

THE LINK BETWEEN STRATEGY ADOPTION AND THE PERFORMANCE OF INSURANCE FIRMS WITHIN MERU COUNTY

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Abstract:-

The study focused on the link between strategy adoption and performance of insurance firms within Meru County, Kenya. Strategy is the organized and proactive attempt of an organization to set up basic reasons, aims, guidelines and plans. It entails implementation of complete strategies by putting in to practice guidelines and plans to acquire aims and essential organizational function. The study investigated the link between growth strategy, and the performance of insurance firms in Meru County. The study used correlational study design. A sample of 39 respondents was selected purposively from the managers and unit managers of insurance firms in Meru. The study used census study methodology. The study used primary data. Descriptive statistics was used to analyze the data. Logistic regression was used to link the relationship between independent variables and dependent variables to test the hypothesis. Descriptive data was presented in frequency tables, percentages and in figure forms. The study found that growth strategy had a significant relationship with the performance of insurance firms. These findings provide help to researchers and students and lays foundation for further studies in insurance firms. The study recommends that insurance firms adopt growth strategy and to gain competitive advantage.

Keywords: - Strategy adoption, Performance, Insurance firms, Growth strategy

INTRODUCTION

Insurance sector is a highly competitive and has a very dynamic market. This makes the firms in the sector to continually create, implement, assess and improve on strategies so as to remain relevant and competitive in this market. Numerous firms have implemented strategies in addition to reorganizing the company's procedure (Gitau, 2013). It's significant in noting that supplementary 70 percentage of standard enclosed implementation of assignments do not succeed (Seo, 2013). Firms expose the significance of a venture, and losses are compensated by persons putting them in the initial position. Additionally, insurance firms offer both social and economic advantages like prevention of losses and reduction of anxiety. The release which is always monetary can be individuals, organizations or commerce in replacement that is intended for premiums or supposed help. Therefore, Insurance is a sector of economy that comprise of the plan, promotion and construction for this kind of overhaul (Seo, 2013).

Insurance uptake is still very low in Kenya, regardless of the reality of it being practiced world over for a thousand years (Gitau, 2013). There have also been unsustainable premiums charged by insurers due to many players in the industry creating price wars. Consequently, the delivery of services has been compromised since companies are not able to fund for good settlement of claims and deliverance of services to their clients (Kiragu, 2014). When reviewing the key issues facing Insurance sector in Kenya, Price water Coopers (PWC) noted that low penetration characterized limited markets as compared to other countries outside Africa, are competed upon by over 40 licensed insurance companies (Gitau, 2013). This has resulted to entrant of other players such as banks into the insurance industry. The emergence of bank-assurance poses a great challenge to insurance as banks provide insurance services and encourages their customers to purchase directly from them (Standard Investment Bank, 2013). This raises fundamental question on the nature of strategy adopted and implemented by insurance companies in Kenya to ensure sustainable performance in highly volatile environment.

Existing studies have not focused on the link between strategy adoption and the performance of insurance firms. They have focused on Growth strategies and performance of organizations, Organizational growth Strategies: The Competitive edge in the new Economy (Akaso, 2011, Obonyo, 2015). None of them paid attention on how growth strategy influences the performance of insurance firms. This study therefore sought to fill this research gap by examining how the latter strategies influence the performance of insurance firms.

Literature Review

Muturi, Mwau, & Oloko, (2017) concluded that growth strategy had a positive significant influence on the insurance companies performance in Kenyan industry. Akaso (2011) established that in order for companies to utilize intelligence and experience, they ought to empower people with tools, sharing surrounding, testing new ways of conducting businesses in the marketplace and creating a climate for learning. Medical insurance companies in Kenya have adopted market development, diversification and product development as their growth strategies. The growth strategies adoption in medical insurance companies in Kenya has been influenced by the enterprise opportunity, the financial capability of the firm, demands of the customers and opposition (Yego, 2014). Njoroge (2016) established that a lot of businesses have adopted growth strategies for example market penetration through the service of customers, and after sales services and other strategies. Growth strategies do not have a positive or negative effect on the overall profitability of a company (Rizea, 2015).

Methodology Used

Correlational study design was used in order to achieve the studies objectives. It was used to display the links between variables using methods such as cross-tabulation and correlations. The target population was the managers and unit managers of the 19 insurance firms in Meru County registered with National chamber of commerce and industry. The sample population was 39 respondents who were selected purposively. The study used census data methodology. The study used primary data which was collected using questionnaires.

