EFFECT OF EXPANSION STRATEGIES ON PERFORMANCE OF INSURANCE INDUSTRY IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS AND ECONOMICS

MASENO UNIVERSITY

DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This piece of work is dedicated to my family, whom I owe so much. I highly cherish your love, support and encouragement all through. And above all, to our Almighty Father for giving me the grace to accomplish my study.

ABSTRACT

According to Insurance Industry of Kenya Report of 2017, in 2017, world insurance premiums in nominal USD terms increased by 4.0% to USD 4,892 billion, up from USD 4,703 billion recorded in 2016. Further, the report indicates Africa's insurance industry premium grew by 0.5% in real terms to USD 66.7 billion in 2017, representing 1.4% of World's insurance market share. In Kenya, insurance growth was 2.8 % in year 2016 compared to 2.63% in previous year while South Africa growth was 12.9%. The comparative growth rate of Kenya's insurance industry is still low. In 2017 Life and non-life insurance recorded a penetration ratio of 1.02% and 2.00% respectively. The penetration of Insurance among the Kenyan population is low compared to other countries outside Africa. A good example is Malaysia which has an estimated 41% of the population covered. There is therefore need for establishing why expansion of insurance in Kenya remains low. This may be rooted in the insurance industry expansion strategies. However studies in the past on the subject of expansion strategies in financial and non-financial establishments have yielded conflicting outcomes with some studies have recommended further studies. These inconsistent results point to the fact that the effect of expansion strategies is still not clear and needs further investigation. Therefore clear knowledge is lacking on effect of expansion strategies on organizational performance. The general objective of the study was to analyze the effect of expansion strategies (ES) on performance of insurance industry in Kenya. Specific objectives of the study was to: establish the effect of diversification strategy (DS) on performance, establish the effect of product development strategy (PDS) on performance and to ascertain the effect of penetration strategy (PS) on performance of insurance industry in Kenya. The study was anchored on resource-based theory and Porter's competitive strategy theory. A correlational survey design was adopted with a study population of 52 Chief Executive Officers of the 52 insurers across the country. A census study was conducted. Reliability of the research instrument was ascertained at Cronbach's Alpha of .790, .802, .823 and .794 for DS, PD, PS and Performance respectively. Validity of the instrument was achieved through expert opinion. Regression coefficients were; ($B = 0.215$, $p< 0.05$), ($B = 0.353$, $p< 0.05$), ($B = 0.449$, $p< 0.05$) for DS, PD, and PS respectively. $R^2 = .637$. These results show that DS, PD and PS have each a positive significant effect on performance while ES accounts for 63.7% variation in performance of the insurance firms. It is concluded that DS, PD and PS predict performance and that ES as a unit contributes to performance. The study recommends enhancement of DS, PD and PS efforts. The government at both levels may find the results useful in policy development. The insurance industry is expected to benefit since the practitioners may use the results for firm level policy making. The study may contribute to theory building thereby contributing to body of knowledge in strategic management. Future research endeavors may be based on this.

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LIST OF ABBREVIATIONS AND ACRONYMS

RBV	Resource-Based View
USA	United States of America
CBK	Central Bank of Kenya
KCB	Kenya Commercial Bank
IT	Information Technology
ROA	Return on Assets
ROE	Return on Equity
PLCs	Public Limited Companies
UK	United Kingdom

OPERATIONAL DEFINITION OF TERMS

Diversification – is a growth strategy that capitalizes on market opportunities by allocating investment risk over different asset classes

Expansion strategies – These are tactics used to expand firms' operations by adding markets, products, services, or stages of production to the existing business.

Market penetration refers to the successful selling of a product or service in a specific market. It is measured by the amount of sales volume of an existing good or service compared to the total target market for that product or service

Organizational performance – This refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan.

Product development: Means **t**he creation of products with new or different characteristics that offer new or additional benefits to the customer. It may involve modification of an existing product or its presentation, or formulation of an entirely new product that satisfies a newly defined customer want or market niche.

Strategy- is the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations

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CHAPTER ONE

INTRODUCTION

This chapter presents the background, statement of the problem, the objective of the study, research hypothesis and significance of the study, justification of the study and conceptual framework used in the study.

1.1 Background of the Study

A strategy is the direction and scope of an organization over the long-term which achieves an advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations (Johnson *et al*. 2008). Business strategy is fundamentally concerned with the actions required to create superior customer value in the firm's target markets with the ultimate goal of achieving superior performance (Slater *et al*., 2006). According to Kavale (2012), successful implementation of a new strategy may require a new structure to avoid any administrative problems thereof.

Westerlund and Leminen (2012) define a firm's expansion strategy as the means by which the organization plans to achieve its objective to increase in size, volume, and turnover. The terms growth and expansion are used interchangeably to refer to one and the same thing by most scholars (Kuuluvainen, 2011; Geroski, 2005). Expansion and growth strategy is adopted by different organizations to ensure that they attempt to achieve high growth as compared to their past achievements. Because of this, organizations are becoming more competitive and their focus is on strategies that will ensure an increase in revenue. Growth can be as a result of innovations, technology advancement, exploring new markets and adapting to the changing customer demands (Ndwiga, 2018). He argues that organizations should align their strategies with structure, leadership and corporate culture in order to be successful.

According to Mwadime (2010), before a company embarks on its growth journey, one of the first things it definitely needs to do apart from assessing its growth readiness is, to identify and know the market(s) it intends to penetrate into. A company will need to be sufficiently equipped with knowledge of the market conditions of the country or countries surrounding its radar. This will require detailed market research on the country of entry, including the political, economic, socio-cultural and technological factors. With this information, a company will have an indication of the political stability and business operating environment.

Keegan, (2005) assert that there are various reasons as to why companies decide to grow locally and internationally: these are; build more brand and shareholder value, add revenue sources and growth markets, reduce dependence on home market, leverage existing corporate technology, supply chains, , enhance domestic competitiveness, increase sales and profits, gain global and local market share, exploit international trade technology, extend sales potential of existing products, stabilize seasonal market fluctuations, access to cheaper inputs, increase quality and efficiency, enhance potential for expansion of its business and maintain cost competitiveness in domestic market.

