

# **COMPETITIVE STRATEGIES AND MARKET PENETRATION OF INSURANCE COMPANIES IN KENYA**

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## **ABSTRACT**

The Insurance industry in Kenya is very competitive, with the number of insurance companies as at December 2016 standing at 50. Despite this, the level of insurance penetration in the country is about 2.73%, a relatively lower rate than the average world rate of 6.28%. This investigated the influence of competitive strategies on insurance penetration in Kenya. The specific objectives included; investigating the influence of cost leadership, differentiation, focus strategy and critical success factors on insurance penetration in Kenya. The study was informed by sales maximization theory, Porter's theory on generic strategies and Boston Consulting Group Matrix theory. A descriptive and explanatory research design was used. The study is cross-sectional, with the use of primary as well as secondary data. Questionnaires that had close ended questions were used to collect primary data. This data was sourced from head of marketing and head of business development departments as they hold key information. Before data collection, the questionnaire was tested for validity and reliability. The Cronbach alphas for all the variables were more than the critical value of 0.7 and hence the questionnaire was deemed to be reliable. The validity of the questionnaire was ascertained through expert opinion. Descriptive analysis, correlation analysis and regression analysis were used in analysis of data. The descriptive analysis involved calculation of the proportion of male and female

respondents in management and also the proportion of respondents in various age categories. The descriptive statistics calculated involved standard deviation, mean, skewness and kurtosis of all the variables. The results of correlation analysis showed that competitive strategies were positively associated with market share. The regression analysis indicated that there was a positive and significant relationship between cost leadership strategy and insurance penetration. Also, company size had positive and significant influence on insurance penetration, implying that an increase in size had positive effects on insurance penetration. No evidence of moderation effect of critical success factors was found. Therefore, it was concluded that adoption of cost leadership strategy enhances insurance penetration. Additionally, an increase in size of insurance companies enhances their ability to penetrate the market. The study recommends that insurance companies should seek strategies for cost efficiency in order to penetrate the market. Also, the insurance companies should seek growth opportunities. The study provides empirical evidence on the impact of cost leadership on insurance penetration. Additionally, the study provides the managers with a basis for pursuing cost leadership and seeking growth opportunities.

**Key Words:** *competitive strategies, cost leadership, critical success, differentiation strategy, focus strategy, gross domestic product, insurance penetration*

## **INTRODUCTION**

The insurance industry and the general financial sector play a crucial role in mobilization of funds. Insurance companies derive their income mainly from sale of insurance policies and deposit taking and subsequently investing this income. The global and local developments in the insurance industry are important in the development of policies in the sector. The global growth in insurance industry is projected to increase at 4% rate over 2016-2018, with the growth in the life and non-life insurance higher in the emerging markets (Ernest & Young, 2017). The global growth in life insurance has significantly grown from 2.6% in 2012 to 5.4% in 2016, with non-life insurance stagnating between 3.0% and 2.4% in the same period (Ernest & Young, 2017). On average, the global growth in insurance has lagged behind global economic growth rate. The global insurance penetration has also declined over the last decade. In 2005, the global penetration ratio was 7.5% while penetration ratio in 2016 stood at 6.28% (Swiss Re, 2016). It is highly expected that global political shifts especially in Europe and North America could affect the growth prospects for insurance industry.

The broad financial sector in Kenya has been liberalized and hence competition from both locally and foreign owned firms in the insurance sector has been intense. Due to globalization, it is important for insurance companies to achieve competitive advantage. It has been established that the global insurance growth and economic growth positively influences each other. For instance, the global growth insurance industry growth was 4.4% while the growth in nominal GDP was 4.6% (McKinsey, 2014).

In light of the dynamics in the insurance sector, the relationship between competitive strategies and insurance penetration comes into question. Competitive ability by a firm is a crucial component of an organization's competitive advantage. Specifically, the link between competitive strategy and market penetration is important in ensuring that the organization is in the right track. Competitive strategies are techniques adopted by organizations in order to sustain profits in the long-run mainly by strategically responding to competition. The main reason for formulation of competitive strategies is to link an organization with its environment (Porter, 1998). The nature and forces within the industry are most crucial aspects of an organization's environment. Therefore, competitive strategy can be viewed as the scope and direction taken by a company in the long-term that leads to competitive advantage (Yasar, 2010). Through adoption of relevant competitive strategies, an organization can achieve competitive advantage and hence be able to withstand the threats posed by competitors.

## **OBJECTIVE OF THE STUDY**

The study's general objective was to assess the influence of competitive strategies on insurance penetration in Kenya.