Reliability of the instrument

Reliability was measured using Cronbach's Alpha generated. According to Mohsen & Dennick(2011), a Cronbach's alpha of 0.7 – 0.95 is acceptable. Also, Gliem & Gliem (2003) found that a reliability score of above 0.8 was appropriate. This research carried out a pilot study based on 7 questionnaires and found a Cronbach's value of 0.902. This was found to be reliable because it was within the range of 0.7 – 1.0. After data collection, further reliability test was carried out just to ascertain that reliability was maintained to the end of data collection. The Cronbach's value for all the questionnaires post-pilot study was found to be 0.804 which was still within the acceptable range. Validity is the level where a tool measures what it is invented to measure. Validity of the instruments was validated using content validity.

Results

The researcher distributed a total of 39 questionnaires which was the sample size of the study. Those who participated and returned the questionnaires were 39 in number (100%). The 100% response rate was found to be significant to carry out the analysis by the researcher.

Growth strategy

Growth strategy is important to insurance firms because it enables them to gain competitive advantage in addition to being a means of assessing returns of research and development. This strategy also enables companies to have economies of

scale while not necessarily increasing profitability (Obonyo, 2015; Leminen & Westerlund, 2012; Akaso, 2011; Onyonka, 2013). This study used a five point likert scale questions to measure growth strategy. The percentage responses for each question of this strategy were computed and the average of the whole section was also computed. The results of the latter analysis are presented in Table 4.1

Table 4.1: Growth Strategy

Statement	Frequency	Percent
High Growth	24	61.5
Low Growth	15	38.5
Total	39	100.0

As shown in Table 4.1, 61.5% of the respondents reported high growth while 38.5% reported low growth with respect to their insurance companies.

Logistic Regression Analysis

The study used logistic regression to link the relationship between the dependent variable (the performance of insurance firms) and the independent variable (Growth strategy) with statistical packages for social sciences (SPSS version 20) aid. The researcher preferred logistic regressions because the dependent variable was measured categorically.

Table 4.2: Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step	25.788	4	0.000
Block	25.788	4	0.000
Model	25.788	4	0.000

Table 4.2 which is the omnibus test of model coefficients shows the significance of the predictive capacity of the model when independent variables of the study are considered as a block. It can be observed that the p – value of the model as a block was p=0.000 which is less than 0.05. This shows that the model has significant predictive capacity.

Table 4.3: Model Summary

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
13.792 ^a	0.484	0.759

Table 4.3 shows that the model predicts 75.9% of the variations in performance of insurance firms under the fact that Nagelkerke R Squared which is a pseudo Pearson’s R square. There is still room for further studies on performance of insurance firms given that there is 24.1% of variations in the performance of insurance firms are still unexplained as per this study.

Table 4.4: Hosmer and Lemeshow Test

Chi-square	Df	Sig.
3.768	8	0.877

Hosmer and Leme show Test measures whether the model is fit for prediction with the null hypothesis that the model is fit against the alternate that the model is not fit. Table 4.4 shows the chi-square results, where $\chi^2 = 3.768$, n=39, p=0.877. Therefore, the null hypothesis is not rejected implying that the model is fit and that it has significant predictive capacity.

Table 4.5: Variables in the Equation

Variables	B	S.E.	P - value	Odds Ratio
Growth Strategy:				
No growth strategy (reference)	-	-	-	1.000
Growth strategy	0.724	0.359	0.044	2.062
Constant	-16.178	5.936	0.006	0.000

The researcher conducted a logistic regression analysis so as to explain the link between strategy adoption and performance of insurance firms. The two variables as per the SPSS generated, the equation ($Z = \beta_1 X + \epsilon$). Where Z is performance of insurance firms, X1 is growth strategy.

Hypothesis Testing

The study sought to establish the relationship between strategy adoption and performance of insurance firms. To achieve this objective, a hypothesis was formulated and tested by use of logistic regression. Logistic regression was deemed to be the most appropriate model for this study because the dependent variable was dichotomous. The null hypothesis is only rejected if critical value is greater than the pvalue of 0.05 ($p \geq 0.05$)

Hypothesis on Growth strategy

The results show that growth strategy has a positive significant relationship with the performance of insurance companies in Meru County. Insurance companies that adopt growth strategy are 2.062 times more likely to grow than those that don't adopt the growth strategy. The results were significant at 5% level. These results are in agreement with those of Nduki (2016) who found that to a very great extent growth strategies influences performance of Insurance firms in Kenya hence most of the insurance firms have adopted various growth strategies.

Discussions and Conclusion

61.5% of the respondents reported high growth while 38.5% reported low growth with respect to their insurance companies. Therefore, this implies that most insurance firms in Meru County have adopted growth strategy in order to increase their market share. These results are in line with Tavakolizadeh (2015) who established that markets that are not mature have a lot of room for growth. Clearly, the insurance market in Meru County is growing that is why most of the insurance firms have growth strategy. The study established that the industry and will favor only those who capitalize on growth strategy that has a strong positive relationship on performance of insurance firms to improve the seemingly battered image and performance of the industry while deemphasizing expenditures in money, time and human resources on the less important variables

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