EFFECT OF COMPETITIVE STRATEGIES ON THE PERFORMANCE OF INSURANCE COMPANIES IN KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2017
STUDENT’S DECLARATION

I the undersigned do declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University-Africa for academic credit.

Signed: ___________________________ Date: ___________________________

Faith Muia (ID: 645362)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Professor Peter M. Lewa

Signed: ___________________________ Date: ___________________________

Dean, Chandaria School of Business
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DEDICATION

This work is dedicated to my late daughter Keren who is an inspiration to me and gave me a reason to keep trying even when nothing seems to work.
ABSTRACT

The main purpose of the study was to investigate the effects of competitive strategies on the performance of insurance sector in Kenya. To achieve this, the study was guided by the following research questions; what is the effect of differentiation strategy on performance of insurance companies in Kenya? What is the effect of cost leadership strategy on performance of insurance companies in Kenya? What is the effect of focus strategy on performance of insurance companies in Kenya?

The study employed a descriptive research design and this was appropriate for this research to ascertain the prevailing conditions of facts in a sample. The target population consisted of all strategic planning department in the 47 insurance companies in Kenya listed under the membership of Association of Kenya insurance (AKI). A purposive sampling technique was used to select a sample of three employees from strategic planning department in each insurance company resulting in 141 respondents. Only 135 questionnaires were filled and returned representing 95.7%, this was sufficient for the study. To analyse the data, descriptive statistics such as mean, standard deviation, frequency and percentage were used. For inferential analysis correlation was used to measure the strength of the relationship between differentiation, focus, cost leadership and firm performance. Moreover, regression analysis was used to show the nature of the relationship between dependent and independent variables.

Based on the first research question majority of the firms offer a broad range of products and economize on cost of materials. It was also established that many differentiate their product and a majority do not offer narrower range of product than competitors. A correlation analysis between differentiation strategy and performance was a strong positive one and the regression coefficients showed a positive and significant relationship between differentiation strategy and insurance performance.

Based on the second research question, the findings revealed that most of the firms charge lower prices than the competitors and heavily invest in sales promotion. It was also revealed that many constantly reduce labour input through automation. A correlation analysis between cost leadership strategy and performance was strongly positive and the regression
coefficients showed a positive and significant relationship between cost leadership strategy and insurance performance

The last research question established that majority of insurance firms serve specific geographical market and emphasize on marketing specialty product. The findings also established that many deal with broad product serving wider market while majority constantly target a specific market. A correlation analysis between focus strategy and performance was strong and positive and the regression coefficients showed a positive and significant relationship between focus strategy and insurance performance.

The study concluded that companies should also aim to be the first in releasing new products that cannot be imitated easily so as to maintain their market share. Firms also need to consider and define affordable price so as to charge the most economical ways that ensure the company gains after the sale of the insurance policy. More so insurance companies should embrace the use of alignment and partnership with other players in the market as such to minimize operational costs and enhance market coverage and improve on their revenues.

The research recommends that further studies can propose to find out whether generic strategies (combination of two strategies or use of single strategies) does have unique contribution on the firm performance. Generic strategies should also be compared with hybrid strategies to find which one have more impact on the firm performance. Future studies should also be done on the impact of the competitive strategies on other industry such as education, manufacturing firm, banking.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

The business environment has become very competitive as firms endeavour to outdo each other. For firms to maintain competitiveness it's necessary for them to develop strategies for competitive advantage which they can seek to sustain. Competitive strategies refer to the action plan an organization adopts in a bid to attract more customers, endure pressure from competitors and enhance their market performance (Thompson, Strickland & Gamble, 2010). According to Lester (2009), these strategies allow a firm to stand out and conduct daily business hence are important in defining the markets or industries to compete in. Firms that can plan adequately and execute their competitive strategies appropriately are seen to have improved performance than their competitors (Jonsson & Devonish, 2009). As Atikiya (2015) states, firms having appropriate competitive strategies stand a good chance of exploiting available opportunities which guarantee them a ready market over their rivals.

Two broad strategies usually employed by firms in a bid to improve performance are pure and hybrid strategies. With the pure strategies firms tend to employ one of the Porter's (1980) strategies, namely cost leadership, differentiation or focus strategy. A firm chooses the strategy that suits them best and then goes ahead to pursue it (Allen & helms, 2006). The chosen strategy has a clear focus such as being a product leader, cost leader or niche leader. This follows an argument on whether environmental characteristics limit the range of possible strategies.

A combination of these strategies results in what is known as hybrid strategy or paradoxical strategy (Thornhill & White, 2007). Another school of thought feels that a hybrid strategy is a strategic approach laying more emphasis on low cost and differentiation strategy (Pertusa-Ortega, Molina-Azorin & Claver-Cortes, 2009; Claver-Cortes et al., 2012). This implies that hybrid strategy aims to yield more monetary value to satisfy the customer needs and wants (Thompson & Strickland, 2008). Hybrid strategies have been considered more effective in a turbulent environment as they offer more flexibility. Experimental study has proved that this
strategy indeed yields better performance in a turbulent environment (Shinkle, Kriauciuunas & Hundley, 2013). Going by the findings of Porter (1980) a mix of all the three strategies leads to a situation referred to as ‘stuck-in-the-middle' that is having no valid strategy and therefore achieving low performance. However, another school of thought disapproves this notion arguing that these strategies complement and help improve the quality of the firm product. For example, higher quality products would presumably lead to greater market demand, allowing the company to adopt a low-cost strategy through the attainment of higher market shares and cumulative volumes of production (Enida, Vasilika & Amali, 2015). This conflict between the school of thought forms the foundation of current study.

Porter (1980) suggested three competitive strategies: cost leadership, differentiation, and focus strategy which have been studied widely (Atikiya, Mukulu, Kihoro & Waiganjo, 2015; Sumer & Bayraktar, 2012; Ozdemir & Mecikoglu, 2016; Powers & Hahn, 2004; Hansen, et al., 2015; Jiri, et al., 2013; Leitner & Guldenberg, 2009). Cost leadership strategies involves cutting down costs throughout the value chain to try and achieve the minimum cost structure possible where the products are made of high value, but with limited standard features with the intention of gaining competitive advantage thus increasing market share (Sumer & Bayraktar, 2012). Differentiation strategy involves innovation that looks at how marketing techniques, sales, and advertising activities are applied and on the other hand where innovation is focused partly on features of manufacturing products, performance or quality (Hansen et al., 2015). Focus strategy is a strategy that targets certain segments of the markets by differentiating customer needs to be able to serve them at their best affordable prices (Jiri et al., 2013). Leitner and Güldenberg (2009) added that a combination of the three strategies, hybrid strategy, enable companies to maintain greater liveliness and flexibility in offering products that focus both on costs and on specific product features.

A business that lacks something distinctive and imitates others, loses their competitive advantage and are therefore likely to perform poorly than their rivals (Raduan, Jegak, Haslinda & Alimin, 2009). Atikiya (2015) asserts that factors including technology know-how, strategic planning, and quality of the products and are considered to have a significant impact on the superior performance of the firms. In this regard, a number of strategies that
enable firms to compete have been developed and tested empirically (Porter, 1980; Spanos & Lioukas, 2001; White, 2004). In particular, Porter (1980) generic strategy is regarded as the backbone for strategic management frameworks which is often associated with a superior performance which also forms the basis of the current study.

Many firms continue to struggle to achieve or remain competitive because of the limited market and scarce opportunities. However, this game is taking a different turn in term of how new ways of doing business are devised. Firms are engaging in Porter's competitive strategies to lower cost, differentiate products and diversify markets. Barney (2002) who took part in trying the correlation between competitive strategies and firm performance where performers are differentiated from non-performer by constructing and enhancing the competitive essence over and above that of competitors. According to Thornhill and White (2007) findings, firms that adopt Porter's competitive strategies for competition has been found to outperform the market.

More and more studies are being carried out to try and establish the linkage between Porter's generic strategies and performance. In the Austrian case of Small and Medium Enterprises (SMEs), Leitner and Guldenberg (2009) established that firms applying hybrid strategies performed better than those with no generic strategy when profitability and growth of these firms are compared. A case in a Czech Republic business environment failed to prove whether low-cost, differentiation and stuck-in-the-middle strategies have any effect on companies' performance even though domestic companies gave preference to the low-cost strategy and differentiation strategy (Jiri, Stanislav & Petr, 2013). Power and Hahn (2004) established that US banking industry is unlikely to produce superior returns by only relying on differentiation and focus strategy. Recently, a comparative case of US manufacturing firms done by Hansen, Nybakk, and Panwar (2015) asserted that there exists no evidence to support that hybrid strategy improve firm performance more effectively than only one strategy. Even so, the same findings revealed that differentiation strategy alone had an association with superior performance when compared to other strategies (Hasen et al., 2015).
A global insurance outlook in 2015 by Ernst and Young pointed out that due to slim profit margin in 2014, many insurers opted to look for opportunities for growth and one way to enable this was to develop customer-focused products based on distinctive needs for the buyers. All this is an attempt to garner a competitive advantage over other firms so as to thrive. In the same outlook, insurers in Asia-pacific had to counter the force of change and challenges by aiming to achieve a good rate of return growth to remain viable. Per Deloitte insurance sector outlook 2015, Africa and Sub-Saharan African countries, in particular, continue to witness rapid expansion in the economy. The demand for both life and general insurance products has been on the rise probably due to increased education, however, insurers need to think creatively on the design and distribution of their products, market and become more customer-centric (Deloitte & Touché, 2015). Further, the entry of new capital from private equity funds and foreign insurer poses an additional capacity that has been observed to intensify competition in the insurance sector (Otieno, 2015).

Insurance offers a shoulder where individuals or businesses can transfer some of the uncertainties of life. Simply said, it is all about managing risk. It is through ensuring that savings and investments are promoted, loans against the security of an insurance policy are granted and protection against hazards of life and property are offered (Khan, 2015). Apart from being engaged in microeconomics, insurance sector plays a key role in macroeconomic activities such as employment, providing tax, therefore it is a stimuli to economic progress, especially for developing countries such as Kenya. As Awino (2011), puts it insurance is a substantial contributor to the economic development.

Despite the many challenges facing the insurance sector in Kenya, it dominates East Africa Community market and COMESA. It employs well above 10,000 employees (Wanyama & Olweny, 2013). Ndungu (2012) report shows that the average growth rate has been 16% per year over the last 5 years. According to a Cyton investment analysis of 2015, the number of licensed insurance companies in Kenya as at June 2015 was 50 companies, 3 insurance companies and 198 insurance brokers and 4 reinsurance brokers. Kenya's insurance penetration currently stands at 3% compared to other Sub-Saharan African countries, but Insurance regulatory Authority (IRA) is optimistic that this penetration will rise to 3.5% by
2018. The same analysis shows that gross written premium for both life and general business has been on the rise and as of June 2015 total gross premium was at Kshs 88 billion.