## **STATEMENT OF THE PROBLEM**

Despite the apparently impressive growth in the Kenyan insurance industry, insurance penetration has been relatively lower when compared to the global penetration rate. The global penetration rate stands at 6.28%. According to IRA (2016), insurance penetration rate declined to 2.73% in 2016, down from 2.88% in 2015. Basing on the data from IRA (2017), it is also evident that the penetration rate for Kenyan insurance industry has stagnated in the recent past. According to AKI (2016), insurance penetration in Kenya has declined from 3.44% in 2012 to 2.75% in 2016. In general, the relatively low insurance penetration rate in Kenya is an indication that most Kenyans have not embraced insurance coverage. For instance, Syombua (2018) while using data from Kenya National Health Accounts Survey found that only 10.05% of Kenyans had health insurance. There exists evidence of positive relationship between insurance penetration and economic growth (Olayungbo and Akinlo, 2016). The implication therefore is that ways of increasing insurance penetration in the country in order to spur economic growth should be sought. Against this background, this study intends to assess the link between competitive strategies and insurance penetration in Kenya. Some studies have examined the factors influencing insurance penetration (Kamau, 2013; Njuguna and Kimani, 2016; Wairimu and Okibo, 2015; Das and Shome, 2016). Specifically, Kamau (2013) investigated the factors influencing low penetration of insurance products in Kenya while Njuguna and Kimani (2016) study focused on the financial factors affecting insurance penetration in Nakuru town. Wairimu and Okibo (2015) studied about the determinants of micro insurance penetration among low and middle income Kenyans while Das and Shome (2016) assessed the determinants of insurance penetration in India in a macroeconomic perspective. These studies have only focused on the determinants of insurance penetration, with lack of emphasis on the competitive strategies. In this perspective, this study sought to address the existing research gap by assessing the competitive strategies affecting Kenyan insurance penetration. Also, the moderation role of critical success factors was also investigated.

## **THEORETICAL REVIEW**

### **Porter's Generic Strategies Theory**

This theory was developed by Porter (1980) in his work about competitive strategies. Ideally, Porter (1980) describes competitive strategy as offensive taking or defensive measures to develop a position that is defensible in an industry, and to successfully deal with the five forces of competition thereby getting superior investment returns. The five forces of competition in an industry comprise the competitors, suppliers, buyers, threats from substitutes and potential entrants. Due to the competitive forces in the industry, strategies to be adopted by organizations in order to successfully compete in the industry are proposed. These strategies include overall costs leadership, focus and differentiation. An organization can adopt one of these strategies or a combination of them.

According to Porter (1998), the overall cost leadership strategy aims at achieving cost leadership in the entire organization through a set of practical policies designed to achieve this objective. Porter indicates that this strategy can be achieved through sustained pursuit of reduction of costs based on experience, setting up of facilities that are scale-efficient, strict cost and overheads control, avoiding marginal customer accounts, minimization of costs in departments such as advertising, research and development, service, and sales. Differentiation strategy involves differentiating the firm's products. This requires that the products be perceived as being unique in the entire industry. The approaches to this strategy may take the form of technology, networking with the dealers, design/brand image, and customer service. Porter argues that differentiation strategy can create a defensible position for the firm because it creates brand loyalty and lowers price sensitivity. The focus strategy involves focusing on a specific line of product segment, buyer groups, or physical market. The main aim of differentiation strategy is maximization of sales revenue in a particular segment as a result of serving the target market more efficiently than the competitors.

Generic strategies have been applied in a number of empirical studies. Leitner and Guldenberg (2009) use the generic strategies in examining the performance of Australian SMEs. Yamin, Gunasekaran, and Mavondo (1999) empirically investigated the link between strategy, competitive advantage, and performance of manufacturing organizations in Australia. Arasa and Loice (2014) studied the influence of the generic strategies on the performance of telecommunication firms in Kenya. In this perspective, this study intends to adopt Porter's generic strategies in assessing the market penetration of the insurance companies in Kenya. This theory was significant to the current study as it guides on how the competitive strategies are examined using a structured approach and how these strategies influence sales and consequently profitability.

### **Boston Consulting Group Matrix**

The matrix was developed by Bruce Henderson in 1970s. The matrix analyses products into two dimensions. The first dimension assesses the general growth level of the product within the product's market. The other dimension measures the market share of the product in relation to the largest competitor in the market. An analysis of products using this approach provides an important understanding of the prospects and the product specific problems. The matrix categorizes products into four groups namely; cash cows, stars, dog, and problem child. The product categorized as star has a high growth and a market share that is dominant. The implication for this is the requirement for significant investment to increase the market share and to sustain their leadership over competitor's product (Debrecht and Levas, 2014). The cash cow group comprises products with a high market share but in a market with low growth. The strategy in this category is allocation of resources in order to safeguard the market share and investment in product differentiation to track consumer taste variations.

