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Abstract

Purpose: The study sought to determine the influence of cost leadership strategy on performance of the insurance companies in Kenya. Specifically, the study aimed at establishing the influence of price of premiums, maturity period, market segment and nature of products.

Methodology: The study adopted the descriptive research design method to ascertain and describe the characteristics of the variables. A sample size of 55 insurance companies was reached, and a semi-structured questionnaire was used to collect primary data from the respondents. Data was analyzed using the SPSS software, from which appropriate findings were presented.

Findings: The study findings showed that the cost leadership strategy was largely applied in the insurance companies in Kenya, and most of them have realized great performance. Nonetheless, the study found that most insurance companies' distribution channels for products are moderately entrenched and hence firms may not have been perfectly efficient in reducing associated costs.

Unique Contribution to Theory, Practice and Policy: The study recommends that insurance firms should devote more resources to execution of cost leadership programs, adoption of effective premium pricing, and enhanced use of proprietary technology in enhancing the products' quality. The study as well recommends that insurance forms should come up with effective strategies that will help them to gain a large market segment in Kenya in order to enhance their performance, as this will effectively help them in overcoming competition in their industry.

Key words: *Cost leadership, Strategies, Performance, Competition*

INTRODUCTION

Over the past one decade, performance of the insurance industry has attracted the attention of academicians and scholars. Most organizations run within unstable and continually changing external environments of which they have no control. These external environments are dominated by various features of turbulence such as unregulated markets, globalization, fluctuating investments and customer demands, in addition to amplified competition within the industry (Kiragu, 2014). Competition is so high in today's business environment, and this is bound to increase as businesses seek to tap into new markets, innovate new products and services and generally expand. Evolving customer needs and tastes, changes in technology and government regulations also inform the competition in the business world (Basher & Tarabieh, 2011).

In Sub Sahara African countries, for instance in Kenya, insurance penetration is low and firms have to compete for the small market that at best registers marginal growth. The increasing competitive pressure requires organization to engage in activities that will generate high performance and a competitive advantage (Jones & Linderman, 2014). One strategy that is currently being recognized worldwide in enhancing organizational competitive advantage is cost leadership.

In business strategies, cost leadership entails establishing a competitive advantage by having the lowest cost of operation in the industry. It is driven by company size, efficiency, scale cumulative experience (learning curve) as well as company scope. The aim of applying cost leadership strategies is to increase the production scale, establish a well-defined scope, establish a good purchasing approach, produce highly standardized products and use advanced technologies (Huang, Dyerson, & Harindranath, 2015). While most insurance companies have well differentiated products and focus markets, the issue of premium costs still largely remains unaddressed.

For the economies of Sub-Sahara Africa, the costs of premiums are still considered very high. The high costs, coupled with other factors make uptake of insurance slow and the growth of the industry marginal. For instance, South Africa registered a growth of 12.9% in insurance uptake in 2016; while Kenya in 2016 posted a 2.84% increase in the same year, which was a marginal increase, compared to the 2.63% posted in 2015. This, therefore, makes it imperative for the insurance firms to re-examine their costing methods relative to the market demands and build their strategies around these in order to obtain competitive advantage (Basher & Tarabieh, 2011).

Statement of the Problem

In Kenya, increased competition among the insurance industry players has threatened the attractiveness of the companies leading to reduced performance. The insurance uptake in Kenya is estimated to be at 6.8% of population and is served by 55 insurance companies who are members of the Association of Kenya Insurance. Evidently, the competition within the industry is steep for any insurance firm seeking to make substantial gains in market share (Mwangi, 2012). The industry is very special because of the unique nature of its products/services, which have very few if any substitutes. However, the aspect of cost leadership has not been fully emphasized, in spite of it being considered as a key factor determining the performance of insurance.

Various empirical studies have been carried out to establish the effect of cost leadership strategy on performance. Kasman (2012) examined how efficiency cost and economies of scale affected performance of insurance companies in Turkey and revealed that they took specific strategic orientations to align with their objectives. A study by Richter (2014) on insurance firms in Germany argued that internal informational costs declined with economies of scale owing to the spread over larger or more markets, and thus, they experienced lower costs per unit. Therefore, creating cost advantages and leveraging on them can significantly improve the performance prospects of the insurance firms and enable them to remain competitive in the active markets and break new ground in potential markets. However, the aspect of cost leadership has not been explored in detail in regards to the performance of insurance firms in Kenya, thus the need for this study.