1.2 Statement of the Problem

It is vital for firms to perform better than their competitors in the industry. In a growing economy, many firms wish to gain the largest market share to ensure they can generate enough profit to serve purpose for their existence (Sumer & Bayraktar, 2012). As many households continue to upgrade to middle-income class and as market risk for project increases due to investment in the country, a need for insurance service products also increases. To facilitate sustainable growth and take up new opportunities, innovation, and differentiation become an important function (Deloitte & Touche, 2015). This has stiffened competition and for insurance companies and led to price wars, so to remain relevant they need to align their competitive strategies (Arasa & Gathinji, 2014).

O'Regan, Kluth, and Parnell (2011) stated that there is no consensus as to what works best for firm performance and sustained competitive advantage as most previous studies have been at the centre of strategic management. Pearce and Robinson (2007) have also argued that the relationship between competitive strategies and organizational performance has been a contentious and unresolved matter in the field of strategic management. Despite many past studies on competitive strategies, there has been inconclusive results. For instance, Hambrick (1983) and Kim and Lim (1988) found that firms that adopted cost leadership and differentiation strategy were the most profitable thus confirming Porter's finding. In contrast, Dawes and Sharp (1996); Parker and Helm's (1992) empirical study concluded that Porter's competitive strategies had no effect on firms performance.

The insurance sector is currently facing poor public relation and marketing strategies which have failed to increase potential market for insurance subscribers. The competition in the insurance industry has made some companies engage in price reduction to attract clients. The Insurance Regulatory Authority (IRA) is also accused of price fixing (Owino, 2014). Gitau (2013) study on the challenges inhibiting insurance penetration identified the environment under which most firms operate was one of the challenges. Gitau (2013) recommendation on
the things that need to be changed to increase insurance uptake included improvement in distribution channels, customer service, review of products, consumer education and awareness which all form part of the strategy for effective competition. Strategy intervention is, therefore, necessary to resolve this challenges in order to achieve superior performance in the insurance firms in Kenya. This study proposes to evaluate the effect of competitive strategies on the performance of insurance firms in Kenya.

1.3 Purpose of the Study

The purpose of the study was to investigate effects of competitive strategies on the performance of the insurance companies in Kenya.

1.4 Research Questions

To achieve the purpose of this study, the study was guided by the following research questions:

1.4.1 What is the effect of differentiation strategy on performance of insurance companies in Kenya?
1.4.2 What is the effect of cost leadership strategy on performance of insurance companies in Kenya?
1.4.3 What is the effect of focus strategy on performance of insurance companies in Kenya?

1.5 Significance of the Study

Findings from this study would benefit the following stakeholders: -

1.5.1 Insurance Managers

This study provided insights to the insurance sector managers on the need for competitive strategies in order to have a competitive advantage over their rivals. The managers should also be able to choose the best competing strategies among the many that may be available as per the environment surrounding the business and thereby propelling growth in their
companies. For those managers who may not be aware of which strategy to adopt to boost their companies' performance, then they stand to gain from recommendation and conclusion made from this study.

1.5.2 Insurance Policy Makers

For a vibrant economy, insurance serves a fundamental role in helping to spread the risk from the insurer of life and general properties. Information that results from this study may be used as insights to policy development in the insurance industry that would enable regulators and policy makers such as government officers, Insurance Regulatory Authority, Association of Kenya Insurance and make policy and guidelines for competition in the insurance industry.

1.5.3 Scholars and Academicians

This study aims to fill the gaps that has been left in the previous research, it also adds knowledge to the existing literature that future researchers and academicians can use for extensive studies. Since this study makes contributions to the effect of competitive strategies and firm performance, researchers will find this significant owing to its increased growth of insurance companies in third world countries and developing economies.

1.6 Scope of the Study

The study majors on the three competitive strategies as proposed by Porter's (1996) that is: cost leadership, differentiation, and focus strategies which are applied in the insurance sectors and how they influence performance. This study involved fifty (50) insurance companies who are members of the Association of Kenya Insurance (AKI).

1.7 Definition of Terms

1.7.1 Firm Performance

This refers to the positive change in organizational performance in relation to profitability, market share, customer satisfaction, customer loyalty and customer retention (Gruber, Heinemann & Bretel, 2010; Atikiya, 2015).
1.7.2 Differentiation Strategy

These are gains which are yielded from specific firm positioning in a particular sector in relation to product pricing and specification. It can only be attained if a firm is innovative in relation to the product or services development as such to remain relevant (Leitner & Guldenberg 2009; Porter, 2001, Atikiya 2015)

1.7.3 Cost Leadership Strategy

This is a competitive advantage, yielding from lower pricing strategy as compared to our competitors (Porter, 2001; Atikiya 2015; Leitner & Guldenberg 2009).

1.7.4 Focus Strategy

The ability of a company to use the resources to penetrate new markets and expand the existing ones (Porter, 2001; Atikiya, 2015; Leitner & Guldenberg, 2009).

1.7.5 Insurance Industry

This is an entity that provides insurance. Insurance is a means of protection from financial loss (Ndungu, 2012).

1.8 Chapter Summary

This chapter is an introduction to the proposed study and it also discusses the background of the insurance industry as well as what other scholars have contributed to the application of competitive strategies. Statement of the problem, research questions, justifications of the study, scope and definition of terms are also discussed in this chapter. Chapter two involves a review of literature in line with the objectives of this study, while the third chapter looks into the methodology that was used for the study.
CHAPTER TWO

2.0 REVIEW OF LITERATURE

2.1 Introduction

This chapter discusses that literature in line with the objectives of this study. This was guided by the research question of the study which were; What is the effect of differentiation strategy on performance of insurance companies in Kenya? What is the effect of cost leadership strategy on performance of insurance companies in Kenya? And what is the effect of focus strategy on performance of insurance companies in Kenya?

2.2 Differentiation Strategy

According to Porter (1980) as cited in Kamau (2013) differentiation strategy is a business strategy intended to increase the perceived value of the firm's products or services compared to competitors so as to create a customer preference due to its distinct features. The existence of product differentiation is always a matter of customer perception but firms can take a variety of actions to influence these perceptions. This implies that differentiation can be done specifically for a product to make them attractive, or for a service through utilization of after sales services like consideration of quality, incentive programs, increased operating hours and so on (Kamau, 2013). To add to this, Olegube (2014) states that differentiation also includes physical aspects which would cover location, space, design and display/layout and stores atmosphere. Moreover, Allen and Helms (2006) stress the importance of differentiation in a company image which increases the sensitivity of the buying process for customers. Through this Allen and Helms hopes that companies develop personalized products. All this confirms to the statement made by Thompson and Strickland (2008) that there are numerous ways and dimensions by which firms can differentiate themselves. Today's cut throat competition is the driving force describing why most companies are putting a lot of effort to strategize on differentiation.

Few studies have focused and investigated the association between differentiation strategy and organizational performance. However, out of the few studies most of them have been
conducted in the developed Nations. Acquaah and Yasai-Ardekani (2008) under took a study to determine the benefits of executing cost leadership, differentiation, and multi strategy and they established no significant difference exist between performance of firms pursuing only the differentiation strategy and cost leadership. However, those in pursuit of a multi strategy (cost leadership combined with differentiation) gained more performance related benefits. Prajogo and Sohal’s (2006) study indicated that Total Quality Management function was positively associated with differentiation strategy. Similarly, Prajogo (2007) also established that quality of the product was influenced by differentiation strategy in comparison to cost leadership strategy.

Companies that utilize a differentiation strategy consider the entry into the market first as a top priority. Being the first means that the company has the pleasure to set prices however they want, and exploit the wider market segment, this is done with the aim of achieving high profit and growth margins. For differentiation strategy to be a benefit to a firm, there is a need for it to ensure good product quality and put emphasis on innovation at the forefront of the company.

A company can differentiate itself by offering innovative features, providing superior service, launching effective promotions, and developing a strong brand name (Li & Zhou, 2010). Hilman (2009) states that corporation that use a differentiation strategy tend to establish intricate details to make buyers aware of the difference what they are offerings compared to the competition. Companies with this tactic also tends to offer their products at slightly higher prices than competitors as compensation for its unique features, the cost of the system prompt delivery, quality of service and distribution channels (Hilman, 2009; Porter, 1990).

According to Porter (2008) firms that are able to implement a differentiation strategy have the following internal strengths; access to best scientific research, highly skilled and creative product development team, shrewd sales team with the ability to successfully communicate the perceived strengths of the product, corporate reputation for quality and innovation.

In general, the power of differentiation is scarce and costly to imitate and is also a source of sustainable competitive advantage. The scarcity weakens the strength of the buyer due to a
lack of alternative products in comparison to the company's products. Hence, the empirical indicator of differentiation on this research is the introduction of new products, offering of broad range of products or services, offering of products or services of high quality, offering of customized and after sales service and customer support (Auzair & Sofiah, 2011).

2.2.1 Value Based Service

In insurance companies, value based services involve a shift from the traditional focus of managing and building a process to maximizing the value of the firms. Chmielowiec-Lewczuk (2015) says that the focus of value based services entails coming up with a strategy, plan, value drivers, monitoring techniques, a way of reporting, creating communication channels and motivating the employees toward achieving a common goal. In short, a value based systems would not favor the interest of some stakeholders in the companies but the focus is usually inclusive. In this connection, studies have been conducted on differentiation that focuses on value created on the face of the customer for competition purpose. Hugosson and McCluskey (2009) found that a change toward differentiation in Swedish sawmill from commodities to manufactured goods through better marketing, moved a majority of their business to what is now known as relationship marketing. This development is referred by others as a move from commodity to value-adding activities (Brege et al., 2010) or to specialty and custom-made products.

2.2.2 Product Features

As competition continues to grow in the insurance companies, product features forms one of the avenues applied to differentiate firms for survival. A product that appeals to right customers, that is up to date with technology, and manages risk is important for the ongoing success of a firm (Organ, 2014). Creation of a product or services perceived to be unique may give the company an opportunity to charge a premium on its product. Features such as brand image, technology, networks and customer services are all desired towards being ahead of your competitors. When these features are maintained over time they lead to customer loyalty.
Atikiya et al., (2015) examined the relationship between differentiation strategy and manufacturing firm performance in Kenya. The study adopted both descriptive and exploratory research design. Simple random sampling technique was used to select 170 respondents. The differentiation strategy was attributed as being mindful of product differentiation, by having customized products as compared to competitors, continuous development of new products, innovative product, continuous and faster introduction of new products, quick response to competitor's product innovation, heavy reliance on research and development of reputable products on the market in a bid to create value to the customers. Although all these attributes were consolidated to form an index of differentiation strategy, it would have been appropriate to use exploratory factor analysis to form an index rather than sum the variables.

Aliqah (2012) examined the empirical evidence between differentiation strategy and organization firm performance among Jordanian manufacturing firms. The study used primary data which was collected using a closed-ended questionnaire. The study adopted measures of product differentiation strategy using Chenhall and Langfield-Smith (1998) five product differentiation tool, "providing high-quality products, fast deliveries, making changes in design and introducing new products and providing unique product features". Factor analysis was used to consolidate the parameters and form a single index. Firm performance was operationalized as return on assets, sales growth rate, cash flow from operations, customer satisfaction, product quality and market development, all of which were measured using a five-point Likert scale whereby the respondents were requested to indicate the effect of each in relation to differentiation. The results of the study revealed that there was a positive and significant relationship between differentiation strategy and organizational performance.