The typical characteristics in the cash cow product category comprises slow/no growth in market, high competition, little or no power in pricing, product differentiation and relatively large market share for the business unit (Debrecht and Levas, 2014). The products classified in the dog category are characterized by low market share in a low growth market. The implication of this is loss/minimal profits from these products thereby draining an organization its resources and time. The best strategy for an organization is usually discontinuation in investing in the products in this category (Mohajan, 2017). Lastly, the problem child/question mark is a case of products with low market share but in a market with a high growth. This is usually the case for the new products in the market. The new entrants have a high spending in order to increase the market share. Mohajan indicates that organizations in the question mark category have high marketing expenses, high competitive devices, high direct costs, narrow domains, high current assets levels, and big expenses in R&D. However, if an organization finds its existing products in this market category, then it should investigate the reasons behind this.

Debrecht and Levas (2014) applied BCG portfolio matrix to explain the changing enrollment history of a certain university. Specifically, the authors discuss the strategies adopted in business department which was considered to be a cash cow due to cost efficiency, large classes, low overhead and large amount of cash generated. The authors also indicate that this department adopted differentiation strategy by using full time staff as opposed to adjunct staff that was used by new entrants. This helped to maintain the market share. The matrix is important in evaluating the product portfolio of a company that is competitive. This theory is significant to this study because it informs on different strategies adopted by organizations, taking into account the market share and growth rate. Since the market share is measured by an organization's sales relative to that by competitors, this theory informs on the strategies that an organization should adopt in relation to the performance of its products and market type. For instance basing on this theory, an insurance company with high sales (premiums) in a mature market may adopt product differentiation.

### **Sales Maximization Theory**

Sales maximization theory is important because sales maximization is a strategy of market penetration. This theory is based on Baumol (1959) work. The objective of this theory was to assist decision makers in implementing business decisions that seemed to conflict with profit maximization principle. This theory is explained by use of two models, the static single-period model and a dynamic model for multiple periods. Ideally, it is not possible to concurrently pursue profit maximization and sales maximization. Profit maximization implies that a company must sell its products/services at a high profit margin. The cost of delivering the product or the service must be significantly lower than the sales price in case of profit maximization. The sales maximization principle on the other hand entails minimization of prices in order to increase sales. Baumol justifies sales maximization on a number of grounds. First, Baumol attributes the separation of ownership from management to reinforce the sales maximization desire by the managers. The discretion by the managers implies that sales maximization is the most obvious

goal as long as the profits remain satisfactory. In addition, there is an argument that the earnings by the top management are more correlated with sales than profits.

Baumol (1959) also explains that the theory of sales maximization is important because banks and other financial institutions keenly analyze the sales trends of organizations and they tend to lend to organizations that have sales growth. Next, this theory is justified on the basis of better employee earnings and terms of work. Generally, declining sales leads to layoffs and salary reductions. Also, the theory postulates that growth in sales reinforces the ability to adopt competitive strategies thereby strengthening the firm's competitive position. It can be concluded that the sales maximization theory is significant only given the minimum profit constraint. This implies that organizations must maximize sales revenue subject to a certain level of profits. In the perspective of the present study, this theory is important as it can guide on maximizing insurance penetration. Insurance penetration is measured in sales terms (gross premiums) and hence the theory is relevant. In other words, the theory informs on the insurance premiums targets by top managers in insurance organizations.

Sales maximization has been empirically tested by a various authors. McGuire, Chiu, and Elbing (1962) tested the hypothesis that senior executive salaries correlates more with sales rather than profits. The authors used a sample of 45 out of top 100 largest companies in USA to demonstrate that the executive incomes were strongly correlated with sales revenue than profits. While using a cross-sectional sample of 77 companies in America, Roberts (1959) found that the earnings by executives are correlated with sales and not profits.

### **Critical Success Factors**

There exist a number of definitions of critical success factors. However, the most common definition is by Rockart (1979). He defines critical success factors as the few areas in which satisfactory results would lead to success in the performance of an organization in a competitive environment. The critical success factors concept originated from Daniel (1961), with Rockart further expounding this concept. According to Rockart, organizations develop diverse critical success factors due to competitive strategy, company structure, position in the industry, location, time and environmental aspects. It has been acknowledged that an improvement in efficiency, performance in operations, and competitive advantage translates to critical success factors (Pal and Torstensson, 2010).

According to Pal and Torstensson (2010), the critical success factors are effectively developed by planning and aligning of processes, products, and supply chains. It has been widely argued that measures of performance of an organization should reflect the critical success factors. On the other hand, determination of critical success factors can give an organization a competitive edge in highly competitive environment. The resources, qualifications, and competences of a firm influence critical success factors thereby leading to competitive advantage. The critical success factors should reflect management goals for them to be relevant. The risk of

development and introduction of a strategy with little regard to the critical success factors influencing success in various departments should not be taken (Rockart, 1979).

