ASSESSMENT OF CHALLENGES FACING INSURANCE COMPANIES IN BUILDING COMPETITIVE ADVANTAGE IN KENYA: A SURVEY OF INSURANCE FIRMS

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CITATION: Kiragu, S. M. (2014). Assessment of challenges facing insurance companies in building competitive advantage in Kenya: A survey of insurance firms. *International Journal of Social Sciences and Entrepreneurship, 1* (11), 467-490.

ABSTRACT

During the last few years, the insurance industry has undergone a series of changes through financial reforms, advancement of communication and information technologies, globalization of financial services and economic development. Those changes have had a considerable effect on efficiency, productivity change, market structure and performance in the insurance industry. There is an established relationship between business strategy, innovation and organizational performance. This study adopted a descriptive research design.The target population for this study consisted of 44 insurance companies with headquarters in Nairobi. The study targeted the top management specifically the general managers and/or marketing directors due to the role they play in insuring the company builds its competitive advantage. The study collected both primary and secondary data. The study generated both qualitative and quantitative data. Descriptive statistics data analysis method was applied to analyze both quantitative data. Data obtained from the questionnaires were processed through editing and coding and then entering the data into a computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 21.0. The study concludes that the most significant factor is government regulation as a unit change leads to a 2.453 increase in building competitive advantage followed by insurance products at 1.967. The study recommends that insurance companies be monitored/assessed based on their level of risk. This will ensure a stable insurance industry and this will play a major role in increasing the insurance penetration.

Key Words: *insurance companies, competitive advantage, Kenya, insurance firms*

Introduction

During the last few years, the insurance industry has undergone a series of changes through financial reforms, advancement of communication and information technologies, globalization of financial services and economic development. Those changes have had a considerable effect on efficiency, productivity change, market structure and performance in the insurance industry.

There is an established relationship between business strategy, innovation and organizational performance. In response to new technology-driven global markets, companies have increased their use of advanced technologies as well as their innovation efforts (Zahra & Covin, 1993).

The increasingly competitive environment in the financial services market has resulted in pressure to develop and utilize alternative delivery channels(Pearson & Robinson, 2007).The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). Insurance companies are now facing extreme challenges in the current competitive environment because the changes and new services became the base of marketing and in order to face those challenges, insurance companies started to go towards marketing innovation and creativity which includes creating new services, delivering insurance services to customers and promoting those services and delivering them to customers in the right time and place since time and speed became essential in the world of financial services and depends on innovation in this world of competition in order to deliver the best products and services to achieve competitive advantage and gain customer satisfaction and loyalty (Business Monitor International, 2012).In order to achieve new gains for its stakeholders and fulfill their needs and requirements, organizations must continuously search for the development of its product and services through marketing innovation and creativity. This will play a very important role in achieving competitive advantage especially in the insurance industry where competition is intense, through the forces of change brought into the industry by recapitalization and consolidation (Business Monitor International, 2012).

Global Perspective Competitive Advantage in the Insurance Industry

Competitive advantage is an organization's ability to perform in one or more ways that competitors will not and cannot match (Kotler, 2000) and is realized by the organization's marketing strategy, the implementation of this strategy and the context in which competition unfolds. The target consumers will be the core and center of the organization's marketing strategy. The organization should identify the total market and divide it into smaller segments and it should select the segment(s) and focus on serving them. The organization then engages in marketing analysis, planning, implementation and control to find the best marketing mix and take action.

To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will, perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for. Rao (2005) argue that competitive advantage enjoyed by a firm has a three stage life cycle consisting of: build up period where strategic moves are successful in producing competitive advantage; benefit period where fruits of competitive advantage are enjoyed. A long benefit period gives the firm sufficient time to earn above average profits and recoup on investments made to create the advantages and erosion period where the competitive advantage held by the firm is eroded due to imitation, duplication, new technology and attacks by rivals. Porter, Kramer and Mark (2006) suggested the need for a new paradigm for analyzing the state of a country by identifying four determinants of national advantage. These determinants are factor conditions, demand conditions, the presence and absence of supporting industries, and the firm's strategy and nature of rivalry effects.

A particular competitive advantage over rivals in one aspect of competition may help the firm better serve the customer in that particular aspect. To achieve superior performance, especially persistent superior performance, a firm often needs multiple competitive advantages. Beating rivals on multiple strategically important vectors is essential for a winning firm (Ma, 1997). Not surprisingly, superior firms are often excellent in multiple aspects. Banking solely on any individual advantages, even highly sustainable ones, may carry the firm through temporarily. Creating a constellation of multiple evolving competitive advantages and renewing such a constellation in a timely fashion, however, will likely make persistent superior performance more readily attainable (Ma, 1997).