Research Objectives

Main Objective

The main objective of this study was to establish the influence of cost leadership strategy on performance of the Insurance Companies in Kenya.

Specific Objectives

i. To establish the influence of premium price on performance of the insurance companies in Kenya.
ii. To determine the influence of maturity period on performance of the insurance companies in Kenya.
iii. To assess the influence of market segment on performance of the insurance companies in Kenya.
iv. To establish the influence of nature of products on performance of the insurance companies in Kenya.

LITERATURE REVIEW: THEORETICAL REVIEW

The Resource Based View

Resource Based View, the original idea of viewing a firm as a bundle of resources can be traced back to Kor and Mahoney (2004), who argue that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give each company its unique character. Insurance companies have resources including physical, human and organizational assets that can be used to implement cost-leadership strategies (Grant, 2002). This theory is relevant to this study as it shows that the companies can use accumulated knowledge and skills exercised through organizational processes, to enable them to cut their operational costs in order to increase performance (Mosakowski, 2013).

Game Theory

John von Neumann and economist Oskar Morgenstern formulated game theory in the 1940s. It is a theoretical framework to conceive social situations among competing players and produce optimal decision-making of independent and competing actors in a strategic setting. Using game theory, real-world scenarios for such situations as pricing competition and product releases can be laid out and their outcomes predicted. This theory is relevant in this study because it demonstrates that in strategic complications involving concurrent moves, insurance companies

can come up with cost-leadership decisions involving premium prices, value based services and competitive products to enhance their performance, which ultimately surpasses that of competitors.

Empirical Review

Cost Leadership Strategy

Application of cost leadership strategy entails building of effectual scale facilities; dynamic cost reductions pursuit from previous experiences; tight costs and overhead control as well as avoidance of marginal customer accounts and cost minimization (Jones & Linderman, 2014). This is applied in areas like service delivery, research and development, sales force and advertising (Scott-Jackso (2010). Low cost producers typically sell standard products and emphasize considerably on reaping scale or absolute cost advantages from all sources (Bayraktar, Hancerliogullari, Cetinguc & Calisir, 2017).

A study carried out by Mulburg (2010) revealed that in the insurance industry, the cost leadership strategy is utilized since the preferences and tastes of consumers are diverse. In that regard, the price of services determines whether it will be consumed or not due to the purchasing power parity. Cost leadership and mutual decision-making are linked to the development of appropriate approaches that exploit the experience curves, plant scales, labor and overhead costs, as well as other factors associated to costs. With respect to cost leadership, the services and products of any company are regarded across the competitors as distinct (Bayraktar, Hancerliogullari, Cetinguc & Calisir, 2017).

A study conducted by Basher & Tarabieh (2011) established that firms that follow cost leadership strategies attempt to earn higher returns and competitive advantage by offering products or services at the lowest prices in the industry. Cost leadership requires the vigorous pursuit of cost minimization techniques. Costs may be reduced through improved operating efficiencies, production learning or scale economies, unique access to raw material, or special relationships with suppliers, distributors, or customers. Cost leaders are vertically integrated or integrated into high value added, proprietary components and services. This capability allows them to be the most efficient processors in at least one stage of the value-added chain. Furthermore, a cost leader firm frequently owns high relative market share, enabling various scale advantages in purchasing or production.

A study by Kurt and Zehir (2016) on the relationship between cost leadership strategy, total quality management applications and financial performance, used 449 questionnaires to the managers of 142 big firms. The results of the analysis showed that cost leadership strategy is significantly and positively correlated with the eight Total Quality Management Applications and financial performance of the firm. Onyango (2017) researched on the influence of cost leadership, differentiation and focus strategies on firm competiveness; the Case of BOC Kenya Limited. The study concluded that cost leadership strategy influenced an organization's competitiveness. A study by Atikiya, Mukulu, Kihoro & Waiganjo (2015) on the effect of cost leadership strategy on the performance of manufacturing firms in Kenya, revealed that performance of manufacturing firms are significantly influenced by cost leadership strategy.

A study was carried out by Valipour, Birjandi & Honarbakhsh (2012) on the effects of cost leadership strategy and product differentiation strategy on the performance of firms. The study

adopted questionnaire to collect data from 45 firms in the Tehran Security Exchange (TSE) during 2003-2010. The results indicated that in the firms with cost leadership strategy, there were positive relationships between cost leadership strategy and firm performance. Mohamed, Ndinya & Ogada (2019) studied on influence of cost leadership strategy on performance of medium scale miners in Taita Taveta County, Kenya. They adopted a descriptive survey research design and a sample of 222 was selected for the study using simple random sampling. Questionnaire was used to collect data and was analyzed using descriptive statistics. The findings revealed that application of cost leadership strategy by medium scale miners in the area led to reduced costs of operation, increased production outputs and profitability.