The critical success factors theory has previously been used to inform empirical studies. Alqudah et al. (2014) assessed the critical success factors for organizational performance. Using correlation and descriptive approach the authors found that critical success factors namely; planning of human resource, training, and development had significant impact on organizational performance.

## **EMPIRICAL REVIEW**

### **Differentiation Strategy and Penetration**

Spencer and Joiner (2009) studied differentiation strategy, systems of measurement and organizational performance in Australian context. The organizational performance in this study comprised non-financial items namely, sales volume, market share and market developments. The authors used a sample of 200 largest manufacturing companies. The authors used questionnaires to collect data from the senior management team of the sampled companies with a response rate of 42% achieved. The authors measured the strategic priorities by use of 11 items representing different dimensions of differentiation. Specifically, the degree of emphasis (Likert scale of 1 to 7) given by their organizations on the 11 items of differentiation was used to measure differentiation strategy within the sampled organizations. Using factor analysis, the authors extracted two factors related to differentiation. These factors were namely product flexibility and customer service.

By use of regression analysis with the non-financial performance measures as the dependent variable and customer service differentiation as the independent variable, Spencer and Joiner (2009) found that the customer service differentiation positively and significantly influenced non-financial performance. Similarly, product flexibility differentiation influence on non-financial performance was positive and significant. The major issue with this study was the wide dimension used for the dependent variable. Specifically, the authors failed to identify the impact of customer service differentiation on individual items of non-financial performance.

Dirisu, Iyiola, and Ibidunni (2013) studied about product differentiation in relation to firm performance and competitive advantage. The authors collected data relating to items of differentiation and organizational performance using questionnaires, with the sample study sample comprising of 323 customers. The authors used regression in data analysis with firm performance the explanatory variable. The explained variable was product differentiation. Performance was represented by the sales growth and customer satisfaction. On the other hand, items of product differentiation were higher quality of the product, unique product features, product design and new product innovation. Using two different regression models, the authors found that product differentiation effect on the measures of organizational performance was positive and significant. Specifically, the authors established a positive and significant influence



of quality of the product on sales growth. In addition, the authors found that product design and style positively and significantly influenced sales growth. Similarly, product innovation and customer satisfaction were positively and significantly related. Also, a positive and significant relationship between uniqueness of product and customer satisfaction was established. This study however focused only on product differentiation as a dimension of differentiation strategy. It is crucial to examine the effect of other dimensions of differentiation strategy.

Kinyuira (2014) assessed the influence of differentiation strategy on various items of performance of cooperatives in Murang'a County. The author used primary data, with a sample of 116 SACCO employees in the region selected. The dependent variable in this study comprised various items of performance namely; number of branches, employees, membership, total assets, and share capital. The dependent variable included items of differentiation namely; strong brand image, innovation and creativity, strong branch network, innovation in technology, broad product/services, new products, and strict quality control. The author used correlation and regression in assessing the link between the differentiation strategy and the SACCO performance. The results showed that differentiation strategy was strongly correlated with the performance indicators. On the other hand, regression results indicated that the coefficient of differentiation was positive and significant at 5% level of significance, implying a positive influence on SACCO performance. Although the study explicitly explained the items of the three competitive strategies, it was not indicated how the items of the organizational performance were modified to one variable in the regression analysis.

Violinda, Dirgantara, and Sufian (2016) study was on the relationship between differentiation strategy and competitive advantage indicators namely; growth, customer base, internal business processes, and financial performance. Differentiation strategy was measured through six dimensions namely; product, service and support, personnel, channel and image. The authors used structural equation modeling approach in the analysis. Questionnaires were used in collection of data from a sample of 150 officials in Semarang State University. The results of confirmatory factor analysis in this study indicated that differentiation strategy had a positive influence on competitive advantage, with the level of significance being 1%. The inferences from this study were based on factor analysis and hence a causal relationship between differentiation and competitive advantage was not established.

### **Cost Leadership and Penetration**

Hilman and Kaliappen (2014) studied relationship between cost leadership and organizational performance indicators namely; market share, sales growth and customer base. This study focused on hotel industry in Malaysia, with a total of 54 middle and top level managers sampled. The authors used questionnaires to collect the data on items of cost leadership and the measures of performance from the sampled managers. The items of cost leadership comprised lower cost of service, cost efficiency, reduction of costs required for service coordination, improvement of utilization of available equipment, facilities and services. Regression was adopted in data

analysis, with the dependent variable being the items of organizational performance. The cost leadership was the independent variable and had six items. All the items of organizational performance and cost leadership had a 7 point likert scale (strongly disagree was lowest while strongly agree was highest). The coefficient of cost leadership in the regression was positive and significant at 1% level. This implied that cost leadership positively and significantly influenced the market share, sales growth and customer base. This study clearly explained the various items of organizational performance and cost leadership strategy. The authors used process innovation as the mediating variable. The current study however used critical success factors as the moderating variable.

