INFLUENCE OF DIFFERENTIATION STRATEGY ON PERFORMANCE OF THE INSURANCE COMPANIES IN KENYA

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Abstract

Purpose: Consistent high performance being their main objective, insurance companies are currently concentrating on development of strategies for ensuring enhanced sustainability and success. Differentiation strategy has recently received unprecedented attention as it enhances the capability of firms to expand, exploit emerging opportunities, manage threats and ultimately gain sustainable competitive advantage in today’s highly dynamic market. In Kenya, the present operational set up of the insurance industry is a dynamic one characterized with intense competition due to the presence of numerous insurance organizations selling diverse products and services. Major challenges include similarities in insurance products, differences in product valuations, increased brokerage, poor products’ perception and low quality of services provided by insurance firms. This study sought to establish the influence of differentiation strategy on performance of the insurance companies in Kenya. Specifically, the study aimed at determining the influence of strategy scope, products perception, value based services and market experience on insurance companies’ performance, with the ultimate goal of providing tangible solutions to exiting differentiation challenges in the industry and beyond.

Methodology: Using semi-structured questionnaires, primary data was collected from 55 registered insurance companies in Kenya. Descriptive analysis was done using SPSS software, and inferential statistics including regression, correlation and ANOVA analysis were applied to establish the association between the dependent and the independent variables.

Findings: The study found out that over 85% of the insurance companies had adopted the differentiation strategy at different magnitudes, which enabled development of products and services offering more value and great market experience, and were since enjoying enhanced competitive advantage.

Unique Contributions to Theory, Practice and Policy: The study recommends that the insurance companies should scale up their differentiation by applying strong research and development skills, strong services and products engineering skills, strong creativity skills, good cooperation with distribution channels and strong marketing skills for remarkable performance.

Key Words: Differentiation, Strategy, Performance, Competitive advantage
INTRODUCTION

Consistent high performance being their main objective, majority of insurance companies currently concentrate on development of strategies for ensuring enhanced sustainability and success (Gorondutse & Abdullah, 2017). Differentiation strategy has recently received unprecedented attention as it enhances the capability of firms to expand, exploit emerging opportunities, manage threats and ultimately gain sustainable competitive advantage in today’s highly dynamic market (Kharub, Patle & Sharma, 2017). Differentiation strategy seeks to provide products or services that offer benefits that are different from those of competitors, and ones widely valued by buyers. Differentiation is about creating uniqueness and the principal uniqueness drivers include policy choices, supplier and value chain linkages, timing, location, interrelationships, learning and spillovers, integration, scale and institutional factors. Arasa & Gathinji (2014) argue that literature on differentiation strategies relates to core competence, technology, leadership styles, markets, culture, people and environment.

Bayraktar, Hancerliogullari, Cetinguc & Calisir (2017) have shown that successful differentiation in insurance companies has three aspects that include commanding a premium price for its product, increasing sales because additional buyers are won over by the differentiating features and gain buyer loyalty to its brand. A product is differentiated if consumers perceive it to have properties, which make it distinct from rival products or services, and ideally unique in some particular way and difficult to emulate. Hence, competitors will distinguish their brand, product or service in some way, perhaps by size, quality or style, to give it greater appeal for certain customers (Vanderstraeten & Matthyssens, 2012).

A differentiation strategy can be effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service (Tuva, 2015). Firms following differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived, based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumers interested in a unique quality product or service and willing to pay a higher price for these non-standardized products. Customers value the differentiated products more than they value low costs (Brenes, Montoya & Ciravegna, 2014).

In Kenya, organizational performance in companies with the differentiation strategy is based on innovation in marketing technology and methods, including fostering for innovation and creativity; focus on building high market share (Onyango, 2017). The present operational set up of the insurance industry is a dynamic one characterized with intense competition due to the presence of numerous insurance organizations. The implication of this is that some firms have experienced poor performance as others succeed. Major challenges include similarities in insurance products, differences in product valuations, increased brokerage, poor products’ perception and low quality of services provided by insurance firms. To guarantee survival and sustainability in the market place, firms in this industry must implement competitive strategies, such as, the differentiation strategy. However, differentiation strategy has not been examined in depth in previous studies in relation to performance of insurance firms in Kenya. Therefore, the objective of the study was to establish the influence of differentiation strategy on performance of insurance companies in Kenya.
Research Objectives

Main Objective
The main objective of this study was to establish the Influence of Differentiation Strategy on Performance of the Insurance Companies in Kenya.