Insurance Industry in Kenya

The main players in the Kenyan insurance industry are insurance companies, reinsurance companies, intermediaries such as insurance brokers and insurance agents, risk managers or loss adjusters and other service providers (Insurance Regulatory Authority, 2010). The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the Ministry of Finance.

There is also self-regulation of insurance by the Association of Kenya Insurers (AKI) established in 1987 as a consultative and advisory body to insurance companies and registered under the Society Act Cap 108 of Kenyan law (www.akinsure.com, 15/10/08). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education. Insurance Regulatory Authority (IRA) was established with the mandate of supervise and regulate the insurance industry players. Insurance Industry Report (AKI) for the year 2010, there were 47 insurance companies (10 long-term business insurers, 21 general business insurers, 16 composite insurers and 3 re-insurance companies (Insurance Commission, 2007). During the year, insurance intermediaries were: 161 licensed insurance brokers, 24 Medical Insurance Providers (MIPs), 3931 insurance agents, 2 locally incorporated re-insurers. Insurance service providers were: 21 loss adjusters, 2 claims settling agents, 193 loss assessors/investigators, 26 insurance surveyors, and 8 risk managers during the year.

The gross written premium by the industry was Kshs76.9 billion compared to Kshs65.0 billion in 2006 representing a growth of 18%. The gross written premium from General insurance was Kshs49.76 billion (2009: Kshs39.88 billion) while that from long term business was Kshs23.1

billion (2009: Kshs21.25 billion). This is a ratio of about 77:23 in favour of general insurance. General insurance premium grew by 18% while life insurance premium and contributions from deposit administration business grew by 29% and 11.5 respectively (Insurance Commission, 2007).

Insurance business can broadly be classified into general and life/ long term. Despite this classification, the different classes of insurance businesses can be viewed as lines of business along the profit centre concept. According to the Kenya Insurance Survey (2004), the following lines of business drive the General insurance industry business in Kenya: Motor- Commercial, motor-private, fire-domestic, aviation, Fire- Industrial and Engineering, theft, workmen's compensation, Motor- Private and Personal Accident engineering, liability, marine, and miscellaneous. The life insurance industry is mainly driven by the following lines of business: Ordinary Life and Superannuation, which includes Group Life Insurance and Deposit Administration i.e. industrial life and bond investment (Kenya Insurance survey, 2004).

The Survey revealed that the General insurance business is facing two major challenges. The first challenge is to come up with a solution for companies whose viability is threatened by their inability to meet policy holder claims. The second major challenge is how to generate growth for an industry that has significant potential for growing as a percentage of GDP but has been stagnant. In contrast to the General insurance business, the life insurance business enjoyed a real cumulative average growth rate of 8.6 per cent between years 2000 and 2004.Globally, the insurance industry has enjoyed strong business conditions over the last few years but worsening economic outlook likely pose considerable challenges in the years ahead. These challenges will be especially pronounced in the property and casualty segment, where growing pricing pressure as the market softens will drive a need for cost-cutting and greater efficiency (Deloitte, 2008).

Statement of the Problem

The 47 licensed insurance companies compete for a limited market characterized by low penetration. Kenyans' uptake of insurance cover, both at corporate and personal level, remains predominantly in the motor, fire industrial and personal accident (mainly group medical cover) classes. This illustrates a poor attitude towards personal insurance cover in general (Mbogo, 2010). The 47 insurance firms shared a net profit of Sh7.7 billion, which is less than the Sh10.5 billion Barclays Bank profit after tax posted in the year 2012(Barclays Bank, 2012). This has reignited the debate on need for consolidation with analysts arguing that the crowded field has paved way for unprofitable rate wars with the smaller players emerging key losers.

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

Competition for market share by many players has led to price wars with some insurers charging unsustainable premiums. This has compromised service delivery as the insurers are not able to fund infrastructure for efficient delivery of services and claims settlement. Attempts by the government to prod the insurers to merge by increasing the minimum capital requirements have not borne fruit. This a pointer Kenyan insurers were content fighting for the small customer base as investment income consistently mask the losses racked up in the underwriting side of business. The battle for premiums in search for growth in the crowded market is egging some executives to warn of losses given that the bulk of the players are using pricing as an arsenal for market share growth but it remains to be seen how profitable those growth strategies are at an underwriting or overall level (Mbogo, 2011)

Locally, studies that have been done include: Koima (2003) did a study on the challenges in the regulation of the insurance industry in Kenya, Kamanda, (2006) also did another study on Insurance firms with the objective of determining the factors that influence its regional growth strategy, Ouma (2007) did on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009) investigated on the internet as a source of competitive advantage for insurance firms in Kenya; Therefore this study seeks to fill the research gap by investigating on the challenges facing insurance companies in building competitive advantage in Kenya.