Gorondutse and Gawuna (2017) study examined the cost leadership and hotel performance in Nigeria. This study was cross-sectional in nature, with the selection of all 83 hotels in Kano Nigeria. The authors used various items of cost-leadership, with a likert-scale used to measure the level of agreement in responses used for each cost leadership item. Performance was measured by use of financial and non-financial indicators. Specifically, respondents were required to indicate the performance of their hotels in the previous three years relative to the competitor's performance. The authors first carried out confirmatory factor analysis on all the items of cost leadership and performance and based on factor loadings eliminated the items that had low factor loadings. Regression analysis was later carried out, with performance as the dependent variable and cost leadership the independent variable. The estimation results indicated that cost leadership coefficient was positive and significant; implying that cost leadership positively and significantly influenced hotel industry performance. The major issue with this study is that the organizational performance was subjective in nature. Ideally, the respondents were required to rate the financial and non-financial performance of their organization in relation to competitors.

A study about the influence of cost leadership strategy on Kenyan manufacturing industry was done by Atikiya (2015). The authors adopted a descriptive and explanatory research design in the study. The data on cost leadership and performance was collected from a sample of 131 companies in manufacturing sector. Cost leadership strategy was based on the responses on 15 items namely; lower price relative to competitors, investment in sales promotion, reduction of labor cost through automation, charging relatively higher than competitors, sourcing of supplies from suppliers offering discounts, not emphasizing on cutting costs and internal programs of efficiency, vigorous pursuit of cost reduction, competitors price sold on price that is affordable, purchase of raw materials at relatively lower cost, focus on administrative cost reduction, high expenditure in delivery systems that are based in technology in order to lower costs, outsourcing, tight cost control and strict focus on details, identification of areas that have below par performance and focus on design of product that economize on materials. The responses for these 15 items were gauged against a five point likert scale.

The indicators of performance was sales growth in the previous 5 years, sales in the preceding 5 years, growth rate in profits in last 5 years, profitability ratio over the past 5 years and overall

organization performance. The responses on these items were gauged through a five point likert scale. The author used correlation and regression analysis in data analysis, with the dependent variable being firm performance. Cost leadership was the independent variable. The results of correlation analysis indicated that cost leadership was positively and significantly correlated with firm performance. The regression results indicated that cost leadership had positive and significant influence on firm performance, with the coefficient being significant at 1% level of significance. The limitation with this study was the subjective nature of the measure of market penetration. Actual measures of market penetration such as sales growth and market share are more effective as they are free from subjectivity.

### **Focus Strategy and Penetration**

Cheptiram, Nzioki, and Njeje (2016) studied the relationship between focus strategy and performance of seed companies in north rift region. The focus strategy in this study was proxied by market segmentation. This study focused on three companies namely, Kenya Seed, Western Seed and Pannar Seed. Questionnaires adopted as the main method of data collection with the sample size being 115 respondents. The author used regression and correlation in analysis of data. The dependent variable in this study was organizational performance while the independent variable was market segmentation. Market segmentation was expressed in terms of measurability and accessibility of the market and had six items that described different perspectives of market segmentation. The authors established a positive correlation between market segmentation and performance of the sampled companies. Additionally, the estimation results implied that market segmentation positively and significantly influenced performance of the seed companies. The authors noted that the companies studied focused on specific products and markets. However, the authors in this study did not indicate the measures for the organizational performance.

A study linking focus strategy with bank performance was done by Asiedu (2016). Specifically, this study was based on market segmentation as a part of market focus strategy. Five banks were sampled based on size in terms of capital ratio and market share in Colombia. The author used market share and profits to assess the impact of market segmentation on the performance of banks. Using deposit size, the author adopted Herfindahl Hirschman Index (HHI) in calculation of market concentration for the sampled banks and then correlation analysis between the index and the performance indicators was conducted. The correlation between the Herfindahl Hirschman Index and the performance indicators was calculated so as to establish impact of market segmentation on the performance of the banks. The correlation analysis results indicated that market segmentation was positively correlated with market share. It was found that all the five sampled banks had HHI that was more than the half Colombia's market share and hence the author concluded that market segmentation had positive influence on the performance of the sampled banks.

Arasa and Gathinji (2014) established a significant association between focus strategy and market penetration. Their study was based on four telecommunication firms in Kenya.

