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Porter's Generic Strategies and Performance of Insurance Companies in the North Rift, Kenya

Sharon Chebet Kiplagat[1], Dr. Meshack Misoi[2], Dr. Rose Boit[3]

[1]Masters' Student, Department of Management, [2]Lecturer, Department of Management,
[3]Lecturer, Department of Management,
Catholic University of Eastern Africa, Nairobi, Kenya.

Corresponding Author: Sharon Chebet Kiplagat

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ABSTRACT

The study was based on the insurance industry and provided an understanding of the nature of porters' generic strategies and how they influenced performance of insurance firms in the North Rift region of Kenya. The study was guided by objectives drawn from porters' generic strategies of cost leadership strategy and differentiation strategy and how they influenced performance. The study adopted a cross-sectional survey design based on a population that targeted 28 insurance companies operating in North Rift Region. From a population of 1144 agents, a sample 296 agents were identified using Cochran (1977) formula. This study was grounded on Porter's Theory of Competitive Advantage. Data concerning the independent variables was collected using questionnaires and document analysis from published financial reports to capture relevant data for ROA computation. Collected data was analyzed quantitatively using descriptive and inferential statistics (correlation and regression analysis), with the assistance of Statistical Package for Social Sciences (SPSS v29). All tests were done at 5% significance level. The study findings indicated that 65.4% of the performance was explained by the variables (R^2 = .654) in the model. This was significant as indicated by p value of 0.05. Both variables were significant in influencing performance i.e. cost leadership strategy (P=0.005) and differentiation strategy (p=0.002) of performance of insurance companies operating in the North Rift region of Kenya. The study recommended for further research work to be conducted to review the influence of other variables on performance of insurance companies operating in the North Rift region of Kenya. The study contributed immensely to the body of knowledge (literature, theory and policy) in strategic management.

Keywords: *Cost Leadership Strategy, Differentiation Strategy, Performance, Porter's Generic Strategies*

INTRODUCTION

The insurance sector in Kenya has had its fair share of wins and losses. This has been caused by adverse macroeconomic factors, internal conflict, unfavourable fiscal policies affecting profitability and persistent fraudulent claims undermining the financial stability of the insurers and general confidence in the sector (AKI, 2022). The Kenya insurance industry comprises of 56 Insurance companies competing for a limited market share in a market that has a lower penetration of 1.2% as per Association of Kenya Insurers 2022 statistics which indicates a strong competition that exists between the industry

players. Increased foreign investor interest in Kenyan market with recent acquisitions and mergers by foreign insurance companies for example Sanlam insurance group that merged with Pan Africa Life Insurance Company, Metropolitan Life Insurance merged with Cannon Assurance Kenya Limited and Saham Assurance of Libya acquired Mercantile Insurance Company limited shows that global institutions have identified Kenyan market as a strong development frontier in insurance business hence need for companies to develop strong competitive strategies that can support sustainable growth and enhance companies transient advantage in the market.

Porter's Generic Strategies and Organisation Performance

Banker et al. (2014), investigated the relationship between the strategic positioning of firms and the sustainability of firm performance. The findings showed that both cost leadership and differentiation strategies had a positive impact on contemporaneous performance. In Nigeria, Odunayo (2018), examined the relationship between market focus strategy and organisational performance of telecommunication companies in Port Harcourt. The results showed a very positive significant relationship between market focus strategy and organisational performance in telecommunication companies in Port Harcourt.

The Insurance Industry in Kenya

After independence in 1963, the Government of Kenya saw the need to have control over the insurance industry, which was then dominated by branch offices of foreign companies particularly from Europe and India. During this period, insurance operations were governed by the Companies Act 1960, which was based on the UK legislation. There was therefore no competent body to supervise the industry. There was a great need to localize the branch offices of foreign insurance companies in the country in order to benefit the local investors. This resulted to the need for statutory supervision of the industry. In 1978, the Minister for Finance issued a directive stopping the operations of branch offices of foreign companies and all insurance companies were required to be locally incorporated. Thereafter, in the early 1980's the Government with the support of United Nations Conference for Trade and Development (UNCTAD) started the process of drafting a law to regulate the insurance industry.

In 1986, the Insurance Act CAP 487 was enacted with the commencement date being 1st January, 1987. The Act established the Office of the Commissioner of Insurance as the regulator of the insurance industry and stipulated the mandate and functions of the office. This office was created as a Department in the Ministry of Finance and was mandated to supervise the insurance industry. In order to enhance the supervisory capacity of the regulator the government delinked the Department from the Ministry to give it some autonomy. The Insurance (Amendment) Act 2006 enacted on 30th December, 2006 established the Insurance Regulatory Authority (IRA) to take up the role of regulating, supervising and developing the insurance industry. The Act became effective on 1st May 2007.

Insurance industry provides unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long-term investments. The risk absorption role of insurers promotes financial stability in the financial markets and provides a "sense of peace" to economic entities. The business world without insurance is unsustainable since businesses may not have the capacity to retain all kinds of risks in this ever changing and uncertain global economy (Ahmed, 2010). Insurance companies' ability to continue to cover risk in the economy hinges on their capacity to create

profit or value for their shareholders. It is true that a well-developed and evolved insurance industry is a boon for economic development as it provides long-term funds for infrastructure development of every economy (Charumathi, 2012).

According to the journal of Insurance Sector Outlook for East Africa 2015 by Deloitte (2016), East African insurance industry is experiencing major developments in the market trends and legislation through the East Africa Community. According to Kampire (2012) East African Community has enabled seamless trade in different sectors, insurance being one of them. According to AKI (2022) the East African insurance sector has seen tremendous growths despite macroeconomic and geopolitical challenges in the region. The region experienced an increase in demand for risk transfer solutions and digital and market operation transformation. The total insurance penetration rate for the region in 2021 stood at 1.2 % as compared to South Africa which stood at 11.5%. This shows there is potential for growth in the insurance industry (AKI, 2022).

Kenyan insurance industry is also experiencing growth coupled with increased competition by entry of global insurance companies such as Sanlam and Old Mutual Group (AKI, 2022). The total gross written premium grew by 13.51% to KES 312 billion in 2022 from KES 275 billion in 2021 (AKI, 2022). The growth was on the back of a recovering economy from the effects of Covid 19 and increased awareness among consumers. Additionally, digitization and increased strategic partnerships have enhanced ease of access of insurance products. Despite the growth, most insurance companies are yet to experience adequate growth in profits and market share due to intense competition.