Objective of the Study

The main objective of the study was to assess the challenges facing insurance companies in building competitive advantage in Kenya.

Specific Objectives

1. To establish whether government regulation influence building competitive advantage in the insurance firms.
2. To determine whether distribution channels influence building competitive advantage in the insurance firms
3. To establish whether insurance products influence building competitive advantage in the insurance firms
4. To investigate how employee competence influence competitive advantage in insurance firms

Literature Review

Competitiveness Theory

Early literature on the theories of trade between nations provided the basis for competitiveness theory. It alluded to the development of sustainable competitive advantage well before its time. Competitiveness theory evolved from the traditional trade theories, fundamentally 'The effect of the Wealth of Nations' Adam Smith in 1776 (later translated in 1937), which was revolutionary. In his book Adam Smith disputed the then existing philosophy Mercantilism view on trade which suggested that trade was a zero sum game in which a trade surplus of one country is offset by a trade deficit in another country. Smith in his argument viewed trade as a positive sum game in which all trading partners can benefit if countries specialized in the production of goods and services in which they had absolute advantage. This came to be known as the theory of absolute advantage.

Ricardo (1817) extended the theory of absolute advantage to comparative advantage where he stated that even if a country does not have an absolute advantage in any good this country and other countries will still benefit from international trade. However, Ricardo did not satisfactorily explain why comparative advantage differed across countries. To provide an explanation, in 1919 Swedish economist Eli Hecksher developed the factor proportions (endowment) theory which was later expanded by his former student, Bertil Ohlin in 1933 and later came to be known as H-O Theory. The two proposed that comparative advantage arises from differences in factor endowments, a theory which was virtually self evident.

Competitiveness theories proposed some kind of advantage as enabling a country gain more out of international trade. The same is true for the firm. If sustainable superior performance (which equals sustainable competitive advantage) is to be achieved a firm must differentiate itself. Alderson (1937) hinted at a basic tenet of sustainable competitive advantage, that a fundamental aspect of competitive advantage is the specialization of suppliers to meet the variations in buyer demand. Later Alderson (1965) recognized that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of the consumer. He stated that differential advantage might be achieved through lowering prices, selective advertising appeals and/or product improvement and innovations. While these concepts lay the core foundation for firms in moving toward sustainable competitive advantage, the intense nature of competition today requires that firms be more innovative and entrepreneurial in their strategy planning than just lowering prices or improving existing products. The most important question then would be how then can companies build sustainable competitive advantage?

Porters Theory of Competitive Advantage

The term "sustainable competitive advantage" emerged when Porter (2008) discusses the basic types of competitive strategies that a firm can possess (low cost or differentiation) in order to achieve a long run sustainable competitive advantage. In his book Competitive Advantage: Creating and sustaining superior performance, Porter explains the requisite approach to business success. Sustainable competitive advantage means sustainable superior performance. He goes ahead to state that structural conditions of an industry as proposed in his 5 Forces model determine average industry performance. Relatively strong competitive position and performance of a particular firm in an industry derives from two types of competitive advantage i.e. low costs and differentiation (Porter, 2008). The two approaches are not however alternatives because even when competition is based on differentiation, costs still do matter.

Porter's approach suggests that differentiation and cost leadership seek competitive advantage in a broad range of market or industry. By contrast differentiation focus and cost focus strategies are adopted in a narrow market industry. Differentiation involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria. The strategy involves charging a premium for the product – often to reflect higher production cost and extra value added features provided for the consumer, e.g. Priority Banking at Standard Chartered Bank (K) Limited and Premiere Banking at Barclays Bank of Kenya Limited.

