

COMPETITIVE STRATEGIES AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

Odhiambo Otieno Austine

Master of Business Administration (Strategic Management), Kenyatta University, Kenya

Dr. Jane W. Njuguna (PhD)

Department of Business Administration, School of Business, Kenyatta University, Kenya

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ABSTRACT

Due to globalization and technological developments, global insurance industry is in upward trend. However, insurance penetration is still low in Kenya. Limited studies have been conducted on significant influence of competitive strategies on performance of insurance companies in Kenya. This study specifically sought to determine the influence of differentiation, cost leadership and market development on performance of insurance firms in Kenya. The performance determinants were profitability measured by net profit and market share evaluated by total annual gross premium. This study was guided by balanced scorecard model, contingency theory, Ansoff growth matrix model and Porter's generic competitive theory. This study used descriptive research design. Target population was 55 registered firms as at 2017 provided by Insurance Regulatory Authority 2017 annual report. Stratified proportionate random sampling was used in selecting the respondents and Yamane Formula in determining the number of 110 target respondents. This study used structured questionnaire to collect primary data. The questionnaire was tested for face validity through expert judgment by the supervisor. Further pre-test of questionnaire was done on 10 respondents where their views were incorporated. For external and internal reliability, test-retest and Cronbach's Alpha was applied respectively. This study adopted Cronbach's alpha value of 0.78 as cut off. Both inferential and descriptive data analysis were used then results were illustrated on tables. Pearson's correlation and multiple regression analyses

were employed for inferential analysis. To establish the level of variation in the dependent variable in relation to independent variables variation, this study used analysis of variance. The study also utilized scientific package for social science seventeen as the analysis tool. The study findings indicate that independent variables had a positive significant correlation with the dependent variable. Differentiation had the highest correlation then cost leadership and finally market development. The findings further established that 50.2% ($R^2 = .0502$) of the change in the firm's performance was influenced by change in competitive strategies. This study thus concluded that: differentiation, cost leadership and market development strategies had a positive and significant influence on organizational performance of insurance companies in Kenya at 95% confidence level. In addition, the study concluded that the regression model applied was suitable at 95% confidence level with analysis of variance of F value of ($P < 0.05$). This study recommends that the management of Kenyan insurance companies to continue applying competitive strategies to improve performance. In addition, the government through insurance regulatory authority (IRA) to formulate favorable policies that support the insurance industry as a way of increasing their contribution to the gross domestic product (GDP). This study suggests a future study that incorporate business environmental factors as a moderating variable. The findings of this study provided valuable insight to the government on insurance policies formulation and regulation of

insurance industry. The companies' management can utilize the findings of this study as a guideline on formulation and execution of competitive strategies.

Key Words: *competitive strategies, differentiation, cost leadership, market development, performance, insurance, insurance companies, competition*

INTRODUCTION

Global insurance market is in upward trend with the growing middle class, improved infrastructure and technology. According to Association of Kenyan Insurers (2016) insurance industry annual report, with globalization and increase in international trade, insurance companies are repositioning to benefit from the opportunity through consolidation and competitive strategies and also to manage the risks that come with globalization. Report further indicates that technology has reduced the cost of global business which has seen global insurance players focus on developing new markets and products to fit different global market segments. According to the journal Insurance Sector Outlook for East Africa 2015 by Deloitte (2016), East African insurance industry is also experiencing major developments in the market trends and legislation through the East Africa Community.

According to Kampire (2012) East African Community has enabled seamless trade in different sectors insurance being one of them. According to AKI (2016) the streamlining of trade tariffs has seen different regional insurance companies set up branches and operations in different regional markets. Britam Holdings Limited and Jubilee Insurance which are Kenyan registered insurance companies have set up branches in Tanzania, Burundi and Uganda. This has created competition and a company needs competitive strategies to remain relevant in a market.

Kenyan insurance industry is also experiencing growth coupled with increased competition by entry of global insurance companies such as Sanlam and Old Mutual Group (AKI, 2014). Despite the growth, most insurance companies are yet to experience adequate growth in profits and market share due to intense competition. Despite Kenya having 55 registered insurance underwriters as at 2017 (IRA), only ten (10) underwriters enjoy 60% of the market share. Many insurance companies have experienced stiff competition from major underwriters and are yet to experience significant growth or break even.

