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EFFECT OF STRATEGIC MANAGEMENT PRACTICES ON PERFORMANCE OF INSURANCE FIRMS IN KENYA

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Abstract: **The study assessed the effect of strategic management practices on performance of Insurance firms in Kenya. The specific research objectives were to examine the effects of environmental analysis on organizational performance of insurance firms; to find out the effects of strategy evaluation on organizational performance of insurance firms; to establish the extent to which strategy formulation enhances organizational performance of insurance firms, and to find out the relationship between implementation of strategies and organizational performance of insurance firms. The study adopted a descriptive research design. The population of the study was 51 insurance firms in Kenya which are licensed with Insurance Regulatory Authority. A complete census was carried out due to the small size of the population; hence the sample size was equal to the population size of 51 licensed Insurance firms located in Kenya. An equal number of respondents, 5, was drawn from each of the 51 insurance firms in Kenya, generating a total sample size of two hundred and fifty-five 255. Data was collected using structured questionnaires and analyzed using descriptive statistics and regression analysis. IBM SPSS 23 was used to compute for descriptive analysis which was performed for the dependent variable; organizational performance, independent variables environmental analysis, strategic evaluation, strategic formulation, strategy implementation. The study found that the companies did not routinely carry out SWOT analysis and were not competent in conducting SWOT analysis. The companies have only moderately prioritized PESTEL analysis and recognized its importance to effective operations management. The companies had vision statements that vision was relevant to the company and its activities. Regression results indicated a statistically significant relationship between environmental analysis, strategic formulation, strategy implementation and strategic evaluation on organizational performance. The study recommends greater prioritization of environmental scanning and assessment in establishing the strengths, weaknesses, opportunities, and threats in the internal and external environment. The study also recommends improved strategic evaluation by linking practices to outcomes, and assessing strengths and weaknesses to determine the kinds of information needed to correct deficiencies and enhance continuous improvement of performance. Policies should be put in place to facilitate the sharing of suggestions for the development of vision, mission, and strategic objectives across all hierarchies in the organization. There is need for managers to give direction and supervision through different phases of strategy implementation.**

Keywords: **Strategic Management Practices, Environmental Analysis, Strategic Evaluation, Strategy formulation, Strategy implementation, Organizational performance.**

1. INTRODUCTION

1.1 Background of the Study

Traditionally, the role of marketing professionals in many organizations is to serve as the identifier of potential customers, approaching them, presenting organizations products and services and being the selling arm of executive management. While some need for this role remains, much of the marketing role is transforming itself to align with modern strategic

management practices (Malter, 2006). Strategic management is "a continuous process of thinking through the current mission of the organization, thinking through the current environmental conditions, and then combining these elements by setting forth a guide for tomorrow's decisions and results" (van Riel & Fombrun, 2007).

Strategic management focuses on strategic decisions; those decisions that deal with the determination of strategy and provide the definition of the business as well as the general relationship between the organization and its environment. It also deals with the strategic planning required to put these decisions into practice with strategic control ensuring that the chosen strategy is implemented properly and produces the desired results. The key concept in these definitions is strategy, the organization's preselected means or approach to achieving its goals and objectives while coping with current and future external conditions (Argenti, 2009).

Strategic business management is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. Strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe (Bower, 2006). It also determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena (Bower, 2006).

Lusch (2006) states that as the customer constitutes the source of a company's revenue, business strategy is closely linked with sales. A key component of business strategy is often to keep operations in line with a corporate strategies, corporate missions, and corporate goals. The role of the strategic manager must align with the changing needs of the organization. Successful organizations are more adaptive, resilient, and quick to change direction and customer-centered (Wedel, 2006).

1.2 Specific Objectives

1. To examine the effects of environmental analysis on organizational performance of insurance firms.
2. To establish the extent to which strategy formulation enhances organizational performance of insurance firms.
3. To find out the relationship between implementation of strategies and organizational performance of insurance firms.
4. To find out the effects of strategy evaluation on organizational performance of insurance firms.

1.3 Research Questions

1. What is the effect of environmental analysis on organizational performance of insurance firms?
2. To what extent does strategy formulation enhance organizational performance of insurance firms?
3. What is the relationship between implementation of strategies and organizational performance of insurance firms?
4. What is the effect of strategy evaluation on organizational performance of insurance firms?

2. THE LITERATURE REVIEW

2.1 Theoretical Review

Theories refer to tested propositions which can be used to explain a certain phenomenon (Kothari, 2014). It thus becomes essential to look into theories that would support the positions advanced in this study regarding the effect of strategic management practices on organizational performance of insurance firms.

2.2 Resource Based Theory

This theory supports strategy formulation and implementation**.** The resource-based theory was developed by Birge wenefeldt in 1984 and emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Wenerfeldt, 1984).

First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate) (Wenerfeldt, 1984).

Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes "If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool, Almeida Costa and Dierickx, 2002).