Cost Leadership Strategy

Several studies have tried to investigate the influence of cost leadership strategy on organizational performance. Tavitiyaman, Qiu Zhang, and Qu (2012) examined cost leadership strategy and hotel performance in the United States of America. A combination of descriptive and causal research designs were used. The target population was made up of general and executive managers and US hotel owners. A census approach was employed. Cost leadership strategy was found to have a positive impact on hotel's financial performance.

Baraza (2017) considered the influence of cost leadership strategy on performance of East Africa Breweries (Kenya) Limited. The study used a descriptive research approach. Information was gathered from top management who were considered well versed with the details. Descriptive statistics and inferential statistics were used in the analysis. The regression analysis was a key inferential analysis tool. The study concluded that cost leadership strategy positively influences firm performance. Gaps emerge on the need to consider more firms to enhance comparison of results. Kago, Gichunge, and Baimwera (2018) analyzed cost leadership strategy and performance of Kenyan petroleum companies. The specific objectives of the study was to determine the effect of cost leadership strategy, differentiation strategy and focus strategy on performance. A descriptive survey approach was applied on a population of fifty nine petroleum. Analysis was done by way of content analysis and descriptive statistics. Results demonstrated that cost leadership strategy was useful in positively driving organizational performance.

Mohamed, Ndinya & Ogada (2019) asserts that the cost leadership strategy emphasizes that firms can acquire great competitive edge by having the lowest industrial cost. Literature discusses the interrelations between cost leadership and firm's strategic choice. Organizations engaging in the use of cost leadership are likely to gain more leveraging managerial efficiency. As explained by Porter (1985), cost leadership entities are required to control costs tightly, desist from more expenditures on innovation or marketing and reduction of prices of commodities. Two chief ways proposed by Jensen (1986) for attaining better performance with cost leadership strategy include increment of profits through cost reduction, and increment in market share by reducing prices. Further, there are many factors that help in achieving cost leadership including; technology, mass production and distribution, economies of scale, products design, input cost and exploitation of resources to capacity (Basher & Tarabieh, 2011).

Han, Dong & Dresner (2013) have shown that Wal-Mart has been well known for squeezing sellers to make sure that it will have lower prices for products. Other procurement related benefits can result from privileged access of raw materials as well as backward integration. If a company is in control over every functional segment, this could be appropriate for cost

leadership. For instance, Dell Computer Company in the beginning attained a large market share through keeping low inventories as well as manufacturing computers for order, through application of a differentiation strategy in the supply chain. Mulburg (2010) shows that the cost leadership strategy is only practicable in insurance companies that have an opportunity of enjoying 'economies of scale' as well as large volumes of production, in addition to large market shares.

Conceptual Framework

A conceptual framework is a hypothetical framework of principles, assumptions and rules that demonstrate the relationship between a study's dependent and the independent variables. The independent variables of the study include premium prices, Maturity Period, Market Segment and Nature of products. The dependent variable in this study is Performance of the Insurance Companies. The conceptual framework for the study is as presented below;