Despite Kenya having 56 registered insurance underwriters and 5 reinsurance companies as at 2022 (IRA), 35 insurance companies wrote non-life insurance. The top 5 companies accounted for 39.89% of the market share. 7 out of the 35 companies recorded negative growth in 2022, having an aggregate market share of 12.15%, (AKI, 2022). Additionally, the Kenyan economy declined to 7.5% in 2022 from 8.4 % recorded in 2021 largely contributed by subdued agricultural production owing to the severe drought, (AKI, 2022).

The insurance industry in Kenya consists of many players that include insurance companies, insurance brokers, independent agents, banks, the regulator, member association bodies, and service providers, motor assessors, insurance intermediaries, insurance investigators among others players. Kenya has 56 licensed insurance companies, 5 reinsurance companies, 220 brokers and 4,576 registered agents, (AKI, 2022). According to the insurance industry report 2022 from AKI the penetration of insurance in Kenya is very low at only 1.2 percent of Gross Domestic Product (GDP) meaning there is room for growth.

Statement of the Problem

Global insurance market is in upward trend with the growing middle class, improved infrastructure and technology, globalization and increase in international trade. AKI report (2022) indicates that there are new innovative insurance start-ups with digital space being their primary target which has put pressure on the legacy insurance providers to invest in digital markets and acquire new expertise to keep up with the rapidly changing markets and population demographics through improved cost efficiency. Despite this upward trend, some insurance companies have been forced to downsize and even close down their businesses due to competition emanating from many existing and upcoming insurance companies (Ndunge, et al., 2019). Therefore, there is need to create exceptional antiphons and generic strategies to curb competition to assist them in achieving a significant advantage over rivals (Sumer et al., 2012; Nyaguthii, 2014).

Evidence exists on the subject of Porters generic strategies but without focus on the interplay between them in the insurance

industry. For instance, Nazirah, et al. (2014) found a positive and significant influence of competitive strategies on performance of Malaysian quantity surveying firms. However, the study was conducted during economic depression in Malaysia. The study failed to provide insight on how the firms would adopt strategies and perform in an optimal or normal economic situation. In Kenya, Muia (2017) assessed the significance of competitive strategies on performance. However, the author viewed all the companies in same breath which creates knowledge gap on how size and business line in insurance companies adopt competitive strategies influence their performance. Kihanya (2013) confirmed significance of integrated marketing communication tools on performance of Kenyan insurance firms. However, this study only focused on marketing aspect in relation to competitive strategies. Mukya (2017) examined the effect of the generic competitive strategies on the performance of insurance companies within the Kenyan market. The limitation of the study was that it only focused on the insurance companies and yet there are other players in the industry such as the agents, brokers and the reinsurance companies. Although different firms have different orientations and structures the companies were viewed in the same breadth.

According to IRA (2021), Kenya insurance firms have reported mixed and inconsistent performance despite employing similar competitive strategies. Some firms have recorded improved performance while others have dropped despite Kenyan economy experiencing stability after the COVID 19 pandemic (AKI, 2022). Initial research findings provided minimal information on whether the firms were experiencing overall macro-performance challenge or market penetration difficulties. Therefore, this study intends to fill the gaps identified in the extant literature by examining the effect of Porter's generic strategies on the performance of the insurance companies within the North Rift Region, Kenya.

Research Questions

1. To what extent does Cost leadership strategy influence performance of insurance industry in the North Rift, Kenya?
2. To what extend does differentiation strategy influence performance of insurance industry in the North Rift, Kenya?

Research Hypotheses

The study tested the following research hypotheses;

H_{01} Cost leadership strategy has no significant influence on performance of insurance industry in the North Rift Kenya.

H_{02} Differentiation strategy has no significant influence on performance of insurance industry in the North Rift Kenya:

Theoretical Framework

This study is grounded on Porter's theory of competitive advantage. Michael Porter (1998) developed a model of generic strategies which firms could use to gain competitive advantage in their industries. The model highlighted cost leadership, differentiation and focus as the three basic choices for firms to attract customers and achieve competitive advantage. Cost leadership Strategy occurs when a firm finds and exploits all sources of cost advantage and aims at becoming a low-cost producer in the industry. The strategy emphasizes on efficiency and industries that employ this strategy often produce products at a relatively low cost and the products are made available to a very large customer base. Therefore, maintaining the strategy requires a continuous search for cost reductions in all aspects of the business. Porter stressed the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm, and nature of

competition, various strategies could yield advantages in cost leadership.

Differentiation Strategy is when a firm seeks to be unique in its industry along some dimensions of its product or service that are widely valued by customers. The uniqueness can be associated with features of the product, design, brand image, technology, dealers, and network. The strategy is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price (Porter, 1998).

The generic strategies can be used by a firm to counter the market forces and gain competitive advantage in an industry (Porter, 2002). A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs. differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage (Porter, 1985).

Despite its importance in organisations, criticisms have been levelled against porter theory of competitive management. The early understanding of competitive advantage did not address the question of how enterprises develop sustainable superior competitive advantage, but instead implicitly adopted a profit-seeking framework (Kimani & Kungu, 2024). Second, it is regarded as a static theory because it fails to address the fundamental issue as to how future resources can be created (Priem & Butler, 2001). Third, Porter's competitive forces model cannot account for competitive advantage for enterprises in highly dynamic markets.

The insurance industry can maximize performance either by striving to be the low-cost producer or by differentiating its line of products or services from those of other insurance industries. Either of these two approaches can be accompanied by a focus of organisational efforts on a given segment of the market. Any organisation that fails to make a strategic decision to opt for one of these strategies is in danger of being stuck in the middle. Porter's Theory of Competitive Advantage explains three independent variables of this study; cost leadership, differentiation and focus strategies. The theory is relevant to this study due to its three key strategies; cost leadership and differentiation which formed the independent variables in the conceptual framework.

Conceptual Framework

When clearly presented, the conceptual framework assists the researcher in deriving meaning of the subsequent study findings. It explains the possible connections between the variables through a visual display developed from the researchers' perception of the research (Bryman, 2016). For this study the dependent variable was performance of the insurance companies which was measured by establishing information on return on assets, investment income, benefits and profitability after taxation. The independent variables were cost leadership strategy and differentiation strategy.