2.2.1 Porter's Five Forces

This theory supports environmental analysis and formulation of strategy. According to Porter who developed the theory in 1980 it outlines an analytical framework for understanding the effects of industry structure on the profit potential of firms within an industry. This framework is one of the most influential contributions to the strategic field employing economic logic. Porter's (1980) framework builds on the structure-conduct-performance (SCP) paradigm from industrial organization economics. The essence of this paradigm is that the firm's performance in the market place depends critically on the characteristics of the industry in which it competes (Porter, 1980)

Porter (1980) acknowledges the role of firms in formulating appropriate competitive strategy to achieve superior economic performance, competitive strategy that may change the industry rules in the firm's favor (for instance, firm can choose strategies that affect or deter entry into their industries). Porter proposes an analytical framework to assess the attractiveness of an industry, "the group of firms producing products that are close substitutes for each other"

Porter (1980) identifies five basic competitive forces seen as threats to the firm profits: threat of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. The collective impact of these five forces, the underlying structure of an industry, determines the intensity of industry competition and the ability of firms in the industry to make profits. Porter describes competitive strategy as taking defensive and offensive actions to cope successfully with the five competitive forces.

2.2.2 Stakeholder Analysis

This theory supports environment analysis strategy. The stakeholder theory was developed by Ian Mitroff in 1983 and focus on organizational management and business ethics that addresses morals and values in managing an organization. Later study by Freeman in late 1983, though did not quote Mitroff's work, identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "principle of who or what really counts". Phillips, Robert (2003).

In the traditional view of a company, the shareholder view, only the owners or shareholders of the company are important, and the company has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations, and trade unions. Even competitors are sometimes counted as stakeholders – their status being derived from their capacity to affect the firm and its stakeholders. The nature of what constitutes a stakeholder is highly contested (Miles, 2012), with hundreds of definitions existing in the academic literature (Miles, 2011).

The stakeholder view of strategy integrates both a resource-based view and a market-based view, and adds a socio-political level. One common version of stakeholder theory seeks to define the specific stakeholders of a company (the normative theory of stakeholder identification) and then examine the conditions under which managers treat these parties as stakeholders (the descriptive theory of stakeholder salience) (Donaldson & Preston, 1995).

Donaldson and Preston (1995) argue that the theory has multiple distinct aspects that are mutually supportive: descriptive, instrumental, and normative. The descriptive approach is used in research to describe and explain the characteristics and behaviors of firms, including how companies are managed, how the board of directors considers corporate constituencies, the way that managers think about managing, and the nature of the firm itself,).

The instrumental approach uses empirical data to identify the connections that exist between the management of stakeholder groups and the achievement of corporate goals (most commonly profitability and efficiency goals). Since the publication of this article in 1995, it has served as a foundational reference for the study in the field, having been cited over 1,100 times (Donaldson & Preston, 1995).

2.3 McKinsey 7s Model Theory

This theory supports formulation strategy. McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. It emphasizes on human resources rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance (McKinsey, Waterman & Philips, 1980)

The goal of the model is focused on 7 elements of the company: Structure, Strategy, Skills, and Staff, Style, Systems, and Shared values in that they can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of the organization to function effectively. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change. The model is most often used as an organizational analysis tool to assess and monitor changes in the internal situation of an organization. Whatever the type of change restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

3. METHODOLOGY

3.1 Research Design

Research design is a blueprint of how the research will be executed or implemented. A descriptive census survey design will be used in this study. Zikmund (2003) defines descriptive research as the process of collecting data in order to test hypothesis or answer question concerning the current status of the subjects in study. The justification for use of descriptive research was because it was the best for this type of study to determine and report the way things are with reference to insurance firms in Kenya thus suitable in describing the effect of strategic management practices.

3.2 Target Population

The population of the study was 51 insurance firms in Kenya which are licensed with Insurance Regulatory Authority. The target population constituted of the management of insurance firms in Kenya. The management comprised of business managers, human resource managers, product managers, marketing managers and customer service managers. The population drawn from a divergent set of insurance firms gave detailed information that was relevant to the study.

3.3 Sampling Techniques

Sample size is the number of items to be selected from the population to constitute a sample (Kothari, 2009). In this study, a complete census was carried out due to the small size of the population; hence the sample size will be equal to the population size of 51 licensed Insurance firms located in Kenya. An equal number of respondents, 5 was drawn from each of the 51 insurance firms in Kenya, generating a total sample size of 255.

3.4 Research Instruments

There are several data collection instruments for primary data include: structured and semi-structure questionnaires, mailed questionnaires, structured and semi-structured interviews (personal and telephone interviews), observation and focus group discussions. The study used questionnaires. The choice of semi-structured questionnaires was informed by the need to have a standardized test of effects of strategic practices on organizational performance of insurance firms at the same time giving respondents flexibility they need to give more information regarding the same. The questionnaire had three sections. First section sought demographic information. The second section dealt with information on the types/level of adoption of strategic management practices. The third section focused on organizational performance of insurance firms.

3.5 Data Collection Procedures

Questionnaires were distributed to the respondents at the place of work. The researcher distributed five questionnaires to the head office of each of the sampled insurance companies. The respondents were requested to complete and drop them off with the receptionist, from where the researcher collected them. Follow-up emails and calls were used to remind the respondents and increase the response rate. All completed questionnaires were picked from the insurance companies after the elapse of the 14 days of data collection.

