DIVERSIFICATION STRATEGIES, CORPORATE CANNIBALISATION, ENVIRONMENTAL MUNIFICENCE AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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DECLARATION

This thesis is my original work and has not been presented elsewhere for a degree or any other award.

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DEDICATION

This thesis is dedicated to my wife Janerose Mutitu, son Markgean Karani and daughter Annaleticia Ngatha .

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ABREVIATIONS AND ACRONYM

AKI	Association of Kenya Insurers
CEO	Chief Executive Officer
DW	Durbin Watson Test
GEE	Generalized Estimating Equation
IIK	Insurance Institute of Kenya
IRA	Insurance Regulatory Authority
MTMM	Multitrait-Multimethod Matrix
NACOSTI	National Council for Scince and Technology
NSE	Nairobi Stock Exchange
RBV	Resource Based View
OLS	Ordinary Least Squares
TFP	Total Factor Productivity
USA	United States of America
USD	United States Dollar

DEFINITION OF TERMS

Bancassurance	A relationship between a bank and an insurance company that is aimed at offering insurance products or insurance benefits to the bank's customers. In this partnership, bank staff and tellers become the point of sale and point of contact for the customer
Conglomerate Diversification	Seeking new business that has no relationship with the present business or market operations.
Corporate Cannibalization	A reduction in sales volume, sales revenue, or market share of one product as a result of the introduction of a new product or service by the same corporation.
Diversification Strategies	A way of expanding your business into new markets, products or services .
Environmental Munificence	The extent to which a task environment can support sustained growth in considerations of scarcity or abundance of critical resources needed by firms operating within that environment.
Geographical Diversification	Movement of a firm to new markets outside the home markets either locally, regionally, nationally or internationally.
Insurance Penetration	The ratio of gross direct insurance premiums to gross domestic product.
Insurance Premium	Amount of money an individual or business pays for an insurance policy.
Performance	The extent of achievement of pre assigned goals. In this study, performance will encompass both financial and non-financial performance.
Strategy	A plan of action designed to achieve a long term or overall aim
Vertical Diversification	When you move up or down the supply chain of your industry and take control of more stages of distribution.

ABSTRACT

Insurance industry in Kenya is an important contributor to the economic growth of the country. Provision of financial security, extension of financial services, guaranteeing of future continuity of businesses are just part of the functions played by the insurance industry in the country. Insurance companies have diversified their operations aimed at improving industry financial performance. Despite the diversification, the insurance industry has shown negative financial performance indicated by among others a consistent decline of insurance penetration from 3.44% in 2013 to 2.43% in 2018 to 2.17 in 2020. This study hypothesized that corporate cannibalization mediated the diversification effect hence influencing financial performance. Also, the study hypothesized that environmental munificence moderated the diversification effect thus influencing the financial performance of insurance companies. This study therefore sought to establish the effects of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. The theoretical foundation of the study was, resource based theory, contingency theory, transaction cost theory and the. expectancy theory. The study was anchored on a positivism philosophical stance that lays more emphasis on quantifiable observations. The study employed a causal comparative research design. A census was conducted on the entire population of all the 55 registered and licensed insurance companies in Kenya. Secondary data was used in this study and was collected through a secondary data collection schedule. Data was collected for 5 years from the year 2017 to the year 2021. A multiple regression model was used to determine the extent and strength of relation between diversification strategies, corporate cannibalization, environmental munificence and financial performance of insurance companies. The study found that diversification strategies positively affected financial performance of insurance companies. Also the study established that both corporate cannibalization and environmental munificence negatively affected financial performance of insurance companies. The study concluded that diversification strategies had a significant effect on financial performance of insurance companies in Kenya. This study also concluded that corporate cannibalization had significant mediating effect on the relationship between diversification strategies and financial performance of insurance companies. It was also concluded that environmental munificence had a significant moderation effect on the relationship between diversification strategies and financial performance of insurance companies. Lastly, the study concluded that there existed a significant joint effect between diversification strategies, corporate cannibalization, and environmental munificence on financial performance of insurance companies in Kenya. The study recommended that insurance companies should embrace diversification strategies to improve financial performance. Further, the diversification should only be adopted when the environment is munificent. Also, the study recommended unrelated diversification in order to avoid cannibalization. It is expected that the findings of this study will help the government and insurance companies in policy formulation. Scholars and researchers in the field of strategic management will also benefit from the new knowledge gathered on diversification strategies, corporate cannibalization, and environmental munificence.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In management, the word "Environment" does not necessarily mean physical surroundings, but is used to describe all those influences that bear upon the individual organizations and affects the decisions, strategies, process and performance of the business (Baloch, Maher & Khan, 2021). Organizations in the business world are operating in environments that are more unpredictable, complex, competitive, and uncertain. The environmental changes are not only rapid and confusing, but also seem to be in a state of constant change (Siegel, 2017). Many organizations according to the contingency theory, pursue a fit between their structure and the environment (Rasche, 2008). This fit and adaptation depends to a certain level on environmental munificence (Rabetino *et al*., 2021). Business environment in which organizations operate were found by Kinuu, (2014) to exert pressure on them provoking different responses as they seek legitimacy to survive and prosper in this environment. Given by the interaction between organizations and environment, Feng *et al*. (2017), asserted that performance relates to how an organization reacts, understands and is influenced to certain environment changes. Rabetino *et al*., (2021) summed it all up to the business environment being munificent.

To survive and grow in non-munificent environment, the Ansoff growth matrix presents diversification as the strategy that organizations can embrace (Cadle, Paul &Turner, 2010). Further, Hyunwoo, *et al* (2017) ascertained that diversification was a tried and trusted growth strategy pivotal for organizations to recreate and enlarge their competencies. Wan (2011) classifies diversification into two classes, related diversification and unrelated diversification. The classes were further sub divided by Mashiri and Sebele, (2014) into four strategies: concentric, vertical, conglomerate, and geographical diversification. Through observation of Muzammal,*et al*,(2014), diversification may not be considered as just a trend but offers various benefits. Increased profitability, reduction in risk, increased market share, increased debt capacity, higher growth, extension of business life cycle, efficient utilization of human and financial resources are but some benefits of diversification. In support of diversification, Mashiri and Sebele (2014) observed that

skills developed in one business transferred to other business increase labour and capital productivity. While some researchers recommend diversification others have confirmed that risks resulting from diversification may not be cancelled out by the benefits (Custodio, 2014).

With the changing demographics of insurance buyers, Hui (2020) observed that insurance companies were diversifying away from their traditional sales channel of individual sales agents to now using multiple types of distribution channels. The distribution channels were chosen based on the needs and status of the target customer segment. Various researchers found that insurance companies were adopting several or all of the distribution channels ranging from use of: Corporate agents, Micro-insurance, Bancassurance, Cellphone, Kiosks, Internet, E-commerce, Worksite marketing, Direct marketing – Internet, Digital TV/ Satellite selling, Supermarkets, Affinity channels and groups, Insurance specific debit/ credit cards and Call centers (Acharya ,2017; AKI, 2020; Sharma ,2016). Findings of Wei Jiang and Xue Ke (2020) established that introducing a new marketing channel could jeopardize sales in present channels, and cause discrepancies in prices and margins within channels. Diaz, Martín-Consuegra, and Esteban (2018) defined this competition between channels within the same company as Cannibalization.

In Kenya, conglomerate diversification is evidenced through banks forming strategic alliances with insurance companies to offer banc assurance products. Industry reports indicate that as at 2016, banc assurance distributed life business worth KES 6 billion representing 8.12% of total gross written premiums of life business (IRA ,2016). In the year 2014, Saham group of Morocco acquired a majority stake of 66.7 percent in Mercantile Insurance Company Ltd while Prudential Plc of UK made a return to Kenya by wholly acquiring Shield Assurance Company Ltd in September 2014. Metropolitan Insurance Group of South Africa acquired a majority stake in Cannon Assurance Ltd in November 2014 and in the same year Private equity firm Leap Frog Investments acquired a 60 percent stake in Resolution Insurance Company Ltd in November 2014. Britam Investment Group also acquired 99 percent of Real Insurance Company Ltd in December 2014 (Association of Kenya Insurers (AKI) Report, 2015). Association of kenya insurers report (AKI) of 2020 showed that Lami, a digital insurance platform founded in 2018 was reported to have sold more than 5,000 policies since inception. Lami had also partnered with more than 25 active underwriters, including Britam, Pioneer, and Madison Insurance to distribute more than 30

products available online including medical, motor, employee benefits, and device insurance. Bancassurance had also occupied a significant market share in the Kenyan market with reports indicating that in the year 2020, there were 26 bancassurance channel of insurance distribution in the Kenyan market (Aki, 2021).

In terms of geographical diversification, Britam had in the year 2015 diversified regionally in Eastern Africa with offices in Kenya, Uganda, Rwanda, and South Sudan; and had a presence in Mozambique, Malawi and Tanzania. Most insurance companies had also vertically diversified to offer a wide range of financial products and services in general and Life insurance. The IRA report of 2017 showed that most of insurance business were sold and distributed through concentric diversification i.e through insurance agents, bancassurance contracts and through insurance brokers.

1.1.1 Diversification Strategy

Insurance companies diversify for various reasons and researchers like Oyewobi *et al.* (2013) established that top managers of insurance companies were actively pursuing diversification to improve performance of their companies. Insurance managers cited diversification to have many benefits among them being enabling an organization to generate cost savings, create hybrid products, cross-sell products, and enter new markets, all while developing new sales to enhance brand image channels. Intra-industry diversification promises three sets of benefits which, separately and in combination, provide firms with a competitive advantage. The advantages in the industry are coaction resulting from economies of scope, market structuration efficiencies and premiums from mutual forbearance enabled by multi-market competition, (Li & Greenwood, 2004). The diversification in insurance is also observed to take advantage of cost-scope economies by sharing, marketing costs, administrative expenses and fixed costs. Further, Chen, Lai, and Wang, (2007) found that diversification may lead to scope economies if it results into various commercial lines of business. A study that was conducted by Volkov and Smith, (2015) established that owners of business may favor the comfort of acquiring all merchandising insurance from one insurer. In such cases, providence economies emerge from the division of indirect costs overheads across different businesses within the organization. Cummins and Trainar, (2009) also found that greater market power, larger internal capital markets and risk reduction in economies of scope were benefits resulting from diversification.

Multinational insurance firms of the world, as reported by Janaína and Rodrigo, (2019) were diversifying their products line to also increase consumer loyalty and restrain customers from switching to other company brands. Such cases include of Ace insurer acquiring Chubb insurer in early 2016 for USD 28.5 billion, Australian insurance companies opening new offices in more than 26 countries between the years 2012 to 2015.Also the giant Axis capital, an American insurance company has also diversified its risk underwriting to include catastrophic risk, property risk, risk on professional lines, credit and surety risk, motor risk, liability risk, engineering risk and agriculture risk (Axis report, 2017; Iqbal *et al.*, 2012). The need for readjustment also pushed African insurance companies to diversify as a corporate strategy in the 1990s and the early 2000s. Zimbabwe companies like Delta, TA holdings and Innscor merged and gave birth to Zimbabwean conglomerates (Mashiri & Sebele, 2014). Further, Iqbal *et al.*, (2012), found that across the African continent, distribution channels varied by region as well as between life and non-life products. Brokers and agents remained the most prominent channels, although direct sales and bancassurance have increased their share (Wei & Xue ,2020). Industry reports in the Ghanaian life-insurance market indicated that the bancassurance share of premiums almost doubled from 7 percent in 2015 to 13 percent in 2019. It is also likely that online and mobile banking usage in several African countries will show a net increase with majority of African countries already embracing online insurance marketing.

The Kenya Vision 2030 economic blueprint cites the insurance industry as one of the key pillars of the financial service sector. The blueprint recognized that as the economy expands and disposable incomes rise, there would be growth in insurable assets thereby generating demand for insurance services. The Insurance Regulatory Authority (IRA) (2020) report indicated that the insurance sector was under intense pressure from stakeholders to develop new and innovative products that meets the increasing demand for insurance services. As results, (AKI, 2021) observed that many insurance companies were diversifying geographically, vertically, concentric wise and conglomerate wise.

1.1.2 Corporate Cannibalization

Critical issue for firms that offer multiple brands or variants within a single brand is cannibalization, or the extent to which one product's customers are at the expense of other products offered by the same firm. A company engaging in corporate cannibalism is effectively competing against itself. In justification of self-competition, Kong (2015) established that companies that sought to increase their market share took a gamble that introducing a new product would harm other competitors more than the company itself. The underlying rationale was postulated by Yumurtac *et al.,* (2016) was that it was better for a consumer to choose between several of your sales channel than to choose between one of yours and those of other firms. The company also believes that the new product will sell better than the first, or will sell to a different sort of buyer. This may not necessarily be the case and findings of Wei and Xue (2020) established that insurance sales were affected when a new distribution channel threatens an existing channel. Differences in prices and margins within insurance channels happen to be the results of the threat. For example, (Kong, 2015) observed that, intertype competition occurs when different types of retailers sold similar products or when there was no clear and adequate differentiation on product or service. Yumurtac *et al.,* (2016) noted that it was difficult to foretell outcomes when different channels cannibalize one another and therefore, to overcome the negative impact of cannibalization insurance companies should focus on analyzing the location and number of offices.

Cannibalization will likely occur if the same customers are sought through different distribution methods. For instance, Sharma (2016) found that sales agents who acted as insurance industry retailers, associated job dissatisfaction and negative effort to cannibalization which further resulted into poor performance. Existing distribution channels in insurance companies may view internet channels as unwelcome competition. When this happens, the firm's entrenched channels become disoriented and lose inspiration and thus lessen their reinforcement for the firm's products. This in turn leads to lowering total sales as a results of increase in more brand shifting towards the competitors. When consumers bought less through new channels, Pauwels and Neslin (2015) observed that total sales from old channel decreased. Revelations of Pauwels and Neslin (2015) indicated that while cannibalism was seldom beneficial, it could be considered as positive if it improved the net worth of the firm by supporting earnings, or if the cannibalizing channel induced new clientele who otherwise might have considered a competing brand. In contrast, Sharma (2016)

found that cannibalization made sales agents loose motivation due to increased uncertainty of their job security which affects performance negatively. Further, Kong (2015) observed that ssalespersons feared the internet as they perceive that internet cannibalizes their sales and makes them outmoded eventually replacing them.

With the invasion of the internet it has become difficult to make decisions related to cannibalization and Nicolau, (2013) alluded that the problem was further aggravated by government rules, regulations and de-regulations. Inferring from Prior research, it's evident that various circumstances must exist in order for cannibalization to take place. Even though these circumstances do not all need to happen concurrently, it is recommended that the cannibalization effect could be intensified by their combined appearance. Among them Pietro and Vinay (2018) observed that potential prospects should recognize minimal difference in line `standards' or changes in characteristics between the attacking brand and the victim brand that will eventually be cannibalized.

Alternatively, Sharma (2016) proposed that consumers might clearly have little value for the particular characteristic that are relied upon when contrasting the attacking and victim brands. In such instances, even though observable variations in `quality' may exist between the brands, it was recommended that some buyers simply do not have a high consideration for it. The outcome may escalate concern for the benefit of brand prices (and the price spread between them) at the cost of the brands' other contrasting features (Kong ,2015). Further, Cao and Li (2015) asserted that the difference between the price of the premium brand and the price of the cheap brand should be sufficiently bigger to cause demand switch. If consumers consider the premium and cheap brands differences being somewhat similar with regard to the features that each provides, then, in the instance there is an opening of a big difference in prices between the two, cannibalization might happen because some buyers will no longer feel the features of the premium brand accounts for its high price (comparing with the cheap brand) (Sharma ,2016).

A conflicting action may yield negative cannibalization when the price difference between the premium and the low priced brand decreases. When the price difference shrinks, an inducement to move to the premium brand emerges. This is caused by the customer considering the price

difference between the brands as being trivial enough to justify shifting to the premium brand with its associated superior quality (Cao & Li,2015).The drive to cannibalize enhances product innovation, which implies that it helps in promoting transformation, new product introductions and chart out the strategic course of the company. The ultimate cannibalization master stroke lies in understanding the appropriate time to adopt or avoid cannibalization.

1.1.3 Environmental Munificence

Munificence, in general, is the ability of an environment to bear continuous growth of an organization (Aldrich, 1979). Institutional theory postulate that business environment in which organizations operate exerts pressure on them provoking different responses as organizations seek legitimacy in order to survive and prosper in their environment (Kinuu, 2014). The success of company was explained by El-Nadi (2013) to be on the one that is able to adapt its activities to changing environment, such as ability to predict competitors and customer's activities from a very fast changing environment.

Studies previously done on a similar scope yielded contradictory and inconclusive results which led to disagreement as to whether environmental munificence improves or reduces performance. Chakrabarty and Wang, (2012) observed that companies had more options in an environment that was munificent because it became possible to pursue organizational structures and also companies had alternative goals. Farooq (2017) found that besides environmental munificence cushioning companies from external forces by creating a financial slack it also provided organizations with a chance to adapt or balance in response to the environment. Further, Beliaeva *et al.* (2018) observed that munificence adds to the chances of improving performance by creating a good environment that minimizes the negative barriers resulting from one market being served by many different channels. Consequently, yuan *et al*, (2019) noted that agents whose pay was pegged could performance may anticipate sales to grow if they were working in a highly munificent environment.