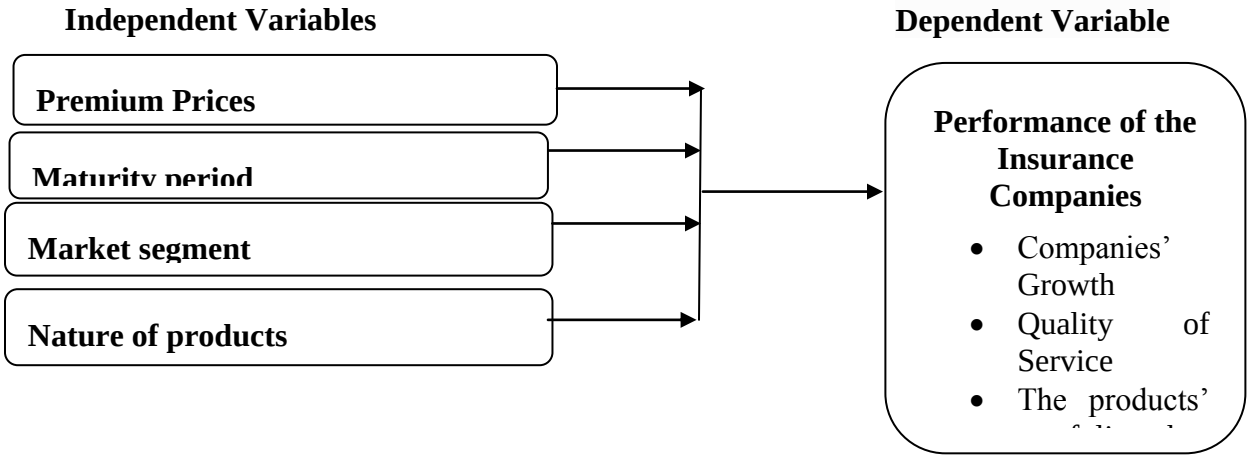

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Descriptive survey design was adopted for the study. This research design fitted the study since it is an efficient method for systematically collecting data from a broad spectrum of individuals making it possible to collect a large amount of data on the study problem with minimum effort. This study followed positivism research philosophy, which supports the use of scientific research methods in observing and measuring of facts without any influence from the researcher and guarantees generalizing in an objective manner, the findings from the quantitative analysis.

The population of interest for this study comprised of all the 55 insurance companies registered in Kenya as of 2020. The nature of data used for this was primary data, which was collected using a questionnaire that was structured by the researcher. Census method was applied in the study to target and reach the 55 companies. Data was collected from the respondents through Drop and Pick method, where the researcher issued the questionnaires, gave them a week to fill them after which they were collected.

The validity of the research instrument was tested through content validity, where the researcher engaged supervisors, who assisted in checking the quality and consistency of the questionnaire items. The reliability of the research instrument was tested through piloting, where the researcher engaged 10% (6) of the insurance companies in Kenya. The responses obtained from the pilot study were analyzed through Cronbach Alpha analysis.

Data analysis followed descriptive statistics using SPSS software version 22.0 that was used to describe and analyze the characteristics of the cost leadership strategy. Inferential statistics, including multiple regression and correlation analysis were applied to determine the relationship between cost leadership strategy and performance of insurance companies in Kenya.

RESULTS AND DISCUSSIONS

Questionnaires were administered to all the 55 insurance firms in Kenya. Out of the 55, 54 of the questionnaires were dully filled and returned, indicating a response rate of 98%. In the test for reliability, a value of 0.7 was obtained, which showed high-level consistency in the questionnaire items, hence; the questionnaire was considered reliable, and was used in the data analysis process.

The sections below present the study findings from descriptive and Inferential Statistics.

Cost Leadership Strategy in the Insurance Companies

Cost Leadership strategies

The study explored the extent to which various cost leadership strategies used in the insurance companies based on various aspects influenced performance. The findings are presented in Table below.

Table 1: Influence of Cost Leadership strategies and Performance of Insurance firms

Cost Leadership Strategies	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Cost leadership based on premium price	41(75.9%)	8(14.81%)	5(9.25%)	0(0.00%)	0(0.0%)
Cost leadership based on maturity period	37(68.51%)	9(16.66%)	8(14.81%)	0(0.00%)	0(0.0%)
Cost leadership based on market segment	35(64.81.3%)	11(20.37%)	8(14.81%)	0(0.00%)	0(0.0%)
Cost leadership based on nature of products	31(57.41%)	13(24.07%)	10(18.51%)	0(0.00%)	0(0.0%)

From the study's findings, it is evident that the majority of the respondents indicated that cost leadership based on premium price was applied largely as shown by 41(75.9%). Additional findings indicated that most respondents indicated that cost leadership based on maturity period was applied to very great extent as shown by 37(68.51%), cost leadership based on market segment was applied as shown by 35(64.81.3%) response rate, and cost leadership based on nature of products was applied at 31(57.41%) response rate. In general, it is evident that the

insurance firms were pursuing several strategies of cost leadership, although in varying degrees, and this played a paramount role in enhancing performance.