Specific Objectives
i. To establish the influence of strategy scope on performance of the Insurance companies in Kenya.
ii. To determine the influence of products perception on performance of the Insurance companies in Kenya.
iii. To assess the influence of value based services on performance of the Insurance companies in Kenya.
iv. To establish the influence of market experience on performance of the Insurance companies in Kenya.

LITERATURE REVIEW

Theoretical Foundation
The Porter’s Theory of Competitive Advantage guided this study and Neo-classical Theory of Competition guided this study. The Porter’s Theory of Competitive Advantage postulates that competitive strategies are intended to alter an organization’s position in its industry amidst its suppliers and competitors (Porter & Millar, 1985). The structure of an industry plays a fundamental role in the determination and limitation of strategic actions. Certain industries and sub-industries often become additionally ‘attractive’ due to their structural obstructions towards forces of competition such as entry barriers, which allow a firm’s additional chances for the creation of a sustainable competitive advantage. This theory was considered relevant to this study as Porter defines two competitive advantage forms, one being differentiation or lower cost in relation to a firm’s rivals. The theory explains that in order to achieve competitive advantage, a firm must be able to deal with the aforementioned five forces in a better way compared to its competitors. The firm should have a competitive strategy for market-penetration, competitive prices, uniqueness as well as high quality products, as these will determine the level of failure or success.

The ‘Neo-classical Theory of Competition, formulated by Blaug in 1987 points out that competition is analyzed in the perfect competition model that demonstrates the perfect conditions, which need to be held in markets in order to make sure that there exists a behaviour that is perfectly competitive from characteristic firms. According to this theory, all participants in a market have perfect knowledge regarding prices and costs of all goods, and customer preferences are provided and ultimately, no impediments of any kind exist in the movement of production factors. The outcome of the aforementioned circumstances is that the consumers and producers due to their large numbers and small sizes do not have the ability to influence product prices, which become data for all individual firms or consumers in a market. All these factors affect the performance of insurance firms largely.
Strategy Description

The differentiation strategy entails a company’s attempt to gain competitive advantage by increasing products and services’ perceived value in relation to the supposed value of other products and services of the firm (Muia, 2017). Differentiation concept has its focus on organizations making unique products and services. They do this in order to gain a high competitive advantage in order to gain a larger market share than their rivals. Previous studies contend that differential advantages come as a result of a company’s products or services being distinct from those being sold by its competitors, and is professed to be better in comparison with rivals’ product by consumers (Ruto, 2018).

Differentiation strategy was created alongside the concept of efficiency creation in segments and industries. Researchers have recognized that because of the process of globalization, the utmost pointers of the future success of companies encompasses the capability of dissimilarity from competitors (Bayraktar, Hancerliogullari, Cetinguc & Calisir, 2017). This implies that insurance companies need to employ differentiation approaches that comprise of changing nature of products and possessing varied characteristics such as utilizing varying colours to make products look appealing to consumers in the marketplace. The additional value from exceptionality of products can offer an opportunity for organizations to charge higher products’ prices, ultimately gaining competitive advantage. A good example is Rolex Company that attempted to carry out a differentiation of watches from those sold by Timex, by manufacturing watches enclosed in gold cases. As well, Mercedes attempted to differentiate the cars it manufactures from those of Hyundai cars by carrying out sophisticated engineering processes (Mugo, 2017).

Kharub, Patle & Sharma (2017) study revealed that the differentiation calls for production of products and services with suitably unique characteristics that spontaneously set companies from rivals. Successful companies in differentiation strategies implementation of have unique characteristics that include leadership in science-based research. They also have significantly creative and accomplished workers in product development, possessing a strong sales’ force, sturdy reputation because of quality and continued innovation (Odhiambo & Njuguna, 2019). A positive view of success in differentiation of products and services lies in the fact that companies can tag quality products and services’ prices. Companies accomplish this with a guarantee because of their significantly progressive and strong corporate characteristics. A company can optimistically transfer high supplies’ costs to their complete products as in many cases; there will not be any supplementary goods in market. Proprietorship of trustworthy customers through differentiation assists in stabilizing revenue in companies, and reduces the influence of markets recessions due to the loyalty of customers in good and bad times (Kharub, Patle & Sharma, 2017).