Specifically, they used a sample of 354 employees from various departments of the four firms. The authors adopted stratified and purposive sampling techniques. The authors collected primary data relating to focus strategy by use of a semi-structured questionnaire. On the other hand, the authors used secondary data on market share and sales as a proxy for performance. The authors used correlation and regression analysis in hypothesis testing. The results of correlation indicated that focus strategy was positively and significantly correlated with market share and sales. Linear estimation indicated that the coefficient of market focus strategy was positive and significant, implying a positive influence on market share and sales and overall organizational performance.

### **Critical Success Factors and Penetration**

Cooper and Kleinschmidt (2007) studied the critical success factors in the context of new product development. This was a study of 161 businesses and it analyzed the key determinants of performance of new product by use of correlation analysis. The authors narrowed down to two performance measures namely, profitability and impact. Profitability was measured by profitability relative to the competitors and the entire rating of the total new product effort. The impact was measured by the percentage new product sales. On the other hand, key performance drivers for new product development comprised high quality process of new product development, organization, and firm aggregate new product strategy, internal culture of the firm and innovation climate, and commitment by the senior managers.

The study collected data on various items of the aforementioned key performance drivers by use of questionnaires. The results of correlation analysis indicated that a high quality process of new product development and senior management commitment to new products were positively correlated to both profitability and impact. The correlation coefficients of the two key performance drivers were significant at 1% level of significance. This study was based on correlation and therefore the causal relationship between critical success factors and indicators of penetration was lacking.

Leszczynski (2016) studied critical success factors influencing customer base and general economic performance for women enterprises in Poland. The measure of performance used by the author comprised composite business performance. Specifically, the indicators of performance included change in number of customers, annual revenue from economic activity, and change in annual net profit or self-employment earnings. The period of analysis for these performance measures ranged from 2011-2013. This measure was taken as a mean of four items each having 7-point scale rating in questionnaire. The author adopted regression analysis with the above measures as the dependent variables. The analysis results indicated that education, experience, above average entrepreneurial skills, and adoption of a defined competitive strategy were significantly and positively related with performance. The major limitation with this study is that it only focused on women enterprises. In addition, the study only focused on micro-enterprises and hence the results for large enterprises including companies need to be ascertained.

AlQudah, Osman, and Safizal (2014) studied organizational performance critical success factors for SMEs in Jordan. Using a sample of 332 SMEs, the authors used regression analysis and correlation analysis to assess the relationship between the organizational performance and the critical success factors of quality circle and performance appraisal. The regression analysis indicated that the coefficients of quality circle and performance appraisal were positive and significant at 1% level of significance, implying that the two critical success factors positively influenced organizational performance. Also, the two critical success factors were positively and significantly correlated to organizational performance. The major limitation with this study however is that the various items of the

## **RESEARCH METHODOLOGY**

This study adopted descriptive and explanatory research designs. The target population comprised all the registered insurance companies in Kenya. The population was established from the Insurance Regulatory Authority published reports on insurance sector. The departmental heads from marketing and business development departments formed the target population. Specifically, the target population was 50 in total. Due to the small number of population (50 registered insurance companies), census was used. This study used both primary and secondary data. Secondary data was mainly insurance penetration and total asset value data (representing the company size). Penetration data was sourced from financial reports and the Insurance Regulatory Authority reports on insurance industry. The secondary data was recorded in Microsoft Excel. Semi-structured questionnaire was used in collection of primary data. The questionnaires were administered by conducting interviews to the departmental heads of business development department of the sampled companies. The methods of data analysis comprised descriptive analysis, correlation analysis, and regression analysis.

## **RESEARCH RESULTS**

### **Cost Leadership Strategy and Insurance Penetration**

The first objective of this study was to investigate the influence of the cost leadership strategy on insurance penetration in Kenya. The regression results indicated that cost leadership strategy had positive and significant impact on insurance penetration in Kenya. This implies that adoption of cost leadership strategy can enhance the insurance penetration in Kenya. This means that the more the insurance organization is able to achieve cost leadership, the greater will be its ability to penetrate the market. These findings corroborate those by Buul and Omondi (2017). A positive and significant correlation between the cost leadership and insurance penetration was also established. These results are in line with those of Atikiya (2015).

### **Differentiation Strategy and Insurance Penetration**

The second objective of the study was to assess the relationship between differentiation strategy and insurance penetration in Kenya. The coefficient of the differentiation strategy in the

regression analysis was positive but was not significant. Therefore, the study did not find evidence of significant role of differentiation in increasing insurance penetration in Kenya. These findings contradict those by Dirisu et al. (2013) and Kinyuira et al. (2014) who found that differentiation strategy had positive and significant impact on market penetration measures such as sales growth and increase in branches. However, the study found a positive and significant correlation between differentiation and penetration. The correlation results corroborate the findings by Kinyuira et al. (2014).