For cost leadership strategy, the objective of the firm is to become the lowest cost producer in the industry. If achieved the selling price can at least equal (or nearly) the average for the market then the lowest cost producer will enjoy the best profits. A strategy usually associated with large scale business offering standard products. Cost focus strategy is for businesses that seeks a lower cost advantage in just one or a smaller number of market segments. The product will be basic- perhaps a similar product to the high priced and featured market leader – but acceptable to sufficient customers. Porter's approach however raises fundamental questions; why does the successful firm not buy the unsuccessful firm and teach it how to minimize costs? Why does the successful firm not sell its expertise in cost reducing to less successful firms? Why does the successful firm not cut its prices and drive its competitors out of business? Why does the unsuccessful firm not hire the executive in charge of cost drivers from the successful firm? (Porter & Kramer, 2006)

A business aiming to differentiate within just one or small number of target markets segments is viewed as applying the differentiation focus strategy. The special customer needs means that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers (Porter, & Kramer, 2006). Important issue being that the business ensures that customers really do have different needs and wants i.e. there is a valid basis for differentiation and that existing competitors are not meeting those needs and wants. This strategy is common amongst niche retailers

In the following decade authors focused on capabilities approach to firm performance. Porter and Kramer (2006) discussed need for firms to be willing to learn how to create new advantages that will keep them steps ahead of competition. They argued that collective learning of the core competences would help the firm stay ahead of the game. Management's ability to consolidate technology and production skills into competencies help the business adapt quickly to changing opportunities. Identification, nurturing and full exploitation of these core competencies would offer competitive advantage. Furthermore they are difficult to imitate precisely because they have to be built over a long period.

Resource-based theory of competitive advantage

The resource-based view stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Mills, Platts & Bourne, 2003; Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Hoopes, Madsen and Walker (2003) examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability. In Hoopes, Madsen and Walker (2003) firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness.

In this article, a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. Furthermore, a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Hoopes, Madsen & Walker (2003).

Rugman and Verbeke (2002) argued that to have the potential to generate competitive advantage, a firm resource must have four attributes: it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment; it must be rare among a firm's current and potential competition; it must be imperfectly imitable; and there cannot be strategically equivalent substitutes for this resource.

The resource-based view of the firm (RBV) has emerged in recent years as a popular theory of competitive advantage. The term was originally coined by Werner felt in 1984 (Fahy, 2000) and the significance of this contribution is evident in its being awarded the Strategic Management Journal best paper prize in 1994 for reasons such as being "truly seminal" and an "early statement of an important trend in the field" (Fahy, 2000). Fahy (2000) has reasoned that the principal contribution of the resource-based view of the firm has been as a theory of competitive advantage. Its basic logic is a relatively simple one. It starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving SCA allows the firm to earn economic rents or above-average returns. In turn, this focuses attention on how firms achieved and sustain advantages.

The resource-based view contends that the answer to this question lies in the possession of certain key resources, that is, resources having the characteristics of value, barriers to duplication and appropriability (Fahy, 2000). This view is not dissimilar to that proposed by Barney (1991). An SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximize returns (Fahy, 2000). In summary, following Fahy (2000), the essential elements of the resource-based view are as follows: sustainable competitive advantage and superior performance; the characteristics and types of advantage-generating resources; and strategic choices by management.

The resource-based view is indeed an alternative perspective to analyze competitive advantage compared to that put forward by the I/O perspective. As Porter (2006) highlighted, there are four attributes of the proximate environment of a firm that have the greatest influence on its competitive advantage, namely, factor conditions, demand conditions, related & supporting industries, and firm strategy, structure and rivalry. Priem, and Butler (2001) re-affirms the validity of Michael Porter's contribution to the discourse on competitive advantage, but suggests that his (Porter) theory is weakened by its neglect of cultural factors and historical antecedents.

Rugman (2002) proposes the resource based theory of the firm where she discusses the four conditions which must be met for sustainable competitive advantage; superior resources (heterogeneity within an industry), ex poste limits to competition, imperfect resource mobility, and ex ante limits to competition. The view approaches the nature of the firm's resources and how these resources are combined into capabilities. King (2007) states that building of capabilities derives from initial heavy and risky investments which allow firms to exploit the opportunities available for scale and scope. According to Rugman and Verbek (2002) the foundations of corporate success are distinctive capabilities i.e. architecture, innovation and reputation. Architecture is the network relationships that define a firm and it's the capacity of firms to one, create and store organizational knowledge and routines. Two, capacity of firms to promote more effective cooperation between member so of the firm, three, capacity to achieve an open and easy flow of information between members of the firm and to and from outsiders and lastly capacity to adapt rapidly and flexibly. Reputation is the commercial mechanism for conveying information to consumers about product quality. Investing in and selling on reputation is saying in effect; a firm has a lot to lose if it fails to satisfy.