According to Mckinsey, (2005), there are many external growth strategies available to an expanding company. They include entering new markets, divesting or acquiring new business units, strategic alliances, partnering relationships and mergers. As part of the process of selecting an appropriate strategy, they need to consider the targeted outcome of their growth plan, whether it's product/market integration, geographic expansion, and diversification, added capacity, competitive market advantage, reduced business risk or the acquisition of key people.

Rugman and Hodgetts (2009) contends that organic growth and licensing have been regarded as the main strategies for finance business expansion. The importance of monitoring the environment has been emphasized by Rugman and Hodgetts (2009), who maintain that the information resulting from this process can be used for strategic purposes. It is their view that the increased complexity, the acceleration in the rate of change and the variability in the environment and resulting trends have brought about a need for management to develop methods of monitoring the environment.

Mulwa & Kosgei (2016) in their study found out that income and asset diversification negatively and significantly affected commercial bank return on assets (ROA). Ogada, Achoki & Njuguna (2016) found out that diversification strategy had no significant effect on the financial performance of merged institutions. Further Akpinar & Yigit (2016) study indicated that there is no correlation between total diversification and a performance criterion of ROA and ROS of firms in Italy and the Netherlands. Other studies also contradict in their findings by showing that expansion strategies adopted by the banks contribute positively to their performance. The position of the relationship between expansion strategies and performance of insurance industry in Kenya is therefore not clear. This position if made clear can help solve challenges facing insurance industry in Kenya.

According to Insurance Regulatory Authority of Kenya, IRA (2017), in 2017, the total direct premiums written in the global insurance industry rose by 1.5% in real terms compared to 2.2% registered in 2016. The premiums in nominal USD terms increased by 4.0% to USD 4,892 billion, up from USD 4,703 billion recorded in 2016. The global life premiums increased from 2016 to 2017 by 0.5% to roughly USD 2.7 trillion, while global non-life premiums rose by 2.8% to approximately USD 2.2 trillion. The global life premiums growth slowed compared to a growth of 1.4% experienced in 2016. However, nonlife premium growth in advanced markets remained roughly the same in 2017, at a growth of 1.9%. In emerging markets, the expansion was two to three percentage points lower at 14% and 6.1% in life and non-life respectively. China remains the main contributor to emerging market insurance growth with an insurance market development strongly supported by government policies.

Further, the Insurance Industry Annual Report by IRA (2017) indicates that the economic environment in Africa improved with real Gross Domestic Product growth increasing to 3.8% in 2017 up from 1.7% in 2016 due to recovery in commodity prices. Africa's insurance industry premium grew by 0.5% in real terms to USD 66.7 billion in 2017, representing 1.4% of World's insurance market share. The marginal increase in premiums growth was due to weak growth in South Africa, while other countries in the region registered mixed growth. Africa's life insurance premiums grew marginally by 0.3% to USD 44.9 billion in 2017. The stagnation in Life business is mainly due to weak economic environment and high unemployment experienced in South Africa which controls 85% of Africa's life business. Despite the stagnation, life market continues to dominate Africa's Insurance Industry Annual Report for the Year Ended 31st December, 2017 xi industry by 67.2% of total premiums registered in the region. The non- life premiums in Africa grew by 1% to USD 21.9 billion in 2017. The countries that registered highest growth in Non-life business were: Egypt (9.9%), Uganda (7.3%), Zimbabwe (7.5%), Ghana (5.0%) and Morocco (3.0%). South Africa, which is Africa's largest nonlife market (44%), grew marginally by 1.3%.

In Kenya, insurance growth was 2.8 % in year 2016 compared to 2.63% in previous year while South Africa whose growth was12.9% with a population of 44 million (AKI 2017). In

2017 Life insurance recorded a penetration ratio of 1.02% while that of non-life insurance was 2.00%. The penetration of Insurance among the Kenyan population is also low compared to other countries outside Africa. A good example is Malaysia which has an estimated 41% of the population covered by some form of life insurance in comparison to Kenya that has less than 1% of the population insured. There is therefore need for establishing why expansion of insurance in Kenya remains low. This may be rooted in the insurance industry expansion strategies.

Locally, Mirie, (1987) did a study on the strategic marketing of Insurance services, however this study only gave us an overview of insurance marketing but failed to inform us on the effects. Sheikh, (2000) conducted a study on strategic response by insurance companies following linearization and concluded that the companies in the industry consider strategic management practices to be important. Kyeva, (2005) did a survey of the strategic reactions employed by life insurance companies in Kenya in responding to the challenge of Hiv/Aids pandemic, however this study was limited only to the relation between strategic reactions of life insurance companies and Hiv/Aids pandemic. Wamwati, (2007) did a study on the critical success in the insurance industry in Kenya; however this study was too broad and failed to look critically to the management practices and their influence on performance. Karanja, (2008) did a study on the innovation strategies adopted by insurance companies in Kenya; however this study only served to inform us but failed to establish the relation between innovation and performance.

1.2 Statement of the Problem

According to Insurance Regulatory Authority of Kenya report of 2017, in 2017, the total direct premiums written in the global insurance industry rose by 1.5% in real terms compared to 2.2% registered in 2016. The premiums in nominal USD terms increased by 4.0% to USD 4,892 billion, up from USD 4,703 billion recorded in 2016. Further, the Insurance Industry Annual Report of 2017 indicates Africa's insurance industry premium grew by 0.5% in real terms to USD 66.7 billion in 2017, representing 1.4% of World's insurance market share. In Kenya, insurance growth was 2.8 % in year 2016 compared to 2.63% in previous year while South Africa whose growth was 12.9% The comparative growth rate of Kenya's insurance industry is still low. In 2017 Life insurance recorded a penetration ratio of 1.02% while that of non-life insurance was 2.00%. The penetration of Insurance among the Kenyan population is also low compared to other countries outside Africa. A good example is Malaysia which has an estimated 41% of the population covered. There is therefore need for establishing why expansion of insurance in Kenya remains low. This may be rooted in the insurance industry expansion strategies. However studies in the past on the subject of expansion strategies in financial and non-financial establishments have yielded conflicting outcomes. Some studies have recommended further studies. These inconsistent results point to the fact that the effect of expansion strategies is still not clear and needs further investigation. Therefore clear knowledge is lacking on effect of expansion strategies on organizational performance.