3.6 Pilot Testing

According to Griffin (2010) a pilot test is an evaluation of the specific questions, format, question sequence and instructions prior to the main survey. According to Mugenda and Mugenda (2012) once the questionnaires have been finalized it should be tried out on the field. This is called pre-testing the questionnaire. The questionnaire should be pre-tested to a selected sample which is similar to the actual sample which the same will apply to this study. Procedures used in pre testing the questionnaires should be identical to those which will be used in the actual data collection. The practice of pre-testing the questionnaires is very important due to the following reasons: Comments and suggestions made by the respondents during pretesting should be seriously considered and pretested. Such comments help to improve the questionnaire. Questions which are vague were rephrased to ensure that they conveyed the same meaning to the respondents.

In this study, pilot testing was done by administering five (5) questionnaires to respondents who are not part of the study sample. Pilot testing brought to light weaknesses in the questionnaires and guided the improvement of the questionnaire to get rid of ambiguous questions.

3.6.1 Reliability

Reliability is concerned with the consistency and accuracy of the results from the study. A research is said to be reliable if it exhibits a high degree of accurate scores across a range of measurement-a measure of repeatability or consistency. Reliability can be measured using: inter-rater-a case of using the same test on different respondents or study participants; test-retest-a case of using the same set of respondents or study participants but at different times; parallel-forms-in cases where different respondents or study participants are used at the same time but subjected to different tests and; internal consistency-in scenarios where respondents or study participants are asked different questions of the same construct.

The coefficient alpha (also known as “Cronbach’s alpha”) is a reliability coefficient that estimates test-score reliability from a single test administration using information from the relationship among test items. Reliability coefficients range from 0.00 to 1.00, with higher coefficients above 0.7 indicating acceptable levels of reliability.

3.6.2 Validity

Validity is accuracy and meaningfulness of influence which are based on the research results. It is the extent to which the research findings accurately represent what is happening in the situation under study. The validity of the research instrument was achieved through the expert judgment of the research supervisor who checked and approved that analysis of the data that actually represents the phenomena under study including suggested mitigation measures in enhancing required value additions of the study.

3.7 Data Processing and Analysis

According to Zikmund et al (2010) data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected.

Quantitative data obtained from the questionnaires was processed through editing and coding and then entered the data into a computer for analysis using descriptive statistics which includes frequency tables and percentages by use of IBM Statistical Package for the Social Sciences (SPSS) Version 23 which offers extensive data handling capabilities and numerous statistical analysis procedures that analyses small to very large data statistics (Bell, 2007). Descriptive analysis are important since they provide the foundation upon which correlational and experimental studies emerge; they also provide clues regarding the issues that should be focused on leading to further studies (Mugenda & Mugenda, 2012). The analyzed findings were presented in the form of frequency tables, graphs and charts. Inferential statistics including correlation and regression analysis were used.

A multiple regression model was used to establish the relationship between strategic management practices and organizational performance.

The multiple regression model equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y is the dependent variable (organizational performance), β_0 is the regression constant, β_1, β_2, β_3, and β_4 are the coefficients of independent variables, X_1 is environmental analysis, X_2 is strategic formulation, X_3 is strategy implementation and X_4 is strategy evaluation, ε is the error term.

4. CONCLUSIONS

Effect of environmental analysis on organizational performance

The study sought to investigate the effects of strategic management practices on organizational performance. The strategic management practices identified for the study were environmental analysis, strategy formulation, strategy implementation and strategy evaluation. On the effect of environmental analysis on organizational performance, the study concludes that the companies studied did not consistently implement SWOT analysis or use the SWOT assessments in strategic management. They lacked the competencies necessary for routine SWOT analysis, and only moderately prioritized PESTEL analysis and recognized its importance to effective operations management. The insurance firms conducted critical success factor analysis and identify areas and monitored competitor activities.

Effect of Strategy Formulation on Organizational Performance

In formulating strategies, the companies surveyed had developed vision and mission statements. However, they did involve all the levels of the organization in developing the vision and mission, or update them regularly. Nonetheless, they were committed to long implementing strategic objectives that were aligned with the vision and mission statements. Overall, there was a statistically significant relationship between strategic formulation and organizational performance.

Effect of Strategy Implementation on Organizational Performance

Strategic implementation is an integral component of the strategic management process; however, the companies surveyed only moderately achieved their strategic objectives or maintained an effective organization-wide communication strategy to ensure that all employees are focused on a singular organizational goal. The regression findings found a statistically significant relationship between strategic implementation and organizational performance.

Effect of Strategic Evaluation on Organizational Performance

Strategic evaluation is also an important strategic management practice. The survey shows that the companies had defined stages for evaluating product development progress, carried out pilot testing or products and services and benchmarked against competitors. However, this was only done moderately. The companies also encouraged and rewarded creativity among employees. The regression findings show a statistically significant relationship between strategic evaluation and organization performance.

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