Important Aspects of Cost Leadership Strategy

The study examined how various important aspects of the cost leadership strategy were applied in the insurance companies for improved performance. The table below presents the findings of the study;

Table 2: Influence of selected Cost Leadership Aspects on Performance of Insurance Companies

Aspect (n=54)	Strongly F(%)	Agree F(%)	Neutral F(%)	Disagree F(%)	Strongly Disagree F(%)	Mean	Std. Dev.
The use economies of scale to reduce costs of products	34(63.0%	18(33.3%)	2(3.7%)	0(0.0%)	0.0(0%)	4.59	0.567
Capacity utilization of Resources	34(63.0%	20(37.0%)	0(0.0%)	0(0.0%)	0(0.0%)	4.63	0.487
Reduction in operations time and costs	24(44.4)	28(51.9%)	2(3.7%)	0(0.0%)	0(0.0%)	4.41	0.567
Efficiency and cost control	27(50.0	26(48.1%)	1(1.9%)	0(0.0%)	0(0.0%)	4.48	0.540
Forming linkages with service Providers, suppliers and others	39(72.2	10(18.5%)	5(9.3%)	0(0.0%)	0(0.0%)	4.63	0.653

From the findings, a majority (63%) of the respondents indicated that economies of scale and capacity utilization of resources influences performance to a very great extent. This is further supported by a mean of 4.59. A majority (51.9%) of respondents were of the opinion that reduction in operations time and cost affects performance to a great extent as also evidenced by mean of 4.636. Again, a majority (50% and 72.2%) of the respondents had a feeling that efficiency and cost control and forming linkages with service providers, suppliers and other supplementary institutions respectively affect performance to a very great extent. None of the respondents rated the aspects as affecting performance to a little extent and not at all. This was a clear indication that all the indicators of cost leadership under consideration affect performance to some extent. The results concur with those obtained by Atikiya (2015), which established that cost leadership had a significant positive effect on the firm's performance.

Performance of Insurance Firms

The study also sought to establish the performance of insurance firms based on important selected aspects. A Likert scale of 1 to 5 was used with 1 representing not at all and 5 representing very great extent. Correspondingly; 5 = Greatly Decreased; 4 = Decreasing; 3 = Constant; 4 = Improved; 5 = Greatly Improved. The findings were presented in Table 3

Table 3 Trend of Various Aspects in the organization for the Last Five Years

Statement	Greatly Improved	Improved	Constant	Decreasing	Greatly Decreased
There has been increased growth in the last five years	34(63.0%)	20(37.0%)	0(0.0%)	0(0.0%)	0(0.0%)
The quality of the services has improved in the last five years	32(59.3%)	16(29.6%)	6(11.1%)	0(0.0%)	0(0.0%)
The products' portfolio has increased	27(50.0%)	6(11.1%)	21(38.9%)	0(0.0%)	0(0.0%)

From the findings, it was evident that there has been increased growth in the last five years as expressed by 63.0% of the respondents. Majority (59.3%) of the respondents were of the view that quality of service had greatly improved in the last five years and the companies had been able to increase the products' portfolio in the last five years (50.0%). These findings imply that generally the performance of the insurance firms in Kenya was on the increase as the companies embarked on implementation of cost leadership strategies.

Table 4 Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.752	.024		154.661	.010
Premium prices	.899	.009	1.226	99.883	.000
Maturity period	.002	.003	.006	.708	.040
Market segment	.580	.032	3.489	81.314	.012
Nature of products	.106	.032	4.688	7.736	.030

a. Dependent Variable: Performance of Insurance Firms

The proposed regression equation model to be used was of the form; $\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon)}$ where Y = Dependent variable (Performance of Insurance Firms), β_0 = Constant (The intercept of the model), β= Coefficient of the X variables (independent variables), X_1= premium price, X_2= Maturity period, X_3= Market segment and X_4 = Nature of products. The figures in the above table were generated through SPSS data analysis and established the following regression equation; $\mathbf{Y = 3.752 + 0.899X_1 + 0.002X_2 + 0.580X_3 + .106X_4}$. The study found that when independent variables (premium price, Maturity period, Market segment and Nature of products) were kept constant at zero, Performance of Insurance Firms would be at 3.752. A unit increase in premium price will lead to an increase in Performance of Insurance Firms by a factor of 0.899; a unit increase in Maturity period will lead to an increase in Performance of Insurance Firms by a factor of 0.002, while a unit increase in Market segment will lead to increase in Performance of Insurance Firms by a factor of 0.580 and a unit increase in Nature of products will lead to an increase in Performance of Insurance Firms by a factor of

0.106. The table also shows that the X variables (independent variables), with Y= Performance of Insurance are significant at 5% level of significance and 95% level of confidence at 0.010, 0.000, 0.040 and 0.030 respectively.