Resource-Advantage Theory

R-A theory has affinities with several research traditions. First, it traces to the resource-based theory of the firm and the historical tradition (Chandler 1990; Conner 1991; Penrose 1959; Wernerfelt, 1984). Defining resources as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s),this theory views firms as combiners of heterogeneous, imperfectly mobile resources that are historically situated in space and time. The ‘resource-based view’ has been significantly developed by Barney (1992), Barney and Hansen (1994), Black and Boal (1994), Brumagim (1994), Collis (1991, 1994), Conner (1991), Grant (1991), Lado and Wilson (1994), Madhok (1997), Peteraf (1993), Prahalad and Hamel (1994), Schendel (1994) and Schoemaker and Amit (1994). Consistent with the institutional economics' view that the most important firm resources are intangibles (De Gregori 1987; Ranson 1987), resource-based theory provides an undergirding for Teece and Pisano's (1994) ‘dynamic capabilities’ approach, Kay's(1995) ‘distinctive capabilities’ view, and for what Foss (1993) calls the ‘competence perspective’ of the firm.

R-A theory draws on marketing's heterogeneous demand theory (Alderson 1957, 1965; Chamberlin 1933). This theory holds that, because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry. R-A theory draws on differential advantage theory (Alderson, 1965; Clark 1961; Porter 1985). In this theory, marketplace positions of competitive advantage/disadvantage determine superior/inferior financial performance. Thus, firms can have an efficiency advantage, i.e., more efficiently producing value or they can have an effectiveness advantage, i.e., efficiently producing more value or they can have an efficiency/effectiveness advantage, i.e., more efficiently producing more value

R-A theory draws on evolutionary economics (Hodgson 1993; Langlois 1986; Marshall 1898; Nelson and Winter 1982; Schumpeter 1950). Evolutionary economics views competition as a selection process, a struggle. It is this process of competition that produces innovation, ‘creative destruction,’ increases in productivity, and economic growth. Fifth, R-A theory draws or, as will be argued in this paper, it warranted *claims* to drawon Austrian economics (Hayek 1935, 1948; Kirzner 1979; Mises 1949). For the Austrians, competition is a process of competitive rivalry in which entrepreneurship and such institutions as money and private property are vitally important for creating wealth. Furthermore, because information is dispersed and tacit, competition is a knowledge-discovery process. Sixth, R-A theory draws on socio-economics, economic sociology and institutional theory (DeGregori 1987; Etzioni 1988; North 1990; Ranson 1987). R-A theory recognizes that societal institutions, such as laws, customs, taboos, traditions, and moral codes, produce order by structuring political, economic, and social interaction. The kind of order produced by societal institutions influences productivity and economic growth. For example, because societal institutions constrain individual and firm activities, both individual and societal moral codes, which are primarily deontological in character, constrain utility and profit maximization. Therefore, social trust is not only possible in R-A competition but it also plays a role in fostering productivity and economic growth.

Hayek (1948) points out that ‘practically every individual has some advantage over all others because he possesses unique information of which beneficial use can be made only if the decisions depending on it are left to him or are made with his active co-operation.’ Likewise, for RA theory, resources are both significantly heterogeneous across firms and imperfectly mobile. Recalling that firms are historically situated in space and time, resource heterogeneity implies that every firm has an assortment of resources that is (at least in some ways) unique. Imperfectly mobile implies that many firm resources, to varying degrees, are not commonly, easily, or readily bought and sold in the marketplace. Because of resource immobility, resource heterogeneity can persist through time despite attempts by firms to acquire the same resources of particularly successful competitors.

R-A theory's view of resources not only differs from that of neoclassical economics, it also diverges from the long-standing position in business strategy. For example, Day and Wensley (1988) distinguish between ‘skills’ and ‘resources’ on the basis that the former are ‘the distinctive capabilities of personnel’ and the latter are the ‘more tangible requirements for advantage. In contrast, R-A theory maintains that intangibles can be resources and views the skills of individuals (and, as discussed in the next section, the competences of organizations) as kinds of resources.

Porter Model for Competitive Advantage

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. Porter (1980) identified two basic types of competitive advantage: cost advantage and differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation (Porter, 1980).

Resources and Capabilities: According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear. Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources: Patents and trademarks, Proprietary know-how, Installed customer base, Reputation of the firm and Brand equity.

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage (Porter, 1980).

Cost Advantage and Differentiation Advantage: Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy. Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage (Porter, 1980).

Value Creation: The firm creates value by performing a series of activities that Porter identified as the value chain. In addition to the firm's own value-creating activities, the firm operates in a value system of vertical activities including those of upstream suppliers and downstream channel members. To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation) (Porter, 1980).