The choice of competitive strategies a company adopts is heavily depended on its financial position, competition and industry regulation. Kenyan insurance firms in recent years applied different competitive strategies to gain competitive edge. With players increase in insurance sector the competition has greatly increased and the right blend of strategies is a key factor.

Insurance Regulatory Authority (IRA) is the body in charge of regulating insurance industry as stipulated in the Insurance Act Chapter 487 of Kenyan laws. IRA is a government body mandated to control and facilitate growth of Kenyan insurance sector. In 1987 Kenyan insurers founded association of Kenyan insurers (AKI) with key objective of aiding ethical practices amongst members, public awareness and development of insurance sector. As at 2017, a total of

55 companies were licensed to underwrite insurance business in Kenya (AKI 2017). According to Standard Investment bank (2013) report on Kenyan Insurance Industry, market share is split with five major insurers having 40% and 70% market share in general and life products respectively. Besides insurers, other players in the sector are reinsurers, risk managers, surveyors, loss adjustors, brokers and agents.

According to KPMG Kenya Insurance Survey Report (2016), Kenya is the East African leader in insurance market development with 3% penetration and 51 firms. Life assurance and general insurance penetration is 1.2% and 3% of the Kenyan GDP respectively according to AKI (2013) report. Kamau (2017) identified key issues affecting Kenyan insurance industry as stiff competition and low penetration as the major factor.

According to IRA industry report (2016) the key drivers of insurance growth in Kenya are; development of new products, improved regulation, banc assurance, increased public awareness and automation of business processes. However, according to IRA (2014) annual report some insurance companies don't possess the required capitalization levels to write major and emerging risks such as political violence and terrorism. This created the need for a study on Kenyan insurance sector.

OBJECTIVE OF THE STUDY

The aim of this study was to evaluate influence of competitive strategies and performance of insurance companies in Kenya.

STATEMENT OF THE PROBLEM

Low insurance penetration is indication of poor performance hence the necessity for application of effective competitive strategies. According to Chew, Yan and Cheah (2008) a firm should reorganize its strategies in response to competition and improve capacity in line with the requirements. Sumer, Ali and Bayraktar (2012) hold that in a growing economy, many firms wish to gain the largest market share to ensure they can generate enough profit to serve the purpose for their existence. Nazirah, Nur and Hassan (2014) sought to determine if competitive strategies influence performance of Malaysian quantity surveying firms. Significant influence of competitive strategies on performance was established. However, the study was conducted during economic depression in Malaysia. The study failed to provide insight on how the firms would adopt strategies and perform in an optimal or normal economic situation. Studies have also been conducted in Kenyan insurance sector to provide knowledge on how competitive strategies influence organizational performance. For instance, Muia (2017) assessed significance of competitive strategies on performance. However, Muia viewed all the companies in same breath. The fact that different size and business line companies were viewed in the same breadth creates knowledge gap on how size and business line in insurance companies adopted competitive strategies influence their performance. This study applied survey design to help bring to light the specific research findings considering that different firms adopt different

orientations. Kihanya (2013) through case study confirmed significance of integrated marketing communication tools on performance of Kenyan insurance firms. However, research only focused on marketing aspect in relation to strategies. The aforementioned studies were survey based except Kihanya (2013). Despite different firms having different orientations and structures the companies were viewed in the same breadth. According to IRA (2014) Kenya insurance firms have reported mixed and inconsistent performance despite employing similar competitive strategies. Some firms have recorded improved performance while others have dropped despite Kenya economy experiencing stability through the period. Initial research findings provided minimal information on whether the firms were experiencing overall performance challenge or market penetration difficulties.