Dirisu, Iyiol, and Ibidunni (2013) examined the effect of product differentiation strategy as a competitive advantage in Unilever performance. Product differentiation was operationalized as high productivity growth, innovative product development, product design, and unique product features. On the other hand, firm performance was operationalized as sales growth, customer satisfaction. Regression analysis was used to analyze primary data which was
collected using closed-ended questionnaire. Results of the study showed that there is a positive and significant relationship between product design, unique product features, innovative product development and firm performance. Kamau (2013) study of Nakuru Supermarkets in Kenya found that increased competition is causing supermarkets to differentiate their products and services to maximize sales performance. In a dataset of 11 supermarkets that involved branch managers, technical officers and production life staff found that product differentiation and physical differentiation (in terms of the characteristics of the products) played a major role in activating annual sales performance as compared to service differentiation (Kamau, 2013). This study was a case study of Nakuru supermarket, however the current study aims to focus on the insurance sector.

Nolega, Oloko, Sakataka and Oteki (2015) examined the effect of products differentiation strategy and seed company firm performance. Simple random sampling technique was used to select the customers while purposive sampling was used to select seed company agents. Descriptive analysis was used to analyze the data. Results of the study revealed that to enhance performance there is need to develop products which are resistant to diseases. To mitigate the challenges there is a need for insurance companies to develop products which mitigate against product risks.

2.2.3 Core Competencies

Core competencies are the propelling abilities that drive the company into enjoying a competitive advantage. The brand image represents one of the core competencies that a company trades on. Evaluation done by the potential policyholder majorly focus on the brand. The performance of the company over time is normally used as the basis for judging a good insurance service and the company that offers it. Spencer, Joiner, and Salmon (2009) examined the effect of differentiation strategy, performance measurement systems and organization performance in Australia. The study sought to examine the moderating effect of performance measurement; financial and non-financial measures of the effect of differentiation strategy on organization performance. Based on Cornu and Luckett's (2000) financial performance included and not limited to, return on assets, product profitability, customer profitability and the non-financial performance were customer satisfaction,
customer acquisition, response time, and so on. Organization performance was attributed to cost controls, new product development, changes in the market share, market development and political as well as public political affairs (Gupta & Govindarajan, 1984). The differentiation strategy was based on product flexibility; "high-quality products, product flexibility, unique product features, broad product distribution, rapid market response and customized products", customer service; "faster deliveries, effective after sale service and reliable delivery promise (Chenhall, Langfield & Smith's, 1998).

Experimental studies have been carried out on the impact of differential strategy on performance of different countries and sectors of the economy. To begin with, Arasa and Gathanji (2014) examined the relationship between competitive strategies and telecommunication firm performance in Kenya. The study hypothesized that cost leadership strategies, market focus strategies, strategic alliances and differentiation strategies all jointly have an influence on firm performance and both correlation and regression analysis revealed that there was a positive and significant relationship between differentiation strategy and firm performance. It would have been appropriate to use factor analysis to generate an overall index for each independent variable. The current study adopt this approach as such to generate an overall differentiation strategy index.

A study by Banker, Mashruwala, and Tripathy (2014) has shown that benefits that come as results of differentiation are more likely to be sustainable this is only made possible when the services or products are unique to customers and cannot be replicated by competitors. Moreover, Banker et al., (2014) adds that since differentiation strategies are "developed around firm-specific and product-specific innovations and marketing" copying the idea, and efforts made, may not happen quickly. For example, changes in the pricing of commodities can be imitated easily in all industries, while innovation that comes about through research and development is not easily imitated. This means that the firm would enjoyed increased performance before the new innovation is available to all players. Earlier, Coombs and Bierly (2006) had observed that research and development places firms at a competitive advantages due to the technological capability that is built. This makes it even harder for
competitors to replicate an idea, hence maintain to a large extent a sustained advantage owing to longer competitor response.

In addition, a differentiation that focuses on quality of the product and service provision always yield a significant growth in sales, particularly to the industries that are in the maturity stage of their life cycles and where they are vulnerable to the high cost and poor performance (Porter, 1985). Other firms that carry out differentiation focusing on product customization are forced to maintain a very close relationship with the clients or customers whom with time serves to build good reputation for the firms and this may translate to improved performance (Graham & Bansal, 2007). Creating treasured resources that are hard to reproduce provide the firm with a durable advantage (Carter & Ruefli, 2006). Further, when companies wish to customize their products to fit their customers they have to also maintain a close relationship with the suppliers. This calls for a close check on the complex relationship between two parties (customer and suppliers) which is a costly affair that makes it difficult to duplicate and hence become a source of sustained competitive advantage (Banker et al., 2014).

Firms ensuing a differentiation strategy aim to boost consumer surplus by emphasizing the supposed benefits of their products or services. Higher perceived benefits translate into higher prices and hence higher returns. Therefore, a differentiation strategy is applied to relatively unique high-margin products which are highly advertised, has service/maintenance/warranty costs, research and development costs etc.

2.3 Cost Leadership Strategy

Cost leadership as a strategy allows the firm to be a low-cost producer and thus making more profits than rivals due to low costs of production and economies of scale (Barney, 2007). Cost leadership strategy occurs in a firm through use of experience as a result of investment in production, conservation and careful monitoring of operating costs so as to optimise organizational performance. Cost leadership enables firms to establish a competitive advantage by increasing sales turnover to help in any expansion plans.
Subsequently, firms seeking after a cost initiative practice should constantly benchmark themselves against other competing firms with a definite end goal to examine their relative cost (and therefore profitability) position in commercial center. A firm that seeks after cost initiative system accomplishes an ease position by emphasizing on forceful development of effective scale offices, energetic quest for cost reduction for a fact, tight cost and overhead control, shirking of negligible client records, and cost minimization in ranges like innovative work (R&D), administrations, deals drive, publicizing, and some more (Porter, 1985).

2.3.1 Low Cost Leadership Strategy

The strategy of cost leadership or "low-cost" put emphasis on organizational absolute efficiency. Cost leadership strategy involves the process which the company utilizes to produce or distribute products and services at a lower cost than competitors in the same industry. Cost leadership strategy, as indicated by Porter (1980, 1985) means the strategy of trading with standard products together with aggressive pricing. As Porter (1985) proposes, cost leadership strategy is one of the most successful ways of achieving sustainable competitive advantage by being in a capacity to reduce and control costs, both production and non-production costs. Use of technology, economies of scale employing experienced and working toward minimizing or controlling administrative costs to realize their low-cost strategy that further translates to beating the targeted performance (Hansen et al., 2015).

According to Sumer (2012) cost leadership targets to minimize and eliminate costs in fields including expenditure in research and development and additionally advertising. Like Hansen et al., (2015), Sumer stresses that this strategy tends to follow certain concepts, namely economies of scale, cost saving efforts through the experience curve, strict control over costs and overhead costs (Sumer, 2012). In this regard, a firm adopting the cost leadership strategy, through creation of a low-cost position relative to their competitors. The motivation behind companies adopting different resource allocation methods is to achieve cost leadership, large-scale facilities, process improvements, benchmarking, cost minimization, total quality management (TQM), and indirect expense control (Banker et al., 2014). Unlike, companies adopting the differentiation strategy to gain a competitive advantage by investing in evolving products or services it allows the firm to command a better price.
Cost Leadership strategy creates a low-cost operation in their market niche with the core objective of attaining advantage over competitors; this is done by reducing operating costs below that of other players in the market. Cost leadership strategy is coined around organization-wide efficiency, therefore companies implementing the strategy need to maintain a strong competitive position so as to sustain their profit margin overtime; they therefore have to place a premium on operations efficiency in all the major functional areas (Porter, 1998).

Firms that implement cost leadership strategy have the capability of securing a large market share due to their low cost in the industry or market. Thus, organizations implementing the strategy can obtain super profits as a result of their ability to lower prices to match or beat those of competitors and earn profits. By utilizing the strategy, the firm benefits from operation efficiency, effective price leadership, growth in the industry, lower prices, higher quality, or both (Spulber, 2009).

By innovating best-practice organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology in a cost-effective way, trimming of overhead cost, and efficient operations, a firm can achieve the cost reduction. Sometimes, cost reduction can also be achieved by outsourcing manufacturing and services when outside providers offer lower-cost alternatives. With the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms. The reason for applying the strategy on cost leadership is to obtain the advantage by reducing economic costs amongst its competitors (Barney, 2002).

This strategy results in efficiency by producing standardized products while enjoying economies of scale and experience, the firm also strives to gain competitive advantage. Generally, for organisations to maintain cost advantage or reconfiguring the value chain to establish efficient ways to manufacture, promote, distribute and design the product, a firm can also gain a cost advantage (Porter, 1998).

According to Palepu and Healy (2008), a firm may suffer low profit margin by adopting cost leadership strategy. However, the strategy helps corporations produce high-volume product
and service at competitive price to customers. Montgomery and Porter (2009) identified challenges that may hamper cost leadership. These include financial muscle, technology, regulatory issues as well as structural and economic barriers in the industry. Other challenges include climatic and at times ecological concerns brought about by unseen weather conditions and influence firms whose products are seasonal.

2.3.2 Managing Changing Strategies

The modern world has really integrated from the old ways of doing things. More issues on cost management strategies have emerged due to growth in technology and increased competition that forces the firm to think ahead. Research and development are now a common phenomenon for companies that wishes to extend their life in the marketplace. Cost management in the last two decades was a non-issue, however, things have taken a new direction.

Hilman and Kaliappen (2014) examined the influence of cost leadership, innovation on firm performance of Malaysian hotel industry. Based on Auzair (2011) cost leadership attributes include achievement of lower operational cost, improving product/service efficiency, improving services coordination costs, improved use of available resources and equipment. The study collected primary data through the use of mails and emails. Regression analysis showed that there is a positive relationship between cost leadership and innovation as well as firm performance. More so, innovation has a significant moderating effect on firm performance and cost leadership.

A comparative study conducted by Amoako-Gyampah and Acquaah (2007), between strategies employed in manufacturing and competition environment relative to the performance of Ghanaian firms revealed that the competitive strategies pursued were cost leadership and differentiation while the performance was measured in terms of sales growth and market share. The findings revealed a significant positive association between the competitive strategy and manufacturing strategies specifically in cost, delivery, flexibility and quality. The uniqueness with this study is that quality as a result of costs indirectly influenced the performance of firms. This meant that irrespective of the competitive
strategies used, the central point revolved around developing a quality product. Porter’s (1985) in his book, “Competitive Advantage: Creating and Sustaining Superior Performance” stimulated many scholars to study how companies gain competitive advantages and formulate competitive strategy. According to porter a firm can gain competitive advantage if it’s able to create value for its buyers. Companies can provide this superior offering by offering products/services that are lower in prices than that of their competitors. To be successful, this strategy needs a significant market share advantage or better access to raw materials, labour or important inputs. In the absence of some of these advantages the strategy can easily be copied by competitors.