When the environment was non –munificent and faced with hostility, Gorondutse and Hilman (2017) found that if resources were not enough, the environment forced conservation to become the only focus of the firms. Under conditions of environmental scarcity, Feng *et al* (2016) observed that perceptions of high levels of constraints and competitive pressures could precipitate a crisis-

like. Staw and Swajkowski, (1975) found that firms in non-munificent environments were more likely to commit illegal acts in the economy. Akinmulegun and Oluwole, (2013) evidenced that non-munificent environments intensified competition, inflexibility of reaction, and lesser strategic choices. Further, hostile environments resulted into efficiency concerns displayed in the consolidation of budgets, continued insistence on cutting cost, and escalation of efforts to push for responsibility which results in poor performance. When the environment is more munificent (Chakrabarty & Wang, 2012) established that company's strategies, organizational structures and goals become easier to achieve because of the many options and alternatives.

In non-munificent environments, because companies are already short of resources, deployment of any resources away from core product market areas was likely to have negative effect on performance. Further, in low-munificent environments, the limitation of factor of productions forces companies to commit illegal acts. On the other hand, when the environment of an industry is munificent, firms are likely to be more inclined to engage in socially responsible behavior. Environmental munificence was found to notably moderate the interaction between diversification strategies and performance (yuan *et al*, 2019; Li *et al* 2013). Further, Gorondutse and Hilman (2017), observed that munificent environments create lesser hindrances on companies than it did to those environments with resource limitations. Feng *et al* (2016) further noted that potential of new companies to enter a particular market was highly influenced by the scarcity or munificence of the environment.

1.1.4 Insurance Industry in Kenya

The dominant participants in the Kenyan insurance sector are registered companies engaging in insurance and reinsurance businesses, market middlemen including insurance agents, brokers, risk managers and other service providers (IRA, 2012). There are fifty-five (55) licensed insurance companies that engage in insurance business in Kenya as per the insurance regulatory authority report of 2018. A survey carried out by the national financial access in the year 2017 indicated that only 6.8% of Kenya population had purchased insurance cover with an overwhelming 91% never having embraced insurance cover either in life or general

The insurance regulatory authority also admitted in its 2017 report that the industry is facing a major problem of delayed claims settlements and prompt resolution of complaints. Further, on non-financial performance, the customer satisfaction survey carried out in 2017 indicated that customer satisfaction within the insurance industry stood at 77.2% compared to the set target of 85%. Reports by AKI and IRA for the years 2013 to 2018 indicated that financial performance as indicated by insurance penetration has dropped into the lowest level in 15 years to 2.43%. As part of the transformative measures, the 2012 IRA report observed that insurance companies were increasing their capacity through diversifying into use of new technology, developing new markets and moving from product focus to customer oriented operating models.

Traditionally Kenyan insurance market has largely been dominated by insurance agents but the trends is fast shifting with the insurance regulator (IRA, 2020) observing that 26 banks are already licensed to distribute insurance products on behalf of insurance companies. Further the enacted Bancassurance law of 2020 is seen as an incentive to banks, microfinance and Sacco to legally engage in distribution of insurance services in Kenya (AKI, 2021). Insurance technology (Insurtech) as noted in OECD (2017) is another fast emerging distribution channel in the insurance industry. Customers are able to pay for processes faster, process Insurance claims via online platforms, with less time for processing while also comparing various insurance products. Also the Kenyan legislature through the Business Laws (Amendment) Bill of 2020 promotes us of technology in distributing insurance through introduction of the electronic signature as an identifier for a signatory in the law of contract.The April 2020 Swiss Re Sigma report indicated that in year 2019, Africa's insurance premiums amounted to $68.16 billion, accounting for 1.08% of global insurance premiums. This was a decline of 1.8% in premium compared to the year 2018. Despite many insurance companies embracing online marketing, in the year of 2019, Kenyan insurance regulatory authority (IRA) reported that insurance penetration in Kenya reduced from 2.43% in 2018 to 2.34% in 2019.

Insurance Regulatory Authority report of 2019 indicated that there were fifty-five (55) insurance companies licensed to operate in Kenya. Insurance sector in Kenya are highly regulated by the Insurance Regulatory Authority that sets the standards for operation. Even with these standards, most of insurance sector in Kenya performed poorly in the last decade. For example, in the year

2016 the insurance sector in Kenya reported 14.2% ROA which decreased to 10.4% in the year 2017(Isaac *et al*, 2021). In addition, net profits of the Kenya insurance industry dwindled by 61.56% from KES 9.21 billion to KES 3.54 billion in the year that ended December 2018. This performance was considered the lowest in the last 12 years from year 2007.The COVID-19 pandemic exacerbated the problem with Association of Kenya insurers (AKI) (2020) reporting a decline in the gross written premiums in retail and consumer sectors. During the same period, other Insurers have been faced with more cancellations and non-renewal of covers more than any other time in recent history (AKI, 2020). Kenya financial stability report of the year 2020 found that investments and profitability in the insurance industry were impacted negatively by COVID-19 pandemic with profit after tax declining by 42.5 percent and investment income declining by 24.3 percent in the year 2020. The ROA and ROE declined by 1.3 percentage points and 4.7 percentage points, respectively, in the same year. Further the report observed that the value of ordinary shares held by insurers declined by 31.2 percent in 2020, reflecting the fall in share prices as investors exited the market. Heavy investment in Government securities provides security to the insurance sector but introduced sovereign risks concerns given high exposure of government.

1.2 Statement of the Problem

Kenya's insurance industry has continuously performed poorly in the last decade. For instance, in the year that ended December 2018, net profits of the Kenya insurance industry dwindled by 61.56% from KES 9.21 billion to KES 3.54 billion which was considered the lowest in 12 years. Further, premium growth in 2018 was at 2.22 % marking the fifth straight year of slumping compared with 21.3% growth rate in 2013 despite incremental growth in insurable risk (AKI, 2018). In addition, data from Kenya National Bureau of Statistics showed that new motor vehicle registration was rising, growing at 12% to 102,036 in 2018 but premiums for private vehicles recorded the highest loss at KES 2.7 billion while commercial vehicles recorded a ksh1.1 billion losses. Studies previously done on a similar scope yielded contradictory and inconclusive results which led to contention base on whether diversification strategies increase or decreases performance. Among the studies which found positive effect include: Yang *et al* (2016); Kwon and Leigh (2016) whereas those that found negative effect include: Cheluget, *et al* (2014); Kimeu (2012); Ozbas and Scharsfstein (2010). Owing to deregulation, new technology and changing consumer behavior, the competition in the insurance sector is getting fiercer leading to increased diversification (Kazungu & Barasa 2017).

The continued diversification in sales channels was found by Wei and Xue ,(2020) to lead to cannibalization hence harming the organization. This was so where the original market of the insurance agents was eaten away by banc assurance and online marketing. Insurance regulatory authority in their report of the year 2017 observed that banc assurance was making life harder for Kenya's estimated 10471 insurance agent. Although cannibalization was a familiar concept there was little research in the area of insurance. One exception was on the distribution channels where a study on cannibalization was clearly important for assessing the sales and profitability potential. This therefore informed the need to establish the effect of cannibalization on performance of insurance companies in Kenya. Further, the returns on equity had been reported by IRA, (2021) to be on a downward trend despite consistent year-on-year increase in shareholders' funds. Insurance penetration, which was the ratio of gross direct insurance premiums to gross domestic product had declined from 2.81% in 2016 to 2.57% in 2017 to 2.43% in 2018 to 2.37% in 2019 to 2.30% in the year 2020. (IRA;2016,2017,2018,2019,2020). In the year 2020, association of Kenyan insurers observed that 254,764 new policies were underwritten which was a decrease of 10.8% from 285,725 new policies recorded in the previous year (AKI, 2020).

Further examinations of the insurance industry reports revealed that Profit after tax reduced by 68.64% from KES 12.71 Billion in 2019 to KES 3.99 Billion in 2020.Return on equity reduced by 68.25% from 0.15 in 2019 to 0.05 in 2020. During the period, the industry net profit decreased significantly by 57.7% from KES 15.12 billion to KES 6.39 billion in 2020. Total investments and other incomes reduced by 15.23% from KES 70.12 Billion in 2019 to KES 59.44 Billion in 2020.It is also during the same period that the business environment was hit by global calamities. Covid 19 pandemic, drought, prolonged electioneering period all worked together against the business environment being munificent. This therefore call for the need to examine the effect of the environmental munificence in relations to the financial performance of the insurance companies. To find out the cause of the poor financial performance of insurance companies, this study sought to investigate the effects of diversification strategies on financial performance of insurance companies in Kenya with the relationship mediated by corporate cannibalization and moderated by environmental munificence.

1.3 General Objective

The general objective of this study was to investigate the effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya.

1.3.1 Specific Objectives

The specific objectives of this study were:

1. To evaluate the effect of diversification strategies on financial performance of insurance companies in Kenya.
2. To determine the moderating effect of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya.
3. To evaluate the mediating effect of corporate cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya.
4. To assess the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya.

1.4 Hypotheses of the Study

The study was guided by the following research hypotheses:

$H_{o1:}$ Diversification strategies had no significant effect on financial performance of insurance companies in Kenya.

$H_{o2:}$ Environmental munificence had no significant moderating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

$H_{03:}$ Corporate cannibalization had no significant mediation effect on the relationship between diversification strategies and financial performance of insurance companies Kenya.

$H_{04:}$ Diversification strategies, corporate cannibalization and environmental munificence had no significant joint effects on financial performance of insurance companies in Kenya.

1.5 Significance of the Study

This study forms an invaluable source of reference especially when developing policy guidelines for the insurance sector. First, the owners and management of insurance companies benefits from this study through gaining more insights concerning the benefits of diversification strategies and their relationships to performance. The top level management will benefit greatly from this study finding as they will be able to understand, define, adopt and measure diversification strategies in the expectation of placing themselves strategically in the market. Secondly, findings of this study informs the Insurance Regulatory Authority on the recent happenings in the insurance sector by giving verifiable affirmation on the relationship between diversification strategies and performance using data from the Kenyan insurance sector. Further the study also gives credible statistics important in establishing guidelines in respect of inducement and deterrent measures for vertical diversification, conglomerate diversification, concentric diversification, geographical diversification, corporate cannibalization and environmental munificence and how they will improve the performance of insurance companies.

Thirdly; improved performance of Insurance companies is also a concern of both national government and county governments and therefore the study provides strategies to help insurance companies improve service delivery more so on financial protection, loss preventions, family stabilization and contribution to the economy through taxes. Fourth, the study forms part of a framework of understanding to the academicians and provides insight on the concepts of diversification strategies, environmental munificence and corporate cannibalization and how they influence performance. Inferring from the confusion brought by the contradicting results of different researchers, this study sought to clear the dust though determining the effect of environmental munificence on performance evidenced by both primary and secondary data from the Kenyan insurance sector collected for a period of 5 years from year 2017 to year 2021.

Fifth, this study sought to inform whether environmental munificence could be the cause of the poor performance in the insurance industry despite the heavy investment by the insurance companies. The sixth significance of this study was that the literature reviewed studies that were foreign in nature hence had little or no applicability in Kenyan insurance policy decisions. This study, therefore filled this gap by investigating the effect of diversification strategies, corporate

cannibalization and environmental munificence on performance of insurance companies using data from insurance sector in Kenya, a developing economy where insurance uptake is too low recording an insurance penetration of 2.43% compared to the global recommended average of 7.2%.

1.6 Scope of the Study

This study investigated the effect of diversification strategies on the financial performance of insurance companies in Kenya. The conceptual scope was limited to concentric diversification, conglomerate diversification, geographical diversification and vertical diversification. Return on asset and return on equity were used as the measure of financial performance. Environmental munificence moderated the relationship while corporate cannibalization was the intervening variable. Focus of this study was on all the 55 insurance companies in Kenya that were licensed and registered by Insurance Regulatory Authority. Secondary data was collected for a period of 5 years from 2017 to 2021.

1.7 Limitation/Delimitations of the Study

The secondary data used in this study was collected from IRA reports, KNBS database and insurers audited financial statements and reports. However, some firms did not reveal some of the information required in their annual reports. The managers of the insurance companies were requested to provide the information. Some of the managers were hesitant to provide the information but they were assured that the information was for academic purposes and confidentiality was maintained. The introductory letter from University of Embu and research permit from NACOSTI also provided evidence and assurance that the data was for academic purpose thus access was granted. Observations also posed a limitation through cofounding of the study variables and this was controlled through randomization.

1.8 Organization of the Study

This study is organized into five chapters as follows: the first chapter outlines the introduction the study. The second chapter provides the literature review of both the theoretical and empirical literature. The third chapter outlines the research methodology used. The empirical findings and discussions were presented in chapter four. Lastly, the summary of the findings, conclusions, recommendations and the suggested areas for further research were presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature related to diversification strategies which was the independent variable of the study. Performance of insurance companies was the dependent variable. Environmental munificence was reviewed as the moderating variable while corporate cannibalization formed the mediating variable. Theoretical and conceptual framework guiding the study was also discussed in this chapter. Lastly, a summary of reviewed literature and a research gap was developed.

2.2 Theoretical Review

In this study, theories were considered as nets cast to catch what we call "the world": to rationalize, to explain, and to master it. There were various theories that explained the effect of diversification strategies on organization performance with mediation effect from corporate cannibalization and moderation effect by environmental munificence. These theories included; resource-based view, transaction cost theory, industrial economics theory, vrooms expectancy theory**,** uncertainty reduction theory and contingency theory.

2.2.1 Resource Based View Theory

The impact of the resource based theory(RBT's) is enormous and cuts across the field of strategic management to many other academic disciplines. The origin of resource based theory can be tracked to various scholars among them Phillip Selznick of the 1950s and even as early as David Ricardo in the 19th century. Wernerfelt (2014) observed that firms deliberately undertake managerial efforts based on resource based view theory with the assumptions that the efforts will lead to a sustainable competitive advantage. Further, Barney (2011) noted that when you refer from the idea of Edith Penrose seminal work of 1959, the resource based approach views organizations as groupings and combinations of resources . The Edith Penrose seminal work was on the theory of the growth of the firm and was further advanced by Rubin in his 1973 work on "Expansion of firms. Penrose's theory gave rise to RBV, which later became one of the most reliable approaches to analyzing sustainable competitive advantage. The RBV approach is suitable

for cases where a firm's resources lead to high returns in the longer term using Porter's five competitive forces (Teece *et al*., 2007).

Resources are broadly defined as the set of assets, capabilities, organizational processes, firm characteristics, information, and knowledge under the firm's control, allowing the firm to conceive of and realize strategies intended to increase its effectiveness (Wernerfelt, 2014). Firms that adopt a resource based view are considered able to maintain a sustainable competitive advantage when compared to other firms and third persons due to presence of resource position barriers. This is so because when one firm is the custodian of a resource, it influences the costs and/or revenue of other firms who acquire the same resource at a later date. In such a scenario Lieberman and Montgomery, (2008) established that the firm holding the resources is benefitting from the protection advanced by a resource position barrier or a first mover advantage. Similar to the entry barriers proposed in Porter's model, barriers that results from resource differences do project to a probability for high returns because one firm has an advantage over others brought about by efficiency in the utilization of resources (Montgomery, 2004). Further, an effective combination of a set of heterogeneous resources and capabilities was found by Foss, (2011) to create value, and these resources could be leveraged to ensure competitive advantage.

The anchor of the resource-based view is that firms that are geared towards succeeding will have to develop distinctive and unique capabilities inorder to sustain competition in the future. These capabilities may often be implicit or intangible in nature (Teece *et al*. 1991). Thus, the essence of strategy is or must be designed by the organizations unique capabilities and resources (Rumelt, 1984). If all the firms were equal in terms of resources, there would be no profitability differences among them because any strategy could be implemented by any firm in the same industry. The underlying logic holds that the sustainability of effects of a competitive position rests primarily on the cost of resources and capabilities utilized for implementing the strategy pursued. Foss, (2011) argued that firms achieve and sustain competitive advantages if they have special resources which have the following fundamental attributes: valuable, that is to be useful in producing goods and services which have demand on the market; rare, meaning that there is a limited availability of such or similar resources and capabilities at competitors; imperfectly imitable, implying that it is difficult or costly to reproduce resources; imperfectly substitutable, that is other resources cannot be suitable or costly to make a product in demand; and imperfectly mobile, meaning that resources

cannot be moved physically or relocation will entail high transaction and transfer costs. The concept of value is essential to the resource-based view of the firm. There are three aspects of value i.e. perceived use value, total monetary value and exchange value.

According to this theory, a company will have an inducement to diversify if it holds the important, excess resources to make diversification viable economically. Further, Burton and Rycroft (2014) observed that the level of diversification and performance were significantly influenced by resources and capabilities. In essence, Wang and Barney (2006) found that diversification research premised on resource based theory held that superior performance was as a results of strategic interrelationships that were based on resource relatedness shared by business units within the firm. This leads to an improvement in the value of the company to the point where resources become too complex to manage or business units become independent (Wan et *al.*, 2011). Applied in diversification, the theory helps insurance companies identify viable opportunities for diversification.