A study by Nuru (2015) focusing on how differentiation strategies influence the performance of water bottling companies in Mombasa County in Kenya establish that there is a positive connection between differentiation strategies and performance of firms, with the implication that differentiation strategies contribute water bottling companies’ performance. Onyango (2017) carried out a study on how cost leadership, differentiation and focus strategies influence firms’ competitiveness at the BOC Kenya Limited. The study concluded that differentiation strategy influenced an organization’s competitiveness. Insurance companies in Kenya have worked day
and night to improve their products and services’ quality in order to fetch higher prices, ultimately gaining a higher competitive advantage.

**Differentiation Strategies and Performance of Insurance Firms**

The foundation for competitive advantage is establishment of products and services whose characteristics are meaningfully distinct from the products and services of rivals (Brenes, Montoya & Ciravegna, 2014). Differentiation strategies call for services and products’ development offering unique characteristics valued by consumers, and which they recognize as being better than or distinct from the competitors’ products. A successful differentiation strategy has its basis on studies of shoppers from diverse places in terms of behavior and needs in order to learn what is taken as valuable or important. The anticipated characteristics are then incorporated into the products and services for encouragement of the preferences of buyers, for the products and services. Efforts of differentiation frequently result in high costs (Kharub, Patle & Sharma, 2017).

Gakuya & Njue (2018) note various types of differentiation strategies inclusive of those based on innovation of products and services and those founded on intensive image and marketing management. The significant success factors contributing to the effectiveness of differentiators are inclusive of creative flairs, robust elementary research services and engineering of products. Profitable differentiation strategies are achievable through keeping differentiation costs below the prices of premiums that all differentiating characteristics command, or through offsetting of lower margins of profit through more volumes of sales (Odhiambo & Njuguna, 2019).

Services and products can be differentiated in a large number of ways. Unusual characteristics, responsive client services, products innovations, rapid services and technological management, perceived status and prestige, engineering design, different tastes and performance are good differentiation approaches (Kharub, Patle & Sharma, 2017). As opposed to cost decrease, firms utilizing differentiation strategies require to concentrate on investment in and development of such things, which are distinct, and which consumers will recognize. Generally, the indispensable success differentiation factors relating to implementation of strategies is developing and maintaining creativeness, innovativeness and institutional learning within organizations. Bayraktar et al. (2017) has insisted that anything that organizations do for creation of buyers values represent a prospective differentiation basis. Once it gets a worthy buyers’ value source, it must build that value, create characteristics into its products and services at acceptable costs. These characteristics may raise products and services’ performance or make it additionally cost-effective for use. Possibilities of differentiation can grow out of potentials achieved in anywhere in the cost chain of activity (Gorondutse & Abdullah, 2017).

The scope of strategies spells out the services and products that companies plan to provide over a certain period, and designates where and to which potential markets they are going to be sold (Ouma, 2016). Establishment of strategic scopes is among the three sets of choices that companies make as part of strategic planning processes, with some defining strategic objectives (targets as well as anticipated consequences for future years) and selecting important success factors (the significant fundamentals needed for the organization to accomplish its objectives). Organizations employ strategies that will catapult them into better organizational performance. A well-executed plan resulted in enhanced competence and efficiency in organizations. Perception
of products is normally biased by predetermined conceptions about properties of product and is influenced by consumers’ reference. If these predetermined thoughts are concerned about what the products are, they are referred to as analytical and perceptual or product’ expectation (Kiragu, 2014).

Kharub, Patle & Sharma (2017) suggest that organizations may achieve competitive advantage through creation of greater value for consumers than costs of creating it, through adoption of either differentiation strategies or efficiency strategies. Companies that pursue the differentiation strategy endeavor being different from the competitors utilizing variable sales, marketing approaches and other associated products, services and technological innovations. Organization embracing a differentiation strategies command prices that are above market, that become possible by the perception of customers (Odhiambo & Njuguna, 2019). In the insurance sector, the worth added by exceptionality of products and services, which may permit insurance companies to charge premium prices for it. The insurance companies hope that higher prices will more cover the extra cost incurred when providing exceptional products and services. Because of unique characteristics of products, when suppliers product’s prices, insurance companies can have the ability to transfer the cost to the consumers who cannot find substitute services and products easily.