2.3.3 Economies of Scale

The aim of cost leadership strategies is to ensure timely and efficient processing of the demanded products and services. Provision of standardized products and services allows the firm to enjoy economies of scale while serving customer. With standardized products, the firm be able to search for different strategies to cut down cost. On the other side, the cost should not compromise the value of the products but instead complement it to be able to beat the value created by the competitors. One way of achieving a minimum cost as cited by Flynn et al., (2010) is through standardization of materials, products, and process or alternatively having a centralized system. Internal integration processes on cross-functional collaboration also aids in forecasting demand, level scheduling and efficient warehouse management which are all in line with minimizing the process of production costs. This can further help increase the quality of customer service and reduce wastage (Swink & Nair, 2007).

Cost leadership has been studied far and wide by many authors. For instance, Sohail and Al-Ghamdi (2012) examined the relationship between strategies, reward, and organization performance in Saudi Arabia. Firm performance was operationalized in terms of both financial and non-financial performance. Cost leadership strategy was evident by; provision of quality customer service, quality service provision, operational efficiency improvement, training of efficient customer service and supervision of frontline service providers. They
demonstrated that there is a positive and meaningful relationship on firm performance and measures of cost structure.

Valipour, Birjandi, and Honarbakhsh (2012) surveyed the impact of cost leadership and differentiation strategy and firm performance. Using data set extracted from annual statements of companies quoted in Tehran Securities Exchange and applying ordinary least squares (OLS) the relationship was experimentally tested. The finding from the study revealed that there is a direct association between cost leadership strategy and firm performance as measured by return on assets (ROA). Birjandi, Jahromi, and Darabi (2014) examined the effect of cost leadership strategy on ROA and future performance of accepted companies in Tehran Stock Exchange (TSE). Using a purposive sampling dataset of 45 companies listed TSE in the period 2009-2013. Cost leadership strategies were assessed by the ratio of sales to total assets, sales to capital expenditure and salaries to total assets. The results demonstrated the presence of a positive and significant connection between the two variables that is cost leadership strategy and firm performance.

Atikiya et al., (2015) examined the effect of cost leadership strategy on manufacturing firm performance in Kenya. Primary data was collected using close-ended questionnaire. Both correlation and regression analysis were used to analyze the data. Results of the study showed that there is a positive and significant relationship between cost leadership strategy and firm performance. Another study in Ghana by Yanney, Dennis, and Awuah (2014) focused on the business strategies that help Small and Medium Enterprises (SMEs) in the manufacturing sector to continue existing in the market. Taking a sample of 100 SMEs, data was collected by use of questionnaires which were distributed randomly by a trained research assistant. Covering a period running from 2008 to 2013, results from one-way analysis of variance and regression showed a statistically significant impact of cost leadership strategy had a greater impact on firm performance measures than any other business strategy employed by SMEs. Going by this results, it can be said that organization wishing to grow should practice more of cost leadership strategies since also it is seen to put firms at a competitive advantage.
Mahdi, Abbas, Mazar and George (2015) discovered that a cost minimizing enterprise tends to make products with an acceptable quality and very few standard features available in order to gain competitive advantage and to maximize its market share. This kind of strategy tries to attract a wide group of customers. In addition, Duran and Akci (2015) too studied the implication of using competitive strategies on the change in firm performance among manufacturing companies quoted in Borsa Istanbul, Turkey. The results demonstrated that under the condition of high uncertainty, competitive strategies had a positive and significant firm performances as confirmed by the findings of the previous researchers.

Jiri, Stanislav, and Petr (2013) observed that the organizations operating in a transformation economy ascertain that the strategies used to date, especially the low-cost strategy, is losing strength. This leaves behind questions on the ability to adapt to a new situation once the low-cost strategy is pursued. In other surveys, the cost leadership strategy has been mostly affected by the access to financial sources leading to question of capital strength to support demand from existing and new customer as result of new pricing strategy. Although Cater and Cater (2009) noted the differentiation strategy is, on the contrary, mostly affected by the access to an intellectual capital and the financial strength of the organization itself, some prior surveys have realized that in developed countries low-cost strategy is more affected by capital (Auzair, 2011). This study tends to contradict previous once and hence there is a need to carry out further research to establish whether differentiation or cost leadership is more dependent on capital or financial strength.

Leitner and Güldenberg's (2010) study in Austria found that bigger organization benefit from adopting one strategy where cost leadership strategy was found to be favorite of many companies while small and medium enterprises undertook a combination of cost leadership and differentiation strategy. This prompts a question on whether the low-cost strategy is a thing for the big company. And then the other question is the impact of the "Stuck in the middle" strategy in comparison to a low-cost and a differentiation strategy in CEE countries (Pertusa-Ortega et al., 2007). The survey looking for the answer to this question based on above-mentioned knowledge is the key topic of this paper.
Huo, Qi, Wang, and Zhao (2014) discovered that firms following a low-cost strategy stress operational efficiency which a firm can achieve by modernization, mechanization of the firm equipment, economies of scale, and applying experienced. Kim et al. (2004) consider these issues in the context of e-business firms. These authors argued that firms pursuing a strategy of cost leadership could easily become locked in a malicious cycle of price-cutting because internet technologies tend to be based on cost structures that combine "low variable costs and high fixed costs". Nevertheless, each of these pros could be temporary and not durable. Otherwise, the strategy based on differentiation through products, brand building, and reputation, and strong provider and customer connections, provided more lasting rewards that allow performance in the long run.

2.4 Focus Strategy

A niche market has been used as one of the differentiation strategy as well as focus strategy. Small firms wishing to obtain a competitive advantage would apply low-cost focus strategy in their identified market niche or segment. Cost focus companies can be said to be the least cost producers in a market segment that they occupy. Firms have to think through the process before applying this strategy since cost focus is not achievable for industry relying on the economies of scale (Atikiya 2015)

Ndungu, (2012) adds that the biggest advantage of a focus strategy is that the firm is able to carve a market niche against larger, broader-line competitors. Kamau (2013) notes that some firms pursuing this strategy have even been able to locate niches within niches, thus further insulating themselves from the attention and efforts of larger, industry-wide players that cannot serve the niche as well. Thus, defensibility and avoidance of direct, price-based competition are big advantages that accrue to a focus/specialization strategy. Olegube (2014) says in many cases, a focus/specialization strategy enables a firm to improve other sources of value-adding activities that contribute to cost differentiation.

According to Allen and Helms (2006), focus strategies may enable firms to utilize their specialized distinctive competence or set of assets to create new niches. However, Thompson and Strickland (2008) notes that the biggest disadvantage facing the focus/specialization
strategy is the risk that the underlying market niche may gradually shift more toward characteristics of the broader market. Acquaah and Yasai-Ardekani (2008) also adds that the distinctive tastes and product characteristics may blur over time, thus reducing the defensibility of the niche. This may be particularly the case when tastes and preferences, once considered exotic or nouveau at an earlier period, become more widely accepted and even imitated by larger market segments. A related risk is the potential for broad-line competitors to develop new technological innovations or product features that may redefine the buying preferences of the niche.

2.4.1 Low-Cost Focus

Porter (2001) describes focus strategy as strategies that pursue specific market segments through overall cost leadership and differentiation as opposed to engaging in the whole market. This strategy first involves segmentation of the market followed by specialization on a certain segment that would help the firm achieve competitive advantage. In a bid to specialize firms choose to focus on a selected product range, customer group, geographical area or service line (Darrow et al., 2001). Operating in a niche market, this strategy advocates for a growing market share where markets seem unattractive or are overlooked by larger competitors.

A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors (Atikiya, 2015). Focus strategy is seen as favourite and most efficient when customers have distinct preferences and when the position has not been pursued by rival firms (David, 2009). However, focus strategy threatens an organization growth when the market segment is too small to be economical, or if the segment starts to declines. This strategy is unique than the other two since, while differentiation and cost leadership strategies targets wide fractions of customers, focus strategy prefer to appeal to a section of the geographical area and specified a group of customers (Saif, 2015).

As it has been noted by Waiyaki (2014) different cost structures in different market segments allow a firm to use cost focus strategy. Due to the differences in the market segment the need
and wants also remain different and hence companies should take advantage of the differences to design products and services to be offered to the customers so as to fulfill their need and wants. In an industry where economies of scale play an important role, the focus strategy on cost may be hard to evaluate. Empirical evidence too has shown that there exists a danger if a niche disappears over time since the preference and taste of customer keeps on changing with the business environment (Lynch, 2003).

2.4.2 Differentiated Focus

The differentiated focus is one of the main ways that a firm may use focus strategy. Variations that exists in the different market segment are met by directing firm's capabilities emphasized in the areas that they target to serve. By doing so, the firm aims to enjoy a competitive advantage in a given market niche even if not in the market as a whole. Past study serves as the best example to illustrate how the differentiated focus strategy and firm performance has been assessed and the result thereof. Yasar (2010) examined the effect of competitive strategies on firm performance in the manufacturing sector. The study hypothesized that firm performance is influenced by cost leadership, differentiation and focus leadership strategies. Firm performance was measured as the average change in return on assets (ROA) while the importance of focus leadership strategy was measured using a five-point Likert scale. Focus leadership was assumed to be of importance in the various departments such as marketing, procurement, marketing, research, and development. Results of the study revealed that there was a positive significant relationship between firm infrastructure, marketing, procurement, human resources, research and development and firm performance.

Powers and Hahn (2003) examined the critical competitive strategies used by commercial banks to enhance their performance. The critical strategies adopted were general differentiation strategy, focus strategy, stuck in the middle strategy, cost leadership strategy and customer differentiation strategy. Based on this study focus strategy was operationalized as a narrow range of services/products from a company, continued and renewed emphasis on marketing the product/service, have geographical focused products/services and continuously
develops products to retain the market share it commands. Results of the study revealed that there was a significant relationship between focus leadership attribute and firm performance.

Arasa and Gathanji (2014) examined the relationship between focus leadership and firm performance in the telecommunication industry in Kenya. Both correlation and regression analysis revealed a positive and significant relationship between focus leadership and firm performance. Aykan and Aksoyku (2013) examined the effect of competitive strategies and strategic management accounting techniques on perceived performance of business. The study grouped competitive strategies into three; cost leadership, focus leadership and differentiation strategy from manufacturing firms in Turkey. Regression analysis revealed that there was a positive and significant relationship between focus leadership and firm performance.

In China, Saif (2015) studied how marketing strategy influence firm success in its operations. The study focus on marketing strategy involved promotion, pricing, distribution and those that standardize products and their impact on the firm success as measured by sales changes, customer satisfaction, and other financial ratios. Without a doubt, it was found that marketing strategy focusing on customer had a great impact on firm performance. Apart from examining focus strategy, the study negated other competitive strategies. The current research aims to fill this gap by looking at the holistic competitive environment. Further, Abidin et al., (2011) challenge this finding citing that focused strategy limits firm when in need to internationalize.

Mahdi et al., (2015) noted that firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some of the known risks that firms implementing their focus strategies should know include imitation and changes in the target segments. Moreover, it may be fairly easy for a broad-market cost leader to duplicate this product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better (Ghemawat, 2010)
As Chronicle (2015) explained, focus strategy is different from the first two strategies, that is differentiation and cost strategies, in that these strategies are applied in a wide range of customers, whereas the firms that follow a focus strategy apply it to a certain geographical area or a given proportion of customers representing certain market niche. With focus strategy, companies begin by identifying the specific market segments where they can compete effectively (Wanjira, 2011). Chronicle (2015) adds that company needs to choose a market where the strategy matches market characteristics. So as to gain competitive advantages select markets where a focus of the company's resources is likely to lead to desired sales volumes, revenues, and profits.