Kay’s Model for Competitive Advantage

Kay (1995) presents the notion of sustained competitive advantage in organizations obtained through relational architecture, reputation, innovation and strategic assets. At the core of Kay’s model is the resource based theory of the firm which focuses on the internal attributes or the resources and capabilities of the firm where, in order for the resources and capabilities of a firm to provide superior performance, they must be valuable in the sense of enabling a firm to exploit its environmental opportunities (and/or neutralize its threats), rare among its current or potential competitors, costly to imitate, and without close strategic substitutes (Barney, 1991). Kay states that organizations have a strong architecture where there is an expectation of long-term relationships both within the firm and among its members, a commitment to sharing the rewards of collective achievement and a high but unstructured degree of informality. He contends that this architecture adds value to individual contributions of its members through the creation of organizational knowledge, through the establishment of a cooperative ethic within the organization and by the implementation of organizational routines.

For Kay (1995) and others (Hakansson, 1989; Axelsson and Easton, 1992; Hakansson and Snehota, 1995; Moller and Wilson, 1995),good commercial relationships are fashioned through cooperation (joint activity towards a shared goal), coordination (the need for mutually consistent responses) and differentiation(the avoidance of mutually incompatible activities). However, Kay in passing, also suggest sthat the notion of sustained competitive advantage is relevant for understanding the differences in performances of non-profit organizations in situations, "where the added value or benefits are not retained by the firm, but instead are distributed to its members or the community" (Kay, 1995). Unfortunately Kay does not give attention to the paradox this raises where the purpose of the organization is to create knowledge and services and give them away for the public good rather than maximizing private profit. Kay's model articulates the components of this advantage including the internal and external relationship sand the network of relationships as the architecture that it frames; managers also use their knowledge of resource dependencies of their organizations in choosing their objectives and means of obtaining them.

Research Methodology

Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study adopted a descriptive research design. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enabled the study to generalise the findings to a larger population. According to Chandran (2004) descriptive studies portray an accurate profile of persons, events or situations, describing the existing conditions and attitudes through observation and interpretation techniques. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders, Lewis and Thornhill, 2003).A descriptive approach in data collection is able to collect accurate data on and provide a clear picture of the phenomenon under study (Mouton and Marais, 1992). Streubert and Carpenter (1999) state that a descriptive method in data collection in qualitative research is central to open, unstructured qualitative research interview investigations.

Population

Mugenda and Mugenda (2003) define population as the entire group of individual's, events or objects having a common observable characteristic. Mugenda and Mugenda (2003), defines target population as that population the study studies, and whose findings are used to generalize to the entire population. The target population for this study consisted of 44 insurance companies with headquarters in Nairobi. The study targeted the top management specifically the general managers and/or marketing directors due to the role they play in insuring the company builds its competitive advantage.

Sample Size and Sampling Technique

Kombo and Tromp (2006) define a sample as a finite part of a statistical population whose properties are studied to gain information about the whole sample. Saunders, Lewis & Thornhill (2003) define sampling as the process of selecting a number of individuals for a study from the larger group referred to as the population. Following the small number of insurance companies in Kenya, the study will include all member of the population in the study hence a census study will be carried out.

Research Instruments

Data collection tools are the instruments which are used to collect the necessary information needed to serve or prove some facts (Mugenda & Mugenda, 2003). The study collected both primary and secondary data. Primary data was collected using a questionnaire while secondary data was obtained from annual reports of the Insurance Companies. The questionnaire designed in this study was comprised of two sections. The first part was designed to determine fundamental issues including the demographic characteristics of the respondent, while the second part consisted of questions where the four variables were focused. The questionnaire was designed in line with the objectives of the study. The structured questions were used in an effort to conserve time and money as well as to facilitate easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information (Mugenda & Mugenda, 2003). Secondary data were obtained from published documents and materials and any other relevant materials like the organizations' annual reports.

Data Collection Procedure

Data collection involved contacting the respondents in the sample in order to collect the required information about the study (Cooper & Schindler, 2003).Data collection involved a self-administered questionnaire. The study made use of face to face interviews at the respondents' place of work. The study provided guidance as necessary to facilitate the collection of more accurate data.

Pilot Testing

A pilot study was conducted to test the reliability and validity of the research. According to Orodho (2003), a pilot test helps to test the reliability and validity of data collection instruments. Validity refers to the extent to which an instrument measures what is supposed to measure data need not only to be reliable but also true and accurate. If a measurement is valid, it is also reliable (Joppe, 2000). The pilot test was comprised of five brokerage firms in Nairobi using convenience sampling method. The insurance brokerage firms had been selected because they are in some way professional advisors of the insurance companies on the market dynamics.