The resource based theory does not just give a guideline for improving an organizational financial soundness but also prescribes diversification by capitalizing on the resource capabilities to conquer new markets (Montgomery,2004) or what Wernerfelt,(2014) calls the sequential entry strategy. Barney, (2011) established that a company's resource capability was valuable by not just causing barriers to entry but also primarily by encouraging diversification in to similar activities that offer cost benefits to the institution. Further, Barney, (2011) observed that diversification that is pegged on resource capacities will lead to economies of scope by dividing activities and key abilities as a direct cause of sustainable competitive advantage. The rationale of resource based view as brought out by Burton and Rycroft, (2014) was an action strategy to place a business section as the base for a multi-business firm and stress on the need for the firm's ability to make use of the potential synergies between resources to yield higher results. Therefore, Porter, (2011) found that diversification had the ability to improve performance by either reducing cost or by pushing competitors out of the market as the absolute volume per period increases. This was found to be enhanced if the firm efficiently allocates resources and shares capabilities across different business sections. This manipulation of probable synergies anticipated from sharing responsibility, resources and capabilities is expected to lead to creation of sustainable competitive advantages and

therefore generating profitability brought about by continuous cost minimization (Wan & Hoskisson, 2003).

2.2.2 Transaction Cost Theory

The transaction cost concept was formally proposed by Ronald Coase in 1937 to explain the existence of firms. He theorised that transactions via market mechanisms incur cost, particularly the costs of searching for exchange partners and making and enforcing contracts. Transaction cost theory probes if an engagement can be taken at a lower cost through the market or within the ranking of the organization. It involves the monitoring, brokering, and administration cost which comes up when an engagement between two or more parties takes place (Jones & Hill, 2008). Companies are externally motivated to diversify any time transactions costs arises. The main causes of transaction difficulties were narrowed down to six factors being: information impactedness, opportunism, bounded rationality, small numbers, uncertainty, and asset specificity (Jones & Hill, 2008). In theory, diversification would be of no or less value as a strategy when undertaken in markets where there is no transaction cost because most of the necessary resources could be acquired directly through the market. However, mergers occur as a results of emergence of transaction costs that are usually brought about by inefficient markets (Miller ,2009). Therefore, the appearance or absence of transaction costs is greatly based on the overall economic environment of a country.

An unrelated diversification strategy is beneficial if it increases the internal capital markets of a newly acquired line. Related diversification is more concerned with the benefits that emanate from economies of scope (Markides, 2002). Even though there is clear distinction between the value brought about by either related or unrelated diversification, there also exists transactions cost among the two strategies. Jones and Hill, (2008) found that the main causes of the transaction cost differences were variations in procedural costs (monitoring, brokerage, and administration) that were incurred to organize and oversee the different value chains efficiently. When value chains in the same specialized line merge and share resources with a motive to take advantage of economy of scope, it then becomes harder and complicated to manage and oversee the performance of each individual value chain (Miller,2009)**.** The most challenging and costly strategy to manage is related diversification because it is attached to reciprocal interdependence. This is so because for related diversification strategy, time, energy and resources have to be allocated most of the time in

performance monitoring and evaluation activities. Thus, when affiliation increases, administrative costs increase as well (Jones & Hill, 2008). Administrative expenses will be the lowest for unrelated diversification. Transaction cost theory was discovered by Hill *et al*. (2014) to have negotiating, enforcements and monitoring cost which occurs when two or more parties engage.

Firms embracing unrelated diversification often have a simple bureaucratic organogram and its different value chains functions as self -contained units. In the end Jones and Hill, (2008) observed that this arrangement of collective affiliations ensures that performance control will occur based on financial criteria. Eventually, administrative costs of managing and overseeing the different value chains are minimized. Transaction cost theory is beneficial in planning and execution of new assignments in organizations that are within their boundaries and also those that put more emphasis on division of resources among the different lines in their own firm boundaries. This theory's guideline presents that achieving a bigger market share is attainable by blocking competitors and through vertical assimilation which firms get by diversification. More profoundly, Miller, (2009) observed that when diversified companies charge low prices they are able to prevent new entrants or eject out of the market existing competitors. The transaction cost theory aids insurance companies to evaluate activities that can be discharged at a small cost through the market or within the hierarchy of the firm.

2.2.3 Vrooms Expectancy Theory

In organizational behavior study, expectancy theory is a motivation theory first proposed by Victor Vroom of the Yale School of Management in 1964. According to victor vroom, people are inspired if they feel that discharging an amount of energy on an activity leads to increased performance regarding some features. On the flip side, Seniwoliba (2015), found that inspiration is eliminated if people consider that the energy they put on a task does not yield the projected results. The expectancy theory notes that individuals have different sets of goals and can be motivated if they have certain expectations. This theory is about choice. Deci and Ryan, (2013) denotes that this theory is based upon the belief that; favorable performance will result in a desirable reward, the reward will satisfy an important need and that the desire to satisfy the need is strong enough to make the effort worthwhile. Seniwoliba, (2015) found that the theory was founded on the basic notions that people will be motivated to exert a high level of effort if they believe there exists

relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive.

In contrast, if individuals believe their efforts will not give the desired outcome(Vroom,1964) observed that motivation will be affected with these relationships. Thus Díaz, Martín and Esteban, (2018) established that when sales agents felt a high degree of uncertainty on their results they then tend to lose interest in maintaining relationship that are long term. Kollmann, Kuckertz and Kayser, (2012) argued that a high level of expected cannibalization had a high chance of lowering a sales agent's hope that introducing multiple distribution channels will give in in corresponding benefits, thus, this caused the sales agents to alienate their work hence low production. Sharma, Gassenheimer and Alford, (2010) further posit that perceived cannibalization blurs expectations of succeeding by placing psychological constraints on the ability of sales agents to do their job. Without accurate estimates of future sales, insurance agents tend to be demotivated due to loss of control and this directly affects negatively their ability to achieve their job targets.

2.2.4 Contingency Theory.

The proponents of contingency theory can be associated with scholarly works of distinguished scholars such as Donaldson (1987), Drazin and Van de Ven (1985), Thompson (1967), and Venkatraman (1989). The theory puts forth the belief that there is "no one best way" of managing or organizing but it depends on how best the organization and the environment are able to correlate and establish a common fit between them (Boso *et al*. 2013). Contingency is a philosophical notion defined as the possibility that something happens or does not happen. It is, in other words, a random event (Tangpong, Hung & Li, 2019). Contingency theory, demonstrates how external environment interacts with the internal structure of an organization to form an organizational fit that predicts their performance. Further McAdam *et al*., (2019) contend that theories of contingency consider that the structure of an organization depends both on its own characteristics and on the environment in which it operates.

However, Gualandris and Kalchschmidt (2016) found that any efficient structure must adapt to the environment on which it depends, which makes factors contingencies internal or external to the company, which will influence its structure in a decisive way. Also Agrawal, (2014) points that proponents of contingency theory observe that situational factors can affect the relationships

between dependent and independent variables in the work environment, which in turn will affect employee behavior, motivation, and effectiveness affecting the overall performance. Conclusions made by Pratono, (2016) supported contingency theory through affirmation that organizations whose internal features best matched the demands of their environments achieved the best adaptation. In the context of this study, external pressures in the form of social relationship, global pandemic, government policies and technological dynamic are seen to be the environmental factors that influence performance.

2.3 Empirical Review

Empirical review involves examination of information and studies done in the past relating to a specific topic. Further empirical review shows that the problem being investigated has not been carried out in the way proposed by this study.

2.3.1 Diversification Strategies

Diversification strategy refers to the shifting of business attention from existing traditional areas to promising new areas (Hiriyappa, 2009). This implies moving away from familiar products and markets into new territories to pursue growth . Diversification efforts may be either internal or external. When a firm joins a different line of business which is related to core product or services, the action is termed as Internal diversification and more so if the firm develops the new line of business itself. Mostly, expansions of an organization market or product base are the features of internal diversification. External diversification may achieve the same result; however, the organization acquires a different company or business as a way of entering into a new business area. Porter, (2015) found that a proposed diversification move should pass three tests or it should be rejected. The first test is the industry attractiveness test. Unless the industry has strong profit potential, then entering it may be too risky. The second test is the cost of entry. Top management need to be sure that they will recoup then expenses accrued in entering into the new industry. Thirdly, the "better off" test should be passed. This means that one or both of the new businesses benefit from the diversification. The strategy should make the sum total of both businesses greater than if they had not diversified (Porter ,2015).

Companies diversify for various reasons. These include, surplus capabilities or capability gaps, changes in the business environment, presence of attractive markets related to the business, escaping stagnant or unattractive markets, reducing/spreading risk, and in order to achieve

managerial goals (Corporate Strategy and Diversification, 2011). Costs can be reduced by cross business sharing or transfer of resources and capabilities. According to Thompson, Strickland and Gamble (2017), companies that diversify into business with competitively important value chain match ups gain more competitive advantage potential than those whose value chain are unrelated. Diversification also allows companies to take advantage of economies of scope by eliminating redundancy between different activities and reducing fixed production costs. It also allows a growing firm to explore attractive new productive opportunities (Gomes & Livdan, 2013). Every company is best at certain products; diversification requires substantially different knowledge, thinking, skills and process (Cravens *et al*, 2016).

2.3.1.1 Geographical Diversification and Performance of Insurance Companies

Geographical diversification occurs when an organization enters a new market that is not within its market area. This may include movements to regional or geographical countries (Christian & Mauricio,2021). Geographical diversification was found to increase the value of shareholders through exploitation of important resources, by facilitating work adaptability and by surfeiting investors' desires for withholding global diversified positions. Deng and Elyasiani, (2008) found that geographical diversification could bring about worth through operational elasticity which enables an organization to take advantage of market opportunities as and when they arise.

An internationally diversified company can be able to change production from one market to another market with cheaper cost of production as well as change production to a market whose demand is higher.Contractor, (2007) observed that geographical diversification may increase company's performance by adding sales in, markets outside the country, minimizing the risk of home market economy declining and decreasing expenses by exploiting economies of scale in production, research and development, promotion and distribution system. Findings of Cetorelli and Goldberg, (2012) revealed that high levels of geographical diversification might not necessarily face risky or costly conditions. This is only possible if firms could restrict their operations in a specific market where most of the customers share in similar demand patterns and cultures. These offers the conducive environment for companies to utilize market imperfections (e.g., differences in capital charges and labor costs) by conducting most functions internally (Fratianni & Oh, 2009).

As countries in the same geographic area share many similar market characteristics Rugman, (2007) concluded that customers there may accept similar product features. Such similarities were found by Geringer *et al*. (2000) to minimize reciprocity costs, distribution costs, administrative costs, research and development costs, and data processing costs, as the similarities reduce both managerial, technological, and coordination complexities. The similarities further, facilitate communications between different business units which are located in different countries. Other researchers found that higher levels of geographic diversification may reduce the exposure to idiosyncratic local shocks (Lee & Gongming, 2005), enhance managerial efficiency and scale and scope economies (Berger & DeYoung, 2001), diversify sources of funding, and improve internal capital markets (Houston *et al.*,1997; de Haas & van Lelyveld, 2010).

Standardization incurred by way of regional diversification, would save costs as it will result in providing economies of scale and scope (Phene, & Almeida, 2008). Findings of Iqbal, *et al*, (2012) revealed that when firms are engaged on geographical diversification in core-related foreign direct investments, majority performed better and increased shareholder value whereas others incurred short term and long term losses. Some studies however, found a negative relationship between geographic diversification and performance (Eddleston, *et al* , 2008). Low country diversification will limit market opportunities and growth potential for each product line to grow within a diversified firm as low country diversification limits market size. According to transaction cost theory, geographical diversification attracts hefty costs including penetration costs to new markets, administration costs among business units in different markets, and data generation costs that might surpass the benefits .Further resource based theory observed that if firms expand into an unrelated market, the transformation of resources becomes more difficult and leads to a reduction in performance. Insurance regulatory authority annual report of 2019 indicated that majority of Kenyan insurance companies had opened new branches either locally of outside the country. For instance, in terms of geographical diversification, Britam had in the year 2015 diversified regionally in Eastern Africa with offices in Kenya, Uganda, Rwanda, South Sudan; and presence in Mozambique, Malawi and Tanzania (IRA, 2017). This therefore raises the questions whether geographical diversification has a positive or negative effects to performance of insurance companies in Kenya.

2.3.1.2 Conglomerate Diversification and Performance of Insurance Companies

This study viewed conglomerate diversification to be investing capital in several industrial categories that appeared to emphasis external growth, through mergers and acquisitions. Multinational firms of the world, as reported by Pavic and Pervan, (2010) were diversifying their products line to also increase consumer loyalty and restrain customers from switching to other company brands. Cases of Ace insurer acquiring Chubb insurer in early 2016 for 28.5 billion USD, Australian insurance companies opening new offices in more than 26 countries between the years 2012 to 2015 and the giant Axis capital an American insurance company diversifying its risk underwriting to include catastrophic risk, property risk, risk on professional lines, credit and surety risk, motor risk, liability risk, engineering risk and agriculture risk are just but few examples of conglomerate diversification in the global insurance industries (Axis report,2017;Iqbal *et al.*,2012). The dynamics of repositioning also prompted companies in Africa to consider diversification as a business strategy during the 1990s and early 2000s. Zimbabwe companies like Delta, TA holdings and Innscor merged and gave birth to Zimbabwean conglomerates (Mashiri & Sebele, 2014).

In Kenya, conglomerate diversification was evidenced when in the year 2014, Saham Group of Morocco acquired a majority stake of 66.7 percent in Mercantile Insurance Company Ltd, Prudential Plc of UK made a return to Kenya by wholly acquiring Shield Assurance Company Ltd in September 2014, Metropolitan Insurance Group of South Africa acquired a majority stake in Cannon Assurance Ltd in November 2014,Private equity firm Leap Frog Investments acquired a 60 percent stake in Resolution Insurance Company Ltd in November 2014 while Britam Investment Group acquired 99 percent of Real Insurance Company Ltd in December 2014 (Association of Kenya Insurers (AKI) Report, 2015).

A study conducted in Zimbabwe by Mashiri and Sebele (2014) on conglomerate diversification was limited to a six-year time span. The study employed a cross-sectional design and senior executives were the target population for interviews. Judgmental sampling was employed by selecting 12 executives and there was a 100% response rate. Secondary data used included published accounts, minutes of strategic and board meetings, management accounts, monthly financial statements, internal audit reports and segment report. The Rumelt's specialization ratio was used to measure diversification by categorizing companies into either undiversified,

moderately diversified firms or highly diversified firms. The study found that conglomerate diversification and performance were linearly and positively related.

Further, Pavic and Pervan (2010) examined the performance effect of conglomerate diversification on the Croatian non-life insurance industry for the period 2004–2007. The results indicated that both measures of diversification had a negative and statistically significant influence on profitability. Further, the study recommended use of Herfindahl index, entropy measure or the rumelt specialization ratio to measure diversification as was also asserted by Huml *et al*. (2014). Other measures suggested by Makarfi et al. (2009) includes the ratio of foreign employees, the ratio of foreign assets, the sales entropy of a company in the geographical market regions, the ratio of exports to total sales and the proportion of foreigners in addition to the number of employees.. Based on the Resource based theory, when firms diversify in assets unrelated to the primary industry, conversion requires more time and cost due to lack of prior experience and knowledge increasing the likelihood to miss opportunities, delay new entrances, and reduce performance.

2.3.1.3 Vertical Diversification and Performance of Insurance Companies

This strategy is used when current customer are offered through the existing distribution channels a product or service that is new and unrelated (chen-ying, 2016). When considering this strategy, Kotler and Keller, (2006) established that technologically or commercially unrelated products or services that attract customers are introduced as new products or services. That is to mean it entails developing a product beyond the existing ones and still remaining within the boundaries of the industry (Kotler & Keller, 2006). The vertical diversification strategy was also observed by Kang *et al., (*2010) to be a double-edged sword, i.e. it may propel companies to profitability but also it can promote companies to incur all the resultant relative expenses.

This strategy was found to assist companies attain economies of scale and scope, enhance their efficiency in utilization of resources, promote sharing key capabilities across businesses, and attract synergies from complementary products (chen-ying, 2016). The positive relationship between vertical diversification and performance was further supported by Myers and Read (2001), Meador *et al*. (2000), Hotta (1996) and Takao (1987). Referring to resource based theory, organizations are motivated to diversify if at their disposal they hold the required excess resources to make diversification economically viable. Further,the resource based theory posit that if the

firms diversify into related products, there will be a likely hood of improving performance while if the firms diversify into unrelated products or into too many product lines, the net effect will be a negative performance. The insurance regulatory authority(IRA,2020) informs that insurance products are classified into two product category life insurance products and general insurance products and insurance companies are offering either one or both of the two products to the Kenyan market.

2.3.1.4 Concentric Diversification and Performance of Insurance Companies

Concentric diversification was defined as a grand strategy that is concerned with managing another business that benefits from interactions with the company's key capabilities (Pearce & Robinson, 2010).Researchers like Miles and Snow (2017) found that companies that embraced a concentric diversification strategy were mostly looking for an equilibrium in their accounts between existing businesses with periodic sales and acquired businesses with counter-periodic sales, between high cash/low opportunity and low cash/opportunity firms, or between debt-free and highly leveraged firms. In another study, Lepetit *et al* (2013) opined that the perfect concentric diversification happens when the combined firm profits increase strengths and create opportunities, and also minimize shortcomings as well as exposure to risk.