Jacob and Chase (2011) reiterate that the ultimate goal of any organization is to add value to their customer as defined by the ratio of quality to cost. An organization with this goal always aim to remain at the competitive edge by cutting down prices of the production costs or product premium. Homogeneous commodities are seen to increase competition environment since they make it difficult to customize these commodities and hence have to set their price below others to makes a sale since the customer have high bargaining power. Further, firms with a cost leadership strategy tend to incline "building hierarchical cultures where formalized, structured workplaces are created, formal procedures for governing people's work are established, smooth-running organizations are maintained, organizational stability is pursued, the capacity of information flow is increased and the efficient management and control of the whole system is emphasize" (Cameron & Quinn, 2011, p25). Therefore, for a seamless linkage between formalized process and information, an organization must have to be strategically oriented and organizational atmosphere has to provide an appropriate context.

2.5 Conceptual Framework

The relationship between competitive strategies performance of the insurance companies in Kenya.
This chapter analyses the literature from past studies on competitive advantages and firm performance. This are reviewed in line with the specific objectives of the study. The next chapter will cover the methodology to be applied and the data collection tools deemed appropriate for this study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces the methodology that the study used to experimentally find out the effects of competitive strategies on the performance of the insurance sector in Kenya. Methodology contain sections discussing research design, target population, sample and sampling procedure, data collection, pilot test and data analysis. Further the chapter sums it up with the operationalization of variable and definition of model of estimation.

3.2 Research Design

Atikiya (2015) describes research design as one that consists of road map under which collection, measurement and analysis of data is based. Cooper and Schindler (2014) added that it is a plan and structure in which answers to the research questions are thoroughly examine and obtained. Research design is the big picture showing the methods and procedures for collecting and analysing data into meaningful information that would yield answer to the research questions (Kothari, 2004). This study adopted a survey research design since the study seeks to explore and to describe a given characteristic in both qualitative and quantititative terms. Kothari (2009) observe that surveys are both more efficient and economically well which assisted in understanding population opinions and attitude of respondents. In addition, Creswell (2009) pinpoints that survey design can be used to investigate the connection between different variables and assess the theories behind the objectives.

3.3 Population and Sampling Design

3.3.1 Population

A complete study of all members in a specified area of interest to the researchers is what is referred to as target population (Kothari, 2009). Saunders Lewis and Thornhill, (2009) adds that population consist of all the groups of individuals, items, objects and events that have
similar apparent characteristics. For the sake of this research, the target population consist of all 47 insurance companies in Kenya. Those that are listed or private under the membership of Association of Kenya insurance (AKI). The choice of insurance sector has been informed by the importance role that it plays in the growth of GDP as envisages in Kenya’s blueprint Vision 2030. Moreover, AKI document and register insurance sector procedure which implies ease of access to information.

3.3.2 Sampling Frame

Sampling frame is a list of all individuals or items to be considered in a particular study (Oso & Onen, 2009). This study was done from a list of insurance companies which was drawn from insurance regulatory authority (IRA) website. Currently, there are 47 insurance companies and 3 re-insurance companies yielding a total 50 insurance service providers in the country (Cytonn Investment, 2015). The current study was limited to the 47 insurance companies.

3.3.3 Sampling Technique

A subset of the total population which can act as a true representative is known as a sample (Oso & Onen, 2009). There are two types of sampling technique, non-probabilistic and probabilistic. In the case of non-probabilistic sampling, the respondents are selected subjectively while in probabilistic sampling, all respondents have an equal chance of being selected (Oso & Onen, 2009). The study adopted non-probability purposive sampling procedure, a process of acquiring sampling units or people who are most conveniently available.

3.3.4 Sample Size

Sample can be defined as proportion of population that has been identified by following a specific procedure. Sample help in making inferences about a large population via extrapolation (Atikiya et al., 2015). The study sampled all the insurance companies located in Nairobi with branch elsewhere in the country. These insurance companies must be providing both life and general property insurance. The sample excluded those insurance companies
that have suspended, collapsed or delisted in their life time, for constituent results. Therefore, in the current study purposive sampling technique was used and three employees from strategic planning department in each of the 47 insurance companies was chosen.

3.4 Data Collection Methods

The type of research determines the tool to use in collecting the data which range from focus group observation, discussions, and interviews to questionnaires (Gujarati & Porter, 2009). This study seeks to find how main stakeholder of the companies (owners and management) perceives impact of competitive strategies on firm performance. In this regard, questionnaire sounds like an appropriate instrument to investigate and get the perception of from the respondents. Sekaran and Bougie (2010) pointed that questionnaire is an accurate measure of self-sufficiency relationship between about items or individuals reported behaviour and beliefs. Moreover, Saunders et al., (2007) found that with questionnaire it is possible to analyse and derive description, correlation and inferential that would be required.

3.5 Research Procedures

Pilot test is important for validity of study (Sekaran & Bougie, 2010) as well as reliability of research instrument (Orodho, 2003). The current study hoped to conduct a pilot test with an aim of refining the questionnaire, identifying any loopholes and foreseeing any logistic problems. Together with this, questionnaire was developed by modifying past questions prepared by past researchers (Arasa & Githinji, 2014; Atikiya, 2015; Yasar, 2010). Therefore, questionnaires in this study was distributed in two phases that is piloting and then the main survey with the key respondents. Pilot test and only be 9 questionnaires; they was issued at the three reinsurance companies in Kenya.

The validity of research instrument which entails checking whether the instrument measure what it is intended to measure was observed. Hair, Money, Page and Samouel, (2007) defines validity as the extent to which statement measure what it purports to measure. in this connection, face or content validity of this study was enhanced by engaging experts in formulation of questionnaire for adequate and representative inclusion items relevant to the
objectives of the study. In addition, the study borrowed some questions from the past research from Yasar (2010), Arasa & Githinji, (2014) and Atikiya (2015) to measure competitive strategy. Constructing validity was enabled by anchoring statement to theory that explain them. Research assistants who was used was trained on how to collect data for quality recording and entry of the data.

Orodho (2003) and Hair et al., (2007) regard a research instrument to be reliable when the degree to which results are consistent over time and accurate representation of the targeted population using similar methodology. Data was measured for reliability using Cronbach’s alpha. Pilot study also helped to guide on the weakness of the instrument or gap that need to be filled before actual collection of data.

3.6 Data Analysis Methods

Primary data collected through questionnaire was entered in spreadsheet where data was cleaned, ordered and organized ready for analysis to generate meaningful information. Data was edited to remove inconsistencies, classify information on similarity and then tabulation followed for variables under investigation. Since the data stipulated in questionnaire is both qualitative and quantitative data, the right analysis was performed. For quantitative data both descriptive and inferential analysis was generated using indices and statistics that is mean, standard deviation, percentages and frequencies.

Independent variables that is competitive strategy was based on Porter’s (1980, 1985) typology where three strategy dimensions were adopted by this study. These three dimensions formed independent variables: differentiation strategy, cost leadership strategy and focus strategy which are measured by 5-point Likert scale where 1 =strongly agree, 2=agree, 3=neutral, 4= disagree and 5=strongly disagree. Differentiation strategy was measured in terms of loyalty to brand and the way firm process a product. Cost leadership strategy too was proxied by via competitive pricing and efficiency in the production while finally, focus strategy was looked at as the specialty of products and/or service.
This study aimed to explore competitive strategy on firm performance which forms the dependent variable. The study measures firm performance on the level of satisfaction with firm’s profitability and sales growth. The reason for choosing perceptual performance measures is because they have high correlation with objective indicators thus supporting validity (Chandler & Harks, 1994; Gruber, Heinemann & Bretel, 2010; Atikiya, 2015). Also a five point Likert scale was used where the responses range from 1=much worse to 5=much better.

After clearly establishing measures of different variables, descriptive analysis was generated using SPSS version 20. Factor analysis was used to help reduce information in the model based on the construct in the questionnaire as well as test theory for verifying scale construction and operationalization (Kothari, 2011).

The study aims to establish relationship between the three explanatory variables and firm performance and so the inferential analysis was necessary. Hypothesis was tested using ordinary least square for each research question to determine. One-way analysis of variance (ANOVA) was also be checked to determine the significance of the relationship between differential, cost leadership and focus strategy on firm performance of the insurance firm while regression analysis was used to determine the direction of the relationship. Further, Pearson’s correlation analysis was also carried out to measure the strength of the association between these variables. The Pearson’s bivariate correlation was used to test relationship between competitive strategy and firm performance. The degree of association in magnitude and statistical significance joint effect based on multiple linear regression analysis formed the following model:

\[ Y_{i,t} = \alpha + \beta_1 X_{1i,t} + \beta_2 X_{2i,t} + \beta_3 X_{3i,t} + \epsilon_{i,t} \]

\( Y \) = Firm Performance,

\( X_1 \) = Differential Strategy,

\( X_2 \) = Cost Leadership Strategy,
X₃ = Focus Strategy

εᵢₙ = error term

3.7 Chapter Summary

The preceding chapter presents the methodological approach used to answer the research questions. Both descriptive and correlation research was used in the study. Purposive sampling was used to select three employees serving in the strategic planning department in 47 insurance firms. Primary data was collected through use of close ended questionnaire. Chapter four will look at data analysis and presentation.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the outcomes of what has been anticipated by the preceding three chapters. Empirical evidence was sought based on purpose and specific objectives of the study using the methodology specified in chapter three. The study reveals the impact of the competitive strategies on the insurance firm performance. The chapter also detail the general information about the interviewed respondents’ insurance firms and then the descriptive and inferential analysis of the data collected and analyzed. At the end of the chapter inferences based on the outcomes from the analysis are concluded plus the chapter summary.

4.2 Response Rate
Out of the 141 questionnaires distributed by the researcher and trained assistant, a total of 135 questionnaires were filled and returned for analysis represent a response rate of 94.7%. The rest were either unreturned or had missing responses as shown in Table 4.1.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Details</th>
<th>Number of questionnaires</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully filled and Returned</td>
<td>135</td>
<td>95.7</td>
</tr>
<tr>
<td>Incomplete or unreturned</td>
<td>6</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>141</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Effect of Differentiation Strategy on Performance of Insurance Companies

Based on the first research question the study sought to determine the effect of the differentiation strategy on Kenyan insurance companies’ performance. Respondents were required to rank their level of agreement in a five point Likert scale, about the strategy used by insurance companies they operated. Different statements were put across to gather the intended measure of differentiation strategy in terms of value based service, product features,
and area of core competency. To begin with, respondents were asked if they offer broad range of products in the insurance they operate. Almost half of the respondents agree, while 40.7 percent strongly agreed, 11.1 percent took a neutral stand while less 5 percent recorded strong disagreement and disagreement. Asked whether insurance companies focused on product design technique that economize on cost of materials, majority were of the opinion that it was true as indicated by 35.6 percent and 43 percent agreement and strong agreement.