Data Analysis and Presentation

The study generated both qualitative and quantitative data. Descriptive statistics data analysis method was applied to analyze both quantitative data. Data obtained from the questionnaires were processed through editing and coding and then entering the data into a computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 17.0,which offers extensive data handling capabilities and numerous statistical analysis procedures that analyses small to very large data statistics (Bell,2007). Descriptive statistics helped to compute measures of central tendencies and measures of variability (Bell, 2007). Descriptive analyses are important since they provide the foundation upon which correlational and experimental studies emerge; they also provide clues regarding the issues that should be focused on leading to further studies (Mugenda & Mugenda, 2003). Qualitative data was analyzed using content analysis. The analyzed findings were then be presented inform of frequency tables, pie charts and bar charts since they are user friendly and gave a graphical representation of the different responses given by the respondents.

Research Findings

Regression analysis

This section presents a discussion of the results of inferential statistics. The study conducted a multiple regression analysis so as to assess the challenges facing insurance companies in building competitive advantage in Kenya: A survey of insurance firms. The study applied regression analysis because it is less expensive in terms of time and the information to make the predictions was readily available. Before describing the details of the modeling process, however, some examples of the use of regression models will be presented. The study applied the statistical package Version 20 to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (building competitive advantage) that is explained by all the 4 independent variables (government regulation, employee competence and capacity, distribution channels and insurance products). The four independent variables that were studied, explain 77.8% of variance in building competitive advantage as represented by the R^2. This therefore means that other factors not studied in this research contribute 22.2% of variance in the dependent variable. Therefore, further research should be conducted to assess the challenges facing insurance companies in building competitive advantage in Kenya. Findings are presented in the following tables;

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. 836[a]	.778	.676	.434

a. Predictors: (Constant), government regulation, employee competence and capacity, distribution channels and insurance products.

b. Dependent Variable: Building Competitive Advantage

The F critical at 5% level of significance was 5.44. Since F calculated is greater than the F critical (value = 64.0), this shows that the overall model was significant. The significance is less than 0.05, thus indicating that the predictor variables, (government regulation, employee competence and capacity, distribution channels and insurance products). Explain the variation in the dependent variable which is Building Competitive Advantage. Subsequently, we reject the hypothesis that all the population values for the regression coefficients are 0. Conversely, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable.

Table 2: ANOVA (Analysis of Variance)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regressio	80.238	5	.167	64.0	.001[a]
	Residual	10.345	35	.110		
	Total	90.583	44			

a. Predictors: (Constant), government regulation, employee competence and capacity, distribution channels and insurance products.

b. Dependent Variable: Building Competitive Advantage

From the regression findings, the substitution of the equation ($Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4$) becomes:

$$Y = 2.721 + 2.453\ X_1 + 0.233X2 + 0.254X_3 + 1.\ 967X_4.$$

Where Y is the dependent variable (Building Competitive Advantage), X_1 is Government regulation variable, X_2 is Employee competence and capacity variable, X_3 is Distribution channel variable and X_4 is the Insurance Products variable.

According to the equation, taking all factors (government regulation, employee competence and capacity, distribution channels and insurance products) constant at zero, building competitive advantage will be 2.721. The data findings also show that a unit increase in Government regulation will lead to a 2.453 increase in building competitive advantage; a unit increase in employee competence and capacity will lead to a 0.233 increase in building competitive advantage; a unit increase in distribution channels will lead to a 0.254 increase in building competitive advantage; and a unit increase in insurance products variable will lead to a 1.967 in building competitive advantage. This means that the most significant factor is government regulation followed by insurance products.

At 5% level of significance and 95% level of confidence, government regulation had a 0.001 level of significance; employee competence and capacity had a 0.003, distribution channel had a 0.004 level of significance while insurance products had 0.002 level of significance implying that the most significant factor is government regulation followed by insurance products.

Table 3: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.721	.77		5.654	0.000
	Government regulation	2.453	0.241	0.237	0.567	0.001
	Employee competence and capacity	0.233	0.296	0.534	0.256	0.003
	Distribution channel	0.254	0.437	0.356	0.199	0.004
	Insurance Products	1.967	0.656	0.323	0.198	0.002

Summary of the Findings

Influence of government regulation in building competitive advantage among insurance firms in Kenya

The study found out that the respondents strongly agreed that government regulations prohibited the investment criteria for companies as indicated by a mean of 2.7, the respondents strongly agreed that the government had put in place the necessary training for insurance professionals as indicated by a mean of 2.6,the respondents strongly agreed that government regulations promoted ethical behaviour among the insurance industry players as indicated by a mean of 1.9,the respondents strongly agreed that the government regulations had controlled the level of market undercutting, that regulation prohibited the use of banks to offer insurance through the bancassurance channel, that government regulations had regulated the number of insurance companies through capitalization requirement as indicated by a mean of 1.7 respectively, the respondents agreed that government regulations of the insurance industry had protected consumers by ensuring fair and reasonable insurance prices, products and trade practices, that government regulations on the insurance industry was overlapping especially for pension administration as indicated by a mean of 1.5 respectively, finally, the respondents indicated that government regulations restricted entry and exit of insurance firms, and that the government regulations were geared towards establishing a strong insurance industry as indicated by a mean of 1.3 respectively.