1.3 Objectives of the Study

The general objective of the study was to analyze the effect of expansion strategy on performance of insurance industry in Kenya. Specific objectives were

1) To establish the effect of diversification strategy on the performance of insurance industry in Kenya
2) To establish the effect of product development strategy on the performance of insurance industry in Kenya
3) To assess the effect of market penetration strategy on performance of insurance industry in Kenya.

1.4 Research Hypotheses

The study was anchored on the following hypotheses;

$H_0$1: Diversification strategy has no significant effect on the performance of insurance industry in Kenya

$H_0$2: Product development strategy has no significant effect on the performance of insurance industry in Kenya

$H_0$3: Market penetration strategy has no significant effect on performance of insurance industry in Kenya

1.5 Scope of the Study

The study focused only on the insurance industry in Kenya. The firms are spread across the country with a majority of them headquartered in Nairobi City. As at 2018, they were 52 insurers. The study covered the concept of organizational expansion strategy focussing on diversification strategy, product development strategy, and market penetration strategy. Finally, it examined how these variables contribute to performance of the insurance firms. The study was cross sectional, conducted at appoint in time.

1.6 Significance of the Study

The study may increase understanding and appreciation by managers of insurance industry in Kenya of the expansion strategies that relate to the industry. The study may also assist other financial institutions managers to make appropriate decisions following the sample strategies that have been implemented by the insurance industry in Kenya to successfully expand their operations. The study may also provide insights on the strategies that can enhance the sector's growth and performance and hence guide in regulation and policy formulation. This may, therefore, help policymakers of the insurance sector such as Ministry of Finance and Planning among others, with the development and review of existing policies to achieve synergy in the sector. The users may also be able to predict the future of the Insurance industry and prepare to confirm. Finally, the study may avail material for reference by future researchers and academicians on the same topic of the expansion strategy. In addition, the study may also form the basis of other future research endeavors on research constructs that have not been covered by this study.

1.7 Conceptual Framework

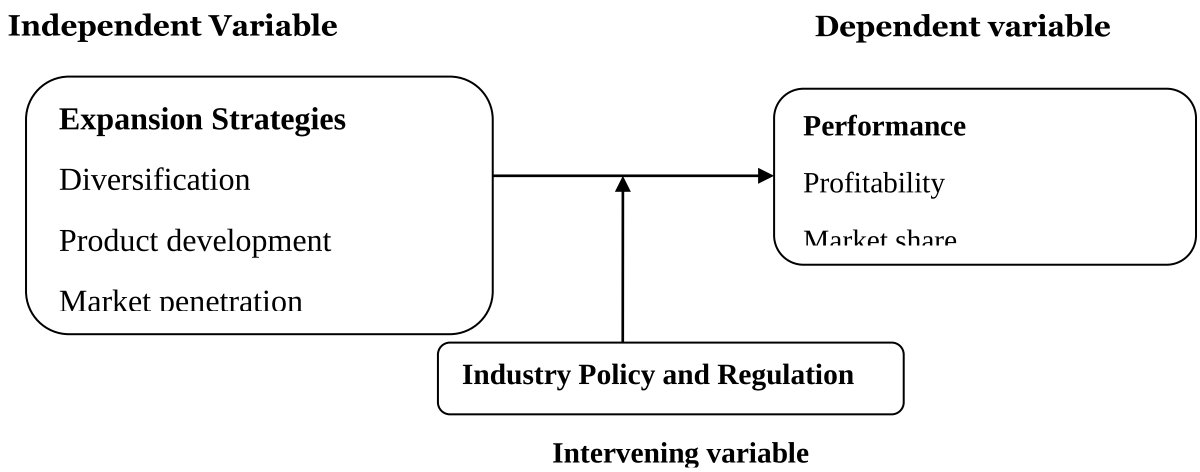

Figure 1.1: Expansion Strategy-Performance relationship

Source: Westerlund and Leminen (2012) and Kuuluvainen (2011)

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews theoretical literature and empirical studies. It focuses on the theoretical foundations upon which the study was built. It also explores comparative empirical literature which helps to explain the gap that the study sought to address.

2.1 Theoretical Literature Review

The study was anchored on Resource-Based Theory and Porter's theory of competitive advantage.

2.1.1 Resource-Based View Theory (RBV)

This theory was proposed by Penrose (1959) and it emphasizes on the organization's ability to use firm-specific resources, i.e. the company's strategic resources such as physical resources, human resources, and organizational resources to gain a competitive advantage over other firms and achieve more performance (Shahmansoun, Esfahan & Niki, 2013). For a firm to grow both inside and then externally either through merger, acquisition, or diversification, it will rely upon the way in which its resources are utilized (Newbert, 2007). This implies that for a firm to successfully execute a diversification strategy, it must have satisfactory resources to facilitate it without which it was unable to actualize the strategy regardless of how great it might be. He further postulates that despite the fact that a firm's performance is driven directly by its products, it is at last determined by the resources that go into their products and thusly resources are likewise critical with regards to implementation of product development strategy.

Srivastava *et al*. (2001) state that market specific resources, market-based assets, and market-based capabilities are important in enhancing the financial performance of a firm in a market place. Even as firms develop and implement market penetration or market development strategies, it is important to consider those factors in order to tosucceed with such strategies.
Expansion has been approached by Dunning and McQueen (2006) who used economic theories to explain the strategies adopted by some large banking organizations when expanding their business. Mintzberg (2008) however posited that superior performance is due to the firm's resources and their ability to utilize them effectively. Wernerfelt (1984) argues that the fundamental principle of the RBT is that the basis for the competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal.

According to Robins & Wiersema (1995), regional and local growth is a key strategic issue which requires top management decisions, a large amount of the firm's resources which affects the firm's long-term prosperity is future-oriented, has multifunctional and multi-business consequences and require considering the firm’s external environment. From the foregoing, it is clear that venturing into a new market constitutes a major strategic decision that must well be considered and appraised.