Also, the study sought to know whether respondents’ insurance was conscious effort to differentiate our product from those of competitors. Response showed that slightly above half or the respondents strongly agreed while 40.7 percent just agreed while less than 4 percent disagreed. It was interestingly to note that 80 percent of the respondents’ insurance didn’t offer narrow range of products as compared to the competitors. Overwhelmingly, 90 percent of the respondents showed that their insurance companies engaged in continuous process of the developing new product. Further, more than 90 percent of the respondents agreed to have innovative product that are better than competitors. Slightly above 50 percent supported that they do not use technology as method of production meaning that they use other ways of production. Surprisingly, majority of the respondent (67 percent) agreed that their companies made major expenditure on technology to differentiate their product.

Moreover, respondents were asked if the product/services provided had developed strong brand identification. Majority of the respondents (33.3 percent) indicated their agreement while on equal basis 24.4 percent strongly agreed and took a neutral stand respectively. More than seventy one percent of respondents agreed that their insurance companies strived to build strong reputation within the industry. Further probe as to whether the respondents’ insurance always follow the actions of the competitors was meet with 44.4 and 40.7 percent who agreed and strongly agreed respectively, 11.9 percent were neutral while less than 5 percent disagreement. On the ending note, 80 percent of the respondents agreed that they always introduction new products before their competitors. This summary is shown in Table 4.2.
<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Insurance performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n=135</td>
</tr>
<tr>
<td></td>
<td>Strongly disagree n</td>
</tr>
<tr>
<td>Offer a broad range of product</td>
<td>1 0.7</td>
</tr>
<tr>
<td>Economized cost of materials</td>
<td>1 0.7</td>
</tr>
</tbody>
</table>
| Differentiate product from                           | 5 3.7 | 23 17 | 55 40.7 | 52 38.5 | 100 | 75%
| competitors                                          |                      |     |           |      |          |     |          |     |                |     |
| Narrower range of product                            | 74 54.8 | 46 34.1 | 10 7.4 | 1 0.7 | 4 3 |
| Develop new products                                 | 3 2.2 | 2 1.5 | 8 5.9 | 43 31.9 | 79 58.5 |
| Introduce innovative product                         | 1 0.7 | 2 1.5 | 7 5.2 | 42 31.1 | 83 61.5 |
| Not utilize technology in production                 | 6 4.4 | 9 6.7 | 41 30.4 | 79 58.5 |
| Investment in Technology                             |                      |     |           |      |          |     |          |     |                |     |
| Differentiate product                                | 3 2.2 | 13 9.6 | 28 20.7 | 48 35.6 | 43 31.9 |
| Strong brand identification                          | 8 5.9 | 16 11.9 | 33 24.4 | 45 33.3 | 33 24.4 |
| Strong reputation                                    | 10 7.4 | 14 10.4 | 15 11.1 | 37 27.4 | 59 43.7 |
| Follow actions of competitors                        | 3 2.2 | 1 0.7 | 16 11.9 | 60 44.4 | 55 40.7 |
| First to introduce new products                      | 4 3 | 5 3.7 | 18 13.3 | 57 42.2 | 51 37.8 |

The implication of this finding is that insurance firms offer a broad range of product in order to satisfy the various customer needs, and while that is the case a lot of measures have been taken by the various firms to economize cost of materials. The findings also imply that players in the insurance industry differentiate product from competitors through innovative product. In addition, the firms have benefited from Strong brand identification, strong reputation and follow actions of competitors so as to retain their customers.
4.4 Effect of Cost Leadership Strategy on Performance of Insurance Companies

On the second research question, the study sought to know the effect of the cost leadership strategy on performance of insurance companies in Kenya. Three dimensions were tested on cost leadership strategy that is low cost leadership, managing change and economizing scale. Different constructs were posed to test their level of agreement in five point Likert scale as shown in Table 4.3.

<table>
<thead>
<tr>
<th>Cost leadership strategy</th>
<th>Insurance performance</th>
<th>n=135 Strongly disagree'</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charge lower price</td>
<td>n 1.5 6 4.4</td>
<td>27 20 50 37 50 37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invest in sales promotion</td>
<td>4 3 17 12.6</td>
<td>18 13.3 48 35.6 48 35.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce labour by automation</td>
<td>4 3 7 5.2</td>
<td>15 11.1 48 35.6 61 45.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge higher</td>
<td>46 34.1 31 22</td>
<td>32 23.7 18 13.3 8 5.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers offer discount</td>
<td>6 4.4 8 5.9</td>
<td>15 11.1 56 41.5 50 37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emphasis on cost programme</td>
<td>15 11.1 36 26.7</td>
<td>21 15.6 24 17.8 39 28.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vigorously cost reduction</td>
<td>5 3.7 10 7.4</td>
<td>16 11.9 65 48.1 39 28.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitors’ products at affordable price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low cost raw material</td>
<td>7 5.2 7 5.2</td>
<td>15 11.1 43 31.9 63 46.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce cost in administration</td>
<td>8 5.9 10 7.4</td>
<td>41 30.4 31 23 45 33.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology delivery system</td>
<td>5 3.7 8 5.9</td>
<td>33 24.4 45 33.3 44 32.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsource functions</td>
<td>10 7.4 17 12.6</td>
<td>26 19.3 48 35.6 34 25.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify underperforming areas in order to cut costs</td>
<td>8 5.9 27 20</td>
<td>25 18.5 32 23.7 43 31.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise tight cost control</td>
<td>7 5.2 8 5.9</td>
<td>15 11.1 59 43.7 46 34.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus on product design technique</td>
<td>9 6.7 24 17.8</td>
<td>31 23.3 30 22.2 41 30.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
First, most of the respondents (74 percent) agreed that they charge lower price than their competitor while one fifth of the respondents were neutral. Second, more than 70 percent agreed that they have invested heavily in sale promotion while few than 15 percent disagreed on the same.

Thirdly, it was motivating to find that most insurance (4 out of 5) are constantly reducing labour input through automation whereas the rest disagreed on automation. Fourth, the respondent agreement on whether they charge higher than their competitor was sought. Responses were divided, where 34.1 and 22 percent strongly disagreed and disagreed respectively. Fifth, more than two third of the respondents agreed that they frequently source supplies from those suppliers who provide discount. Less than a handful had an objection to this construct. Sixth, respondents were indecisive on the construct ‘we do not always emphasis on cost cutting and internal efficiency programme’. This was indicated by division on those who agreed and those who disagreed on the same.

However, it was notable that most of the insurance company vigorously pursued cost reduction as shown by more than two-third who recorded their agreement against less than 10 percent who disagreed. Consistently, researchers sought to know whether competitors’ products were sold at relatively affordable price. And from the responses, three out of five strongly agreed followed by a third who just agreed. Further, respondents were asked if they have access to low cost raw material than their competitors and the responses showed by majority agreeing to the statement. Interestingly, most insurance companies were found to be aiming to reduce cost in administration activities as opposed to other activities.

Slightly above two-third of the respondents agreed that their major expenditure is on technology based delivery system so as to lower costs. In another construct, most of the respondents (more than fifty percent) showed that their insurance companies were outsourcing functions to control costs. This was backed by the following statement that confirmed commitment of company in reducing cost that through identifying underperforming areas so as to help cut costs. Researcher also sought to know whether insurance companies continuously exercise tight cost control and pay attention to details. More than seventy percent of the respondents agree that their insurance companies were
using this method of cost reduction. Finally, less than a quarter of the respondents disagreed with the construct that respondents’ insurance focus on product design technique that economizes on cost of materials as shown in Table 4.3.

The implication of this findings was that insurance firms charge lower price although there is a continuous invest in sales promotion. The firms have also been able to reduce costs associated to labor through automation and vigorously cost reduction strategies such as Low cost raw material, reduction in administration cost and outsource functions have also been employed by the firms in order to remain relevant in the market.

4.5 Effect of Focus Strategy on Performance of Insurance Companies

Finally, the last research question sought to know the effect of focus strategy on performance of insurance companies. Focus strategy was assessed in terms of low cost focus, specialty of the product and differentiation focus. The level of agreement of the respondents was ranked in a five point Likert scale as shown in Table 4.4. To start with, respondents were asked if they serve specific geographical market. More than two-third of respondents showed an agreement against less than a fifth recorded disagreement and the rest opted to be nowhere on this statement. While a third of the respondents were of the view that their companies did not emphasize on marketing speciality of the product, slightly above fifty percent agreed that they emphasize specialty. Also, more than eighty percent of respondents greatly agreed that they deal with broad product serving wider market while above two-third of supported they target specific market.

Further, more than fifty percent of the respondents agreed that seek to provide products/services in different geographical locations against a third and less than a quarter disagreed and remained neutral. In this regards, more question on whether respondents’ companies produced products/services for higher price segments, on equal basis (20.7 percent) disagreed and took neutral position, whereas majority (more than half) agreed to the same. Question as to whether respondents meet customer needs more than their competitors. More than 60 percent agreed, 18.5 percent took a neutral stand and about 25 percent of the respondents disagreed. Less than half the companies under investigated they were found to offer tailored services/product to meet customer demand while less than 25 percent were
neither here nor there and the rest refuting that they do offer tailored services. Finally, it was interesting to note that most of the respondents were quick to respond to changes in demand of our customers as shown by their more agreement in large proportion.

**Table 4.4: Effect of Focus Strategy on Performance of Insurance Companies**

<table>
<thead>
<tr>
<th>Focus leadership strategy</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific geographical market</td>
<td>n=135</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific geographical market</td>
<td>9</td>
<td>6.7%</td>
<td>12</td>
<td>8.9%</td>
<td>14</td>
</tr>
<tr>
<td>Marketing specialty product</td>
<td>26</td>
<td>19.3%</td>
<td>18</td>
<td>13.3%</td>
<td>17</td>
</tr>
<tr>
<td>Broad product</td>
<td>1</td>
<td>0.7%</td>
<td>7</td>
<td>5.2%</td>
<td>6</td>
</tr>
<tr>
<td>Target a specific market</td>
<td>6</td>
<td>4.4%</td>
<td>23</td>
<td>17.1%</td>
<td>19</td>
</tr>
<tr>
<td>Provide products/services in different geographical</td>
<td>13</td>
<td>9.6%</td>
<td>29</td>
<td>21.5%</td>
<td>19</td>
</tr>
<tr>
<td>locations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Produce products/services for higher price segments</td>
<td>7</td>
<td>5.2%</td>
<td>28</td>
<td>20.7%</td>
<td>28</td>
</tr>
<tr>
<td>Customer needs</td>
<td>7</td>
<td>5.2%</td>
<td>26</td>
<td>19.3%</td>
<td>25</td>
</tr>
<tr>
<td>Tailored services/product to meet customer demand</td>
<td>14</td>
<td>10.4%</td>
<td>32</td>
<td>23.7%</td>
<td>30</td>
</tr>
<tr>
<td>Quickly respond to changes in demand of our customers</td>
<td>8</td>
<td>5.9%</td>
<td>17</td>
<td>12.6%</td>
<td>24</td>
</tr>
</tbody>
</table>

This finding implicate that insurance firms target specific geographical market and heavily rely on marketing specialty product, it is also clear that the firms provide products/services in different geographical locations and they also have products/services for higher price segments according to the customer needs. To maintain market share the firms quickly respond to changes in demand of the customer needs.
4.6 Diagnostic Tests for Regression Model

In this section, assumptions test for multiple regression model were performed as presented here in.