When properly executed, concentric diversification was found to have benefits spanning through; minimizing the research and development costs (Wang *et al*. 2011), reducing time to market (Seol *et al*. 2011) and creating synergies with other businesses (Quintana & Benavides ,2008). Other researchers who found a positive relationship included; Marangu *et al*, (2014), Boulding *et al* (1994) and Shahzad (2012). Nevertheless, going out of existing products and existing markets indicates a move into the unknown (Lynch, 2006) which is considered to attract a higher degree of business risk. Further, companies that adopt concentric diversification were found to have limited knowledge of the new services and markets and thus find it difficult to make accurate future predictions. Insurance companies as noted by the Kenya association of insurers (AKI, 2021) are employing concentric diversification through engaging independent agents and brokers, partnering with banks to offer banc assurance services and also tapping to the new technology through use of mobile and internet insurance. Industry reports indicate that as at 2016, banc

assurance distributed life business worth KES 6 billion representing 8.12% of total gross written premiums of life business (Ninova, 2018).

2.3.2 Environmental Munificence

When the firm's market power is relatively low, Feng et *al.* (2016) observed that increase in market munificence provided more strategic space for market players. In such a scenario, companies' ability to deal with risk and uncertainty increased. With the increase in market munificence Chakrabarty and Wang (2012) found that adequate external resources and market opportunities would provide firms with more growth space and therefore, firms would rely on market growth to break away from fierce competition. Elaborating on the construct of munificence, Bagire and Namada, (2013) found that munificence could further be classified into: capacity, growth/decline, and opportunity/threat. Capacity is the amount of resources held by the company, growth/decline refers to either increase or decrease in capacity while opportunity/threat refers to the amount of untapped capacity. In general, LI *et al*. (2013) established that performance of a company was better predicted by growth and/or decline dimension indicated by indicators such as market share gains, growth in demand and sales growth. Further, the opportunity and/or threat dimension of munificence was found by LI *et al*. (2013) to be characterized by a company's capability to handle competitive moves, divergent customer needs, and the capacity to retain employees.

It was found by Namada, (2013) that a business operating in a highly munificent or resource-rich environment increases its chances of survival because many alternative goals, strategies, and configurations are available. This was due to existence of minimal or no competitive pressure in such environments and it also offers maximum strategic choices and effective coordination among strategic business units. Jaiyeoba, (2013) conducted a study in Botswana on the effects of environmental munificence and market orientation dimensions on Performance and established that environments high in dynamism and low in munificence attracts higher levels of market orientation. The study concluded that resources available within an environment influenced the survival and growth of companies operating in that environment and also influenced the capability of other companies to enter that environment. Furthermore, the study concluded that companies that were attuned to their environment and found themselves in high dynamics or low munificence were advised to invest to become more market oriented.

2.3.2.1 Market Share and Performance

Market share was defined by Farris *et al* (2010) as "the percentage of the market (defined as units or sales) represented by a particular entity. Among different measures of performance, market share is a key indicator of market competitiveness (Farris *et al*., 2010). Clearly, numerous studies reinforce the importance of the market share-profitability relationship direction. However, several empirical works yield drastically different, completely opposite at times, results. Such apparent contradiction in the literature raises some conceptual concerns and questions about market share as a valid predictor of business performance. Armstrong and Green (2007) argue that pursuit of the highest possible market share is deeply rooted into formulating and achieving competitor-oriented objectives; the authors claim that such objectives are harmful and misleading, especially when managers receive information about market shares of, attaining the highest market share relative to the competition reduces profitability and harms performance (Armstrong & Green, 2007).

Some early works by Prescott, Kohli and Venkatraman (1986), reported that market share had a significant and positive impact on a company's performance. If a strong, positive relationship exists, then, according to Farris et *al* (2010), the pursuit of the market share as a strategic goal may be appropriate. Other scholars question whether market share has any impact on profit or even establish a negative relationship between the two variables. In their quest to establish the effect of market share on profitability, Armstrong and Green (2007) found that if the relationship is weak, or if the nature of a strong relationship is predominantly spurious, then market share, being one of the most important metrics of marketing productivity, may undermine the marketers' contribution to overall business success and threaten the marketing standing within the firm. The findings of Anderson and Green, (2007) revealed that the estimate of market share elasticity was contingent upon various specification errors, sample, and measurement characteristics. Overall, Prescott *et al.* (1986) suggested that the relationship between market share and business profitability is context-specific.

2.3.2.2 Sales Growth and Performance

The company's sales growth is basically influenced by internal and external factors. internal factor was found by Lechner., et *al*, (2016) to be those factors within the company that affect the

performance of the company and which can be regulated and controlled by the company; such as the decision to increase company's capital, the addition of labor, the determination of proportion of retained earnings, mergers, acquisitions, determination of debt for investment, managerial structure etc. On the other hand, Feng, *et al* (2017) found external factor to be factors outside the company that cannot be controlled by the company such as; raw material prices, competitors' behavior, macroeconomic and political conditions, lending rates, business climate and market structure. Parida, *et al*., (2016) found out that the increased sales volume is the most appropriate indicator to describe the company's win against competitors. Powell and Eddleston, (2017) observed that firms that have greater push to increase sales will generate future profits because the desire to invest increases markedly. Calculation of sales growth was recommended by Rostamkalaei, & Freel, (2016) to be computed by comparing the total sales of the current year minus to the sales in the previous year and then divided by sales in the previous year.

2.3.2.3 Market orientation and performance

Market orientation was defined as a company's level culture that is concerned with the values and beliefs about putting the customer first when developing their business plans (Jones, Wheeler & Dimitratos, 2011). The core meaning of market orientation was coined by Gudlaugsson and Schalk, (2009) to be identifying target customer needs and then satisfying the needs in a way that creates superior value for the customer and superior performance for the seller. Today's market is dynamic and characterized by continuous changes in customer needs and preferences, speedy technological developments and sophisticated competitive landscape. Therefore, Njeru and Munyoki, (2014) concluded that organizations are relying on the concept of market orientation to achieve greater performance than their competitors.

Prior study by Kirca, Jayachandra, and Bearden, (2005) found that market orientation was considered an important variable that influenced company's performance. Further, Reijonen, *et al*, (2012) established that companies that were market-orientated happened to be efficient and perform much better than those operating in lesser market oriented environments. This was explained by Ong, Yeap and Ismail,(2015) to results from their ability to tracking and respond to customer needs and preferences hence customer satisfaction . On the contrally, the results in other studies on how market orientation affected firm performance were not so conclusive. For instance,

a study done by Singh, (2009) suggested that market orientation did not directly affect firm performance but rather influenced performance through other mediating variables. When performance was measured through employing other indicators of performance, for example, market share, Julian (2010) found a positive and significant relationships while Baker and Sinkula (2005) established a non-significant relationship. Other studies (Rose & Shoham, 2002) found that market orientation was related to companies' performance only for certain subjective indicators. Cadogan and Cui,(2004) suggested that market orientation exhibited a negative effect on performance. Based on the studies reviewed, it's evident that the effect of market orientation on firm performance is still far from being concluded.

2.3.3 Corporate Cannibalization

Adding a new distribution channel was found by Sharma (2016) to threatens sales in existing channels and leads to price arbitrage and profits in channels. For instance, Pietro and Vinay (2018) found that sales changed from the old channels to the new channel when the newer offered more appealing attributes to the target market, such as unlimited amount of information on product features, increased customization, and cost savings. When this happens, Kong (2015) in his discussion alluded that the organization old channels may lose the incentive to sell thus resulting in to minimization of the support for the company's products and in turn may cause more customers to change their brands towards the company's competitors and in the end force total sales to decrease. Consequently, Yumurtac *et al*. (2013) observed that internet provided clients with convenient access to the main business activities such as pricing, insurance documentation, claims thereby rendering the agent to secondary role. Further, Cao and Li (2015) found that when sales of a lower graded products increase, it results into increased chances of cannibalization on the firm's market share of a high graded product. Moreover, to deal with the negative effects of cannibalization, firms need to strategically analyze the location and number of branches. In addition, the interaction between price and quality of a brand was found by Sharma (2016) to play an important role in the process of cannibalization.

Revelations of Pauwels and Neslin (2015) indicated that cannibalism may be considered beneficial if it can improve the market value of the company by stabilizing income or if the attacking product will attract new customers who otherwise could have considered a competing product. A study done by Hayes *et al.* (2014) established that some companies purposefully cannibalize their own

branches through introducing new outlets near the location where successful branches are operating from. Big companies such as United States' Starbucks and Sam's Clubs, Hennes and Mauritz operating in Sweden, and Benneton in Italy adopt this strategy to close out on competition by reducing the number of vacant spaces available.

Having a future market focus and abandoning an old product as soon as a new one comes along can benefit overall profits. Some firms currently encourage the act of cannibalization and forced obsolescence. One has to realize that there are some particular products especially new ones and improved versions that are not bad.Nirbhay, (2016) found that companies are under the pressure of continuous radical innovation and cannibalize their products and services to overcome the volatile situation. In some instances, cannibalization is of course necessary and was found to be a deliberate corporate strategy. Atasu et al., (2010) found that new channels could enable additional market segments to be reached while Hayes *et al.* (2014) established that having a future market focus and abandoning an old product as soon as a new one comes along could benefit overall profits.

Further, Tara (2018) noted that firms were encouraging the act of cannibalization and forced obsolescence. Some companies as stipulated by Nirbhay, (2016) purposefully cannibalize their retail sales through lower prices in their online offers which may be at the cost of the store sales of the company but the company looks for overall profits. In contrast to the benefit of cannibalization, Sharma (2016) found that when a company introduces another distribution channel it threatens sales in existing channels which causes variations in prices. Pietro and Vinay (2018) found that introduction of a new channel that has more attractive features led to sales shifting from the old channel to the new channels. The appealing features were found to be unlimited product information, increased product customization and time saving. When this happens, Kong (2015) in his discussion alluded that the company's old channels lost motivation, and reduced their support for the firm's products. This resulted to more product switching towards the company's competitors leading to low sales and low overall performance. Amongst the many channels which operate today, concurrently so, the agents, bancassurance and much recently, the direct channel (prominently online) have grabbed a major chunk of insurance business. Broker, a

channel to reckon with a few years back has lost some shine and is not in the reckoning of late. Hence, this study reviewed literature on the top three (agents, banc assurance and online).

2.3.3.1 Insurance Agent

In the Kenyan insurance sector, the distribution via agents has been the dominant distribution channel in the insurance industry (IRA ,2019). Perceptions of alternative sales channels lead to fear concerning service cannibalization and job insecurity subdues their effort, reduce satisfaction, and renders them anxious of an uncertain future. Howard (2000) suggests that the percentage of insurance transactions involving agents could drop even lower, to 50 percent, due to offers of insurance by direct writers, banks, affinity groups, and product bundles (e.g., selling a car with free insurance). Elsewhere, Gulati., Bristow, and Dou, (2002) argues that, despite the actual level of corrosion, sales agents' indifference to cannibalism and job security can frustrate their efforts, damaging long-term relationship, undoing their commitment and raising fears of an unpredictable future. Others, as noted by Yanzi and Zhi-Hai (2019) however, felt that the Internet would not replace sales agents, but rather will supplement their efforts. Salespersons fear the internet as they perceive that internet cannibalizes their sales and makes them outmoded eventually replacing them. On the contrally, some sales agents are using the Internet to improve communication with, and provide better service to their firms and customers and/or to transact business with their carriers online (AKI, 2021).

2.3.3.2 Online Selling

The Internet has emerged as an efficient channel for promoting and distributing products (Pauwels & Neslin ,2015). The Internet offers clients with enormous amounts of information concerning service features, products customization, and cost cutting hence reducing the need for human interaction. A major advantage to the insurer of selling through the new electronic channels is the scope for greater automation. The aim of introducing an internet channel by companies is to improve performance, gather all existing markets and expand into new markets (Geyskens *et al*., 2002). Unfortunately, internet channels are not without potential challenges. For instance, Cao and Li (2015) found that new internet channels perceive the old existing sales channels as unwelcome competition consequently prompting them to loose motivation and reduce support for the firm’s products. Conversely, this can also lead to customers shifting their loyalty to a company's

competitor and, as a result, a decrease in total sales. In support, Yumurtac *et al.* (2013) observed that the internet provides customers with easy access to basic business processes such as quotation, policy issuance, complaints, which leaves agents playing a secondary role.

Indeed, Sharma, and Gassenheimer, (2009) posits that online prices for similar products are usually lower than those of traditional outlets "leading to a cat-and-mouse game" in which agents have to guess as to whether their customers knew the internet price. Further Di Mauro and Musumeci, (2011) established that the internet is highly feared by because it causes conflict within the insurance industry, cannibalizes their sales and mandate and eventually renders them outmoded and in the end replaces them. Kollmann, Kuckertz, and Kayser, (2012) observed that sales moved from established channels to new internet channels when the latter offered features that were more appealing to the target audience, such as a substantial amount of information about product features, their personalization, and cost savings. As it provides consumers with better and faster access to trusted shopping sites, Avery *et al*, (2012) concluded that the internet increases competition.

According to expectancy theory, people will be motivated if they believe that "expending a given amount of effort on a task will lead to an improved level of performance on some dimensions". In contrast, people's motivation will be negatively affected if they believe that their effort will not produce the results they expected. Thus, expectations of a high degree of uncertainty in the outcome of sales agents' efforts lead to disinterest in maintaining a long-term engagement.

2.3.3.3 Bancasssurance

Banc-assurance is an arrangement in which a bank and an insurance companies form a partnership so that the insurance company can sell its products to the bank's client base. Bank staff and tellers, rather than an insurance salesperson, become the point of sale and point of contact for the customer (Clipici & Bolovan, 2012). This partnership arrangement can be profitable for both parties. Alavudeen and Rosa, (2015) found that banks earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer bases without having to expand their sales forces or pay commissions to insurance agents or brokers. Kumar, (2006) also found that it is much easier for a bank to sell insurance products to its customers as it has complete

knowledge about the financial status of its customers through their spending and savings patterns. Additionally, Omondi (2013) established that banks have an easier approach to customers in terms of persuasion to get an insurance product, since customers trust their banks more than an insurance company.

There are certainly some risks related to the implementation of the banc assurance. Juma (2015) found that management issues like who is in charge of client relationship management, trade-off in product design as well as the split-up of product marketing expenditures and build-up of commissions affected overall performance. Additionally, Grover and Bhalla (2013) found that rivalry among the merged entities lead to 'ring-fencing' of products or client base fragmentation while Thirupathi (2014) found that bancassurance took away clients base of insurance agents. Further, Banne and Bhola (2014) posit that insurance agents contemplated loosing placement and commissions to banks which lowered their commitment. Consequently, Santosh (2015) established that entry of banks into insurance industry intensified a standoff between banks and sales agents who lost direct control over their sales making it difficult for them to manage their marketing strategies. Making reference to uncertainty reduction theory, when sales agents are faced with multiple new competing channels, they perceive it to cause a decline in their sales and an increase in uncertainty regarding continuation of their careers. Perceptions of uncertainty by sales agents causes fear of cannibalization, job uncertainty and reduction on the level of commitment caused by role ambiguity which leads to low performance.

2.4 Conceptual Framework

The conceptual framework below is a diagrammatic representation of the interaction among study variables. The framework assists in displaying the relationships among variables and therefore the understanding of the situation.