2.1.2 The Porters’ Theory of Competitive Advantage

This theory emphasizes on the firm’s ability to formulate and execute strategies that will enable it to increase its competitive advantage over the rivals in the industry. Competitive advantage can be described as the value a firm creates for its buyers that surpasses the firm’s cost of creating it (Porter, 1998). He states that this value is what buyers are willing to pay and that superior value can be achieved in two ways: Through cost leadership whereby a firm offers lower prices than rivals for equivalent benefits or through differentiation whereby a firm provides novel benefits that offset a higher price.

According to Porter (1998), firms make strategic choices without considering the long term consequences for industry structure i.e. they try to achieve competitive advantage for itself alone without thinking about the consequences of competitive reaction. Therefore, for a firm to be considered as an industry leader, it needs to make a move that enhances or protects its industry structure as opposed to seeking a greater competitive advantage for itself alone. Therefore as the firm seeks to implement growth strategies for the purpose of being more competitive, it needs to have a clear understanding of its industry structure and consider the long term consequences of such strategic choices on its industry structure. By doing so, it was impacting positively on the general organizational performance (Porter 1998).

2.2 Expansion Strategies

A firm's expansion strategy may be defined as the means by which the organization plans to achieve its objective to increase in size, volume and turnover (Westerlund and Leminen (2012). Expansion strategies include market expansion strategies, product innovation, and diversification, regional and international expansion. Santomero & Eckles (2000) discussed expansion strategies by financial institutions. They focus on size, the likely effect of size organization, operating costs, that is, the alleged benefit of economies of scale and scope and the best method of expansion acquisition or entry (Santomero & Eckles, 2000). They argue that economies of scale and scope are related to increased cost efficiency. The basic idea according to them is that the emergence of broad financial firms enables costs to be lowered if scale or scope economies are relevant and if the range of expansion is within the band whereby they can be achieved. If economies of scale and scope prevail, increased size will help create systemic financial efficiency and shareholder value to the firm. However, if diseconomies prevail, both was destroyed. In information and distribution-intensive industry with high fixed costs such as financial services, there should be ample potential for scale and scope economies (Santomero & Eckles, 2000).

Ayal and Zif (1979) contend that the choice of a market expansion strategy is a key strategic decision in a multinational expansion. To develop such a policy, a firm has to make decisions regarding; identification of potential markets and determination of some order of priorities for entry into these markets, the overall level of marketing effort that the firm is able and willing to commit, and selection of the rate of market expansion over time, and determination of the allocation of effort and resources among different markets. The major strategic alternatives of market expansion, within the third area, are market concentration versus market diversification (Ayal and Zif, 1979).

According to Mutuma (2013), expansion strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of the expansion is to allow the company to enter lines of business that are different from current operations. When the new venture is strategically related to the existing lines of business, it is called concentric diversification (Gitman, 2007). Conglomerate expansion occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated. Any company’s strategic emphasis is increasing sales volumes, boosting market share and cultivating a loyal clientele. Profits are then re-invested to grow the business. Price, quality, and promotion are tailored to meet customer needs. It’s then that opportunities for geographical market expansion are pursued next. The natural sequence for geographical expansion is local to regional to national to international. The degree of penetration will, however, differ from area to area depending on the profit potentials (Fang and Hill, 2003).

According to Cameron & Whetton, (2009, there are three theories associated with expansion. These are Concentric, Horizontal and Conglomerate expansion. In the concentric expansion, the organization adds new products or services which have technological or commercial synergies with current products and which will appeal to new customer groups. The objective is, therefore, to benefit from synergy effects due to the complementarities of activities, and thus to expand the firm's market by attracting new groups of buyers.

In the horizontal expansion, the organization adds new products or services that are technologically or commercially unrelated to current products, but which may appeal to current customers. In a competitive environment, this form of expansion is desirable if the present customers are loyal to the current products and if the new products are of good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity and instability. In other words, this strategy tends to increase the firm‟s dependence on certain market segments (Dismas, (2013)

The strategies of expansion may seek internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm (Collis, 1991). Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the company (Kim and Mauborgne, 2005).

Expansion strategies of banks are meant to add value to the firm in terms of customer satisfaction and performance. However, if diseconomies of scale exist, both was destroyed. In information and distribution-intensive industry with high fixed costs such as financial services, there should be ample potential for scale and scope economies. Economies of scale exist when the average cost decreases in scale over a relevant range as output expands. If this occurs, then larger institutions may be more efficient. Some businesses benefit from economies of scale while others are negatively affected (Ma & Karri, 2009). Examples of potential gains of scale in banking activity include physical branch distribution network, infrastructure software, and electronic distribution systems.

2.5 Empirical Literature Review

2.5.1 Effect of Expansion Strategy on Performance

Mutuma (2013) did an investigation of the effects of expansion strategies on the performance of Commercial Banks in Kenya. The study adopted a descriptive research design and targeted the staff working in commercial banks in tier one. It focused mainly on the top, middle and lower management staff who are directly dealing with the day to day management of the banks. Stratified proportionate random sampling technique was used to select the sample. The study found out that product development has the highest effect on the performance of commercial banks, followed by market penetration, then diversification while market development has the lowest effect on the performance of commercial banks meaning that expansion strategies adopted by the banks had a positive and significant effect on their overall performance.

Mwadime (2010) conducted an analysis of growth Strategies by The Kenya Commercial Bank Ltd. The study investigated the different reasons that led to KCB's growth strategy in each country it is operational in. Data was collected from the top management using an interview guide. The research found out that the reasons for KCB's growth were; increased profits, growth of customer base/market share, growth of bank deposits, increase revenues, stronger corporate image, increase investor confidence, increase shareholder value, stronger brand name, the presence of a virgin market in other countries and favorable political environment. The study also found out that KCB indeed had different reasons for growing into Tanzania, Uganda, Sudan, and Rwanda.

Another study by Muturi, Mwau & Oloko, (2017) was done to establish the moderating effect of ownership structure on the relationship between the growth strategies and the performance of firms within the insurance industry in Kenya. The study investigated how the Diversification strategy, Market penetration strategy, Market development strategy, Product development strategy and the moderating effect of ownership structure have contributed to the performance of firms within the insurance industry. The target population of the study was all the 5,188 insurance players in Kenya as of 2013. The study adopted a descriptive research design. Random stratified sampling was used to select 125 respondents. The study found out that the growth strategies have a positive influence on the performance of the insurance firms within the insurance industry in Kenya except for the market development strategy. The moderating effect of the ownership structure was also noted to have a positive effect on the performance of the firm.