Insurance companies that have succeeded in differentiation strategies can access important scientific research, greatly skilled and creative products’ development team, strong sales teams that have the ability to effectively communicate the professed services’ strengths and business reputation innovation and quality (Ruto, 2018). With differentiation strategies, unique characteristics or uniqueness’ perceptions of insurance companies’ products as opposed to cost offer value to customers. Insurance firms pursuing differentiation pursue uniqueness in their sector along all magnitudes valued by customers. This implies that investing in services and products, research and development (R&D) and marketing activities. This enables the companies sell differentiated products and services at a price exceeding the money spent in creation that enables the companies to outshine its competitors to get returns that are above average (Kiragu, 2014).

RESEARCH METHODOLOGY

This study was anchored on the 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. This guaranteed that collected data for this study were appropriately transformed into usable operational statistics, which quantified the opinions of selected participants. In conducting this study, descriptive survey research design was adopted. In choosing these strategies, consideration was given to the nature of the study, which required the use of a research instrument to collect primary data in line with the research objectives.

A semi-structured questionnaire was used to collect primary data from 55 insurance firms in Kenya. Census method was used to reach the 55 companies, where each was reached because the target population was small, hence, easily manageable. After the collection of the completed questionnaires, reviewing of completeness and consistency was done in order to eliminate incomplete and unfilled ones. Descriptive analysis done using SPSS software version 22.0, and
correlation analysis were applied to establish the effects of differentiation strategy on performance of insurance firms in Kenya, as well as the association between the dependent and the independent variables.

RESULTS AND DISCUSSION

The study’s sample size was 55 respondents. A total Number of 55 questionnaires were administered to insurance firms in Kenya. Out of the 55, 54 of the questionnaires were duly filled and returned. This corresponded to 98% response rate.

Differentiation Strategy in the Insurance Firms

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

Table 1: Differentiation strategies and Performance of Insurance firms

<table>
<thead>
<tr>
<th>Differentiation</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation based on products</td>
<td>52(96.3%)</td>
<td>2(3.7%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation on strategy scope</td>
<td>37(68.5%)</td>
<td>7(13.0%)</td>
<td>10(18.5%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation based on products’ perception</td>
<td>10(18.5%)</td>
<td>24(44.4%)</td>
<td>20(37.0%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation based on value based services</td>
<td>18(33.3%)</td>
<td>16(29.6%)</td>
<td>12(22.2%)</td>
<td>8(14.8%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation based on market experience</td>
<td>35(64.8%)</td>
<td>8(14.8%)</td>
<td>7(13.0%)</td>
<td>4(7.4%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation based on services</td>
<td>43(79.6%)</td>
<td>5(9.3%)</td>
<td>1(1.9%)</td>
<td>5(9.3%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Differentiation based on price</td>
<td>42(77.8%)</td>
<td>4(7.4%)</td>
<td>8(14.8%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
</tbody>
</table>

The findings showed that differentiation based on product/service was used largely in most firms as expressed by majority (96.3%) of the respondents. Most firms also practiced differentiation based on strategy scope (68.5%). Majority (44.4%) of the respondents had the opinion that their firms practiced differentiation based on products’ perception. Differentiation based on value-based services was also practiced in the insurance firms as indicated by majority (33.3%) of the respondents. The findings also indicate that most firms carried out differentiation on market experience (64.8%) and service (79.6%) respectively. In addition, differentiation based on price was also practiced in the firms (77.8%). In general, it is evident that the insurance firms were pursuing several aspects of differentiation strategy although in varying degrees with more emphasis being placed on differentiation based on product/service than the other aspects.

Performance of Insurance Firms

The study also sought to establish the performance levels of insurance firms in Kenya because of differentiation strategies’ application. The findings were as presented in Table 2.
Table 2: Trend of Various Aspects in the organization

<table>
<thead>
<tr>
<th>Statement</th>
<th>Greatly Improved</th>
<th>Improved</th>
<th>Constant</th>
<th>Decreasing</th>
<th>Greatly Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue has increased in the last five years</td>
<td>34(63.0%)</td>
<td>20(37.0%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Quality of the service</td>
<td>32(59.3%)</td>
<td>16(29.6%)</td>
<td>6(11.1%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>Increasing number of new customers in the last five years</td>
<td>27(50.0%)</td>
<td>6(11.1%)</td>
<td>21(38.9%)</td>
<td>0(0.0%)</td>
<td>0(0.0%)</td>
</tr>
</tbody>
</table>

The findings of the study in this case showed that revenue had significantly improved for the last five years as expressed by 63.0% of the respondents. The majority (59.3%) of the participants indicated that the quality of service had improved greatly in the last five years, and the organizations had attracted a large number of new customers in the last five years (50.0%). The findings implied that in general, the performance of insurance companies in the selected area was on the increase as shown by the measures. Increase in revenues was accrued to the increased products’ uptake, and a good sign of the impact of the differentiation strategy. The observation that new customers were increasing in the firms could as well explain the effects that differentiation strategies had on the firms’ performance.