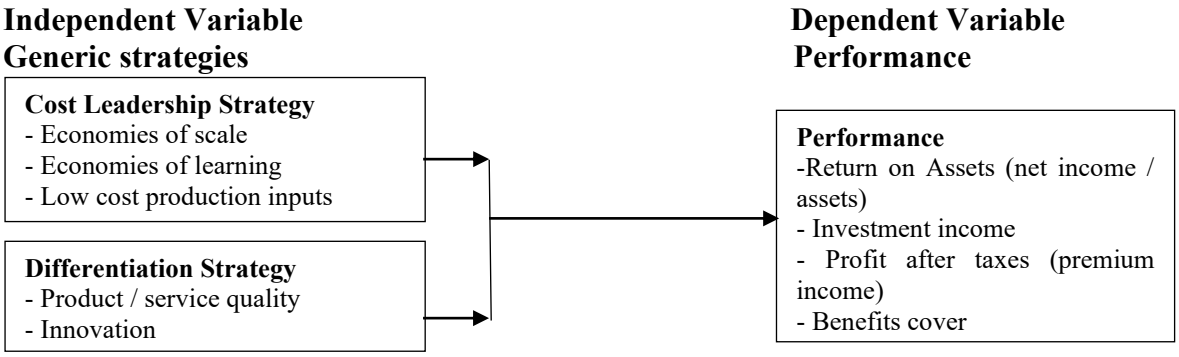

Figure 1: Conceptual Framework
Source: Reviewed Literature (Porter, 1985)

Contingency Theory

The contingency theory was a predominant concept used to analyse connection between an institution's internal and external contexts and its performance. The principal foundation of this theory is that there is no one best strategy an organisation can adopt to achieve superior performance (Otley, 1980 in Stefan et al., 2023).

The contingency theory stipulates that an organisation must fit a given context in order to achieve high performance or, based on Porter's (1980) generic strategy approach, a competitive advantage. According to Porter (1980), there is need of formulating strategy is relating company to its contingencies to create fit. Hence, organisations which are in fit can achieve a competitive advantage while those in misfit cannot (Stefan et al., 2023). There are three types of fit mentioned in the extant literature: selection fit, interaction fit, and systems fit. Selection fit stipulates that survival is only guaranteed to the organizations with the best results

Empirical studies focusing on this type of fit, highlighting the idea of equilibrium, and only analyse the relation between organizational systems and contingent factors, ignoring the link to competitive advantage (Stefan et al., 2023). Interaction fit studies emphasize the existence of organizations in misfit, analysing the effects related to superior performance resulting from the link between organizational systems and contingency factors. These two types of fit only take into account one or two organizational characteristics as contingency factors (Hamann, 2017). Research examining the system fit, however, base their assumptions on the existence of various contingency factors that lead to an organisation's competitive advantage. The strategies should consider the resource strength and weakness of the organisation and analyse to determine the extent to which it can accommodate the opportunities and strengths originating from the contingencies. The influence of formulated strategies on firm's performance is greatly influenced by the fit with environment (Thompson & Strickland, 2007).

Contingency theory will be relevant to this study as it is based on strategic match with the competition drivers. The theory also takes into account the fact that different companies have differing orientations, strengths, weakness and structure which influence strategies influence on organisational performance.

Transaction Cost Theory

Ronald Coase set out the transaction cost theory of the firm in 1937 (Rindfleisch, 2019. Coase begins from the standpoint that markets could in theory carry out all production, and that what needs to be explained is the existence of the firm, with its "distinguishing mark of the supersession of the price mechanism." Coase identifies some reasons why firms might arise, and dismisses each as unimportant: if some people prefer to work under direction and

are prepared to pay for the privilege (but this is unlikely); if some people prefer to direct others and are prepared to pay for this (but generally people are paid more to direct others); if purchasers prefer goods produced by firms.

Instead, for Coase the main reason to establish a firm is to avoid some of the transaction costs of using the price mechanism (Rindfleisch 2019. These include discovering relevant prices, which can be reduced but not eliminated by purchasing this information through specialists, as well as the costs of negotiating and writing enforceable contracts for each transaction. Moreover, contracts in an uncertain world will necessarily be incomplete and have to be frequently re-negotiated. The costs of haggling about division of surplus, particularly if there is asymmetric information and asset specificity, may be considerable.

If a firm operated internally under the market system, many contracts would be required (for instance, even for procuring a pen or delivering a presentation) (Suematsu, 2014). In contrast, a real firm has very few (though much more complex) contracts, such as defining a manager's power of direction over employees, in exchange for which the employee is paid. These kinds of contracts are drawn up in situations of uncertainty, in particular for relationships which last long periods of time. Such a situation runs counter to neo-classical economic theory. The neo-classical market is instantaneous, forbidding the development of extended agent-principal (employee-manager) relationships, of planning, and of trust. Coase concludes that "a firm is likely therefore to emerge in those cases where a very short-term contract would be unsatisfactory" and that "it seems improbable that a firm would emerge without the existence of uncertainty".

Coase notes that government measures relating to the market (sales taxes, rationing, price controls) tend to increase the size of firms, since firms internally would not be subject to such transaction costs. Thus, Coase defines the firm as "the system of relationships which comes into existence when the direction of resources is dependent on the entrepreneur." We can therefore think of a firm as getting larger or smaller based on whether the entrepreneur organizes more or fewer transactions. Coase (1937) concludes by saying that the size of the firm is dependent on the costs of using the price mechanism, and on the costs of organisation of other entrepreneurs. These two factors together determine how many products a firm produces and how much of each.

In relation to the current study, the transaction cost theory can be used to describe the many transaction costs insurance companies incur when trying to reach consumers of their products. It requires insurance companies need to advertise for their products, which necessitate repetitive tasks of sales activities, which are the principal sources of transaction costs associated with porter's competitive strategies. However, while the transaction costs inherently arising from these aspects of marketing, they potentially face all insurance companies.

Criticism of the Theories

Contingency Theory

The Contingency theory is premised on the fact that the contingencies of a situation determine best practice. Also, contingency is a relationship between two phenomena. Because of this relationship, conclusions can be drawn in relation to the two phenomena (Kegode, 2020). The assumption underlying contingency theory is that no single type of organisational structure is equally applicable to all organisations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organisation, the features of the organisational structure and its information system (Abba et al., 2018).

Nevertheless, criticism have been levelled against this theory, this theory holds that

organisations in fit have (as a result) higher performance than those in misfit. But, all of these fits produce the same high level of performance. It has been shown that organisations in fit to each of levels of the technology contingency attained the same high level of performance. Drazin and Van de Ven (1985), the point about the fit line as being one of iso-performance, that is, the equal performance of all the fit points on it (Iso-performance: Fit, Misfit and Performance).