THEORETICAL REVIEW

Porter's Generic Competitive Model

Porter (1998) modelled potentially successful strategies for creating a favorable position and outcompeting rivals in a business sector. The model is based on three broad strategies; differentiation, cost leadership and focus. In cost leadership a firm seeks competitive edge over the rivals through significant cost minimization. In cost leadership firms requires strict cost management by minimizing expenditure on operations and promotions which is reflected in low pricing of products (Porter 1985). In cost leadership the business seeks cost advantage over its rivals in a sector. It's further stated by Porter (1985) that in differentiation a company picks a line of uniqueness valuable to clients in the market especially when the target customers are price insensitive. Differentiation may be applied in product, delivery channels, marketing and a wide range of business lines. Differentiation involves both product or service and customer to business relationships. Focus is the third generic strategy in Porter's model. According to Pearce and Mital (2008) focus is applied by a firm in either differentiation, cost leadership or jointly in a specific narrow market segment. The choice of market segment can be based on products, demographics, competition or combination of a range of factors. A firm is 'stuck-in-the-middle' when it's unsuccessful in all generic strategies (Porter, 1985). Being "stuck-in-the-middle" is considered a sign of indecisiveness in strategic choice. Firms "stuck-in-the-middle" risks low profitability. Porter's Generic Competitive Theory explained two independent variables of this study; differentiation and cost leadership strategies. The theory was relevant to this study due to its two key strategies; differentiation and cost leadership which formed part of independent variables in the conceptual framework.

Ansoff Growth Matrix Model

Igor Ansoff (1987) modeled a matrix of four strategic quadrants for business growth. First quadrant is market penetration which is applied when a current product with defined markets require further growth in market share. In product development companies that enjoy large market share opt to launch new products to promote growth. Product development is best

suitable for companies that enjoy brand loyalty but current products have attained saturation point. The third quadrant in the matrix is diversification. Diversification is a form of strategy suitable for firms that seek to improve performance through venturing in new products and markets (Ansoff, 1965). The fourth quadrant is market development. According to Ansoff (1987) market development is defined as building new markets for existing products by activating untapped market segments and accessing new geographic markets. According to McCarthy (1960) geographical expansion for existing products and activation of dormant markets are the key plans in executing market development strategy. Market development involves introducing present products into new market segments. Ansoff's growth matrix explains a key independent variable in this study; market development on its influence on organizational performance. Ansoff's model is significant for this study since it explains market development.

Contingency Theory

The contingency theory was initiated by Burns and Stalker in the year 1961. The theory holds that a match between organizational management structure and specific contingencies will positively influence firm's performance. The theory states that organizational performance has a positive linear relationship with the fit. Further, Galbraith (1973) observes two basic assumptions of the theory as absence of perfect way of organizing and whichever way of organizing cannot be similarly effective. The primary contingency factors are; environment, technology, size and strategy. A firm's size influences the degree of bureaucracy within itself. The level of bureaucracy and organizational structure in turn influences organizational change and adaptation to contingencies. The ability of an organization to cope, survive and make progress with technology determines how effective it is in sustaining fit. According to Porter (1980) there is need of formulating strategy is relating company to its contingencies to create fit. The strategies should consider the resource strength and weakness of the organization and analyze to determine the extent to which it can accommodate the opportunities and strengths originating from the contingencies. The influence of formulated strategies on firm's performance is greatly influenced by the fit with environment (Thompson & Strickland, 2007). Despite the milestones in strategy management, the theory possesses some shortcomings. Fullerton, Shoven, King and Whalley (1981) argue that the assumption of linear variable relationships and symmetrical outcome is not always the case. Contingency theory was relevant to this study as it is based on strategic match with the competition drivers. The theory also take into account the fact that different companies have differing orientations, strengths, weakness and structure which influence strategies influence on organizational performance.

Balanced Scorecard (BSC) Model

BSC Model is performance tool invented by Robert Kaplan and David Norton in 1992. Balance Scorecard enables organizations to translate their mission, vision and strategy to measurable performance. The four key focuses for BSC are; customer perspective, financial, learning and growth and intra-business process (Kaplan and Norton, 1996) balance scorecard focuses on four

key performance indicators; financials, internal-business processes, learning and growth and customer perspective. These performance indicators form integral part of the organizations' performance. Dimension on financial performance is obtained from profitability parameters such net profit. In customer dimension, a firm determines potential market segment to compete and appropriate performance parameters for customers in the segments. The learning and growth perspective provides an avenue on how to achieve mission through ability to change and improve. According to Kaplan & Norton (1992) internal processes are ways of attaining performance goals. BSC Balance scorecard model offered a conceptual reference to this study since it explains performance.