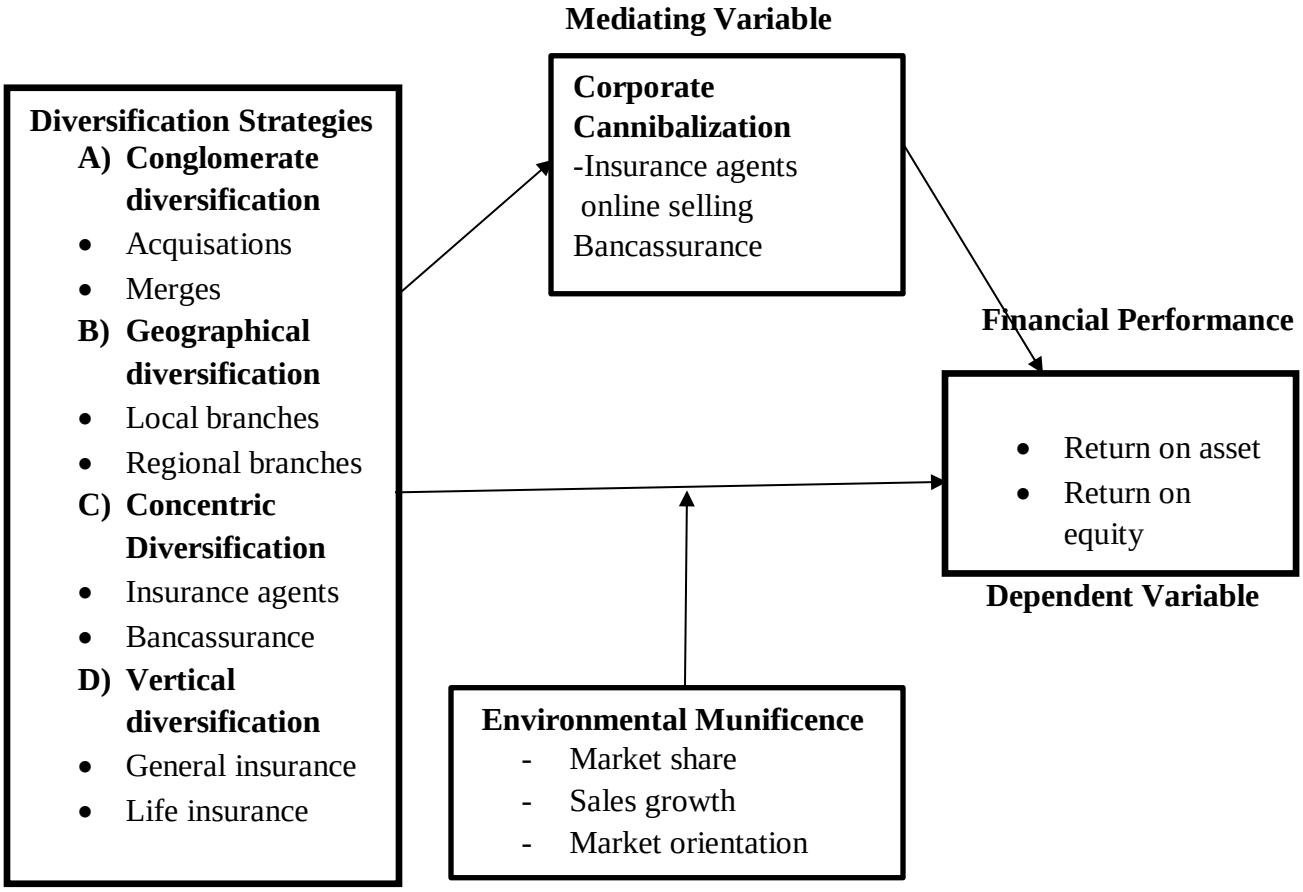

Figure 2.1: Conceptual Framework

In this study, the conceptual framework presented in figure 2.1 shows the relationship between the independent variables, moderating variables, mediating variables and the dependent variables. First, the conceptual framework shows the direct relationship between diversification strategies and performance. Four strategies of diversification were presented. This included conglomerate diversification, geographical diversification, concentric diversification and Vertical diversification. To determine the direct relationship between diversification strategies and

performance, figure 2.1 shows that two measures of performance were employed. These measures included return on asset and return on equity.

Secondly, the conceptual framework also shows the interaction relationship between environmental munificence and diversification strategies on insurance companies performance. As indicated in figure 2.1, the relationship shows that this study sought to determine the moderating effect of environmental munificence on the relationship between diversification strategies and performance. Environmental munificence employed as a moderator was indicated by the growth or decline in insurance companies market share, sales and market orientation. Strategically, to yield the desired effect of any diversification strategy undertaken by the insurance companies, top management and strategic decision makers were bound to consider the market share controlled by the company. Further the sales growth or decline would be a good projector of demand of the newly established product or service. Lastly, on market orientation, figure 2.1 shows that insurance companies would also need to determine whether potential policy holders are informed of the new product or service and whether they have good perception toward their products or service. The conceptual framework further shows that environmental munificence could in either way influence positively or negatively the effect of diversification strategies on performance.

The conceptual framework also presents mediation relationship of corporate cannibalization on the relationship between diversification strategies and performance of insurance companies. Cannbalization was considered from online marketing cannibalizing on insurance agents, bancassurance cannibalizing on insurance agents and bancassurance cannibalizing on online marketing. Cannibalization in the current business setting is known to influence insurance performance either directly or indirectly. At the same time, diversification strategies influence cannibalization. The influence could either have direct or indirect positive and negative effects on performance. Figure 2.1 therefore shows how this study investigated the mediation effect of corporate cannibalization on the relationship between diversification strategies and performance of insurance companies in Kenya. Performance of insurance company is indicated through return on asset and return on equity.

2.5 Summary of Literature Reviewed

The literature in this study focused on six theories. The theories include the resource based view theory, transaction cost theory, vrooms expectancy theory, uncertainty reduction theory, institution theory and contingency theory. The resource based theory was used to describe that insurance companies consider resource availability before deciding on the diversification strategy to adopt. The theory also puts forth that performance of insurance companies is pegged on resource availability. Based on transaction theory, the reviewed literature revealed that the theory helps insurance companies to analyze transaction that they can engage into at a lower cost through the market or within the bureaucracy of the company. Further transaction cost theory explains the negotiating, monitoring, and enforcements cost which occur when a transaction between two or more parties takes place.

The expectancy theory says that individuals have different sets of goals and can be motivated if they have certain expectations. Further, referring to expectancy theory, people were found to be motivated if they believe that dispensing effort on a task leads to increased performance regarding some areas. If people consider their energy will not generate the expected results, they will be discouraged and hence result to low performance. Uncertainty reduction theory explains how the introduction of alternatives in a given setup will results in high level of uncertainty and how these increment may be considered as cannibalistic. Institution theory was used in this study as a means to explore how organizations fit with, are related to, and were shaped by their societal, state, national, and global environments. Lastly, contingency theory, was relied on to explain how factors outside the control of the organization correlates with internal organizations factors to establish a common fit that informs their performance.

The empirical review examined the effects and relationship between diversification strategies and performance of insurance companies in kenya. The literature yielded contradictory and conflicting results. Some studies established that diversification strategies positively influenced performance (Thompson, Strickland & Gamble, 2017; Gomes & Livdan, 2013). Other researchers established that Geographical diversification improves the worth of shareholders by positively manipulating specific resources, by increasing functioning flexibility and by satiating shareholders concerns for holding worldwide diversified positions (Christian & Mauricio,2021). Some studies however,

found a negative relationship between geographic diversification and performance (Eddleston, Kellermanns, & Sarathy, 2008). Regarding conglomerate diversification, Mashiri and Sebele (2014) found that conglomerate diversification and performance were linearly and positively related while Pavic and Pervan (2010) after examining the performance effect of conglomerate diversification on the Croatian non-life insurance industry found that both measures of diversification had a negative and statistically significant influence on profitability.

The empirical literature reviewed also indicated that vertical diversification had a positive relationship with performance (Myers & Read ,2001). Further, chen-ying, (2016) found that vertical diversification helps organization attain economies of scale and scope, increases the effectiveness of their use of resources, sharing key capabilities among businesses, and attain synergies from complementary services. Similary, concentric diversification was found to have advantages in terms of reducing R&D cost (Wang *et al*. 2011), reducing time to market (Seol et al. 2011) and creating synergies with other businesses (Quintana & Benavides- ,2008). Elsewhere, miles and snow (2017) noted that organizations adopting concentric diversification were seeking a balance in their portfolios between cyclical existing businesses and countercyclical acquisitions, between cash intensive businesses with high cash/low opportunity and low cash/high opportunity firms, or between debt-free and high-opportunity businesses.

The reviewed literature also noted that a highly munificent or resource-abundant environment prompted a firm to focus less on its primary goal of survival. Jaiyeoba (2013) concluded that the resources available in an environment affected the survival and growth of firms sharing that environment and also affected the ability of new firms to enter that environment. LI *et al*. (2013) found that characteristics such as market share gains, growth in demand, and sales growth were a much better predictor of performance. Some early works by Prescott, Kohli and Venkatraman (1986), indicated that market share had a significant and positive effect on business profits. Concerning sales growth, Parida, *et al*., (2016) found out that increased sales volume was the most appropriate indicator to describe a company's win against competitors.On the one hand, market orientation was found to be a significant variable influencing organization performance (Kirca, Jayachandra, & Bearden, 2005: Reijonen, *et al* 2012: Ong, Yeap & Ismail ,2015). On the other hand, the findings of other researchers on how market orientation affected organization

performance were not so conclusive, implying that market orientation did not directly influence firm performance (Singh, 2009: Baker & Sinkula, 2005: Cadogan & Cui, 2004). Other similar studies found that market orientation was related to organization performance only for certain subjective measures (Rose & Shoham, 2002).

2.6 Research Gap

Academic literature has not offered a consensus on the effects of diversification on financial performance of insurance companies. While some researchers recommend diversification (Olweny & Shipho, 2011) others have confirmed the risks arising from diversification are not offset by the benefits (Kiweu, 2012). Most studies previously done focused on one diversification strategy and negated other strategies. Other researchers conducted relevant and near similar studies during period before year 2000. Due to the ever changing environment, the findings of those early studies have been rendered obsolete. Related studies have also been conducted in different countries while others focused on different industries thus their results could not be fully adopted as representing areas focused in this study. In the words of Custodio (2013), studies in the areas of diversification have tended to provide inconclusive results due to inconsistent data, different time frames, different financial performance measures and moderate variables. Majority of the studies done did not examine the mediating effect of corpolate cannibalization on the relationship between diversification strategies and financial performance of insurance companies. Further, these studies did not also consider the moderating effect of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents procedures that were followed in order to address the research problem. Further, this chapter discussed the research philosophy, design, population, sampling technique and sample size, data collection techniques, pre-testing of research instruments, data collection procedures and data analysis.

3.2 Research Philosophy

This study employed positivistic research philosophy. This is because of the need to remain objective, test theories and move from the known to the unknown. Similar studies by Ombaka and Machuki (2015), Murgor (2014) and Njoroge *et al*. (2015) had successfully used this philosophy. The emphasis within positivism lies upon quantifiable observations which can be done by statistical analysis hence this research fits well into this philosophic stance. Positivism research philosophy states that the only way to learn the truth is through science. Positivism research philosophy is a research approach which is based on the doctrine that the reality and the truth is free and independent of the observer and viewer (Aliyu, Bello, Kasim &Martin, 2014). Positivist opines that to get a true and trustworthy information which is based on facts can only be gained through observation and measurement only.

Researchers role when employing positivism philosophy is mainly focused on data collection and objective interpretation due to observable and quantifiable characteristics of research findings (Collins, 2010). Arguments made by Crowther and Lancaster, (2008) observed that positivism research was anchored on a deductive approach in which the researcher concentrate on facts. This is centrally to phenomenology philosophy in which the researcher concentrated on the meaning and human interest provisions (kilimi *et al*, 2022). Further Wilson ,(2010) argued that a positivist approach to research assumes the belief that the researcher is independent from the research and the research is purely objective and consider the world as external and objective. Positivism research philosophy was useful in this study since the study was limited to collection and interpretation of quantifiable data in an objective manner to make a conclusion.

3.3 Research Design

This study employed a causal comparative research design. This research design involves looking at the relationship between two or more variables that are not under the control of the researcher. This research design was important for this study because the findings were used to forecast events from current data and knowledge as recommended by Creswell (2013). Further, Frank and Rens, (2017) noted that causal comparative design is employed as ex-post-facto after the alleged cause has already occurred and the effect is being examined. This research design was therefore used to establish cause and effect relationship between variables (Richardson, 2018). Findings of Ader, Mellenbergh and Hand (2008), observed that researchers pursue causal explanations in which the test of hypotheses is reflected while Adr *et al*. (2008) argue that there exists causal effect when variation in a predictor's variable explains a subsequent variation in the outcome variable. Causality research design in this study helped the researcher to understand how the insurance industry in Kenya operates through the process of showing causal link between causes thought as diversification strategies and effect as insurance financial performance.

3.4 Theoretical Model

The model was based on resource based theory which holds that organization control different levels of resources and competencies and therefore, some companies can operate more efficiently and effectively than others based on these resource differences. In this study, the resources were thought of as the diversification strategies that were the decisions formulated by the insurance firms to enhance their financial performance. Therefore, the model took the form of:

$Y = £ (X_1, X_2, X_3 \ldots\ldots X_n)$ ……..……..equation 3.1

Upon linearization of the equation, the model took the form:

$Y_{it} = \beta o_{it} + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + e_{it}$ ……..……. equation 3.2

A Panel linear multiple regression analysis was employed by independently regressing financial performance against diversification strategy to determine how the variable factors predict financial performance.

3.5 Population of the Study

The population of interest in this study were all the insurance companies registered and licensed to operate in Kenya as at 2017. Insurance Regulatory Authority report for the year 2017 indicated that by the year 2017 there were 55 insurance companies that were allowed to legally operate in Kenya(IRA, 2017). Because of the few number of insurance companies in Kenya, the study considered all members of the population in the study hence a census study was carried out.

3.6 Data Collection Instruments

Scientific inquiry demands that researchers develop tools that yield accurate and meaningful data to enable the making of a decision (Cadle & Tunner, 2010). This study relied on secondary data. Secondary data collection sheet was used to collect data. The instruments ensured that correct data was collected. Secondary data was collected from IRA reports, KNBS database and Insurers audited financial statements and reports for the years starting 2017 to 2021. Secondary data was recorded in data collection sheets prepared for each insurance company.

3.7 Data Collection Procedures

Ethical considerations as given by Saldaña, (2015) recommends that researchers should seek authorization before collecting data. To ensure accurate data was collected, (Kilimi,2022) recommends that proper planning and preparations should be done to ensure both secondary and primary data are accurate. First, an approval letter was obtained from the University of Embu which introduced the researcher to the organizations where data was collected from. A research permit was also obtained from National Council for Science, Technology and Innovation (NACOSTI) to legalize the research activities. This served as proof that the data collected would only be used for the sole purpose of this study.

3.8 Data Processing and Analysis

The study further employed both descriptive(mean,standard deviation,z score) and inferential statistics(chisquare)

To test hypothesis for the study objective one, a regression model took the form of:

$Y_{it} = \beta o + \beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + e_{it}$……..equation 3.3

Where: Y was financial performance, β0 was performance of insurance independent of diversification strategy, $\beta 1 \ldots \beta 4$ coefficient of the variables, CGD conglomerate diversification,

CCD concentric diversification, GD geographical diversification, VD vertical diversification and e the error term. The study was premised on the assumption that the highlighted independent variables explain the dependent variables.

To test the moderating influence of the environmental munificence (EM) on the relationship between diversification strategies (DS) and financial performance, a hierarchical multiple regression analysis was used. The first step involved assessing the interaction between independent variables, (diversification strategies) and moderator (environmental munificence). The second step involved the independent variables and moderator being entered into the model as predictors of the outcome variable which is financial performance of insurance companies. The relationship between financial performance and environmental munificence assessed whether the relationship accounts for additional variance in the dependent variable beyond that explained by diversification strategies and environmental munificence in step one. The third step involved interaction of diversification strategies and environmental munificence as predictors of the outcome variable which is financial performance. The moderator effect is present if the interaction term explains a statistically significant amount of variance in the dependent variable. Baron and Kenny (1986) model was used to test the moderation effect of environmental munificence on financial performance of insurance companies in Kenya.

The model took the form of:

$Y_{it} = \beta_0 + \beta_1 DS_{it,} + \beta_2 EM_{it} + \beta_3 DS_{it} * EM_{it} + e_{it}$ ……..……...…equation 3.4

Where;

Y_{it} was financial performance, β0 was the regression constant, i was 1,2, …, 50 insurance companies, t was 1,2, …, 5 years, DS was composite index of diversification strategies, EM was composite index of environmental munificence, $\beta 1$ is coefficient of composite index of diversification strategies, $\beta 2$ was coefficient of moderator that was environmental munificence, $\beta 3$ was coefficient of interaction of composite of diversification strategies and moderator that is environmental munificence. The coefficient β3 was used to indicate the influence of moderating variable that is, environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya. The study compared the p-value of $\beta 3$ with the significant value of 0.05 to reject or fail to reject the null hypothesis. If the p-value of

β3 was higher than significant value of 0.05 the study failed to reject the null hypothesis and vice versa.

To examine the mediating influence of cannibalization on the relationship between diversification strategies and financial performance, Baron and Kenny's (1986) four step procedure was adopted Several regression analyses were carried out and the significance of coefficients examined in each step. The first step involved a simple regression analysis with the independent variable (DS) predicting the dependent variable (Y). In the second equation, a simple regression analysis with the independent variable (DS) predicting the mediating variable (CC) predicting the dependent variable (Y). The purpose of steps one to three was to establish if zero-order relationships among the variables existed and if they were statistically significant in order to proceed to step four. Support for full mediation would be confirmed if diversification strategies was no longer statistically significant with performance of insurance companies. If both diversification strategies and corporate cannibalization were statistically significant, the findings would support partial mediation. Perfect mediation attest if the independent variable has no effect when the mediator is controlled (Baron & Kenny, 1986).