The theory has been criticised as it is not sensible for organisations to move into a fit with their contingencies, because while the organisation is changing its structure to fit the contingencies, the contingencies themselves change so that the organizational structural change does not produce fit (Donaldson, 2006 in Abba et al., 2016). It is sometimes also said against structural contingency theory that organizational managers may not know the fit states of the theory and so cannot change their organization towards it (Donaldson, 2006).

Transaction Cost Theory

TCE avoids direct measurement of transaction costs themselves, to focus instead on other variables, such as uncertainty and asset specificity. Reviewing empirical work in the area, Williamson (1985) upholds that the 'cumulative evidence' for TCE is 'broadly corroborative' and it is 'an empirical success story' As Scott Masten et al. (1991) argue: 'Because of difficulties in observing and measuring transaction costs, analysts have had to rely on estimations of reduced-form relationships between observed characteristics and organisational forms.' But 'such indirect tests are unable to distinguish whether observed patterns of organisation resulted from systematic, but as yet unexplored, variations in the costs incurred organizing production internally' (ibid.). More than one type of theoretical explanation could be consistent with the data. In particular, and especially in the absence of direct measures of transaction costs, a non-transaction cost explanation might be viable (Masten, 1996).

Empirical Review of Literature

Cost Leadership Strategy and performance

In United States, Lee, et al. (2021) examined the impact of firms' pursuing multiple generic strategies, namely, Porter's low-cost and focus strategies. Utilising the context of the scheduled U.S. passenger airline industry over two decades, they empirically showed that combining a low-cost strategy with a focus strategy was, indeed, detrimental to firm profitability, which had important implications for scholarship and practice. The gap created from Lee et al. (2021) study is that it was longitudinal while the present study is cross-sectional in nature.

In Mozambique, Navaia, et al. (2024) examined the relationship between innovation capabilities (ICs) and export performance (ExPf), in addition mediating effects of cost leadership and cost focus competitive strategies among small and medium enterprises (SMEs). Data was collected from 250 SMEs. Analysis of data was done using Partial Least Squares Structural Equation Modelling (PLS-SEM). It was established that cost leadership and cost focus competitive strategies partially mediated the ICs-ExPf relationship. The gap created from this study is that it was conducted among SMES while the present study will be conducted among insurance companies.

Suleman, et al. (2019) evaluate the extent to which Porter's generic strategies; cost leadership is useful in the context of purely online multinational firms. A qualitative research methodology using case study method approach was used. Secondary data was collected from companies' financial and annual reports, reliable business databases and articles and figures from public accounts. Results showed that cost leadership strategy was a valid strategic focus for pure online firms. This strategy relied on a firm's value chain resulting in

low-costs of producing products and/or offering services. Suleman et al. (2019) study was qualitative in nature while the present study will be quantitative.

In Kano State Nigeria, Gorondutse and Gawuna (2017) examines cost leadership strategy on performance hotels. The study used quantitative survey method to analyse the hypothesised relationships. A census sampling was employed in collection of data from the manager and owner of hotels. Results indicated that cost leadership strategy had direct significant positive relationship with hotels performance. One of the weaknesses of the study is that study relied on the perception of mangers of hotels in regarding their performance who could not provide a precise replication of reality in their organisation. This study will focus on both managers and sales agents as respondents.

Kago, et al. (2018), sought to determine the relationship between cost leadership strategies and organisational performance of petroleum companies in Kenya. The study adopted a descriptive research design and surveyed 59 petroleum companies. Questionnaires were used to collect primary data from 52 top level, middle level and junior management employees. Result showed that cost leadership practices through cost cutting measures like use of technology resulted to minimisation of costs which significantly influenced companies' performance. The gap created from this study is that it was conducted in the petroleum sector which has different cost leadership behaviour as opposed to the insurance industry.

Mutembei and Njuguna (2019) investigated the influence of cost leadership on insurance penetration in Kenya. The study was informed by Porter's theory on generic strategies. A cross-sectional research design was used that collected primary and secondary data. Primary data was collected from 50 head of marketing and head of business development departments' managers. Results of correlation analysis showed that there was a positive and significant relationship between cost leadership strategy and insurance penetration. It was concluded that adoption of cost leadership strategy enhances insurance penetration. The gap created from this study is that it focused on middle management employees while this study will target top, middle and lower-level cadre of employees working in insurance firms.

In Nyeri County, Njuguna and Waithaka (2020) sought to determine the effect of cost leadership strategy on the performance of insurance firms. The study was anchored on Porter's Five Forces Model and the Dynamic Capabilities Theory. A total of 25 insurance companies operating in Nyeri were selected as the target. Purposive sampling was used to select 125 respondents who were branch managers, finance officers, marketing managers, claims managers and actuaries. Data collection was done through use of questionnaire for primary data and insurance companies 5 year audited financial report for years 2014-2018. Results showed that cost leadership ($r=0.791$, $p=0.01$) has a very strong and positive correlation with organisational performance. It was therefore concluded that pursuit of cost leadership strategies delivered positive results to the organisation. The gap created from Njuguna and Waithaka research is the use of non-probabability sampling methods while this study intends to use probability sampling methods in selecting insurance agents to be involved in the study.

In Nyeri County, Wanjogu and Muathe (2022) explore the impact of cost leadership strategies on competitive advantage at Kenya's Medical Training Colleges. The study was grounded on Dynamic capabilities theory and Resource-Based View theory. A descriptive research design was used. The study targeted 183 members of staff from four medical training colleges. Data was collected from 42 respondents who involved top-level management, middle-level management and low-level management through use of questionnaires. Results showed that cost leadership

strategies positively contributed to the colleges' competitive advantage. The gap created from this study is that it was discriminative as it involved managerial level of employees while the present study will involve all categories of staff working in insurance companies.

Differentiation Strategy and Performance

In Kosovo, Islami et al. (2020) investigated how porter's generic strategies (low-cost strategy, differentiation strategy, and focus strategy) on firm performance. The respondents came from 113 companies. The questionnaires of were used to collect data and analysis of research undertaken using econometric model. Econometric results showed that companies pursuing differentiation strategy provided higher firm performance compared to two other Porter's generic strategies (low-cost strategy or focus strategy) that had a positive impact as well. The gap created from this study is that respondents' selection was not clear and therefore the sample size was not representative of the institutions that were targeted.