The study found out that majority of the respondents indicated that taxation affected the competiveness of the insurance companies in Kenya. These findings collate with the literature review where (Mbogo, 2010) argues that the regulator is introducing guidelines that will force insurance companies to separate their life insurance business from the general insurance business. The implementation of these guidelines will scuttle growth of the nascent micro-insurance sector with the potential of locking out new players who may be angling to enter the business through this segment.

The influence of Employee Competence and Capacity in building competitive advantage among insurance firms

The study further found out that the respondents strongly agreed that the employees in the insurance industry were well trained and equipped with the necessary skills to administer insurance products as indicated by a mean of 2.2,the respondents strongly agreed that employees in the insurance industry were very competent as indicated by a mean of 1.5, the respondents agreed that the insurance industry took its employees for specialized training as indicated by a mean of 1.4,finally, the respondents agreed that employees in the insurance industry required specialized training to be effective as indicated by a mean of 1.3.

The study found out that majority of the respondents indicated employee competence and capacity affected the competitiveness among insurance companies in Kenya to a very great extent. These findings are in line with the literature review where Chiavenato (2001) noted that employees are purveyors of activities and knowledge whose most important contributions in the organization are their intelligence and individual talents.

The effect of Distribution Channels in building competitive advantage among insurance firms in Kenya

Moreover, the study found out that majority of the respondents indicated that distribution channel affected service delivery levels and that the insurance industry should adopt internet marketing and distribution and recruit more agents respectively to improve its competiveness through the distribution channels.

These findings are in line with the literature review where Trembly (2001) indicates that while the adoption rate of the internet as a distribution channel has been low, there is widespread adoption of the internet as a support channel. Insurers are using the internet to provide general information on insurance services, to provide administrative support to its policyholders, and to serve as a prospecting and communication tool for its agent-led channel.

The effect of Insurance Products in building competitive advantage among insurance firms in Kenya

Finally, the study found out that majority of the respondents indicated that insurance products were effective in meeting the needs of customers. The study found out that the respondents strongly agreed that insurance products were value creating for customers and that insurance product were highly differentiated as indicated by a mean of 2.5 respectively, the respondents strongly agreed that insurance products were innovative and creative as indicated by a mean of 2.4, the respondents agreed that insurance products were affordable as indicated by a mean of 2.3,finally, the respondents agreed that insurance products in Kenya were simple as indicated by a mean of 1.9. These findings collate with the literature review where according to Pearce (2003), the differentiation of products can be real or perceived. This means that any features of insurance products that make customers perceive them to be beneficial to them are likely to influence their purchase decision.

Conclusions

The study concludes that the government regulations affect the competitiveness of the Insurance Companies in many ways. Effect of regulation is especially significant in life companies where return on investment have big impact on profitability and fund growth. Regulation requiring greater capital investment is restricting entry of firms while at the same time encouraging mergers and buyouts.

The study also concludes that the employees in the insurance industry were well trained and equipped with the necessary skills to administer insurance products and that employees in the insurance industry were very competent.

Moreover, the study concludes that distribution channel affected service delivery levels and that the insurance industry should adopt internet marketing and distribution and recruit more agents respectively to improve its competiveness through the distribution channels.

Finally, the study concludes that insurance products were effective in meeting the needs of customers and that insurance product were value creating for customers and that insurance product were highly differentiated.

Recommendations

The study recommends that Government regulation should not be restrictive but should instead be geared towards providing an enabling environment for the industry to thrive while at the same time protecting the consumers. Effective self regulation through the established professional bodies like Association of Kenya Insurers (AKI) is highly recommended. Continuous innovation is required in areas of product development, effective distribution channels and service delivery platforms required to provide for effective service delivery. The study also recommends that insurance companies should be monitored and assessed based on their level of risk. This will ensure a stable insurance industry and this will play a major role in increasing the insurance penetration.

The study further recommends that insurance companies need to count more on their internal distinguished strengths to provide more added customer value, strong differentiation and extendibility; in other words count more on their “core competences.

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