Differentiation Strategy and Organizational Performance

Githumbi and Ragui (2017) determined influence of differentiation on performance of large rice processing plants. Focus was on product, physical and service differentiations. The findings demonstrated that service and product differentiation significantly influenced performance of rice firms. The study failed to take into account consumer perspective such as; consumer behavior, brand loyalty and product quality which greatly influence market share. The small sample size of 53 respondents compared to the population size probably increased the margin of error. Khaled (2012) studied differentiation strategy and performance of Jordanian industrial firms. The study found insignificant influence of differentiation on performance of the firms. According to the study, Jordanian companies were yet to fully exploit differentiation strategy and this could explain the finding which contradicts most of previous studies. This study focused on a relatively mature industry that has experienced significant level of differentiation.

Mwanzia (2015) assessed level of application and influence of differentiation on market share of Kenyan based tea export companies. The study concluded that the firms had extensively adopted differentiation strategy. However, the influence of differentiation strategy was minimal. The export firms focus on different markets that are relatively heterogeneous with different attributes. This study was based on Kenyan insurance firms operating in relatively homogeneous market. Besides, the study only focused on market share as a performance parameter. This study focused on additional performance parameters; profitability and market share. Shafiwu and Mohammed (2013) determined a positive relationship between product differentiation and performance of Ghanaian petroleum sector. Only Total Ghana was selected for the research. The study might not reflect true picture of the industry due to small sample size that could have open a potential bias in the study. The study was based on petroleum industry which trade on goods unlike insurance sector which provides service. Kamau (2013) using non-experimental survey design study observed positive co-relation between differentiation and performance. This study focused on insurance market which has differing orientation with fast moving goods retail market.

Cost Leadership Strategy and Organizational Performance

Gorondutse and Gawuna (2017) observed significant positive influence of cost-leadership on performance of Nigeria based hotels. Customer perspective and attributes such as consumer behavior and loyalty were not captured. This study incorporated consumer perspective that was missing in the previous studies. Atikiya, Mkulu, Kihoro and Waiganjo (2015) established a significant influence of cost-leadership on performance of manufacturing companies based in Kenya. This study was based on insurance sector which was significant in checking consistency of the results across industries. Nyauncho and Nyamweya (2015) demonstrated significant influence of cost-leadership on performance of Eldoret based liquid petroleum gas firms. However, only accounting parameters was considered in assessing performance. This study applied both accounting and market based performance parameters.

Hashem, Hamid and Samira (2012) determined influence of cost-leadership on performance of forty-five Tehran Security Exchange (TSE) listed companies for a seven year period. The results identified positive relationship of the variables. The sampling of firms in different industries with differing business environment is a limitation in generalizing the outcome. This study focused on a single industry which is Kenyan insurance industry. Hamid, Negar, Somayeh and Masoud (2014) determined cost-leadership and performance of selected Tehran Security Exchange (TSE) listed companies for a four year period. The study employed accounting based indicators of performance and established negative influence of cost leadership on performance. The finding is inconsistent with Hashem, Hashem, Hamid and Samira (2012). The inconsistency is attributable to differing performance measure basis (market-based and accounting-based) employed by the two studies. This study employed both market and accounting based performance measures employed by the two previous studies to harmonize the inconsistency.

Market Development Strategy and Organizational Performance

Muga (2016) established a significant influence of market development on performance of Kenyan based pharmaceutical firms. However, the study was based on multinational companies which experiences relatively different market dynamics with local companies. This study was based on insurance companies operating in relatively homogenous industry. Mbithi, Muturi and Rambo (2015) found insignificant influence of market development on performance of Kenyan sugar companies. Market development was the only independent variable considered. This study was based on multiple strategies to offer further findings in relation to additional variables. Nyaga (2016) did a study on Equity bank to determine influence of competitive strategies on performance. Equity bank had applied majorly market development strategy by diversifying its branches within and across borders; the many branches indicated increase in in market share and size. The study also established that market development strategy significantly influenced the bank's performance. This study was based on Kenyan insurance sector that experience low penetration to establish if the trend observed is consistent. Mulandi (2005) in studying market development strategy by Kenya Airways established a significant positive influence of market

development strategies on performance. Due to small sample used and major reliance on secondary data created potential for bias in generalization of findings. This study utilized a larger sample and primary data for improved objectivity.