Mulwa & Kosgei (2016) conducted an investigation on commercial bank diversification and financial performance and looked at the moderating role of risk. The study used an *ex post facto* explanatory design to investigate whether bank diversification affects financial performance and whether this effect is moderated by solvency and credit risk based on panel data from 34 commercial banks in Kenya over nine firm years. The results showed that income and asset diversification negatively and significantly affected commercial bank return on assets (ROA) while geographical diversification significantly and positively affects both ROA and return on equity(ROE). There was also a significant positive moderation effect of credit risk on the relationship between income diversification and ROA but a significant negative effect on the relationship between asset diversification and geographical diversification with both ROA and ROE.

Mwania (2017) investigated the relationship between growth strategy and performance of commercial banks in Kenya. The main purpose of the study was to establish if there is a link between organizational growth and performance. The research target was the entire staff working in commercial banks in Kenya. The study found out that product development and diversification strategies had a positive and significant effect on the bank's performance. It concluded therefore that expansion strategies have a positive and significant effect on the performance of commercial banks in Kenya.

Onyonka (2013) conducted an investigation on expansion strategies and performance of Commercial Banks in Kenya. The main purpose of the study was to determine if there was a link between expansion and performance. The research target was the entire population of commercial banks in Kenya. Data was collected from the managerial staff. The study established that commercial banks in Kenya are impacted on positively by expansion strategies. It concluded, therefore, that to gain sustainable growth and achieve economies of scale, banks must embrace expansion strategy as a key competitive strategy.

Marembo (2012), analyzed the impact of mergers and acquisitions on the financial performance of Commercial Banks in Kenya. The study used a survey design. The findings of the study showed that merger and acquisition improve both returns on equity and return on assets. It further revealed that merging /acquisitions only cannot propel banks in achieving high performance in terms of ROA and ROE because the performance of banks is dependent on several other factors.

Ogada, Achoki & Njuguna (2016) investigated the effect of mergers and acquisitions strategies on the financial performance of the financial services sector in Kenya. The purpose of this study was to establish the effect of mergers and acquisitions strategies on the financial performance of firms in the financial services sector in Kenya. The study adopted a mixed methodology research design. The study population included all the 51 merged financial service institutions in Kenya. Purposive sampling was used. The results showed that diversification strategy had no significant effect on the financial performance of merged institutions and that there was a significant relationship between the moderating effect of economic growth and financial performance of merged institutions.

Mohamed and Bustamam (2018) investigated external growth strategies and organizational performance in emerging markets: The mediating role of inter-organizational trust. The purpose of this paper was to identify and compare the effect of external growth strategies on the organizational performance of companies and to examine the mediating role of inter-organizational trust between growth strategies and organizational performance in Malaysia. Data was collected from 240 senior managers from public listed companies (PLCs) in Malaysia and was analyzed using analysis of a moment structures. The findings indicated that growth strategies have a significant effect on organizational performance. Strategic alliances and acquisitions were also found to have significant effects on organizational performance. Moreover, inter-organizational trust was found to fully mediate the effect of growth strategies on organizational performance.

Jung (2007) examined the relationship between international expansion and firm performance: An investigation of US-based restaurants and firms. This study aimed to examine whether there is an association between international expansion and U.S.-based restaurants performance in terms of accounting-based measures. Second, it intended to examine how the performance of service firms will indeed change within an observed time frame of international expansion. The results showed that international expansion and international diversification possesses both positive and negative effects on company performance. This study suggests an inverted U-shaped nonlinear relationship which is positive up to an optimal level resulting from the advantages of internationalization and negative beyond that level caused by the complication between international expansion and firm performance. The point depends on when and how a company employs the international expansion strategy.

Akpinar & Yigit (2016) investigated the relationship between diversification strategy and firm performance in developed and emerging economy Contexts: Evidence from Turkey, Italy, and the Netherlands. The aim of this study was to determine whether there is a difference between types of diversification and performance comparing Turkey, Italy, and the Netherlands. Data from 166 firms in the Netherlands, 265 firms in Italy and 128 firms in Turkey were analyzed in the period between 2007-2011. The results indicated that there is no correlation between total diversification and a performance criterion of ROA and ROS in Italy and the Netherlands.

Oyewobi, Windapo, Cattell & Rotimi (2013) investigated the impact of organizational structure and strategies on construction organizations' performance in South Africa. This paper examined how organizational structure and strategies influence the organization's corporate performance and investigate whether an organizational structure has a moderating impact on the association between organizational performance and strategy. The results revealed that organizational structure has an explanatory effect on the relationship between strategy and organizational corporate performance.

2.6.1 Summary of Literature and Gaps

In summary, the literature reviewed clearly indicates that there inconsistent findings on the effect of expansion strategy on organizational performance. Whereas Mutuma (2013) found in his study that that expansion strategies adopted by the banks had positive and significant effect on their overall performance, Muturi, Mwau & Oloko, (2017) found out that the growth strategies have a positive influence on the performance of the insurance firms except for the market development strategy which showed a negative effect on performance. They recommended further studies to clarify the inconsistency. Similarly, Mwania (2017), Onyonka (2013), Marembo (2012) and Alaaraj, Mohamed, & Ahmad Bustamam (2018) all found a positive and significant relationship between organizational expansion strategies and performance. On the contrary, Mulwa & Kosgei (2016) in their study found out that income and asset diversification negatively and significantly affected commercial bank return on assets (ROA). Ogada, Achoki & Njuguna (2016) found out that diversification strategy had no significant effect on the financial performance of merged institutions. Further Akpinar & Yigit (2016) study indicated that there is no correlation between total diversification and a performance criterion of ROA and ROS of firms in Italy and Netherlands while the study by Jung (2007) suggested an inverted U-shaped nonlinear relationship which is positive up to an optimal level resulting from the advantages of internationalization and negative beyond that level caused by the complication between international expansion and firm performance. These inconsistent results point to the fact that the effect of expansion strategies is still not clear and needs further investigation. Therefore clear knowledge is lacking on effect of expansion strategies on organizational performance.