In South Korea, Kim, Lee, Choi, Lee and Jakovljevic (2023) investigate differentiation strategies and organisational culture and its effect on performance of medical device corporations. They utilised data from the 3rd to 6th Human Capital Corporate Panel surveys by the Korea Research Institute for Vocational Education and Training as well as data from the Korea Information Service and 6,112 workers and 260 companies were analysed. It was found out that differentiation strategy and innovative culture had a positive effect on organisational satisfaction, while cost leadership strategy and hierarchical culture had a negative effect. On the other hand, differentiation strategy and innovation culture had a negative effect.

In Thailand, Teeratansirikool et al. (2013) examined the mediating role performance measurement in the relationship between differentiation strategies and firm performance of 101 listed companies. Data was collected through electronic mail survey sent to company's executives. The study found that differentiation strategies positively and significantly enhance firm performance through performance measurement as a mediator. The study also found that differentiation strategy not only had a direct and significant impact on firm performance but also it had indirect and significant impact on firm performance through the mediation of financial measures. The gap created from this study is that the target respondents were senior managers while this study involves all categories of employees to establish how differentiation affects performance of company.

In Surabaya Indonesia, Semuel et al. (2017) examined the effect of leadership and innovation on differentiation strategy and company performance of hotels. The study was quantitative in nature and data was collected through questionnaires issuance senior management hotel executives and supervisors. Results showed that leadership affect the performance of hotels, either directly or indirectly through innovation and differentiation as an intervening variable. While leadership does not affect directly differentiation strategy, but it affects indirectly through innovation. The gap created from this study is that differentiation was an intervening variable while in the present study it is an independent variable.

Further, Kaya (2015) examined the effect of entrepreneurship and differentiation on the financial performances of small and medium-size firms (SMEs) in Turkey. The sample size was 70 SMEs drawn from the Turkish Machinery and Equipment Manufacturing Industry. The results suggested that corporate entrepreneurship and differentiation positively affect SME performance. The gap created from Kaya research is the focus on SMEs while the present study targets insurance companies to establish how differentiation affect performance.

In Myanmar, Phyo (2023) investigated how value chain practices affected differentiation strategies of IT system integrator firms. A

sample size of 66 out of 132 from ICT integrator were used. Primary data was collected through questionnaire and secondary data through industry reports and literature review. Results showed that different features within the value chain had varied influence on the differentiation strategy. It was found out that attainment of differentiation through superior customer service was significantly influenced by customer relationships, postponement, and information sharing level.

Among Morocco industrial companies, Razzouki et al. (2024) explore the effect of differentiation strategy on the organizational performance and the role of the interactive use of management control systems as a mediator. Questionnaire survey was distributed to representatives of 180 industrial companies and analysis undertaking using Partial Least Squares Structural Equation Modelling (PLS SEM). Findings showed existence of significant relationship between differentiation strategy and organisational performance. The gap created in this study is that the respondents were only managers of companies while this study will expand to include even junior employees to get their feedback on how differentiation affect their company performance.

In Abraka, Delta State Nigeria, Eboh, et al. (2024) analysed product differentiation and its effects on a marketing performance using selected fast moving consumer goods firms. The target population was 224 employees of selected FMCG firms. Semi-structured questionnaire was applied in collection of primary data. Findings showed that product differentiation had a significant effect on marketing performance. The gap created from this study is that the dependent variable was marketing performance while this study involves whole metrics of organisation performance.

Odhiambo (2020) determined the influence of differentiation strategy on performance of insurance firms in Kenya. The study was guided by balanced scorecard model, contingency theory and Porter's generic competitive theory. A descriptive research design targeting 55 registered insurance companies was used. Stratified proportionate random sampling was used in selecting 110 respondents. A structured questionnaire was used in collection of primary data. Findings showed differentiation had strong correlation on organisational performance of insurance companies. The gap created in this study is that the population targeted was not well defined hence casting doubts on the categories of respondents that were targeted in the study.

In Nairobi Kenya, Msinga, et al. (2020) sought to establish the effect of differentiation strategy on performance of insurance companies. The research was guided by porter generic theories. A descriptive survey research design was used which targeted a total of 1443 top, middle and lower-level management representatives from 43 firms. Through systematic random sampling method, 54 managers were selected and issued with questionnaires. The findings showed that differentiation strategies significantly influenced the performance of insurance firms in the area. The gap created from this study is that the sample size was too small based on the target population and hence therefore the findings did not actually reflect the situation across the insurance companies under investigation.

Research Design

The study adopted a cross-sectional survey design. Cross-sectional survey collects data to make inferences about a population of interest (universe) at one point in time. Cross-sectional surveys have been described as snapshots of the populations about which they gather data.

Target Population

The population of the study comprised all the insurance companies licensed and operating in North Rift Kenya. Out of total of 56 insurance companies based in Kenya, 28 have operational offices in North Rift

regions. The licensed insurance companies in Kenya made it possible to obtain information which represented the insurance industry dynamics in North Rift Region, Kenya, from the targeted 1144 insurance agents working to provide insurance services to customers within North Rift Region.

Description of Sample Size and Sampling Techniques

Considering that the target population was high, a sample was chosen to be the representative of the whole population. The study utilized Cochran (1977) formula in calculating the sample size. The sample size for this study consisted of 296 insurance agents.

When selecting 296 out of 1144, stratified random sampling method was applied. This was a sampling approach that combined stratified and simple random sampling approaches. It involved dividing the target population into smaller subgroups commonly known as strata (individual insurance companies).

Description of Data Collection Procedures

Primary and secondary data was used in the study. Primary data was collected through use of questionnaires that were administered to insurance agents working with 28 insurance companies in North Rift Region. Secondary data through document analysis tool was collected from insurance companies' website with respect to their financial performance in the last three years. Document analysis sheet was used to collect information on financial performance of insurance companies in the three years; 2022, 2023 and 2024. This information was collected from websites of the insurance companies and also Insurance Regulatory Authority annual reports for the above-mentioned years. This helped to complement information that was collected through questionnaires.

Data Analysis and Procedures

The collected data through questionnaires was coded and edited for completeness and consistency. Quantitative data was analysed by employing descriptive and inferential statistical techniques, which were achieved by using the statistical package for social sciences (SPSS v29) as a tool for analysis. Multiple regression analysis was used to determine the effect of a set of independent variables on the dependent variable.