4.6.1 Normality Test

To begin with, the model must be normal and so normality test was conducted. As shown in Figure 4.4 a histogram and normal curve have been fitted on the bars and the curve shows that the data collected was approximately normal. Since a normally distributed data has got a mean and standard deviation of 0 and 1 respectively.

![Histogram](chart.png)

Figure 4.2: Normality test for the Regression Model

4.6.2 Multicollinearity Test

Multicollinearity is deemed to exist whenever there are more than one variables meant to assess the same items (Atikiya, 2015). The independent variable was measured by three variables; differentiation strategy, cost leadership strategy and focus strategy. Therefore,
there was need to test for multicollinearity so that the regression and other statistical results are no affected. Table 4.4 shows multicollinearity test that was conducted using tolerance and variance inflation factor (VIF). A tolerance value close to 1 implies that there is very little multicollinearity while those values near 0 implies multicollinearity may be pose a threat. While tolerance value shows present or absence of multicollinearity, VIF show how the variance has been inflated by multicollinearity. From the Table 4.4 the tolerance values range between 0.4 and 0.7 while VIF variance range between 1.5 and 2.1. This meant that multicollinearity could not pose any serious issues when explaining the results of the multivariate analysis.

**Table 4.5: Multicollinearity Test**

<table>
<thead>
<tr>
<th></th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>0.637</td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>0.492</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>0.624</td>
</tr>
</tbody>
</table>

4.7 Correlation and Regression Analysis

This section contains the inferential analysis on the effect of the competitive strategies on the performance of the insurance firms.

4.7.1 Correlation Analysis for Competitive Strategies and Firm Performance

The study adopted Spearman’s correlation coefficients to establish the direction and intensity of the relationship between the independent variables and the dependent variable. According to Gujarati and Porter (2009) Spearman correlation coefficients is appropriate for scaled variables. From Table 4.5 all the three independent variables it was found that they have got strong and positive relationship with the firm performance. Starting with cost leadership strategies which was the strongest (rho=0.954), followed by focus strategy which was stronger (rho= 0.759) than differentiation strategy that had a strong (rho=0.712) impact on firm performance.
Table 4.6: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Firm Performance</th>
<th>Differentiation strategy</th>
<th>Cost leadership strategy</th>
<th>Focus Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Performance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>.712**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>.954**</td>
<td>.597**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>.759**</td>
<td>.428**</td>
<td>.608**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

4.7.2 Regression analysis

The results of the regression that help to make inference about the model and the relationship between the variables under investigation. The aim of the study was to determine the effect of competitive strategies and insurance companies’ performance. In this regard, a regression model was fitted to make inferential analysis. The model used stated that $Y = \alpha + \beta X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$. From the model summary displayed in Table 4.5, R and Adjusted R Square were 0.986 and 0.985 respectively. This means that there was a positive linear linkage between the competitive strategies and insurance company’s performance. The explanatory power of the model stands at 98.6%. Competitive strategies being the independent determines 98.6% of the insurance companies’ performance.

Table 4.7: Model Summary of Competitive Strategies and Companies Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.993a</td>
<td>0.986</td>
<td>0.985</td>
<td>0.121732</td>
<td>2.118</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), Focus Strategy, Differentiation strategy, Cost leadership strategy
b Dependent Variable: Firm Performance

Table 4.8 reveals the findings of the Analysis of Variance (ANOVA) for the regression model that was applied. ANOVA showed a F-statistics of 2970.544 and p-value 0.000. Since the p-value is less than 0.05, this implies that relationship between the competitive strategies and insurance companies’ performance in Kenya is significant.
Table 4.8: Competitive Strategies and Insurance Companies Performance ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>132.059</td>
<td>3</td>
<td>44.02</td>
<td>2970.544</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>1.941</td>
<td>131</td>
<td>0.015</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134</strong></td>
<td><strong>134</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Firm Performance  
b Predictors: (Constant), Focus Strategy, Differentiation strategy, Cost leadership strategy

Regression coefficients show that there was a positive and significant relationship between differentiation strategy and insurance performance ($\beta = 0.196$, p value < 0.00). This implies that a unit change in differentiation strategy increases insurance performance by 0.196 units while holding cost leadership and focus strategies constant.

Secondly, there was a positive and significant relationship between cost leadership strategy and insurance performance ($\beta = 0.677$, p value < 0.00). This implies that a unit change in cost leadership strategy increases insurance performance by 0.677 units while holding differentiation and focus leadership strategies.

Thirdly, there was a positive and significant relationship between focus strategy and insurance performance ($\beta = 0.263$, p value < 0.00). This implies that a unit change in focus strategy increases insurance performance by 0.263 units while holding cost leadership and differentiation strategy constant.

Table 4.9: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-1.03E-16</td>
<td>0.01</td>
<td>0.000</td>
<td>1</td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>0.196</td>
<td>0.013</td>
<td>0.196</td>
<td>14.856</td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>0.677</td>
<td>0.015</td>
<td>0.677</td>
<td>45.154</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>0.263</td>
<td>0.013</td>
<td>0.263</td>
<td>19.785</td>
</tr>
</tbody>
</table>

a Dependent Variable: Firm Performance
4.8 Chapter Summary

This chapter highlighted the results and findings of this study, the first section provided the response rate, the second section offered findings on the effects of differentiation on performance of insurance firms in Kenya. The third section had the findings on effects of the cost leadership on performance of insurance firms in Kenya. The fourth analysed the effects of focus strategy on performance of insurance firms in Kenya. The last section highlighted the relationship between differentiation, cost leadership and focus strategy on performance of insurance firms. Chapter five entails the summary, discussion, conclusions and recommendation about the findings of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the results of the study and summarizes the findings established from the data analysis done. Subsequently, the findings are discussed in comparison to the relevant literature that is for, or against the results established. Thus, this chapter presents the discussion, conclusions, and recommendations drawn from this study, it further presents the recommendations for further studies.

5.2 Summary of the Findings

The motive behind carrying this study was to investigated the effect of the competitive strategies on performance of insurance companies in Kenya. This was to be achieved under the guidance of the three (3) specific research questions that sought to find: 1) The effect of differentiation strategy on performance of insurance companies in Kenya, 2) The effect of cost leadership strategy on performance of insurance companies in Kenya, 3) The effect of focus strategy on performance of insurance companies in Kenya. All the itemized information has revolved on these three pillars of the study that would help the overall purposed to be achieved.

The study adopted a survey research design. The target population was all the fifty (50) insurance companies comprised of 47 insurance firms and 3 re-insurance firms according to Association of Kenya Insurance. Of these companies, a sample was of 47 companies was selected purposively. Data was collected for surveying by use of structured questionnaire. Each questionnaire was made up of two parts where the first part collected general information about the insurance companies and the second contained the specific statement that sought to get views of the respondents. Questionnaires were self-distributed with the help of research assistant to the three strategic planners of the 47 insurance companies. Pilot test was done on the three excluded re-insurance companies for validity and reliability check. The study employed Pearson’s bivariate correlation and multiple linear regression for
analysis. Data collected were entered in SPSS (version 20) which was also used to summarize the responses to give both the descriptive and inferential statistics. After analysis output were summarized using percentages and frequencies then presented using graphs, tables and pie charts.

Out of the 141 questionnaires distributed, only 135 could be used for analysis representing a response rate of 95.7%. The rest were either not returned or not full filled. It was also established that most of insurance companies had been into the business and hence experienced to tell the strategies they have used all along. Descriptive statistics revealed that most respondents were agreeing to using the three strategies that were tested, namely differentiation, cost leadership and focus strategy.

Findings from correlation matrix showed that there exists a strong positive relationship between the three strategies, differentiation (rho=0.954), cost leadership (rho= 0.756) and focus strategies (rho=0.712) and insurance firm performance in Kenya. Regression results also confirmed these findings. In particular, regression weight showed differentiation strategy to have a positive and significant relationship with firm performance (β=0.013, p-value <0.05), cost leadership strategy had a positive and significant (β=0.015, p-value <0.05) with firm performance and focus strategy too had a positive and significant (β=0.013, p-value <0.05) with firm performance. Overall model, revealed that competitive strategies explain 98.5% of the Kenya insurance firm performance.

5.3 Discussion of the Findings

The study purposed to establish the overall impact of competitive strategies on the performance of the insurance companies in Kenya. The findings of the study demonstrated that indeed competitive strategies contribute positively to the insurance companies’ performance. Competitive strategies as postulated by differentiation, cost leadership and focus strategy was found to explain most of the performance of the insurance companies by more than ninety percent. This study, therefore disproves Porter’s (1980) assertion that use of the three competitive strategies leads to the situation of the being ‘stuck in the middle’ which further leads to poor performance. Instead, this study has demonstrated clearly that firms
adopting a combination of the three strategies has realized more than average performance thus these strategies can be said to be a key determinant of the firm’s performance.

The study also supports the use of the hybrid version on these strategies as they show a progression in the firm growth in sales and profitability. Alike Leitner and Guldenberg (2009), the study established that hybrid strategies gave a better performance of SMEs in Austria than generic strategies. Although, differentiation and cost leadership strategies seems to be the highest contributor to the increased performance, focus strategy is inseparable from the two. Focus strategy help firm to differentiate market segment where affordable prices to be offered (Jiri et al., 2013).

Consistent with Atikiya’s (2015) study of manufacturing firms in Kenya, the study proves that good strategies on how to compete help an institution on how to counter any market opportunities for better returns thus granting competitive advantage. Just like Enida et al., (2015) argues competitive strategies tends complement each other rather than when applied together selectively and singly. A confirmation of this is shown when the efficiency which is an element of differentiation bring about an improved quality of products by concentrating on the items meant to improve the product. By so doing, firm products receive increased demand, which further enables the company to attain higher market shares. Going by the findings of this study, there is a sufficient information to believe to the combine the three strategies instead of individual strategies as they prove to be more effective.

5.3.1 Differentiation Strategies and Insurance Companies Performance

This finding of the study proved the assertion that differentiation strategy uniquely determines the insurance firm performance as viewed from the growth in sales and profit. The study further found that the relationship between the two variables tend to move in the same direction implying a positivity. This means that as the differentiation strategy, measured by loyalty to the brand and the way firm process a product is enhanced the better the performance of the Kenyan insurance companies. As observed by Hugosson and McCluskey (2009) in Swedish sawmill companies, differentiation provide a majority of the business with relationship marketing which enables continued demand for the companies’
product. Alike Hugosson and McCluskey (2009), this study established that differentiation, as is done through adding product features, provision of value based services and focusing on the core competency immensely contribute to demand for the company product.