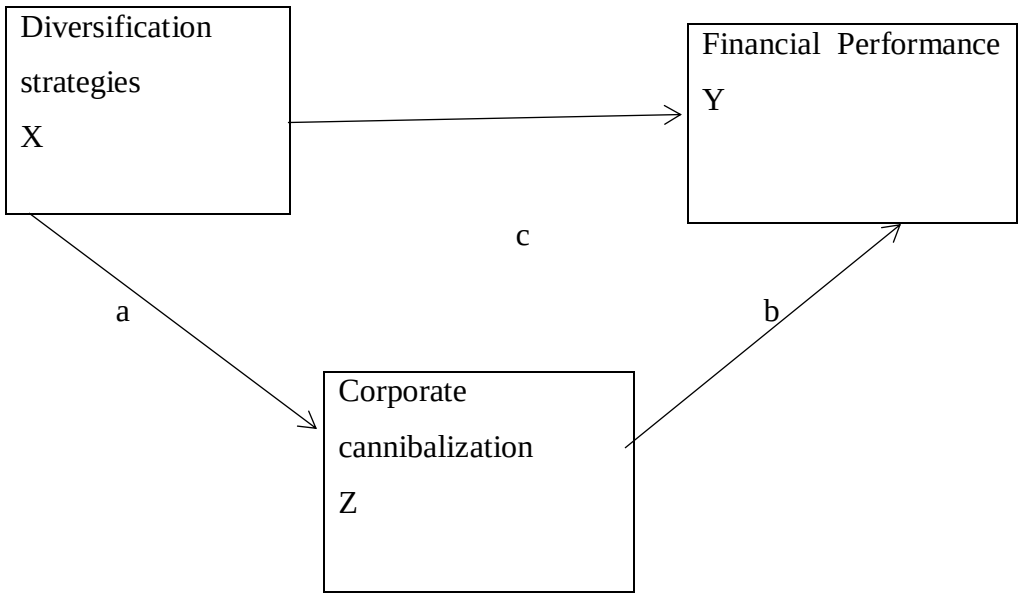

Figure 3.1: Baron and Kenny (1986) mediation model

Step One

The first step was to assess the relationship between dependent and independent variable using the following regression model:

$$Y_{it}=\beta o_{it} +\beta_1 CGD_{it}+\beta_2 CCD_{it}+ \beta_3 GD_{it} + \beta_4 VD_{it} + e_{it}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.5$$

Where:

Y was the financial performance, β was the regression constant, i was 1,2, …, 50 insurance companies , t was 1,2, ….5 years, *β1, β2, ...,β4* were coefficients estimated , CGD conglomerate diversification, CCD concentric diversification, GD geographical diversification, VD was vertical diversification and *e* the error term.

The results interpretation was that a relationship existed if at least one of *β1 ……. β4* was significant.

Step Two

The second step was to assess the relationship between the mediating variable and independent variable using the following regression model.

$$CC_{it}= \beta o_{it} +\beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + e_{it}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.6$$

where:

CC was the corporate cannibalization,β was the regression constant, i was 1, 2 ….. 50 insurance companies, t was 1 …. 5 years*, β1, β2, ..., β4* were coefficients estimated, CGD was conglomerate diversification, CCD was concentric diversification, GD was geographical diversification, VD was vertical diversification and e the error term.

The results interpretation was that a relationship existed if at least one of *β1 …… β4* was significant.

Step Three

The third step was to assess the relationship between the mediating variable and dependent variable using the following regression model:

$$Y_{it} =\beta o_{it} + \beta_1 OA_{it} + \beta_2 BA_{it} + \beta_3 BO_{it} +\beta_4 OTM_{it}+ e_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.7$$

Where:

Y was financial performance, β was the regression constant, I was 1, 2, …, 50 insurance companies, t was 1 …., 5 years, $\beta 1$ and $\beta 2$ were coefficients estimated, OA was online versus insurance agent cannibalization, BA was bancassurance versus insurance agents' cannibalization, BO was bancassurance versus online marketing cannibalization and OTM was other branches versus main office cannibalization. e was the error term.

The results interpretation was that a relationship existed if at least one of β1 or β2 was significant.

Step Four

The fourth step was to assess the relationship between the dependent variable, mediating variable and independent variable using. The following regression model was used:

$$Y_{it} = \beta o_{it} + \beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + \beta_5 OA_{it} + \beta_6 BA_{it} + \beta_7 BO_{it} + \beta_8 OTM_{it} + e_{it} \quad ...3.8$$

Where:

Y was financial performance, β was the regression constant, i was 1, 2 …., 50 insurance companies , t was 1 …. 5 years, $\beta 1, \beta 2$ ...., $\beta 8$ were coefficients estimated, , CGD was conglomerate diversification, CCD was concentric diversification, GD was geographical diversification,VD was vertical diversification, OA was online versus insurance agent cannibalization, BA was bancassurance versus insurance agents' cannibalization, BO was bancassurance versus online marketing cannibalization and OTM was other branches versus main office cannibalization while *e* was the error term.

The interpretation of the results was that mediation occured if diversification strategies in step one predicted financial performance of insurance companies in Kenya, diversification strategies in step two predicted corporate cannibalization, corporate cannibalization in step three predicted financial performance of insurance companies in kenya, and diversification strategies in step four predicts financial performance of insurance companies in Kenya when corporate cannibalization was incorporated in the model.

To test the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies, the study used a regression model in the form of:

$Y_{it} = \beta o + \beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + \beta_5 OA_{it} + \beta_6 BA_{it} + \beta_7 BO_{it} + \beta_8 OTM_{it} + \beta_9 EM_{it} + \beta_{10} SG + \beta_{11} MO + \beta_{12} MS + e_{it}$ …….....equation 3.9

Where:

Y was financial performance, β was the regression constant, i was 1, 2 …., 50 insurance companies, t was 1 …. 5 years, β_1, β_2 …., β_3 were coefficients estimated, CGD was conglomerate diversification, CCD was concentric diversification, GD was geographical diversification, VD was vertical diversification , OA was online versus insurance agent cannibalization, BA was bancassurance versus insurance agents' cannibalization, BO was bancassurance versus online marketing cannibalization and OTM was other branches versus main office cannibalization, SG was sales growth, MO was market orientation, MS was market share while *e* was the error term.

3.9 Econometrics Test

The type of data made use in this study was panel data that observes behavior of entities across time in a dataset. A panel data set possesses both time series and cross-sectional dimension (Moffat, 2019). This study considered insurance companies that were registered and licensed to operate in Kenya within the year 2017 to 2021. It was of utmost importance to ensure that assumptions of the multiple regression model were not violated before the analysis was done. This ensured there was no risk of obtaining inefficient, biased and inconsistent estimates (Brooks, 2019). The panel data in the study was tested for stationarity, normality, heteroskedasticity, autocorrelation and in addition Hausman test was used to make a choice between random and fixed effects model when testing the effect of diversification strategies and financial performance.

3.9.1 Stationarity Test

Unit root test was used to test for stationarity because the data covered a period of time spanning five years. It was meant to establish that the statistical properties of a time series do not change over time. Stationarity is achieved when unit root test is absence of unit root (stationary) against the alternative presence of unit root (Non-stationary). When data is non-stationary (kilimi *et al*, 2022) observed that differencing should be done until stationarity is achieved**.**

3.9.2 Normality Test

When using regression models, researchers are required to ensure that data relied on was normally distributed. This is because non-normality distorts the results of any further analysis. Normality test usually determines whether the sample data has been drawn from a normally distributed

population (Razali & Wah, 2011). To determine whether the study data fitted a normal distribution, analysis was performed using Shapiro Wilk test. The null-hypothesis of the test was that the population was normally distributed. The decision criteria were that, if the p value was less than the chosen alpha level (P Value < 0.05), Razali and Wah (2011) recommended that the null hypothesis should be rejected. Tabachnik and Fidell, (2007) explained that the rejection of the null hypothesis implies that the data tested was not normally distributed and did not originate from a normally distributed population.

3.9.3 Heteroskedasticity

This study relied on Breusch-Pagan test to check for heteroscedasticity. The null hypothesis was that the variance of the residuals was homoscedastic (had a constant variance). The decision criteria were that when the P-values < 0.05, then the null hypothesis would be rejected and a conclusion made that there is presence of heteroscedasticity and vice versa would be considered true. Presence of heteroskedasticity was accounted for the in the panel data using robust standard errors. When using regression models, the assumption is that the error term is homoscedastic, that is, it has a constant variance. If the error variance is not constant, then there would be presence of heteroscedasticity. Running a linear model in the presence of heteroscedasticity would lead to biased estimates. Also, test of heteroscedasticity was important in this study because it averts the possibility of the model producing p-values that are smaller. Smaller p-values are known to increase the variance of the coefficient estimates resulting to biased conclusions since the study could conclude the significance of the model when it is actually not significant.

3.9.4 Test for Autocorrelation

Autocorrelation is the degree of correlation between two successive time intervals of the same variable. To test the presence of autocorrelation, the study used Durbin –Watson test. The decision criteria were that if p-value was between 2 to 4, the null hypothesis of no autocorrelation would be rejected.

3.9.5 Hausman Test for Model Choice

This study sought to determine the effect of diversification strategies on performance of insurance companies in Kenya. The study carried out a Hausman test to make a choice between fixed effects and random effects of the regression model. The null hypothesis was that the preferred model was

random effects. Chmelarova, (2007) observed that when the P-value was less than 0.05, the decision criterion to be made was that the null hypothesis should be rejected.

3.10 Operationalization and Measurement of Study Variables

This study used a modified Rumelt's specialization ratio with two classifications to measure the extent of diversification. Operationally, Hayes *et al.* (2014) recommends that a ratio to be derived from a firm's annual revenues from its largest discrete, product market activity to its total revenues. The Rumelt's specialization ratio (SR) was used to categorize insurance companies into undiversified, single product firms ($SR \geq 0.95$) and diversified firms ($SR < 0.95$) The moderating effects of market munificence was measured using the average sales growth of the industry in the past five years' period under study necessitated by Li and Greenwood (2010) scale. The factor scores that emerged from the confirmatory factor analysis represented each of the dimensions of environmental munificence. The intervening effect of corporate cannibalization was measured using test gain/loss analysis. The cannibalization rate was obtained by dividing the sales loss of the victim brand product by the sales achieved for the attacking product. Operationalization of the study variables was presented in table 3.1.

Table 3.1: Operationalization and Measurement of Variable

Variable	Type of the Variable	Indicator (s)		Measurement
Diversification	Independent	Concentric Diversification (CD)	Insurance agents (A) Insurance brokers (B)	$SR = \frac{Ai + Bi}{Ti}$ i=income T= Total premiums
		Conglomerate diversification (CGD)	Strategic alliances(S) Merger(M)	$SR = \frac{Si + Mi}{Ti}$ i=income T= Total premiums
		Geographical Diversification (GD)	Local market (L) Regional market(R)	$SR = \frac{Li + Ri}{Ti}$ i=income T= Total premiums
		Vertical diversification (VD)	Life assurance (La) General insurance(G)	$SR = \frac{Lai + Gi}{Ti}$ i=income T= Total premiums
Financial Performance	Dependent	Performance	Return on asset	Net income/Total assets
			Return on equity	Net income/ equity
Environmental munificence	Moderating variable	Environmental growth or decline	Market share	$\frac{total\ brand\ purchase}{total\ category\ purchase}$
			Sales growth	$\frac{current\ sales - pastsales}{past\ sales}$
Corporate cannibalization	Intervening variable	cannibalization rate	$\frac{\text{Victims loss(premium)}}{\text{Attackers gain (premium)}}$	

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This study investigated the relationship between diversification strategies, corporate cannibalization, environmental munificence and financial performance of insurance companies in Kenya. This chapter presents the research findings of data analysis and the discussion according to the objectives of the study.

4.2 Success Rate

The study focused on the registered and licensed insurance companies in Kenya from the year 2017 to 2021. The success rate of available data was 90.9 %. This is because data from 50 insurance companies was available from annual reports and websites and only 5 of the companies' data was not available. After the elimination of data with missing values, the final data consists of 50 companies with 250 company-year observations. This was considered adequate given the recommendation by Babbie (1990) who suggested on success rates exceeding 50% as adequate,60% as good and above 70% rated very good.

4.3 Descriptive Statistics

This section presents the descriptive statistics of the independent, moderating, mediating and dependent variable.

4.3.1 Descriptive Statistic for Independent Variable: Diversification Strategies

The descriptive statistics results for diversification strategy indicators, that is conglomerate diversification, concentric diversification, vertical diversification and geographical diversification were presented in table 4.1

Table 4.1: Descriptive Statistic for Diversification Strategies

Variable	Mean	Std .Dev.	Min	Max
Conglomerate diversification	0.460	0.501	0.001	0.501
Concentric diversification	0.504	0.415	0.216	0.649
Vertical diversification	0.600	0.485	0.004	0.501
Geographical diversification	0.816	1.615	0.216	0.887

Referring from table 4.1, conglomerate diversification indicated a mean of 0.460 with a standard deviation of 0.501. Insurance companies that had embraced conglomerate diversification were seen to fluctuate from a minimum 0.001% to a maximum of 5.015% in the year under review. A mean of 0.504 and a standard deviation of 0.415 was attained implying that on average, 0.504% of insurance companies had embraced concentric diversification. Concentric diversification had a standard deviation of 0.415. This results indicated that majority of insurance companies in Kenya had moved beyond the traditional use of insurance agent to promote their products into adopting bancassurance and online selling. Insurance companies were found to be fully adopting use of technology while others were casting their nets wider through contracting the banks. Insurance companies that had adopted concentric diversification fluctuated from a minimum of 0.216% to a maximum of 0.649% within the period under review.

Results on vertical diversification indicated a mean of 0.600. This implied that on average 0.6% of the insurance companies had embraced vertical diversification. The results further showed a standard deviation of 0.485 meaning that insurance companies adopting life insurance or general insurance had 0.485 chances of adopting either of the two. Further, the results indicated a minimum of 0.004 and a maximum of 0.501 indicating that insurance companies that had embraced vertical diversification ranged from a minimum of 0.004% to a maximum of 0.501%.

The results on Geographical diversification from the table 4.1 presented a mean of 0.810. This indicated that 0.81% of the insurance company reviewed during the period had embraced geographical diversification. This results showed that majority of insurance companies in Kenya had opened other branches either locally or regionally. Geographical diversification had a standard deviation of 0.615. The results further indicated a minimum of 0.216 and a maximum of 0.887. This implied that insurance companies which had adopted geographical diversification were seen to fluctuate 0.216% while the maximum was 0.887%.

4.3.2 Descriptive Statistics for Mediating Variable: Corporate Cannibalization

The descriptive statistics results for mediating variable; corporate cannibalization are presented in table 4.2

Table 4.2: **Descriptive Statistics for Corporate Cannibalization**

Variable	Mean	Std .Dev.	Min	Max
Insurance agents	0.233	0. 391	0.134	19.086
Bancasssurance	0.820	0.125	0.601	6.426
Online selling	0.014	0.077	0.003	5.174
Main office	0.346	0.048	0.001	5.578
Other branches	0.678	0.096	0.004	15.457

The results from table 4.2 indicated that premium from insurance agents had a mean of 0.233 implying that on average, ksh 0.233 billion of the premiums collected was from insurance agents. This premium had a standard deviation of 0.391 with a minimum of 0.134 and a maximum of 19.086. This indicated that the insurance company that reported the lowest amount of premiums from insurance agents was ksh 0.134 billion while the company that reported the maximum was ksh 19.086 billion. Premiums from bancassurance had a mean of 0.820. This meant that on average bancassurance generated premiums worth ksh 0.820 billion with a standard deviation of 0.125. Table 4.2 also indicated that the minimum premium from bancassurance was 0.601 and the maximum 6.426. This implied that banc assurance contract that generated the least amount of premium was ksh 0.601 billion while that which generated the highest recorded a premium of ksh 6.426 billion during the period under review.

Premiums from online selling had a mean of 0.014 as shown in table 4.2. The mean indicated that on average, online selling contributed premiums worth ksh 0. 014 billion which had a standard deviation of 0.077. The premiums from online selling fluctuated from a minimum of 0.003 to a maximum of 5.174. The fluctuations implied that the lowest reported premium from online selling amounted to ksh 0.003 billion while the maximum was reported at ksh 5.174 billion. Results on income generated from main office indicated a mean of 0.346 meaning that on average ksh 0.346 billion resulted from main office business. Further, income generated from main office had a standard deviation of 0.043 with a minimum of 0.001 and a maximum of 5. 578.This meant that the lowest amount of premiums contributed from main office was ksh 0.001 billion and the maximum amount stood at ksh 5.578 billion. Table 4.2 also presented others branches to have

contributed income of ksh 0.678 billion which was indicated by a mean of 0.678. Income from general insurance had a minimum variance of 0.045 to a maximum of 15.457.

4.3.3 Descriptive Statistics for Environmental Munificence

The descriptive statistics for the moderating variable environmental munificence were presented in table 4.3.

Table 4.3: Descriptive Statistics for Environmental Munificence

Variable	Mean	Std .Dev.	Min	Max
Sales Growth	0.323	0.112	0.003	0.956
Market orientation	0.292	0.419	0.025	0.616
Market share	0. 141	0.170	0.013	0.476

Table 4.3 above shows that sales growth had a mean of 0.3234. This implied that on average sales grew by 32.34% during the period under review. The sales growth had a standard deviation of 0.112 with a minimum of 0.003 to a maximum of 0. 956. A mean of 0.292 was recorded indicating that on average market orientation increased by 29.2 % with a standard deviation of 41.96% indicated by 0. 419.The results further showed that market orientation fluctuated from a minimum of 2.54% to a maximum of 61.6%.

Inferring from table 4.3 market share had a mean of 0.141 indicating that on average, market share had increased with a 14.1%. The results further revealed a standard deviation of 0.170 with a minimum of 0.013 and a maximum of 0.476. This meant that the minimum increase on market share was at 1.3% while the maximum change in market share during the period under review was at 47.6%.

4.3.4 Descriptive Statistics for Financial Performance Indicators

The descriptive statistics results for the dependent variable; Financial performance were presented in table 4.4.