Model Specification

$PERF = \beta_O + \beta_1 COS + \varepsilon ij$----------(i)

$PERF = \beta_O + \beta_2 DIF + \varepsilon ij$----------(ii)

Where: β_O, β_1, and β_2 were beta coefficients which indicate the percentage change in the dependent variable as a result of a 1% change in the independent variable. COS and DIF represented cost leadership strategies and differentiation strategies respectively while ε_{ij} was the error term which defined those other variables which contributed to the changes in the dependent variable but the researcher did not intent to capture them.

RESULT

Performance of Insurance Companies in the North Rift, Kenya

The study employed descriptive analysis when analysing the dependent variable, performance. The mean, standard deviation, skewness and kurtosis were computed from the secondary data collected from the audited annual financial reports of the respective insurance firms for the three-year period of 2022-2024. The mean represented the averages from the data sets and the standard deviation represented the degree of variation in the data away from the mean. The descriptive statistics results were presented and analysed as follows:

Table 1: Descriptive Statistics

Year	Obs	Min	Max	Mean	Stdev	Skew	Kurtosis
2022	28	-6.18	11.25	0.40	2.74	0.07	0.28
2023	28	-1.13	9.96	0.36	1.93	0.18	0.93
2024	28	-3.5	7.75	0.19	1.66	0.12	0.66
			Average	0.32	2.11	0.12	0.62

Source: Research Findings (2025)

From table 1 above, results indicated that descriptive statistics: year 2022 had a (Mean of 0.4 and a standard deviation σ=2.74, skewness of 0.07, and kurtosis of 0.28. this implied that the mean of the insurance firms was high at 40%, while the standard deviation of 274% implied that in the year 2022, there was a very high dispersion of ROA from the mean. The data was a positive skew of ROA in the year 2022 but with asymmetry ROA since the skewness value was far away from the mean. Kurtosis being a measure of the tailedness, in this case, 0.28 being within the minimum and maximum values indicated that the data was normally distributed (mesokurtically distributed).

In the year 2023, the mean was 0.36 and a standard deviation σ=1.93, skewness of 0.18, and kurtosis of 0.93. These results implied that the mean of 36% though lower than in year 2022 was still high, while the standard deviation of 193%, though lower than in 2022, implied that in the year 2023, there was still a very high dispersion of ROA from the mean. The data was a positive skew of ROA in the year 2023. Kurtosis in this case, at 0.93 indicated that the data/ROA had more tail ROA compared to 2022.

Finally, in the year 2024, a mean of 0.19 and a standard deviation σ=1.66, skewness of 0.012, and kurtosis of 0.66. this implied that the mean of the insurance firms was the lowest at just 19%, with a standard deviation of 166% which again implied that in the year 2024, there was a high dispersion of ROA from the mean, though the lowest of the three year-period. The data was a positive skew of ROA in the year 2024 at 0.12. Kurtosis of 0.66 being within the minimum and maximum values, but much at the center, indicated that the data was leptokurtically distributed.

Overall, the insurance firms are not very well utilizing their assets to generate profits, because the firms have very low ROA ratios. These findings were supported by Ombongi and Long (2018), Simiyu and Gichure (2023) and Njuguna and Waithaka (2020).

Cost Leadership Strategy

Data was collected for the first independent variable, cost leadership strategy, analyzed and the findings presented in table 2 below;

Table 2: Cost Leadership Strategy

Statement	N	Mean	Std Dev.
This company uses economies of scale in reducing costs of products and services offered to its clientele	219	4.0435	1.1244
This company has a well-established program that offers virtual training to sales agents.	219	4.1304	0.9103
There is capacity utilization of resources in our company	219	4.1087	1.0101
The company products are capable of meeting individual needs of customers.	219	4.0109	0.9514
The company benchmarks itself against competing insurance companies to assess their relative cost of products and services	219	3.9458	1.0879
The company ensures that the products being introduced in the market have low production inputs	219	4.0013	0.9735
AVERAGE		4.0401	1.0096

Source: Research Findings (2025)

Key: 5-SD=Strongly Disagree, 4-D=Disagree, 3-NS=Not Sure, 2-A=Agree, 1-SA=Strongly Agree

The respondents agreed that cost leadership strategy improves performance of the insurance companies operating in the north rift region in Kenya. That the companies use economies of scale in reducing costs of products and services offered to the clientele (mean=4.0435, SD=1.1244), this mean implied that the respondents were in agreement with the statement, although the standard deviation value which was greater than 1.0 meant great variability among the respondents on this question.

The findings also indicated respondents' agreement that the companies had well-established programs that offer virtual training to sales agents (mean=4.1304, SD=0.9103), these findings indicated that the respondents had a near close agreement with the statement as supported by the standard deviation less than 1.0 which implied more concurrence among the respondents on the statement. It further revealed that the respondents were in agreement that there was capacity utilization of resources in the insurance companies (mean=4.1087, SD=1.0102). The mean value implied that the respondents were in agreement while the standard deviation indicated that the responses were of moderate variability.

An agreement was also received from the respondents that the company products were capable of meeting individual needs of customers with mean of 4.0109 and standard deviation of 0.9514, the mean indicated that responses were in agreement with a high concurrence among the respondents as supported by the standard deviation value of less than 1.0.

On whether the insurance companies benchmarked themselves against other competing insurance companies to access their relative cost of products and services, the respondents seemed not satisfied with a mean of 3.9458 and a standard deviation of 1.0879. These mean results indicated that the respondents were in disagreement with the statement while the standard deviation indicated a high variability among the responses. The findings implied that the insurance firms rarely benchmarked on competitors as reflected in the low mean and moderate standard deviation.

Finally, there was another agreement that the insurance companies ensured that the products being introduced in the market had low production inputs at 4.0013 mean and 0.9735 standard deviation, the high mean and low standard deviation indicated that the respondents were in agreement and in concurrence that the firms ensured the products introduced to the market had low production inputs.

The aggregate results showed that the cost leadership strategy influenced the performance of the insurance industry in the North Rift Kenya while viewing it as vital to the insurance company's operations at a moderate concurrence among the respondents as denoted by a mean of 4.0401 and average standard deviation of 1.0096.