CHAPTER THREE
RESEARCH METHODOLOGY

This chapter presents the methodological components that the study adopted to identify, collect, and analyze data. Specifically, it covers the research design, study area, target population, sample design procedures and sampling techniques to be used, data collection, verification of reliability and validity of instruments, data management, and analysis.

3.1 Research Design

This study adopted a correlational research design. The design was expected to test the hypotheses and meet the objectives of the study. According to Curtis, Comiskey & Dempsey (2016), a research design is most suitable in a research aimed at establishing a problem and to obtain information concerning the current status of a phenomenon in order to describe what exists with respect to the variables or conditions in a situation. It can also be used to identify the characteristics of a phenomenon or explore possible correlations among two or more phenomena. The correlational approach was used as the study seeks to examine the extent to which two or more variables relate. According to Leedy and Ormrod (2010), correlational research design is concerned with establishing relationships between two or more variables in the same population or between the same variables in two populations.

3.2 Area of Study

The study was conducted in Kenya among the 52 insurance firms. It was concerned with the headquarters of these firms where their Chief Executive Officers are expected to be found. Kenya is located in East Africa. The entire country is chosen because administration and operations of insurance firms are spread across the country.

3.3 Target Population

According to Zikmund *et al*. (2010) and Kothari (2004), a population refers to all items in any field of inquiry and is also known as the ‘universe'. The population of this study will comprise all the chief executive officers of all the insurance firms in Kenya totalling to 52. This is because this level of management have a better conceptual view of their firms concerning expansion strategy and they also understand the challenges that affect their firms’ performance

3.4 Sampling Technique

Since the population is small a census study involving all the subjects in the population was conducted. This excluded the subjects used in the pilot study.

3.5 Data Collection Methods

Data type and collection method entailed the following;

3.5.1 Sources of Data

Both primary and secondary data was used. Louis, Lawrence, and Morrison (2007) describes primary data as those items that are original to the problem under study while Ember and Ember (2009) describe primary data as data collected by the investigator in various field sites explicitly for a comparative study. Primary data was obtained using questionnaires which was administered to the respondents. The researcher gathered secondary data from internal records of the firms, Insurance Regulatory Authority, Kenya National Bureau of Statistics and the insurance survey reports.

3.5.2 Data Collection Procedure

The researcher obtained a letter of introduction from the university. A reconnaissance visit was made in order to identify any significant challenges and find ways to overcome them before the real research. The reconnaissance visit enabled the researcher to declare an intention to serve the research instrument and secure the related appointment with the chief executive officers.

3.5.3 Data Collection Instrument

The questionnaire was made up of both structured and semi-structured items. In order to ensure high statistical variability in the survey, responses for each construct was scored along a five (5) point Likert scale on a range of five items.

3.5.4 Reliability Test for Data Collection Instrument

A pilot study was conducted on 5 respondents that were not involved in the actual study. The questionnaire was administered to the top management of the insurance firms which was selected conveniently. Responses from the pilot study was analyzed to test for reliability and validity of the research instrument, therefore, allowing any corrections to be made before the actual study. To check the reliability of the instrument in this study, Cronbach’s Alpha coefficient was used (Cronbach, 1951). According to suggestions by Hair *et al* (1998), a coefficient of 0.7 is deemed acceptable for a reliability test. The results of reliability test are in table 3.1.

Table 3.1: Instrument Reliability

Scale	No.of Items	α
Diversification Strategy	5	.789
Product Development Strategy	5	.801
Market Penetration Strategy	5	.822
Performance	5	.793

Source: Pilot Test Data (2019)

From table 3.1, it is observed that the four scales each with five items had reliability coefficients above the threshold of 0.7. All the four scales were found reliable.

3.6 Data Analysis

Data collected through interview instruments and through the questionnaires was synthesized and coded, attaching scores to qualitative descriptions. Objective one, two and three were analyzed using multiple regression analysis. The results were presented in form of tables and charts.

3.7 Regression Model

The proposed model for specific objectives was:

$$\mathbf{Y= \beta_0+\beta_1X_{1i} + \beta_2X_{2i}+ \beta_3X_{3i} +\varepsilon}\ \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{1.0}$$

Where:

Y = Organizational performance

$\mathbf{X_1}$**=** Diversification

$\mathbf{X_2}$=Product development

$\mathbf{X_3}$=Market penetration

i = the units of study

ε = Error term

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Chapter four presents results and discussions. The findings of each of the three objectives are presented, interpreted and compared with previous research conducted in the same field.

4.1 Response Rate

From table 4.1, the response rate stood at 85%. A total of 47 respondents were contacted. This is after 5 respondents were used for pilot study. Out of 47, 40 responses were received.

Table 4.1: Response Rate

Status	Frequency	Percentage
Response	40	85
Non-response	7	15
Total	47	100

Source: Research Data (2019)

4.2 General Information

Information was sought on two areas considered general to study focus. These were age of the firm and the category of business of the firm. The results are as in table 4.2 and 4.3

4.2.1 Age of Insurance firms

Table 4.2: Age of insurance firms in years

Age range	Percentage %
1-10	19
11-20	31
21-30	26
31-40	14
Over 40	10
Total	**100**

Source: Research Data (2019)

Results in table 4.2 show that majority of the insurance firms were aged between 11-12 years (31%). The firms in the age range of 21-30 years were (26%). It can be observed that most of the insurance firms have been there for long.

4.2.2 Category of Business

Table 4.3: Category of Business

Category	Percentage%
i) General Business	45
ii) Life	35
iii) General Business and Life	20
Total	**100**

Source: Study Data (2019)

Results in table 4.3 show that the insurance firms are more in general business than in life. The firms in both areas of business are 20%.