RESEARCH METHODOLOGY

This study applied descriptive research design. Cooper and Schindler (2014) argue that descriptive studies try to discover answers to the questions who, what, when, where and sometimes how. For the study to collect substantial information about the population, descriptive design was used. Descriptive design enabled collection of large data and multiple orientations in data analysis. The target population of this study was the fifty-five (55) insurance companies registered by the regulator (IRA) as at February, 2017. Considering the small population size a census was adopted for this study. This study applied census hence the sample size of the study was all the registered insurance companies in Kenya by IRA as at 2017. This was due to the small population size. However, in selecting respondents stratified proportionate random sampling was employed for this study. The respondents were grouped according to line of business of the specific insurance firm; life, general and reinsurance business. Therefore, selecting branch managers as respondents was considered suitable. The study applied Yamane (1967) formula to calculate the number of respondents which could accurately represent the total 150 branch managers (IRA, 2017) in Kenya.

$$n = N / (1 + N(e)^2)$$

Where: n = Sample Size; N = Total Population; e = Precision Level (taken as 5% at 95% confidence)

Considering total branch managers number of 450, the sample size was computed as follows:

$$n = 150 / (1 + (150 * (0.05)^2)) \text{ n is thus approximately 110}$$

Data was obtained using structured questionnaire that offered a brief introduction and further sections captured variables; cost leadership, differentiation, market development and performance. The first section was demographic and operational traits of the insurance company and respondents while the second part covered the independent variables. The third part obtained information on the firm's performance; net profit and total annual gross premium for the three years (2015 – 2017). Inferential and descriptive analysis was adopted for this study. Further, a 5-point Likert scale (1 not at all, 2 very little, 3 to some extent, 4 great extent, 5 to very large extent) coding was utilized. Multiple linear regressions were used to inference influence of competitive strategies on performance. To achieve its major objective, this study applied regression model. This study also adopted Statistical Package for Social Science (SPSS) 17 as the analytical tool. This study applied quantitative research method that involved modeling and analyzing multiple variables. The multiple regression analysis model was as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where: Y - The value of the dependent variable (Organizational Performance); ε - Error term assumed to be constant; α - constant term; β_1 , β_2 , β_3 , β_4 - coefficient terms of differentiation, cost-leadership and market development strategy respectively.

RESEARCH RESULTS

The results established that R^2 was 0.502 hence 50.2% of the variation in the insurance firm's performance was explained by the variations in the competitive strategies. The correlation analysis findings showed a significant positive correlation between competitive strategies and performances of Kenyan insurance firms. All the competitive strategies were statistically significant ($p < 0.05$).

Kenyan insurance firms utilized differentiation strategy with aim of improving performance. Differentiation strategy had a positive significant influence on performance of the firms. Differentiation also had a positive correlation with the performance of the insurance companies.

The insurance companies also employed cost leadership strategy to improve performance. This study established a positive significant influence of cost leadership on performance of insurance companies. The correlation between cost leadership and performance of insurance companies was positive.

Insurance firms further applied market development strategy with aim of improving performance. The result showed a positive significant influence of market development on performance. Further the correlation between market development and performance was positive.

INFERENCE STATISTICS

This study applied Pearson's correlations and regression analyses to compute and analyze data. The following sections present the analyses. The correlation findings revealed a strong positive correlation between performance and differentiation ($r = 0.709$, $p < 0.00$), a strong positive correlation between performance and cost leadership ($r = 0.592$, $p < 0.00$), and a strong positive correlation between performance and market development ($r = 0.559$, $p < 0.00$). The findings showed that with every improvement in differentiation, cost leadership and market development there was a positive increase in performance. According to Farrar and Glauber (1967), simplest way of assessing multicollinearity is tabulating correlation coefficients between two independent variables. This study conducted Pearson Correlation of the predictor variables and the results indicated highest correlation coefficient of .709 as illustrated in Table 7. Correlation coefficient above 0.8 is a sign of multicollinearity (King'oo, 2015). All the predetermined variables had coefficients < 0.8 which proved absence of significant multicollinearity and demonstrated reliable predictor variables.

This study applied regression analysis result indicated in Table 1. The R^2 was 0.502 hence 50.2% of change in the firm's performance was attributable to variations in competitive strategies.