Table 4.4: Descriptive Statistics for Financial Performance Indicators

Variable	Mean	Std .Dev.	Min	Max
Return on Equity	0.115	0.694	0.081	2.235
Return on Asset	0.021	0.138	0.095	0.923

Table 4.4 indicated that return on equity(ROE) had a mean of 0.115. This implied that the insurance companies had ksh 0.115 billion on average as the return on equity. Further, return on equity had a standard deviation of 0.694 with a minimum of 0.081 and a maximum of 2.235. This implied that the minimum return on assets for the insurance companies considered in this study registered ksh 0.081 billion while the highest registered a maximum of ksh2.235billions during the period under review. Return on assets(ROA) also had a mean of 0.021. This meant that on average the insurance companies recorded a return on asset of ksh 0.021 billion. Further table 4.4 showed that return on asset had a minimum of 0.095 and a maximum of 0.923 billion.

4.4 Effect of Diversification Strategies on Financial Performance of Insurance Companies

The first objective of the study was to determine the effect of diversification strategies on financial performance of insurance companies in Kenya. The following hypothesis was tested using multiple linear regression model.

H_{01}**:** Diversification strategies had no significant effect on financial performance of insurance companies in Kenya.

Model:

$$Y_{it} = \beta o + \beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + e_{it} \quad \text{equation 4.1}$$

Where: Y was financial performance, β0 was performance of insurance independent of diversification strategy, β1…. B4 coefficient of the variables, CGD conglomerate diversification, CCD concentric diversification, GD geographical diversification, VD vertical diversification, t was 1…..5 years,i was 1….50 insurance companies and e the error term.

4.4.1 Econometric Test

The study adopted various econometric tests to ensure that data was appropriate for further analysis. According to Brooks (2019), a study where the assumptions of panel data in a regression model are met ensures absence of risk of obtaining inefficient, biased and inconsistent estimates.

Among the diagnostic test used were test for heteroskedacity, normality, autocorrelation and test for model choice.

Table 4.5 Results for Heteroskedasticity Test

	Diversification strategies	p-value
Variables: fitted values of ROA	875.1	(0.146)
Variables: fitted values of ROE	22.4	(0.425)

P values are enclosed in the brackets

To check for Heteroskedacity, that is, the variance of the residuals has a constant variance, the study relied on the Breusch-pagan test. Heteroskedacity test determines whether there exist an unequal spread or variance among residuals of the population of the study. If the error variance is not constant, Gujarati (2004) points out that there is presence of heteroscedasticity and therefore leading to biased estimates when running a regression model. Williams ,(2015) observed that panel data regression models assume that all residuals must be drawn from a population with a constant variance .The decision criteria was that when p –values <0.05, the null hypothesis would be rejected and a conclusion will be made that there is presence of heteroskedasticity.

Table 4.5 indicated that all the p values were greater than the critical value of 0.05. This signified absence of heteroscedasticity.

Table 4.6 Shapiro Wilk Test Results

Variable	W	V	Z	Prob>z
Conglomerate	0.597	76.581	10.121	0.068
Concentric	0.345	112.435	10.954	0.116
Geographical	0.053	178.278	12.085	0.679
Vertical	0.756	112.534	12.248	0.074
Return on asset	0.426	20.971	9.099	0.110
Return on equity	0.842	102.567	12.745	0.073

A number of statistical analyses require that sample data be normally distributed (Razali & Wah,2011). Normality test are used in statistics to determine whether a set of data is modeled well

by a normal distribution and whether it is drawn from a normally distributed population. Analysis to assess normality of data was done using shapiro wilk test. The results were presented in table 4.6 .

The null hypothesis was that data was normally distributed. The decision criteria were that where P value <0.05, the null hypothesis would be rejected implying that data is not normally distributed. The results from table 4.6 above failed to reject the null hypothesis and concluded that the sample data come from a normally distributed population.

Table 4.7 Durbin –Watson Statistics Results

DV USED	**R Squared**	**Adjusted Squared**	**R Std. error**	**Durbin-Watson**
Return on asset	0.196	0.218	0.421	2.134
Return on equity	0.147	0.313	0.214	2.943

To test the presence of autocorrelation the study used Durbin –Watson test. The results of the test were presented above in table 4.7. The Durbin-Watson statistic will always have a value ranging between 0 and 4. A value of 2.0 indicated there was no autocorrelation detected in the sample. Values from 0 to less than 2 pointed to positive autocorrelation and values from 3 to 4 meant negative autocorrelation. The results presented indicated that the Durbin Watson statistics were within the range, implying that there was no autocorrelation problem.

Table 4.8 Hausman Test Results

DV used	Statistics	P value
ROA	5.42	0.964
ROE	9.67	0.568

Independent variables were diversification strategies.

Hausman test was used to arrive at the best choice of the model between fixed effects and random effects when testing the effects of diversification strategies on performance of insurance companies. The null hypothesis was that the preferred model was random effect. As suggested by Chmelarova(2007), when p-value is less than 0.05 , the null hypothesis would be rejected. Results in table 4.8 show that the p-values were greater than 0.05 hence the null hypotheses that the

preferred model is random effects failed to be rejected, and a conclusion was drawn that the preferred model was random effects.

4.4.2: Regression Results

Regression results were organized systematically according to financial performance indicated by return on asset and return on equity.

4.4.2.1 Effect of Diversification Strategies on Return on Asset

Results of the effects of diversification strategies on return on assets were presented in table 4.9 and their discussion thereafter

Table 4.9 Effect of Diversification Strategies on Return on Asset

	Coef	Std Error	Z statistic	P-value
Conglomerate diversification	0.002**	0.001	1.98	0.001
Concentric diversification	-0.009**	0.004	-2.01	0.031
Geographic diversification	0.002**	0.001	1.99	0.041
Vertical diversification	0.006**	0.003	-2.03	0.000
R within	0.426			
R 2 between	0.036			
R-squared overall	0.181			
Corr	0.138			
Chi^2	247521.24**			0.001

*Dependent variable: ROA, *indicates statistical significance at 5%, no of groups 50, no of observations 250.*

The regression results in Table 4.9 indicated that diversification strategies had a significant positive effect on return on asset shown by the overall correlation coefficient (corr, 0.138). This implied that a change in diversification strategies will have a significant positive effect on insurance financial performance indicated by return on assets. Further, the results indicated a statistically significant Ch^2 statistic (coef= 247521.24, P=0.001) implying that the model was good for estimation of return on asset. The R^2 overall in table 4.9 was 0.181. This showed that 18.1% of variations in return on assets was explained by variations in the diversification strategies embraced by insurance companies. Further the results indicated that conglomerate diversification positively

and significantly affected the return on assets of insurance firms (coef = 0.0022, P = 0.0017). The results inferred that a 1% change in conglomerate diversification resulted into a 0.22% positive change in return on assets. The results were consistent with the findings of Mashiri and Sebele (2014) who established that diversification and performance were linearly and positively related. The results also support the resource-based theory that not only provides a prescription to improve company performance, but also recommends diversification by relying on resource capacity to enter new markets or what Wernerfelt (2014) called a sequential entry strategy.The results also revealed that concentric diversification negatively and significantly affected return on assets of insurance companies (Coef = -0.009, P =0.031). The findings implied that a 1% change in concentric diversification had a 0.930% negative effect on return on assets. It further meant that the strategic decision to diversify into either bancassurance or online selling resulted into loss of value of assets acquired to be used within the firm but were now rendered obsolete. The results were in agreement with the findings by Lynch, (2006) who established that there is a higher exposure to business risk when a company moves into a new unknown market or introduces a new product.

This study further found that geographic diversification positively and significantly affected the financial performance of insurance firms (Coef =0.002, P = 0.041). This indicated that a 1% change in geographical diversification resulted into 0.27% positive change in return on assets. The results further implied that insurance companies that moved to new markets outside the home market performed better compared to those insurance companies that focused only on the home market. The findings supported Contractor, (2007) observations that geographical diversification improves business performance by increasing sales in foreign markets, reducing the risk of recession in the domestic market, and reducing costs through economies of scale. Further, geographical diversification can also bring about worth through operational elasticity which enables an organization to take advantage of market opportunities as and when they arise. Similarly, vertical diversification positively and significantly affected the financial performance of insurance firms (Coef = 0.006, p= 0.000). The findings implied that insurance companies that offered both life assurance services and general insurance services performed better compared to those companies that focused on either life assurance products or general insurance products alone.

Table 4.10 Effect of Diversification Strategies on Return on Equity

	Coef	Std Dev	Z statistic	P-value
Conglomerate diversification	-0.031**	0.015	-1.99	0.000
Concentric diversification	0.2360**	0.115	2.04	0.021
Geographic diversification	-0.047**	0.023	-2.01	0.004
Vertical diversification	0. 203**	0.102	-1.98	0.000
R^2 within	0.005			
R^2 between	0.006			
Corr	0.216			
R –squared overall	0.313			
Chi^2	54529.34**			0.000

*Dependent variable: ROE, *indicates statistical significance at 5%, no of groups 50, no of observations 250.*

Results in table 4.10 indicated that diversification strategies had a significant positive overall effect on return on equity indicated by the correlation coefficient (corr, 0.216). This meant that a change in diversification strategies would result into a significant positive change in insurance financial performance measured through return on equity. In addition, the results indicated a statistically significant Chi^2 statistics (chi^2=54529.34, P= 0.000). This implied that the model was good for estimation of return on equity. The R^2 overall in Table 4.10 was 0.313. This showed that 31.3% of variations in return on equity was explained by variations in the diversification strategies embraced by insurance companies. Table 4.10 also indicated that conglomerate diversification was statistically significant (p-0.000) and was negatively affecting return on equity. This implied that a 1% change in conglomerate diversification resulted into 3.1% loss on return on equity. The study findings were in harmony with the resource based theory which opines that when firms diversify in assets unrelated to the primary industry, conversion requires more time and cost due to lack of prior experience and knowledge increasing the likelihood to miss opportunities, delay new entrances, and reduce performance.

Table 4.10 also showed that concentric diversification was positively and statistically significant. This is indicated by a coef of 0.236 and a P value of 0.021 which was less than 0.05. The findings indicated that a 1 % shift in concentric diversification resulted into a 23.6 % positive change in

return on equity. These finding were in agreement with IRA,(2021) observation that insurance companies were using insurance agents, brokers and the media to reach and attract new customers compared to the traditional walking customers. Further, the findings supported the work of Wang *et al*. (2011) who established that concentric diversification was advantageous in terms of reducing R&D cost and reducing time to market all of which resulted into a positive effect on return on equity.

In addition, table 4.10 showed statistically significant coefficients of geographical diversification (-0.047). These statistics indicated that geographical diversification had a negative significant effect on return on equity. The results implied that a percentage increase in geographical diversification would lead to a 4.7% decrease in return on equity. The findings confirmed the assertion put across by transaction theory that that geographical diversification would incur heavy costs including market entry costs, coordination costs among business units in different countries, and information-processing costs that might surpass the benefits. The findings also contradicted previous work of Iqbal, Hameed and Qadeer (2012) who found that when firms engage in geographical diversification in core –related foreign direct investments, majority performed better and increased shareholders value.Lastly the results presented in table 4.10 above revealed that vertical diversification was statistically significant indicated by a coefficient of 0. 203 and p value of 0.000. These statistics indicated that vertical diversification positively affected return on equity. Inferring from the results, a percentage change in vertical diversification resulted into a 20.3% increase in return on equity. The results supported the work of chen-ying, (2016) who found out that the strategy may help the organization devolve key abilities between businesses, ensures efficiency in utilization of resources, take advantage of economies of scale and scope and promote synergies from complementary products. The findings further confirmed the assertions put forth by transaction theory that vertical diversification was beneficial in distributing resources across various businesses operating within their own firm boundaries and also helps to organize new activities in companies operating within the same boundary.

4.5 Moderation Effect of Environmental Munificence on the Relationship between Diversification Strategies and Financial Performance of Insurance Companies.

The second objective of the study was to determine the moderating effect of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies. The following hypothesis was tested using multiple linear regression model.

H_{O2}: Environmental munificence had no significant moderation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

The moderating effect was tested using the following model:

$$Y_{it} = \beta o + \beta_1 DS_{it} + \beta_2 EMI_{it} + \beta_3 DS_{it} * EM_{it} + e_{it} \ldots\ldots\ldots\ldots \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 4.2$$

Where:

Y_{it} was financial performance, β0 was the regression constant, i was 1,2, …, 50 insurance companies, t was 1,2, …, 5 years, DS was composite index of diversification strategies, EM was composite index of environmental munificence, β1 is coefficient of composite index of diversification strategies, β2 was coefficient of moderator that was environmental munificence, β3 was coefficient of interaction of composite of diversification strategies and moderator that is environmental munificence.

4.5.1 Econometric Tests

The econometric test used in this study were test for heteroskedacity, normality, autocorrelation and test for model choice. The diagnostic results were presented below.

Table 4.11: **Results for Heteroskedasticity Test**

	Environmental munificence	P-values
Variables: fitted values of ROA	24.3	(0.189)
Variables: fitted values of ROE	25.4	(0.121)

P values are enclosed in the brackets

To test for heteroskedasticity, the Breusch-pagan test was used. The decision criteria was that when p –values <0.05, the null hypothesis would be rejected and a conclusion made that there is presence of heteroskedasticity. Table 4.11 indicated that all the p values were greater than the critical value of 0.05. This signified absence of heteroscedasticity.

Table 4.12 Shapiro Wilk Test Results

Variable	W	V	Z	Prob>z
Market share	0.357	212.564	13.150	0.268
Market orientation	0.053	173.049	11.122	0.345
Sales growth	0.079	99.563	14.213	0.060
Return on asset	0.426	20.971	9.099	0.110
Return on equity	0.842	102.567	12.745	0.073

Analysis to assess normality of data was done using shapiro wilk test. The results were presented in table 4.12 above. The null hypothesis was that data was normally distributed. The decision criteria were that where P value <0.05, the null hypothesis should be rejected implying that data is not normally distributed. The results from table 4.12 indicated that the sample data come from a normally distributed population.

Table 4.13: Durbin –Watson Statistics Results

DV USED	**R Squared**	**Adjusted Squared**	**R Std. error**	**Durbin-Watson**
Return on asset	0.217	0.461	0.028	2.873
Return on equity	0.548	0.186	0.054	2.113

To test the presence of autocorrelation the study used Durbin –Watson test. The results of the test were presented in table 4.13. The results presented indicate that the Durbin Watson statistics were within the range, implying that there was no autocorrelation problem.

Table 4.14: Hausman Test Results

DV used	Statistics	P value
ROA	6.88	0.346
ROE	4. 76	0. 658

Independent variables were; diversification, munificence

Hausman test was used to arrive at the best choice of the model between fixed effects and random effects when testing the moderation effects of environmental munificence on the relationship between diversification strategies and performance of insurance companies. The null hypothesis was that the preferred model was random effect. As suggested by Chmelarova (2007), when p-value are less than 0.05, the null hypothesis should be rejected. Results in table 4.14 showed that

the p-values were greater than 0.05 hence the study failed to reject the null hypotheses that the preferred model was random effects. A conclusion was drawn that the preferred model was random effects.

4.5.2 Regression Results

The interaction results were organized according to return on asset and return on equity respectively.

4.5.2.1 Moderation Effect of Environmental Munificence on the Relationship Between Diversification Strategies and Return on Asset.

The regression results were presented in table 4.15

Table 4.15: Moderation Effect of Environmental Munificence on the Relationship Between Diversification Strategies and Return on Asset.

	Coef.	Std err	Z.	p-value
CCD	0.057	1.35	0.042	0.485
CD	0. 670**	0.338	1.98	0.029
VD	0.926	0. 943	0.982	0.345
GD	0. 760	0. 403	1.89	0. 901
EM	0. 485	0. 543	0.893	0. 201
EM#CCD	-0.253**	0.126	-2.01	0.025
EM#CD	0.563	0.849	0.66	0.346
EM#VD	-0.392**	0.196	-1.99	0.000
EM#GD	-0.749**	0.345	-2.17	0.041
Cons	0.005	0.642	0.007	0.965
R^2 within	0.078			
R^2 between	0.006			
R squared overall	0.137			
Corr	-0.219			
Chi^2	*534.65*			0.001

*Dependent variable: ROA, * indicates a statistical significance at 5%, #shows interaction between two variables. No of observations is 250, no of groups 50.*

Results in table 4.15 presented a correlation coefficient (Corr, -0.219) indicating that environmental munificence had a significant negative moderation effect on the relationship between diversification strategies and return on assets. Further, the results indicated a Chi^2 statistics of 534.65 with a P-value of 0.001<0.05. This implied that the model was significant and was fit for estimation of moderation effects of environmental munificence on the relationship between diversification strategies and performance of insurance companies in Kenya. The R^2 overall in Table 4.15 is 0.137. This shows that 13.7% of variations in return on assets was explained by the moderation effects of environmental munificence of the relationship between diversification strategies and return on assets.. The z statistics were , 0.042, 1.98, 0.982, 1.89, 0.893, -2.01, 0.66, -1.99 and -2.17 for, conglomerate diversification, concentric diversification, vertical diversification, geographical diversification, environmental munificence and interaction of environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification with their corresponding p values as 0.011,0.485,0.029,0.345,0. 901,0. 201,0.025,0.346,0.000 and 0.041 respectively. These statistics indicated that interaction on environmental munificence and concentric diversification was statistically insignificant as the P-value was greater than 0.05. The result further indicated that interaction of environmental munificence and conglomerate diversification, vertical diversification and geographical diversification were statistically significant as their p-values were less than 0.05. This implied that environmental munificence had a moderating effect on their relationship with return on asset.