Supporting Organ (2014) study, respondents proved that product/services that are differentiated by the use of technology and innovation, attract more clients which in turns improve insurance company’s sales growth and increase in profit as measures of firm performance. There is overwhelming agreement that brand image, a range of products, technology, networks and customer-oriented services help improve the performance of the insurance companies in Kenya. Similarly, Arasa and Gathinji (2014) study of telecommunication companies in Kenya revealed that adoption of numerous differentiation strategies does not only make a firm stand out uniquely but also affects the profitability of the firms.

5.3.2 Cost Leadership Strategy and Insurance Companies Performance

Interesting, cost leadership was also found to contribute positively and significantly to the insurance firm performance in Kenya. This implies as competitive pricing and efficiency in the production (measures of cost leadership) continues to be enhanced, the higher and better is the performance of Kenyan insurance companies. As alluded by Li and Li (2008) that cost leadership aims at achieving the most competitive price for its clients, this study contradicts this construct when it was observed that company should not only lead in reducing cost but should incorporate other factors in making that decision.

The research findings in this study demonstrate that for sure organizational efficiency is a key strategic plan for companies wishing to achieve products or services at low cost which further help to maximize profit for long. In particular Porter’s findings of 1985 demonstrated that the main way to achieve sustainable competitive advantage is through controlling production costs as well as non-production costs. From the findings, respondents showed in deed focusing on low cost would help achieve economies of scale. In 2015, Hansen et al., purported the only way to beat the market was to employ technology and experienced
employees who would oversee cost control, this proposition has been confirmed by the current study findings.

5.3.3 Focus Strategy and Insurance Companies Performance

Focus strategy as presumed at the beginning was confirmed to have a strong positive and significant effect on the insurance firm performance. Focus strategies as assessed by the specialty of products and/or service and low cost focus has been found to improve the performance of the Kenyan insurance companies. Most of the respondents in this study, agreed that focus on specific geographical market, specialty in product and broad product serving improved firm performance. This agrees with Atikiya (2015) findings that focusing on a market segment with growth potential guarantees an increase in sales as compared to a saturated market. As Saif (2015) alters, differentiation and cost leadership strategies focus on holistic approaches, focus strategy is unique in that it appeals to those small segments targeting a specific group of customers. From the findings of Saif’s (2015) and this study, it can be explained that the reason why the focus strategy is needed by the other two strategies is because it stems them to achieve what they are targeted or in other words, provides market for this strategy.

Analysis of the responses from the study agrees with Waiyaki’s (2014) study where it was found that differences in market segment require companies to focus on differentiated products/services that have attractive design to cater for the customers need and wants. Therefore, identification of the niche market helps to exercise unique preferences to an area. The fact that the niche can disappear with time due to changing the preference, taste and fashion, demands that the companies have to pay attention to these changes by focusing to learn the details (Lynch, 2003). In his summation, Yasar (2010) noted that in many company’s departments such as marketing, procurement and R&D, focus strategy is instrumental as it indicates where more concentration of resources should be given. This study too confirms the importance of this strategy, especially for the insurance companies. However, the main weakness of focus strategy is witnessed when focused segment is too confined to be economical or when the segment declines with time (Atikiya, 2015). Also, response indicated an agreement with the statement that it may be dangerous to apply the
restrictive focus strategy when companies aim to grow internationally, alike Abidin Yosof, Hassan and Adros (2011) study of the firm involved in surveying.

5.4 Conclusion

This section is set to outline the inferences made from the data analysis and literature reviewed in this study. The finding regarding effect of differentiation, cost leadership strategy and focus strategy on performance in the insurance industry are outlined.

5.4.1 Differential Strategy and Firm Performance

From the findings of the study, differentiation strategy has proved to be a technique that can be employed by those firms wishing to outperform the market. This strategy relevance and positivity towards firm performance can henceforth not be ignored. It can also be said that firms need to learn more areas in which they are supposed to differentiate themselves. This study leads to a conclusion that use of broad range of products, focusing on techniques that cut done cost, continuous development of new and innovative lined products and striving to be ahead of the competitors are success tale for producing a differentiated product that help beat the market. Further, it can be said that companies should also aim to be the first in releasing new products that cannot be imitated easily so as to maintain their market share.

5.4.2 Cost Leadership Strategy and Firm Performance

From the findings, it can be concluded that the favourite strategy for the operators of in the insurance industry is cost leadership owing to strong positive relationship that it holds with firm performance. The principle of charging lower price, engaging in sales promotion and investing in technology in a bid to lower cost should be held securely to avoid outweighing benefit realized by automation, outsourcing, improved internal efficiency and buying raw material at reduced prices. Firms need to consider and define affordable price so as to charge the most economical ways that ensure the company gains after the sale of the insurance policy. Also, firm should not sacrifice revenue in exchanges of just being a cost leader. As Chege (2016) points, lower prices may lead rise in demand and increased market share and in case a firm charges lower price they may lose revenues.
5.4.3 Focus Strategy and Firm Performance

Inference from using a focus strategy is it helps firms to stay close to customers in a given market segment thus strengthening their relationship with customer. Insurance companies ought to focus on specific market sectors in which they are highly specialized through this they minimize operational costs and improve profitability. In order for an organization to maintain their focus there is need for a coordinated research and development department which ultimately enhance the competitive advantage and attainment of superior performance. More so insurance companies should embrace the use of alignment and partnership with other players in the market as such to minimize operational costs and enhance market coverage and improve on their revenues.

5.5 Recommendations

5.5.1 Recommendations based on the Findings

The findings of the study show cost leadership strategy as a major contributor to the firm performance in the insurance industry. This means that continued use of this strategy may yield better results thus companies wish to outperform the market can adopt this strategy to great depth.

5.5.2 Recommendation for Further Studies

Major focus for this study has been on the competitive strategies that affect firm performance as proposed by porters. Based on background of the study there are two strategies that cut across the three strategies; generic and hybrid strategies. Further studies can propose to find out whether generic strategies (combination of two strategies or use of single strategies) does have unique contribution on the firm performance. Generic strategies should also be compared with hybrid strategies to find which have got more impact on the firm performance. Together with this, future studies can research on the impact of the competitive strategies on other industry such as education, manufacturing firm, banking and so on, since the outgoing study only concentrated on insurance firms.
REFERENCES


Cytonn Investment, 2015


Mashruwala, R., & Tripathy, A. (2014). Does a differentiation strategy lead to more sustainable financial performance than a cost leadership strategy?. Management Decision, 52(5), 872-896.


Otieno, 2015


Raduan, Jegak, Haslinda & Alimin, 2009


APPENDIX I: QUESTIONNAIRE

You have been selected for the study on “Effect of Competitive Strategies on the Performance of Kenya Insurance Sector”. This questionnaire has five parts. Kindly complete every part of the questionnaire. Please answer the entire question apart from academic research. For purpose of confidentiality please do not indicate your name.

PART I: General Information

1. Name of your organization ..............................................................
2. Would you like a copy of the research findings? ..............................

3. What is the legal structure of your company?
   a) Partnership [ ]
   b) Sole trader [ ]
   c) Registered company [ ]
   d) Any other (Specify)______________________

4. For how long has your company been trading?
   0-5yrs [ ] 6-10yrs [ ] 11-20yrs [ ] 20yrs+ [ ]

5. Please indicate the number of full time employees in your company............

6. Indicate the number of insurance products offered by your company ...........

7. (i) Have you launched any new product or service in the last three years?
   Yes [ ] No [ ]

7. (ii) If yes, how many in total .................................
PART II: Differentiation Strategy

7. To what extent do you agree with the following statement related to differentiation strategies that your company is currently using the scale; SA= Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD= Strongly Disagree

<table>
<thead>
<tr>
<th>DIFFERENTIATION STRATEGY</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
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<tbody>
<tr>
<td>a  We always offer a broad range of product</td>
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<td>b  We focus on product design technique that economize on cost of materials</td>
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<tr>
<td>c  We make conscious effort to differentiate our product from those of competitors</td>
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<tr>
<td>d  We offer a narrower range of product than our competitors</td>
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<tr>
<td>e  We continuously develop new products</td>
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<td>f  We introduce innovative product better than our competitors</td>
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<td>g  Our company does not utilize much technology as a method of production</td>
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<tr>
<td>i  Our major expenditure is on technology to differentiate product</td>
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<tr>
<td>j  Our product/services have developed strong brand identification</td>
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<tr>
<td>k  We strive to build strong reputation within the industry</td>
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<tr>
<td>l  We always follow actions of competitors</td>
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<tr>
<td>m  We are always the first to introduce new products before our competitors</td>
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PART III: Cost Leadership Strategy

8. To what extent do you agree with the following statement related to cost leadership strategies that your company is currently using the scale; **SA= Strongly Agree**
**A=Agree, N=Neutral, D=Disagree**   **SD= Strongly Disagree**

<table>
<thead>
<tr>
<th>COST LEADERSHIP STRATEGIES</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>a  We always charge lower price than our competitors</td>
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<tr>
<td>b  We heavily invest in sales promotion</td>
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<td>c  We constantly reduce labour input through automation</td>
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<td>d  We normally charge higher than our competitors</td>
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<td>e  We frequently source supplies from those suppliers who provide discount</td>
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<tr>
<td>f  We do not always emphasis on cost cutting and internal efficiency programme</td>
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<tr>
<td>g  We vigorously pursue cost reduction</td>
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<tr>
<td>h  Our competitors’ products are sold at relatively affordable price</td>
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<tr>
<td>i  We have access to low cost raw material than our competitors</td>
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<tr>
<td>j  We always strive to reduce cost in administration activities</td>
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<tr>
<td>k  We continuously exercise tight cost control and pay attention to details</td>
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<tr>
<td>l  We focus on product design technique that economizes on cost of materials</td>
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</table>
PART IV: Focus Strategy

9. To what extent do you agree with the following statement related to focus strategies that your company is currently using the scale; SA= Strongly Agree A=Agree, N=Neutral, D=Disagree SD= Strongly Disagree.

<table>
<thead>
<tr>
<th>FOCUS STRATEGIES</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
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</thead>
<tbody>
<tr>
<td>a. We serve diverse market segment</td>
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<tr>
<td>c. We serve specific geographical market</td>
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<td>d. We emphasize on marketing specialty product</td>
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<td>e. We deal with broad product serving wider market</td>
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<td>f. We constantly target a specific market</td>
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<td>g. We seek to provide products/services in different geographical locations</td>
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<td>h. We produce products/services for higher price segments</td>
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<tr>
<td>i. We meet our customer needs more than our competitors</td>
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<tr>
<td>j. We offer tailored services/product to meet customer demand</td>
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<tr>
<td>k. We quickly respond to changes in demand of our customers</td>
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<tr>
<td>l. We offer products in lower prices market segments</td>
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PART V: Firm Performance

10. Please rate the performance of your business over the past five (5) years in terms of the following variables using the scale: 1=Much Worse, 2=Worse, 3=Indifferent, 4=Better and 5= Much Better

<table>
<thead>
<tr>
<th>FIRM PERFORMANCE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>a. Sales growth</td>
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<td>b. Sales</td>
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<tr>
<td>c. Profit growth rate</td>
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<td>d. Profit</td>
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<td>e. Profitability ratio</td>
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<td>f. Overall performance</td>
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