4.3 Diversification Strategy

Table 4.4: Diversification Strategy (N=40)

Activities of diversification	N	Min	Max	M	SD
The firm targets a new segment of customers	40	2	5	4.20	.662
The firm has gone into new products	40	1	5	4.38	.692
The firm has established new and different businesses	40	1	5	4.19	.752
The firm targets new geographical markets	40	2	5	4.28	.722
The firm continuously analyzes risks associated with current business	40	1	5	4.30	.662
Overall	**40**			**4.27**	**.715**

Source: Research Data (2019)

From the results on table 4.4, the overall mean was (M= 4.27) and standard deviation was (SD=.715). From a scale of 1 to 5 where 1 is very low and 5 is very high, according to these results, activities of diversification are high among the insurance firms in Kenya. The small

SD shows that responses regarding this issue of diversification strategy were not spread far away from the mean. They were close to the mean. Estimation of extent of diversification strategy in the firms were consistent and close.

4.4 Product Development Strategy

Table 4.5: Product Development Strategy (N=40)

Activities of Product Development	N	Min	Max	M	SD
The firm is focused on its products serving different needs in the markets	40	1	5	4.08	.811
The firm carefully monitors lifecycle of products in the market	40	2	5	4.13	.825
The firm is actively involved in product upgrading to suit the changing needs of customers	40	1	5	4.25	.808
The firm seeks feedback from its customers on the newly introduced products	40	2	5	4.20	.784
The firm carries out research on the acceptability rate of a product before launching it to its customers	40	1	5	4.35	.799
Overall	**40**			**4.20**	**.810**

Source: Research Data (2019)

Table 4.5 shows the results of extent of product development activities in the insurance firms. Overall mean was (M= 4.20) and standard deviation was (SD=.810). From a scale of 1 to 5 where 1 is very low and 5 is very high, these results show that product development strategy in these firms is high. The small SD implies the responses on this issue among all respondents were not far from each other. The responses instead, are close and consistent across the respondents.

4.5 Market Penetration Strategy

Table 4.6: Market Penetration Strategy (N=40)

Market Penetration	N	Min	Max	M	SD
The firm uses different channels to communicate to customers about their products	40	2	5	3.49	.781
Our firm invests more in modern technology to reach new markets	40	1	5	3.62	.742
The firm has contracted brokers and agents to reach the market	40	1	5	3.55	.793
The firm uses mobile services to reach markets	40	2	5	3.53	.844
The firm has expanded branch network for more access	40	1	5	3.52	.805
Overall	**40**			**3.54**	**.788**

Source: Research Data (2019)

Results in table 4.6, show that the overall mean for market penetration was (M= 3.54) and standard deviation was (SD=.788). From the scale of 1 to 5 where 1 is very low and 5 is very high, these results show that market penetration is high. The small SD means the responses on this subject are not spread far away from the mean. The responses are consistent across the respondents.

4.6 Firm Performance

Table 4.7: Firm Performance (N=40)

Firm Performance	N	Min	Max	M	SD
There is an overall increase in the market share	40	1	5	4.01	.892
We realize rising profitability	40	1	5	4.10	.853
The goals of the firm are being achieved	40	1	5	4. 00	.893
There is physical expansion by the firm	40	1	5	3.88	.955
Revenue volumes are increasing	40	1	5	3.98	.916
Overall	**40**			**3.99**	**.898**

Source: Research Data (2019)

Results in table 4.7, show that the overall mean for firm performance was (M= 3.99) and standard deviation was (SD=.898). From the scale of 1 to 5 where 1 is very low and 5 is very high, these results show that firm performance is high. The small SD means the responses on this subject of performance are not spread far away from the mean. The responses are consistent across the respondents.

4.7 Expansion Strategies and Firm Performance

Effect of expansion strategies on firm performance was realized using multiple regression analysis. The results indicate the effect of diversification strategy, product development strategy and market penetration strategy on firm performance.

4.7.1 Effect of Diversification Strategy on Performance

Hypothesis $H_0$1 postulated that diversification has no significant effect on performance. Firm performance was regressed on diversification dimensions. Multiple regression coefficients (Table 4.8a) indicate coefficient of diversification as (β = 0.215, $p < 0.05$). This implies that for a unit change in diversification strategy, firm performance changes by .215 units. Diversification has significant effect on performance of insurance industry.

Table 4.8a:Regression Coefficients: Effect of Diversification Strategy on Firm Performance

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
(Constant)	.089	.171		.523	.604		
Diversification	**.215**	**.088**	**.158**	**2.448**	**.018**	**.186**	**5.385**
Product Dev	.353	.064	.430	5.479	.000	.125	7.995
Market Penetration	.449	.100	.421	4.482	.000	.087	11.440

a. Dependent Variable: Performance **Source:** Research Data (2019)

4.7.2 Effect of Product Development Strategy on Performance

Hypothesis $H_0$2 postulated that product development has no significant effect on performance. Firm performance was regressed on product development dimensions. Multiple regression coefficients (Table 4.8b) indicate coefficient of product development as (β = 0.353, $p < 0.05$). This implies that for a unit change in product development strategy, firm performance changes by .353 units. Product development has significant effect on performance of insurance industry.

Table 4.8b:Regression Coefficients: Effect of Product Development Strategy on Firm Performance

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	.089	.171		.523	.604		
Diversification	.215	.088	.158	2.448	.018	.186	5.385
Product Dev	**.353**	**.064**	**.430**	**5.479**	**.000**	**.125**	**7.995**
Market Penetration	.449	.100	.421	4.482	.000	.087	11.440

a. Dependent Variable: Performance **Source:** Research Data (2019)

4.7.3 Effect of Market Penetration Strategy on Performance

Hypothesis $H_0$3 postulated that market penetration has no significant effect on performance. Firm performance was regressed on market penetration dimensions. Multiple regression coefficients (Table 4.8c) indicate coefficient of market penetration as (β = 0.449, $p < 0.05$). This implies that for a unit change in market penetration strategy, firm performance changes by .449 units. Market penetration has significant effect on performance of insurance industry.

Table 4.8c:Regression Coefficients: Effect of Market Penetration Strategy on Firm Performance

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	.089	.171		.523	.604		
Diversification	.215	.088	.158	2.448	.018	.186	5.385
Product Dev	.353	.064	.430	5.479	.000	.125	7.995
Market Penetration	**.449**	**.100**	**.421**	**4.482**	**.000**	**.087**	**11.440**

a. Dependent Variable: Performance **Source:** Research Data (2019)

4.7.4 Effect of Expansion Strategies on Performance

Further, regression summary results are indicated in table 4.9. The model summary presented in Table 4.9 indicates R^2 of 0.637 which is significant. Likewise, the adjusted R^2 of 0.626 is also significant. The change is 0.011. This is below the level of 0.5, the margin suggested by Field (2005). Therefore, stability and validity of the model is confirmed. Expansion strategies account for 63.7% variance in performance.