Table 1: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.702 ^a	.502	.491	.186	.52126

a. Predictors: (Constant), Differentiation, Cost leadership, Market development

b. Dependent Variable: Organizational Performance

An ANOVA was done between influence of differentiation, cost leadership and market development on performance at 95% confidence level. Significance of the regression model applied was 0.0015 and results shown in Table 2.

Table 2: ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.553	1	8.553	5.022	.0015 ^a
	Residual	64.714	79	1.703		
	Total	73.247	80			

Predictors: (Constant), differentiation, cost leadership, and market development

Dependent Variable: Organizational Performance

The F value (F = 5.022) confirmed significance (Sig. F < 0.05). The result also confirmed the model is fit. This study assessed regression coefficients and results indicated in Table 3.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	1.324	.301		4.285	.002
Differentiation	.101	.176	.0254	.694	.022
Cost Leadership	.087	.247	.636	.256	.028
Market Development	.104	.154	.183	.776	.038

Dependent Variable: Performance

This study identified a positive significant influence of competitive strategies on performance of insurance firms in Kenya. As illustrated in Table 3, t-value of constant (t = 4.285) showed significance at .000 per cent level (Sig. F < 0.05), hence confirmed positive fit. The results

showed the variables were statistically significant ($p < 0.05$). According to beta results the model was interpreted as:

$$Y_0 = 1.324 + 0.101 (X_1) + 0.087 (X_2) + 0.104(X_3) + e$$

The findings also showed that differentiation strategy has a positive significant ($p = 0.022 < .05$) influence on performance of insurance companies in Kenya. With all other variables held at zero, a unit change in differentiation would lead to 0.101 increase in performance of insurance firms. The result is supported by Githumbi and Ragui (2014) that identified a positive significant influence of differentiation strategy on performance of large Kenyan rice processing firms.

This study found a positive significant ($p = 0.028 < .05$) influence of cost leadership on performance insurance companies in Kenya. Unit change in cost leadership leads to 0.087 increase in performance of insurance companies in Kenya. The result is in line with Kamau (2012) that established positive significant influence of cost leadership on performance of life assurance companies in Kenya. Nyauncho and Nyamweya (2015) also determined a significant positive influence of cost-leadership strategy on performance of liquid petroleum gas companies in Eldoret.

Further results of this study showed significant ($p = 0.038 < .05$) positive influence of market development on performance of insurance companies in Kenya. Single unit improvement in market development corresponded to 0.104 improvement in performance. The result is supported by Mulandi (2005) that established a positive significant influence of market development strategy and performance of Kenya Airways.

TEST OF HYPOTHESES

To achieve its objectives, this study conducted test on null hypotheses. This study relied on the regression results in testing for the null hypotheses and conclusions indicated in Table 4.

Table 4: Hypotheses Testing

Hypothesis	Test	Results	Remarks
H ₀₁ : Differentiation does not influence performance of insurance companies in Kenya	Regression .022	Significant	Rejected
H ₀₂ : Cost leadership does not influence performance of insurance companies in Kenya	Regression .028	Significant	Rejected
H ₀₃ : Market development does not influence performance of insurance companies in Kenya	Regression .038	Significant	Rejected

At a significant level of 95%, all the independent variables were significant thus ($p < 0.05$) for all the variables in this study. As illustrated in Table 4 all the null hypotheses were rejected.

CONCLUSIONS

This study achieved its major objective. The Insurance firms in Kenya have applied different strategies to remain competitive in a market that has experienced lower penetration with a majority of the market share dominated by few insurance firms. However, the competitive strategies applied results in different levels of variation with respect to specific strategy. Therefore, this study concludes that competitive strategies are key in influencing performance.

RECOMMENDATIONS

This study recommends that management of Kenyan insurance firms to continue applying competitive strategies to improve performance. This is supported by the results of this study which indicated positive influence on performance. The application of the strategies will then enhance performance.

This study further recommends that government through insurance regulatory authority (IRA) formulate favorable policies that support the insurance industry as a way of increasing their contribution to the gross domestic product (GDP). Favorable policies such as tax holiday may help in reducing start up and operational costs for underperforming insurance companies. In addition, IRA should set regulations and standards to ensure healthy competition and ethical practices in insurance industry to protect the new and upcoming firms.

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