### **Focus Strategy and Insurance Penetration**

The third objective of the study was to examine the relationship between focus strategy and insurance penetration in Kenya. The regression results indicated that the focus strategy was positively related with insurance penetration, although its coefficient was not significant. These results contradict those by Asiedu (2016) who found a positive impact of market segmentation (type of focus strategy) on the market share. However, a positive and significant correlation between the focus strategy and insurance penetration was established. The correlation results concur with those by Cheptiram et al. (2016) and Arasa and Gathinji (2014) and Asiedu (2016).

### **Critical Success factors and Insurance Penetration**

The fourth objective of the study was to examine whether critical success factors moderated the relationship between competitive strategies and insurance penetration. The results from the moderating model found no evidence of moderation. These results dispute those by Acquaaah and Agyapong (2015) who found that managerial and marketing capabilities moderated the relationship between competitive strategies and firm performance.

## **INFERENCE STATISTICS**

The study sought to evaluate the strength and direction of association between the study variables. Table 1 summarizes the correlation between the strategy variables, company size and market share. The cost leadership, critical success factors and company size have a positive association with the market share, with the association between these variables and market share being significant at 1% level of significance. The focus strategy was also found to be positively correlated with market share. The correlation was however significant at 5% level of significance. In addition, the above results indicate that focus strategy is weakly correlated with market share.

These results suggest that the competitive strategies and critical success factors are associated with the market share. Thus, adoption of the competitive strategies is associated with an increase in the market share and hence insurance penetration. Generally, the positive and significant correlation between the independent variables (cost leadership strategy, differentiation strategy, focus strategy, company size, and critical success factors) and dependent variable (market share) implies that there exists degree of linear relationship between the variables. These results support the findings of Buul and Omundi (2017) who found that cost leadership, focus and

differentiation strategies had positive and significant association with sales growth. Similarly, Atikiya (2015) found a positive association between sales growth and cost leadership strategy in manufacturing firms in Kenya.

**Table 1: Correlation Analysis**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1. Market share	1					
2. Cost leadership	0.8791** 0.0000	<b>1</b>				
3. Differentiation	0.8562** 0.0000	0.8367** 0.0000	<b>1</b>			
4. Focus	0.3273* 0.0480	0.3491* 0.0342	0.2382 0.1558	<b>1</b>		
5. Critical success factors	0.6475** 0.0000	0.5034* 0.0015	0.5421** 0.0005	0.3733* 0.0229	<b>1</b>	
6. Company Size	0.8745** 0.0000	0.8005** 0.0000	0.8443** 0.0000	0.2496 0.1362	0.4809* 0.0026	<b>1</b>

\*  $P < 0.05$ ,      \*\*  $P < 0.01$

The high correlation between the dependent variable and independent variables suggests that a strong relationship exists between the variables. On the other hand, weak correlation implies that the variables are hardly related. The correlation results also suggest that cost leadership strategy is positively and significantly correlated with focus, critical success factors and company size, with the coefficients for differentiation and company size being significant at 1% level of significance. On the other hand, differentiation was found to be positively and significantly correlated with critical success factors and company size. The correlation coefficients for both variables were significant at 1% level of significance. The association between differentiation strategy and focus strategy was positive but insignificant. However, focus strategy was positively and significantly correlated with critical success factors although this association was not strong. There also appears to be a positive and significant relationship between the company size and critical success factors.

The regression analysis was used to assess the effect of competitive strategies on insurance penetration. Two models were estimated. The first model was the base model. The second model was the model for testing whether critical success factors moderated the relationship between competitive strategies and market share. In addition to the competitive strategies, company size was used in the model as the control variable. Before regression analysis, diagnostic tests were carried out to ensure the validity of the model.

Before testing moderation by critical success factors the base model was first estimated. This model indicated the relationship between competitive strategies and insurance penetration. . This model was in the following form;

$$Y = \beta_0 + \beta_1 \text{Costleadership} + \beta_2 \text{Differentiation} + \beta_3 \text{Focus} + \beta_4 \text{CSF} + \beta_5 \text{Size} + \mu$$

Where: CSF=critical success factors, size=company size

**Table 2: Regression results**

Variable	Coefficient	Std. Error	t-statistic	Prob.
Cost Leadership	0.7112151	0.2584499	2.75	0.010
Differentiation	0.4259137	0.3840396	1.11	0.276
Focus	0.1062465	0.1744681	0.61	0.547
CSF	0.1754972	0.1807105	0.97	0.339
Size	1.280477	0.414278	3.09	0.004
Constant	-19.98034	5.619941	-3.56	0.001
Dependent variable: Market share	R Squared	0.8667		
Number of observations=37	Adjusted R Squared	0.8452		
F Statistic 33.74	Prob.>F	0.0000		

From the above regression results, the model is valid because its overall slope is significant at 1% level of significance. This is because the p-value of the F-statistic is less than 0.01. In addition, the model has high explanatory power. The R-squared of 0.8667 suggests that approximately 87% of the variation in the dependent variable (market share) is explained by the five independent variables. The R-squared was adjusted for errors to 0.8452. There was also no heteroskedasticity in the regression results as indicated by the White’s general test for heteroskedasticity. The probability value of the chi-square statistic was 0.1547 thereby suggesting that the null hypothesis of homoscedasticity could not be rejected.