Table 4.9 Model Summary: Expansion Strategies on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.798[a]	.637	.626	.38178	1.212

a. Predictors: (Constant), Diversification, Product Development, Market Penetration

b. Dependent Variable: Performance

Source: Research Data (2019)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

From the findings of objective two, it can be summarized that product development strategy has significant positive effect on performance. As a result, the null hypothesis which states that product development strategy has no significant effect on performance of insurance industry in Kenya, is rejected

From the findings of objective three, it can be summarized that market penetration strategy has significant positive effect on performance. As a result, the null hypothesis which states that market penetration strategy has no significant effect on performance of insurance industry in Kenya, is rejected

5.2 Conclusions of the Study

From the results of objective one, the conclusion is that the performance of insurance industry countrywide increases significantly with increase in diversification strategy activities. Similarly, from the results of objective two, the conclusion is that performance of insurance industry countrywide is significantly and positively affected by product development strategy activities and from the results of objective three, market penetration positively and significantly affects performance of insurance industry in Kenya. Therefore, insurance firms in Kenya need to concentrate on diversification, Product development and Market penetration activities as they have proved to have a significance effect on performance.

5.3 Recommendations of the Study

Based on conclusion of objective one, the study recommends that the insurance firms in Kenya should enhance their activities driving diversification strategies. The more they diversify, the more they will perform.

Based on conclusion of objective two, the study recommends that the insurance firms in Kenya should increase focus on activities product development. The more they engage in coming up with new products or modifications of existing ones, the more they will perform.

Based on conclusion of objective three, the study recommends that the insurance firms in Kenya should do more of market penetration. The more they engage in market penetration, the more they will perform.

5.4 Suggestions for Further Research

The study suggests to future researchers to engage in similar studies in different contexts. The future researches may also study the same phenomenon but use more advanced methodologies different from multiple regression approach. They can engage in case studies to stake out the advantages of case studies.

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APPENDICES

Appendix 1: Letter of Introduction

FAITH NZOMO

C/O

DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS AND ECONOMICS

MASENO UNIVERSITY

DATE____________________________

TO WHOM IT MAY CONCERN

Dear Sir/Madam

ACADEMIC RESEARCH

I am a student at Maseno University pursuing a degree course leading to Master of Business Administration. As part of the requirements, I am carrying out this research entitled, "**EFFECT OF EXPANSION STRATEGY ON PERFORMANCE OF INSURANCE INDUSTRY IN KENYA."** Please assist to answer the questions provided in a questionnaire. Your Identity is not required and the information you provide was treated in strict confidence. I remain grateful

Yours Sincerely

Faith Nzomo

(MBA /BE/00008/2017)

Supervisor

Dr Charles Ondoro

Maseno University

Appendix II: Questionnaire

a) General Information

i) Age of insurance firm in years (Tick one)

Age range	**Tick (v)**
1-5	
6-10	
11-15	
16-20	
21-25	

ii) Category of Business(Tick one)

Category	**Tick (v)**
i)General Business and other	
ii) Life	
iii) i and ii above	

b) Diversification is a growth strategy that is used to make a firm spread out risk by going into different businesses, industries, sectors or markets. Tick one box for each, to indicate how you would rate the following **diversification** activities by your firm

	Diversification activities	Very High 5	High 4	Average 3	Low 2	Very Low 1
1	The firm targets a new segment of customers					
2	The firm has gone into new products					
3	The firm has established new and different businesses					
4	The firm targets new geographical markets					
5	The firm continuously analyzes risks associated with current business					

c) Product development: Means the creation or modification of products with new or different characteristics that offer new or additional benefits to the customer. Tick one box for each, to indicate how you would rate the following product development activities by your firm

	Product Development activities	Very High 5	High 4	Average 3	Low 2	Very Low 1
1	The firm is focused on its products serving different needs in the markets					

2	The firm carefully monitors lifecycle of products in the market					
3	The firm is actively involved in product upgrading to suit the changing needs of customers					
4	The firm seeks feedback from its customers on the newly introduced products					
5	The firm carries out research on the acceptability rate of a product before launching it to its customers					

d) **Market penetration** refers to the successful selling of a product or service in a specific market. It is measured by the amount of sales volume and rate of selling of an existing good or service compared to the total target market for that product or service. Tick one box for each, to indicate how you would rate the following activities relating to market penetration by your firm

	Market Penetration Activities	Very High 5	High 4	Average 3	Low 2	Very Low 1
1	The firm uses different channels to communicate to customers about their products					
2	Our firm invests more in modern technology to reach new markets					
3	The firm has contracted brokers and agents to reach the market					
4	The firm uses mobile services to reach markets					
5	The firm has expanded branch network for more access					

e) **Firm Performance** refers to the successful prevalence of a firm over other firms in the market and efficient and effective achievement of firm goals in the market. Tick one box for each, to indicate how you would rate the following activities relating to market penetration by your firm

	Firm performance indication	Very High 5	High 4	Average 3	Low 2	Very Low 1
1	There is an overall increase in the market share					
2	We realize rising profitability					
3	The goals of the firm are being achieved					
4	There is physical expansion by the firm					
5	Revenue volumes are increasing					

Thank you for your response

Appendix III: Work Plan

WORK ACTIVITY **PERIOD**

2019

Month1Month2Month3Month4Month5

ACTIVITY
Problem Identification
Review of literature
Proposal Writing and Presentation
Proposal presentation
Data collection and data entry
Data Analysis
Presentation of draft
Final draft
Submission of project for examination

Appendix IV: Budget

ITEM	**KSHS**
Stationery	**15,000**
Literature Review and proposal development	**20,000**
Data collection	**30,000**
Data analysis	**25,000**
Secretarial costs	**20,000**
TOTAL COSTS	**110,000**