Correlation Analysis

Correlation analyses was intended used to establish the relationship between cost leadership strategy and the performance of the insurance companies in Kenya. The findings were shown in the table below;

Table 5: Correlation results between cost leadership strategy and performance

Variable	Correlation	Sign
Independent Variable		
Cost leadership Strategy		
Dependent Variable		
Performance	0.761	0.001
N= 54		

From the results in the above, it was established that there was a significant positive relationship between cost leadership strategy and performance of the insurance companies in Kenya as indicated by the correlation coefficient value of 0.761, $p \leq 0.05$. This implies that cost leadership strategies positively influenced performance of the insurance companies in Kenya.

Discussion of Findings

The study's intention was to establish the influence of the cost leadership strategy on performance of insurance companies in Kenya. The objective was realized by examining how three drivers of cost leadership strategy namely price of premiums, maturity period, market segment and nature of products influenced performance of the companies.

Overall, the study found out that the cost leadership strategy positively and significantly influences the performance of insurance firms. The insurance companies in Kenya improve their performance by cutting costs through increasing their scale of operations, expanding into related business areas and improving operational processes.

From the study's findings, it is evident that cost leadership based on premium price was applied largely as shown by 41(75.9%). In addition, cost leadership based on maturity period was applied to very great extent as shown by 37(68.51%), cost leadership based on market segment was applied as shown by 35(64.81%), and that cost leadership based on nature of products was applied at 31(57.41%). Therefore, it is evident that the insurance firms were pursuing several strategies of cost leadership, although in varying degrees, and this played a paramount role in enhancing performance.

From the findings, it was evident that economies of scale and capacity utilization of resources influences performance largely as shown by 63%. In addition, the findings showed that reduction in operations time and cost affects performance largely as evidenced by 51.9%. Again, the findings showed that efficiency and cost control and forming linkages with service providers, suppliers and other supplementary institutions respectively affect performance largely. The results concurred with those obtained by Atikiya (2015), which established that cost leadership had a significant positive effect on the firm's performance.

Additionally, the findings showed that there has been increased growth in insurance firms in the last five years as expressed by 63.0%. 59.3%) response rate also showed that quality of services had greatly improved in the last five years and the companies had been able to increase the products' portfolio in the last five years as shown by 50.0%. These findings imply that generally the performance of the insurance firms in Kenya was on the increase as the companies embarked on implementation of cost leadership strategies.

From regression analysis, the study found that when independent variables (premium price, Maturity period, Market segment and Nature of products) were kept constant at zero, Performance of Insurance Firms would be at 3.752.

Conclusions

Overall, the study concludes that cost leadership strategy positively and significantly influences the performance of insurance firms. The insurance companies in Kenya improve their performance by cutting costs through increasing their scale of operations, expanding into related business areas and improving operational processes. The study concludes that the insurance firms in Kenya utilized the premium price strategy, and has a significant positive influence on performance of insurance firms in Kenya. The study concludes that the insurance firms in Kenya embraced the maturity period strategy, and has a significant positive influence on performance of insurance firms in Kenya. The study concludes that the insurance firms in Kenya utilized the market segment strategy, and has a significant positive influence on performance of insurance firms in Kenya. The study concludes that the insurance firms in Kenya emphasized on the nature of products strategy, and has a significant positive influence on performance of insurance firms in Kenya.

Recommendations

From the findings of the study, the following recommendations were made;The study recommends that all insurance companies should come up with policies for effective premium pricing for enhanced performance. Pricing products at a premium helps in cultivating a sense in the market of products being a bit higher in quality than those sold in other companies, to enhance that perception of customers, ultimately leading to enhanced performance.The study recommends that Kenya's insurance companies should design and implement distinct, unique and realistic maturity periods for every product or service based on its quality. Distinct periods can be attached on different products in order to have a wide scope of distribution, which will lead to cost effectiveness in insurance firms' management. The study recommends that insurance forms should come up with effective strategies that will help them to gain a large market segment in Kenya. This can be achieved via bulk production and investment in related businesses. This translates to adopting robust promotional efforts, encouraging bulk purchases

and innovating to support broad operations. This should as well be coupled with investments in large spaces of storage of both raw materials and finished products.

Lastly, the study recommends that companies should pursue appropriate technologies to improve the quality of their products. The government and other the regulatory bodies should implement supportive policies for large scale operations, facilitate licensing for investments in related areas, patent innovations by insurance agencies and issue guidelines on critical skills for key positions and safety standards. High quality prices will fetch high premium prices for increased profitability, ultimately enhancing performance.

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