The regression results in Table 2 indicated that there was a positive and significant relationship between cost leadership strategy and market share (proxy for insurance penetration). In addition the size of the company was found to have a positive and significant relationship with market share. The coefficients for both cost leadership strategy and size of the company were significant at 1% level of significance. This is because the p-values for coefficients of these variables were less than 0.01. The implication for this is that cost leadership strategy and size of the organization positively and significantly influences insurance penetration in Kenya. Similar findings were established by Atikiya (2015). Specifically, the author found that cost leadership strategy had positive and significant influence on sales growth and profit growth.

The findings also corroborate those of Buul and Omundi (2017) who found positive and significant relationship between cost leadership strategy and performance of organizations. Therefore, adoption of cost leadership strategy would enhance insurance penetration. Achieving cost leadership enhances organization’s profit and hence the ability to penetrate the market. This implies that adoption of the cost leadership strategy would lead to an increase in market share for the insurance companies and hence market penetration (Hilman & Kaliappen, 2014; Gorondutse & Gawuna, 2017).



Also, the larger the insurance company (as measured by the asset base) the greater will be its penetration ability in the market. Leitner and Guldenberg (2009), found evidence of positive effects of company size on market share. This implies that the larger the company, the greater will be its potential for market penetration. The coefficients for the differentiation strategy focus strategy and critical success factors were insignificant although their signs were positive as expected.

## **CONCLUSIONS**

A number of conclusions can be made out of this study. To begin with, cost leadership strategy as one of the competitive strategies significantly influences the insurance penetration in Kenya. This implies that the costs incurred by the insurance organizations in the country influences their market penetration ability. In this case, achieving cost leadership is an essential component that would significantly enhance insurance penetration. This is important considering that high cost of operation in insurance industry threatens the collapse of insurance sector in the country. Therefore, insurance companies should seek to attain cost leadership in order to effectively penetrate the market.

Similar to Leitner and Guldenberg (2009), the size of an organization is an important determinant of its ability to penetrate the market. This could be understood in terms of economies of scale in that large organizations have a relatively less per unit cost of sales and marketing. There appears to be no significant influence of focus strategy and differentiation strategy on market penetration. This could be conceptualized to imply that the services that insurance companies offer are limited, with little differentiation in the insurance products.

## **RECOMMENDATIONS**

A number of recommendations can be made out of the present study. To begin with, the insurance organizations need to monitor their costs as they seek to penetrate the markets. Achieving cost leadership enables insurance companies to expand their markets with relatively lower costs as compared to their competitors. In context of this study, the areas of cost leadership that insurance companies need to focus on includes identification of underperforming areas in order to cut costs, constant improvement of business processes and outsourcing of services such as engaging with insurance brokers. Insurance penetration in Kenya is relatively lower than in economies such as Nigeria and South Africa. In this perspective, cost leadership strategy could be important in lowering the costs in the industry and consequently improve the insurance coverage in the country. Cost leadership strategy when adopted effectively can also be used as basis for pursuing differentiation strategy especially through innovation.

The policy makers in the government also need to promote the growth of insurance industry by coming up with policies that lower the costs in insurance industries. Generally these policies should foster ease of doing business in the insurance industry. The insurance companies should actively lobby the government and regulators to formulate policies that lower the costs of

operation. For instance the inclusion of insurance industry in national subsidy programs could be vital in lowering costs of operation thereby fostering growth of insurance industry. The government should recognize the role of insurance industry in economic growth.

Owing to the significant influence of company size on market share, it is important for insurance organizations to identify growth opportunities. Identification of growth opportunities is important for organization to increase their market share. In addition, identification of growth opportunities enables organizations to increase their size and hence the ability to penetrate the markets. Identification of growth opportunities implies that the insurance companies should keep track of the various changes in the business environment and then respond to these changes in an appropriate manner.

In this perspective, rigorous academic research on viability of various growth opportunities in the insurance sector should be conducted. This is important in ensuring that insurance companies seize various growth opportunities in an accurate and timely manner. Also, universities should link with insurance industry especially in the perspective of education and research. This is important in dissemination of relevant education and research that suits the 21st century needs. In perspective of this study, the academia should focus more on theoretical and empirical aspects of cost leadership strategy.

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