurance firms would be 0.339. The findings also indicate that a unit change in product and technology innovation strategy would result in 0.392 change in Kenyan insurance firms' performance, a unit change in expansion strategy would result in 0.324 change in Kenyan insurance firms' performance, a unit change in cost and differentiation strategy would result in 0.141 change in Kenyan insurance firms' performance, a unit change in strategic alliance strategy would result in 0.181 change in Kenyan insurance firms' performance, and a unit change in mergers and alliances would result in 0.161 change in Kenyan insurance firms' performance. The results also indicate that product and technology innovation strategy (p=0.027) and expansion strategy

(p=0.008) were statistically significant. The error term (0.02) means that the model would not be completely accurate, and would result in differing results during real world applications.

Overall, the order of ranking of the independent variables in terms of relative influence is as follows: expansion strategy = (0.008); product and technology innovation strategy (0.027); cost and differentiation strategy = (0.052); strategic alliance strategy = (0.061); and mergers and acquisition strategy = (0.067).

4.5 Discussions

Results of multi-regression show that that 68.4% of the variability of the factors affecting performance of insurance firms in Kenya could be attributed to adoption of various competitive strategies, namely: expansion strategy, product and technology innovation strategy, cost and differentiation strategy, strategic alliance and mergers and acquisitions strategy. Organizations that employ well planned and applied competitive strategies tend to achieve higher results than those that do not (Jonsson & Devonish (2009).

Product and technology innovation strategy was adopted by 24.6% of the insurance firms in Kenya. A unit change in product and technology innovation strategy would result in 0.392 change in Kenyan insurance firms' performance. The success of such a product in the target market determines the success of the organization's marketing strategy and definitely its overall efficiency.

Out of the 31 insurance companies that participated in the study, majority of them (30.4%) adopted expansion strategy for competitive advantage. The findings also show

that a unit change in expansion strategy would result in 0.324 change in Kenyan insurance firms' performance. The results show that 17.4% of the insurance companies in Kenya have adopted cost and differentiation strategy. A unit change in cost and differentiation strategy would result in 0.141 change in Kenyan insurance firms' performance. Allen and Helms (2006) find that cost and differentiation strategy has only one significant tactic - minimizing distribution costs that affect organizational performance. Dess and Davis (1984) reveal that the total low cost cluster achieves a higher average return on assets, while Chang and Hill (1983) favor differentiation, arguing that it can lead to achievement of a low-cost position.

The results show that 15.9% of the respondent insurance companies adopted strategic alliances in so as to achieve a competitive edge. A unit change in strategic alliance strategy would result in 0.181 change in Kenyan insurance firms' performance. Strategic alliance entails insurance firms combining their capabilities and assets for purposes of achieving competitive advantage. Ireland, Hitt, & Vaidyanath (2002) emphasize on the importance of alliance management and value creation in the attainment of strategic alliances. According to Kale, Singh and Perlmutter (2000), this entails organizations sharing and exchanging capabilities and resources in distribution of goods and services.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The results and discussions of the study were presented in chapter four. This chapter presents the summary, conclusion and recommendations.

5.2 Summary of Findings

This section presents a summary of the key aspects of this research project. The objective of the study was to examine the relationship between strategic responses and performance of Kenyan insurance companies. In order to meet this objective, both descriptive and inferential statistical analyses were undertaken. The results are as summarized below.

Out of the 31 insurance companies that participated in the study, (30.4%) adopted expansion strategy, (24.6%) adopted product and technology innovation strategy, (17.4%) adopted cost and differentiation strategy, (15.9%) adopted strategic alliance strategy and (11.6%) adopted mergers and acquisition strategy. Expansion strategy (p= .008); and Product and technology innovation strategy (p= .027) were of statistical significance. Overall, the order of ranking of the independent variables in terms of relative influence is as follows: Expansion strategy = (0.008); Product and technology innovation strategy (0.027); Cost and differentiation strategy = (0.052); Strategic alliance strategy = (0.061); and Mergers and acquisition strategy = (0.067).

5.3 Conclusion

The ideas conveyed in the study are in response to the research questions set forth. The study achieved its primary objective, which was “to examine the relationship between strategic responses and performance of Kenyan insurance firms”. The results show

strategic responses positively influence performance of Kenyan insurance companies, and it confirms the proposed ideas in the first three chapters.

In the conduct of their business, insurance companies in Kenya have many alternative strategies that they can adopt to gain competitive advantage. Findings of the study confirm that the companies have adopted five main strategies, the order of preference being: expansion strategy, product and technology innovation strategy, cost and differentiation strategy, strategic alliance, and the least preferred being mergers and acquisitions strategy.

Insurance firms that adopt expansion strategy have not only established mechanisms to enable them grow by entering new markets with new and existing products, but also leverage their existing resources and capabilities in order to remain competitive. The study findings, however, indicate that these firms least favour diversification and acquisition strategy, which is meant to enable firms grow, enter new market segments, increase sales volume and gain market share.

The Kenyan insurance firms that embraced mergers and acquisitions strategy have put in place mechanisms that have enabled them combine the operations and achieve operating economies. The findings also indicate that those firms' undertaking in mergers and acquisitions strategy has enabled them open up avenues of new market opportunities. The insurance firms that adopted strategic alliances strategy for competitive advantage tend to undertake proper scrutinizing in selecting suitable strategic partners.

The insurance firms that adopted cost and differentiation strategy believed that their profits were determined by their effectiveness in cost management. In addition, these

firms build their core competencies by introducing structural changes such as new production processes, new distribution channels or different sales approaches.

5.4 Recommendations

The management of insurance companies, while making a choice of the kind of competitive strategies to be adopted, should be guided by the following key attributes: innovation of products, leverage of existing resources and capabilities, changing customer needs, and proper scrutinizing of suitable strategic partners.

The study further recommends the management should come up with an expansion strategy that is related to the product development, the success of such a strategy in the target market determines the success of the organization's and definitely its overall efficiency. The study found out that product and technology innovation strategy positively influence the performance of Kenyan insurance companies. The companies should, therefore, occasionally review the key strategies such as expansion, product and technology innovation, and cost and diversification strategies in order to enhance their performance.

5.5 Recommendations for Further Research

A replica study should be conducted in other organizations to find out whether the same results will be obtained. In addition, similar studies should be undertaken in the insurance sector in other countries for comparison purposes.

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