Differentiation Strategy

The second independent variable, differentiation strategy, was subjected to respondent reactions and the feedbacks recorded, analyzed and presented as shown in table 3 below;

Table 3: Differentiation Strategy

Statement	N	Mean	Std Dev.
This insurance company adopts technological processes in all its operations.	219	3.8696	1.0608
This company has a promotion and advertising campaign strategy on its diverse products and services	219	3.7717	1.1751
This company offers products that are different from its competitors	219	4.2391	0.7452
This company maintains service quality, which enables it to remain sustainable and be remain head of competitors	219	4.1929	0.7500
This company has a desired brand position differentiated enough to compete in a saturated market	219	4.1848	0.8257
AVERAGE		4.0516	0.9114

Source: Research Findings (2025).

Key: 5-SD=Strongly Disagree, 4-D=Disagree, 3-N=Neutral, 2-A=Agree, 1-SA=Strongly Agree

The overall research findings on this variable demonstrated an agreement among the respondents on the statements.

The insurance companies adopt technological processes in all their operations at a mean of 3.8696 and a standard deviation of 1.0608. These responses were in agreement with the statement as per the mean result tough with a high variability among respondents. When asked whether the companies had promotion and advertising campaign strategies on their diverse products and services, the respondents were in agreement although with low mean and a high variability. This decision was supported by the descriptive results of 3.7717 mean and 1.1751 standard deviation.

The companies offered products that were different from their competitors at a mean of 4.2391 and a standard deviation of 0.7452. The findings indicated a strong agreement among the respondents as depicted by the mean of over 4.20 and a high concurrence indicted by the low standard deviation results. On whether the companies maintain service quality which enabled them to remain sustainable and remained ahead of competitors, the respondents were almost in total agreement supported by a high concurrence at a mean of 4.1957 and a statistical concurrence depicted by a standard deviation of 0.7500, and finally, the respondents' strong agreement and concurrence through their feedback which indicated that the insurance companies had desired brand positions differentiated enough to compete in a saturated market at a mean of 4.1848 and a standard deviation of 0.8257.

In summary, the findings revealed that the respondents were in agreement and concurrence that differentiation strategy influenced performance of insurance firms in the north rift, Kenya at a high average mean of 4.0516 and a standard deviation of 0.9114.

Diagnostic Tests

Some econometric problems have the potential to make the regression results biased and spurious if they are not found and consequently dealt with. For purposes of ascertaining the model specification robustness, diagnostic tests were performed. The results from the test were as shown in table 4 below;

Table 4: Diagnostic Test Results

Test Type	Null Hypothesis	Stat	Prob	Inference
Heteroscedasticity Test: ARCH	ARCH effect does not depict errors	F-Stat = 0.5397	Prob. Chi-Square = 0.1486	Failed to reject H_0
Heteroscedasticity Test: Breusch-Pagan Godfrey	No Heteroscedasticity	F-Stat = 0.4449	Prob. Chi-Square = 0.2868	Failed to reject H_0
Breusch-Pagan Godfrey Serial correlation LM Test	No Serial correlation in the residuals	F-Stat = 1.3454	Prob. Chi-Square = 0.1614	Failed to reject H_0
Jarque-Bera Statistic	Residuals are normally distributed	Jarque-Bera Stat = 1.3726	Prob. = 0.5052	Failed to reject H_0

Source: Research Data, 2025

As shown in table 4, the results revealed that the multiple regression model does not suffer from heteroscedasticity, that the residuals were normally distributed, no serial correlation or model misspecification. These results were supported by Ombongi and Long (2018) who averred that when tested using the Jarque-Bera statistic, the residuals are normally distributed if the probability is greater than 10%. In this case, the Jarque-Bera statistic value was 1.3726 tests measured at a probability of 50.52% being greater than 10% which confirmed the normality.

Multicollinearity Test

The problem of Multicollinearity occurs when the relative movements of two or more independent variables match. In this case, the standard OLS estimates become

unable to distinguish between the variables. Variance Inflation Factors (VIF) was tested after each standard OLS regression to examine the level of correlation between the variables. The results of the collinearity statistics were as tabulated in table 5 below;

Table 5: Multicollinearity

Variable	Tolerance	VIF
Cost Leadership Strategy	1.567	0.638
Differentiation Strategy	1.472	0.679

Source: Research Data, 2025

Multicollinearity exist where the r values of the independent variables are greater than 0.80, tolerance value below 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix as averred by Kothar (2014), as quoted by Mrefu and Gichure (2022). Tolerance is a statistic that indicates the variability of a specified predictor which is not explained by the other predictor variables in the model. From the results, there was no multicollinearity since all the tolerance values were above 0.10, and variance Inflation Factor (VIF) were less than 10.

Correlation Analysis

The study used the correlation analysis results to establish if there was a relationship among the variables for both dependent variable (performance of insurance companies operating in the North Rift, region, Kenya) and the independent variables (cost leadership strategy, differentiation strategy, focus strategy and generic strategies). The results were presented in table 6 below;

Table 6: Pearson Correlation Matrix

	Cost Leadership Strategy	Differentiation Strategy	Performance
Cost Leadership Strategy	1		
Differentiation Strategy	0.513**	1	
Performance	0.718**	0.797**	1

**** Correlation is significant at .01 significance level (2-tailed).*Correlation is significant at .05 significance level (2-tailed).**

Table 6 presented the Pearson correlation matrix results where the findings reflected a positive and significant correlation among the variables and hence the viability of the variables to study the dependent variable (Performance of insurance companies operating in the North Rift, Kenya). The predictor variables' strength on performance was: differentiation strategy r = 0.797 and cost leadership strategy r = 0.718 at $p<0.01$. According to Kimani and Kungu (2024), the results depicted a strong relationship among the study variables and were therefore employed in drawing conclusions and recommendations.

Model Summary

The study explored the dependent variable (Performance of insurance companies operating in the North Rift, Kenya) indicators using the independent variables in the model. The coefficient of determination (R-square-R^2) was used to identify the variance at which the independent variables explained the variations in the dependent variable in the model.

Table 7: Model Summary

Model	R	R-Square	Adj. R-Square	Std. error of the estimate
1	.809*	.654	.651	.0127
Predictors: (Constant), cost leadership strategy and differentiation strategy				

The independent variables (cost leadership strategy and differentiation strategy) explained 65.4% (R^2 = .654) of the variations in the dependent variable (Performance of insurance companies operating in the North Rift, Kenya) as per the results in the table above. While 34.6% of the variations in the dependent variable

were due to other factors outside the scope of this study. The higher the coefficient of determination the better the reliability of the model for drawing study conclusions and vice versa (Nyukuri, 2020).