Correlation Analysis

Correlation analyses was used to measure the relationship between differentiation strategy and the performance of the insurance companies in Kenya. Table 3 gives the correlation analysis results.

Table 3: Correlation results between differentiation and performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance of Insurance Firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiation</td>
<td>0.427</td>
<td>0.001</td>
</tr>
</tbody>
</table>

The findings of the study in the table above established a significant moderate positive relationship between differentiation strategy and performance of the insurance companies as indicated by the correlation coefficient of 0.427, p ≤ 0.05. The implication of the above results is
that differentiation strategy only moderately influenced the performance of the insurance companies.

**DISCUSSION**

From the findings presented above, there is evidence that Kenya’s insurance firms employ various characteristics of the differentiation strategy in their operations. It was established that the insurance companies employ differentiation strategies that include product and service production strategies. The findings are in agreement with the findings of Gakuya & Njue (2018), which revealed that most companies apply at least two different forms of differentiation strategies. One approach is the differentiation strategy based on products and services innovation, while the other one is the strategy based on intensive marketing and image management.

These findings offer empirical evidence for supporting the differentiation strategies as argued by Porter (1985) in his generic strategies, which indicate that services and products could have differentiation categories. These are inclusive of responsive customer services, unusual features, rapid services and innovations in products. Some differentiation approaches include supposed prestige and status, technological leadership, different tastes and engineering design. However, most studies tend to emphasize some strategies more than others, such as differentiation based on products/services than others based on place, promotion and so forth.

The findings on performance of insurance firms as well suggest that increasing revenues are because of application of differentiation strategies. Hyatt (2011) study argues that organizations that adopt the differentiation strategy command above-market prices due to positive customers’ perception resulting from products and services being unique in various ways. Further, observations of new clients increasing in the firms explains a positive effect of differentiation strategy on performance. This is confirmed by the argument posed by Hyatt (2011) study that anything that has added value through application of differentiation strategies is an excellent tool for creation of new customers, and this ultimately enhances performance in all aspects.

**Conclusions**

The study concludes that the insurance firms in Kenya pursue several aspects of the differentiation strategy. The strategy is employed in varying levels of emphasis, where approaches based on products and services are emphasized more than all the others, for instance other aspects based on place and promotion/ advertising campaign.

In addition, the study concludes that the firms are keen on adding value to products and services in order to increase their visibility and customer experience, more than they are keen to acquire publicity.

The study also concludes that generally, the performance of Kenya’s insurance companies is good. This leads to the conclusion that using differentiation strategies has a positive impact on the companies’ performance. The theoretical implications of the study are that the firms were capable of pursuing the differentiation strategy in two ways, those based on services and products innovation and those based on intensive marketing and image management, hence, their improved performance.
More so, the study concludes that differentiation strategies are responsible for increased revenues, enhanced quality of the services and in increasing number of customers due to the availability of a variety of well-differentiated products. Therefore, the performance of insurance firms has been remarkable.

**Recommendations**

This study recommends that the top management of the insurance companies in Kenya should embrace the differentiation strategy in order to guarantee good performance in their companies. This is because the study revealed that performance of the insurance companies in Kenya is dependent on differentiation strategies.

Based on the findings, the study recommends that managers need to ensure that the message of differentiation reaches the clients promptly, as the customer’s perceptions of the institution are significant in determining the levels of performance.

The study further recommends that insurance firms should invest more in continuous training of their personnel to enable them understand the differentiation strategies being pursued by the firm, as they will become more effective in reaching out to the market.

On suggestion for further studies, because the study only focused on the insurance companies in Kenya, the researcher recommends a replication of the study in other entities like manufacturing, production sector as well as other service industries in order to establish the relatable trends in regards to competitive business strategies on firm performance.

**Acknowledgement**

My acknowledgement goes to my supervisors Prof. Patrick Karanja Ngugi and Dr. Allan Kihara for giving me guidance on this challenging task. This report would have not been possible without his constant guidance and encouragement as well as knowledge and expertise. I also appreciate my family and friends who have been of significant help throughout this academic journey.

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