ANOVA

The study adopted a multiple regression model in measuring the nature of the relationship between the dependent variable and the independent variables. The multiple regression model's suitability was tested by the analysis of variances (ANOVA) as shown in table 8 below:

Table 8: ANOVA[a]

Model		Sum of Squares	d.f	Mean Sum of Squares	F	Sig.
1	Regression	101.325	4	25.331	10.480	.005[b]
	Residual	546.149	226	2.417		
	Total	647.474	230			
a. Dependent Variable: Performance						
b. Predictors: (Constant); cost leadership strategy and differentiation strategy						

The ANOVA table presented the results of the calculated value of the F-ratio which was at p=0.005, which was significantly less than the study significance level of p=0.05. The regression model was therefore adjudged to be fit for the analysis and use in the prediction of the dependent variable at different levels of the independent variables. The F-ratio revealed that the study was to fit the multiple regression model with reliance on the analysis results.

Regression Analysis

The study carried out simple regression analysis for each independent variable and recorded the findings as below;

Simple Regression for Cost Leadership Strategy

The simple linear regression results were presented as shown in table 9 below;

Table 9: Regression Coefficients of Cost Leadership Strategy

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	β		
1	(Constant)	3.152	0.179		3.502	0.032[b]
	Cost Leadership Strategy	0.451	0.102	0.415	3.423	0.005

a. Dependent variable: Performance

The relationship between cost leadership strategy and performance of insurance companies operating in the North Rift region of Kenya was positive at a beta coefficient of 0.451. This relationship was the third largest in relation to the other study variables (p-value of 0.005) and a constant of 3.152 and a p-value of 0.032 which was less than the significance level of 0.05.

From the regression findings, the null hypothesis was tested ($H_{01:}$ *Cost leadership strategy has no significant influence on performance of insurance companies operating in the North Rift region Kenya*) was therefore rejected and the researcher concluded that cost leadership strategy significantly influenced performance of insurance companies in the North Rift region Kenya and was considered statistically viable to be employed in the prediction of the dependent variable from cost leadership strategy variable data.

The simple regression model was then presented as below;

PERF = 3.152 + 0.451COS

Where:

PERF: Performance of insurance companies operating in the North Rift region of Kenya

COS: Cost Leadership Strategy

Simple Regression for Differentiation Strategy

The study employed a basic linear regression model to assess the relationship between the differentiation strategy and performance of insurance companies operating in the North Rift region of Kenya, and presented the results as shown in table 10 below;

Table 10: Regression Coefficients of Differentiation Strategy

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	β		
1	(Constant)	3.152	0.179		3.502	0.032[b]
	Differentiation Strategy	0.571	0.113	0.532	4.634	0.002

a. Dependent variable: Performance

The positive beta coefficient value of differentiation strategy variable was 0.571 with a p-value of 0.002 which was less than the 0.05 significance level and at a constant of 3.152 (p-value = 0.032).

From these regression results, the second hypothesis (H_{02}: differentiation strategy has no significant influence on performance of insurance companies operating in the North Rift region, Kenya), was tested and was rejected, this led to the conclusion that differentiation strategy had a statistically significant influence on performance of insurance companies operating in the North Rift region, Kenya, with the highest influence of the four variables, going by the statistical results (at $P < 0.05$).

The research analysis came to the conclusion that both the constant and differentiation strategy contributed significantly to the model with the highest coefficients. The model was therefore accepted for use in providing needed information to predict performance of insurance companies operating in the North Rift region of Kenya.

The regression equation was then presented as follows;

PERF = 3.152 + 0.571DIF

Where:

PERF: Performance of insurance companies operating in the North Rift region of Kenya

DIF: Differentiation Strategy

Multiple Regression Analysis

The multiple regression results were presented in table 11 below and used to extract the multiple regression model for the study.

Table 11: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	βeta		
1	(Constant)	3.152	0.179		3.502	0.032
	Cost Leadership Strategy	0.451	0.102	0.415	3.423	0.005
	Differentiation Strategy	0.571	0.113	0.532	4.634	0.002

Dependent variable: Performance

The results extracted from table 4.16 aided in the generation of the multiple regression model below;

PERF = 3.152 + 0.451COS + 0.571DIF

The extracted multiple regression model above was interpreted that performance of the insurance companies was significantly influenced by the differentiation strategy by 0.571 (p=0.002), and then cost leadership strategy by 0.451 (p=0.005) respectively. The model implied that, *holding other factors constant*, performance of the insurance companies operating in the north rift, Kenya was 3.152 with a standard error of 0.179. In conclusion, the model was found to be paramount in the provision of relevant information in the forecasting of performance of performance of the

insurance companies operating in the north rift, Kenya from the study independent variables (Lee et al., 2021).

CONCLUSION

Cost Leadership Strategy

In line with the first research objective and hypothesis, the findings revealed that performance of insurance companies operating in the North Rift Kenya was largely influenced by cost leadership strategy implementation which was a vital ingredient in the insurance sector's operations. This conclusion was supported by both the Pearson correlation matrix and the regression results which reflected a positive and significant correlation between cost leadership strategy variable and performance of insurance companies operating in the North Rift region, Kenya.

Differentiation Strategy

The study concluded that differentiation strategy had the strongest, positive and significant influence on performance of insurance companies operating in the North Rift, Kenya of the study variables. This conclusion was supported by the hypothesis results which also concluded that differentiation strategy had a statistically significant influence on performance of insurance companies operating in the North Rift region, Kenya, and hence rejected the null hypothesis which was in agreement with Islami et al. (2020); and Kim et al. (2023).

Recommendations

From the study findings and hypothesis testing results, the following recommendations were drawn;

The insurance companies ensure that the cost leadership strategy was improved and that the companies use economies of scale to reduce cost of products and services offered to the clientele. That the firms ensure that companies continue establishing well-established programs that offer virtual training to sales agents and utilize resources to the maximum.

The insurance companies to benchmark themselves against other competing insurance companies to access their relative cost of products and services.

Insurance companies to offer products that are different from their competitors to maintain service quality to enable them remain sustainable and be ahead of competitors,

The products offered by the insurance companies be aligned with the interests of the customers, the insurance companies conduct regular media advisements and open days that enlighten the public about their products offering and focus on individual and corporate customers' preferences. The firms to also discover and adopt new market trends as they emerge; the companies have close contact with customers, especially using social media, and finally, the companies to ensure continuous improvement in their strategies.

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