Table 4.15 presented a statistically significant negative coefficient (-0.253, P-value 0.025) of the interaction between environmental munificence and conglomerate diversification. The coefficient indicated that interaction of environmental munificence and conglomerate diversification negatively moderated insurance companies return on asset. This implied that an increase in interaction between environmental munificence and diversification strategies by 1% would lead to a decrease in insurance companies return on asset by 25.3%. The negative moderation effect of the environmental munificence was attributed to the negative economic effect on policy holders leaving them with no disposable income to acquire insurance. Insurance regulatory authority report of 2020 pointed the decline in munificence to emanate from effects of covid 19, prolonged drought

in our region and the long prolonged political campaign period felt from the year 2018 for the general elections in the year 2022. The findings were in agreement with Jaiyeoba (2013) that the lack of resources available in an environment affects the survival and growth of businesses sharing that environment. Similarly, table 4.15 indicated a statistically significant negative coefficient (-0.392, p-value 0.000) of the interaction between environmental munificence and vertical diversification. The coefficient indicated that interaction of environmental munificence and diversification strategies negatively moderated insurance companies return on asset. This implied that an increase in the interaction between environmental munificence and diversification strategies by 1% would result to a decline in insurance companies return on asset by 39.2%.

The value of the intercept was 0.005. This implied that return on asset would be 0.5% in absence of effects of interaction. The beta coefficients were,0.057,0.6705, 0.9264, 0.7604, 0.485-0.253, 0.563,-0.392,-0.749, for conglomerate diversification, concentric diversification, vertical diversification, geographical diversification, environmental munificence and interaction of environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification respectively. The model was thus fitted as;

$$Yit = 0.05it + 0.057CCDit + 0.6705CDit + 0.9264VDit + 0.7604GDit + 0.485Emit - 0.253EMCCDit + 0.563EMCDit - 0.392EMVDit - 0.794EMGDit + \mu it$$

where, Y_{it} represented insurance company's financial performance measured by return on asset. CCD_{it}, CD_{it}, VD_{it}, GD_{it}, and EM_{it} represented conglomerate diversification, concentric diversification, vertical diversification, geographical diversification, environmental munificence respectively. $EMCCD_{it}$, $EMCDit$, $EMVD_{it}$ and $EMGD_{it}$ were interactions between environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification respectively.

4.5.2.2 Moderation Effect of Environmental Munificence on the Relationship Between Diversification Strategies and Return on Equity

The study also sought to establish the effect of environmental munificence on the relationship between diversification strategies and return on equity. The results were presented on table 4.16 .

Table 4.16: Moderation Effect of Environmental Munificence on the Relationship Between Diversification Strategies and Return on Equity.

	Coef.	Std err	Z.	p-value
CCD	0.075	0. 35	0.21	0.088
CD	0. 549**	0. 279	1.97	0.042
VD	0. 629	0. 394	1.59	0. 543
GD	0. 647	0. 734	0.881	0. 719
EM	0. 854	0. 554	1.54	0. 601
EM#CCD	-0. 325**	0. 173	-1.88	0.017
EM#CD	0. 653	0. 984	0.664	0.064
EM#VD	-0. 239**	0. 118	-2.02	0.000
EM#GD	-0. 097**	0.048	-2.00	0.021
Cons	0.003	0. 462	0.071	0. 695
R2within	0.871			
R2 between	0.051			
R squared overall	0.035.87			
Corr	-0.154			
Chi^2	*354.22*			*0.000*

*Dependent variable: ROE, * indicates a statistical significance at 5%, #shows interaction between two variables. No of obs 250, no of groups 50.*

The results presented on table 4.16 indicated that environmental munificence had a significant negative moderation effect on the relationship between diversification strategies and return on equity of insurance companies in Kenya. This was indicated by a correlation coefficient (corr, -0.154) .Also the results showed a Chi^2 statistics of 354.22 with a P-value of 0.000<0.05. This implied that the model was significant and was fit for estimation of the moderation effects of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya. The R^2 overall in table 4.16 was 0.035.87. This

implied that 3.587% of variations in return on equity was accounted for by the moderation effects of environmental munificence on the relationship between diversification strategies and return on equity. The z statistics were 0.21, 1.97, 1.59, 0.881, 1.54, -1.88, 0.664, -2.029 and -2.00 for conglomerate diversification, concentric diversification, vertical diversification, geographical diversification, environmental munificence and interaction of environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification with their corresponding p values as 0.031, 0.088, 0.042, 0.543, 0.719, 0.601, 0.017, 0.064, 0.000 and 0.021 respectively. The statistics also indicated that interaction on environmental munificence and concentric diversification was statistically insignificant as the P-value was greater than 0.05. The result further indicated that interaction of environmental munificence and conglomerate diversification, vertical diversification and geographical diversification were statistically significant as their p-values were less than 0.05.

Results presented on Table 4.16 indicated a statistically significant negative coefficient (-0. 325, P-value (0.017) of the interaction between environmental munificence and conglomerate diversification. The coefficient indicated that interaction of environmental munificence and conglomerate diversification negatively moderated insurance companies return on equity. This implied that an increase in interaction between environment munificence and diversification strategies by 1% would lead to a decrease in insurance companies return on equity by 32.5%. The negative moderation effect of the environment munificence on performance of insurance is attributed to the hard economic times experienced in the country more so Covid 19 pandemic (AKI,2021).

Table 4.16 showed that interaction between environmental munificence and concentric diversification was statistically insignificant (0.653, p-value 0.064). The findings implied that the moderation effect of environmental munificence did not affect the interaction of diversification strategies and performance of insurance companies measured by return on equity. Further, table 4.16 indicated a statistically significant statistics (-0.239, p-value 0.000) of the interaction between environmental munificence and vertical diversification. The coefficient also indicated that the interaction between environmental munificence and diversification strategies negatively related with insurance companies return on equity. This implied that a 1% increase in interaction between

environmental munificence and diversification strategies would result to a 23.9% change in insurance companies return on equity. In addition, Table 4.16 indicated a statistically significant coefficient (-0.097, p-value 0.021<0.05) of the interaction between environmental munificence and diversification strategies. This coefficient indicated that interaction of environmental munificent and diversification strategies negatively related with insurance companies return on equity. This implied that a 1% increase in interaction between environmental munificence and diversification strategies would lead to a decrease in insurance companies return on equity by 9.74%.

The value of the intercept was 0.003. This implied that return on equity would be 0.3% in absence of effects of interaction. The beta coefficients were 0.075, 0. 549, 0. 629 ,0. 647 ,0. 854, -0. 325, 0. 653, -0. 239 and -0. 097 for conglomerate diversification, concentric diversification, vertical diversification, geographical diversification, environmental munificence and interaction of environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification respectively. The model was thus fitted as;

$$Yit = 0.03it + 0.075CCDit + 0.5496CDit + 0.6294VDit + 0.647GDit + 0.8540Emit - 0.325EMCCDit + 0.653EMCDit - 0.239EMVDit - 0.0974EMGDit + \mu it.$$

where, y_{it} represents insurance company's financial performance measured by return on equity. CCD_{it}, CD_{it}, VD_{it}, GD_{it}, and EM_{it} represented conglomerate diversification, concentric diversification, vertical diversification, geographical diversification and environmental munificence respectively. $EMCCD_{it}$, $EMCDit$, $EMVD_{it}$ and $EMGD_{it}$ were interactions between environmental munificence and conglomerate diversification, environmental munificence and concentric diversification, environmental munificence and vertical diversification, environmental munificence and geographical diversification respectively.

4.6 Mediation Effect of Corporate Cannibalization on the Relationship between Diversification Strategies and Financial Performance of Insurance Companies.

The third objective of the study was to determine the mediating effect of corporate cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya. The following hypothesis was tested using multiple linear regression model.

H_{03}**:** Corporate cannibalization had no significant mediating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

4.6.1 Econometrics Test

Econometrics test were done in order to determine the appropriate analytical model. The test were heteroscedasticity, normality test, test for auto correlation and hausman test. The results of diagnostic test were presented below.

Table 4.17: Results for Heteroskedasticity Test

	Corporate cannibalization	P-Value
Variables:fitted values of ROA	360.4	0.307
Variables:fitted values of ROE	256.1	0.103

To test for heteroskedasticity, the Breusch-pagan test was used to test the null hypothesis that the variance of the residuals is homoscedastic (has a constant variance). The decision criteria was that when p –values <0.05, the null hypothesis would be rejected and a conclusion will be made that there is presence of heteroskedasticity.Table 4.17 indicated that all the p values were greater than the critical value of 0.05. This signified absence of heteroskedasticity and thus the study failed to reject the null hypothesis and concluded there was no presence of heteroskedasticity.

Table 4.18 Shapiro Wilk Test Results

Variable	W	V	Z	Prob>z
Agents	0.062	26.089	7.233	0.276
Online selling	0.210	42.318	8.901	0.962
Bancassurance	0.829	154.371	9.153	0.087
Main office	0.348	21.768	6.786	0.458
Other branches	0.563	125.89	9.345	0.054
Return on asset	0.426	20.971	9.099	0.110
Return on equity	0.842	102.567	12.745	0.073

Analysis to assess normality of data was done using shapiro wilk test. The results were presented in table 4.18. The null hypothesis was that data was normally distributed. The decision criteria were that where P value <0.05, the null hypothesis would be rejected implying that data is not normally distributed. The results from table 4.18 above indicated that the sample data come from a normally distributed population therefore the study failed to reject the null hypothesis.

Table 4.19: Durbin –Watson Statistics Results

DV USED	**R Squared**	**Adjusted Squared**	**R Std. error**	**Durbin-Watson**
Return on asset	0.345	0.289	0.153	2.73
Return on equity	0.116	0.106	0.074	3.43

To test the presence of autocorrelation the study used Durbin –Watson test. The results of the test were presented below in table 4.19. The results presented indicate that the Durbin Watson statistics were within the range of 2 to 4, implying that there was no autocorrelation problem.

Table 4.20: Hausman Test Results

DV used	Statistics	P value
ROA	4. 52	0. 694
ROE	7.69	0. 856

Independent variable was corporate cannibalization.

Hausman test was used to arrive at the best choice of the model between fixed effects and random effects when testing the effects of corpolate cannibalization on performance of insurance companies. Results in table 4.20 showed that the p-values were greater than 0.05 hence the null hypotheses that the preferred model was random effects failed to be rejected, and a conclusion was drawn that the preferred model was random effects.

4.6.2 Regression Results.

The study adopted the process recommended by Baron and Kenny (1986) to test the null hypothesis that corpolate cannibalization had no mediating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya. Baron and Kenny (1986) indicated that a variable is a mediator when variations in the independent variable significantly account for the variations in the presumed mediator and at the same time variations in the mediator significantly account for variations in the dependent variable. This study assumed that variations in diversification strategies indicators accounted for variations in the corporate cannibalization and in addition variations in corporate cannibalization significantly accounted for variations in financial performance of insurance companies'.

The assumptions that variations in diversification strategies indicators accounted for variations in corporate cannibalization necessitated the study to estimate path (a). Further, the variations of corporate cannibalization factors while controlling for diversification strategies indicators accounting for variations in insurance company financial performance necessitated the study to estimate path (b). Estimation of path 'a' and path 'b' involved step 2 and step 3 for testing mediation effect as explained by Judd and Kenny (1981) who suggested four steps for testing mediation effects. To estimate mediation effect for each of the corporate cannibalization used, a product of path 'a' and 'b' was obtained as suggested in the models. The decision criterion was that if the overall product 'ab'>0 or 'ab'<0, then there existed a positive or negative mediation effect respectively. If the product 'ab' was equal to zero, then there was absence of mediation effect.

The results for estimation of path 'a' for each of the corporate cannibalization indicators used in the study were presented in table 4.21.

Table 4.21 Regression Results: Estimate of path 'a'

(a)Significance of the Model

	Online vs agent	Bancassurance vs Agent	Online.vs bancassurance	Other branches vs Main office
Chi^2	15.48	12.45	13.54	34.87
$P>Chi^2$	0.029	0.042	0.031	0.000

(b) Individual Significance of the Variables

	Online vs Agent		Bancassurance vs Agent		Online.vs Bancassurance		Other branches vs Main office	
	Coef	p-value	Coef	p-value	Coef	p-value	Coef	p-value
Conglomerate diversification	0.453	0.432	0.764	0.274	0.356	0.078	0.654**	0.046
Concentric diversification	0.344**	0.035	0.457**	0.012	0.547**	0.000	0.344	0.453
Vertical diversification	0.567	0.784	0.865	0.003	0.654	0.764	0.653	0.027
Geographical diversification	0.875	0.075	0.084	0.126	0.764	0.539	0.875**	0.000
Path 'a' estimated	0.344		0.457		0.547		0.572	

**indicates statistical significance at 5%; Path 'a' is obtained by getting a product of the significant coefficients.*

Results in table 4.21 (a) indicates a significant Chi^2 statistics of 15.48 (p-value 0.029<0.005),12.45 (p-value 0.042<0.005), 13.54 (p-value 0.031<0.005) and 34.87 (p-value 0.0000<0.005) for the models used to estimate online versus agent cannibalization, agent versus bancassurance cannibalization, online versus bancassurance cannibalization and other branches versus main office cannibalization respectively. This indicated that the model was significant and therefore was used to estimate path 'a'.

4.6.2.1 Mediation Effect of Online Versus Agent Cannibalization on the Relationship between Diversification Strategies and Financial Performance of Insurance Companies.

Result in table 4.21 showed that the model for estimation of path 'a' was significant (p-value 0.0293<0.005), thus a product of the significant coefficients was obtained which was 0.344. To estimate path 'b', model results in table 4.22 were used.

Table 4.22: Regression Results to Estimate path 'b': Online Versus Agent Cannibalization as a Mediator.

(a)Significance of the Model

	Return on assets	**Return on equity**
Chi^2	10.643**	15.673**
$P>Chi^2$	0.009	0.036

(b)**Individual Significance Variables**

	Return on assets			
	Coef.	**Std Error**	**Zstatistics**	**P-value**
Conglomerate diversification	0.674	0.680	0.99	0.461
Concentric diversification	-0.683**	0.3467	1.97	0.047
Vertical diversification	0.754	0.623	1.21	0.645
Geographical diversification	0.428	0.272	1.57	0.073
Online vs agent cannibalization	0.567	0.616	0.92	0.371
Path 'b' estimated	-0.683			
Product'ab' estimated	-0.234			

**indicates statistical significance at 5%, VS= versus.*

Results in table 4.22 (a) indicated that the model for estimation of path 'b' was statistically significant when return in assets P-value 0.009<0.05 and return on equity P-value 0.036<0.05 were used as measures of financial performance of insurance companies in Kenya. To estimate

mediation effect, a product of path 'a' and path 'b' was obtained. When online versus agent cannibalization was employed as a mediating variable, and return on asset as a performance measure, product 'ab' was -0. 234.This indicated a negative mediation effect of online versus agent cannibalization on the relationship between diversification strategies and financial performance. This implied that an increase in online versus agent cannibalization by 1% would result into a decrease in the effect of diversification strategies on return on assets by 23.4%. The negative mediation effect was attributed to job insecurity by the insurance agents who perceived online sales channel as a threat to their job. The job insecurity promoted loss of motivation resulting to low productivity and hence a decline in return on assets.

(c)Individual Significance variables

Return on Equity				
	Coef.	Std error	Z statistic	P-value
Conglomerate diversification	0.764	0.653	1.17	0.673
Concentric diversification	0.856**	0.425	2.01	0.025
Vertical diversification	-0.631**	0.202	3.11	0.000
Geographical diversification	0.548	0.351	1.56	0.572
Online vs agent cannibalization	0.095**	0.045	2.11	0.022
Path 'b' estimated	-0.051			
Product'ab' estimated	-0.017			

When return on equity was employed as a performance measure, table 4.22 presented that product 'ab' was -0.017. This indicated a negative mediation effect of online versus agent cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya. These findings implied that an increase in agent versus online cannibalization

by 1% would lead to a decrease in the effect of diversification strategies on return on equity by 1.765%. These results implied that the more insurance companies advocated and promoted use of online selling, the greater the rate at which insurance agents felt uncertain about their job. The results supported expectancy theory that people will be motivated to exert a high level of effort when they believe there are relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive. And that, if people believe that their efforts will not yield the expected results, then motivation will suffer, affecting overall financial performance.

4.6.2.2 Mediation Effect of Bancassurance versus Agent Cannibalization on the Relationship Between Diversification Strategies and Financial Performance of Insurance Companies.

This study sought to determine the mediation effect of bancassurance versus agent cannibalization on the relationship between diversification strategies and financial performance measured through return on asset and return on equity. Results in table 4 .21(a) indicated a significant Chi^2 statistic (12.45, p-value 0.042<0.05). This indicated that the model was fit for estimation of path 'a' when bancassurance versus agent cannibalization was used as a mediator. Table 4.21 showed that estimated path 'a' was 0.457 which was obtained from the product of the significant coefficients. The results for path 'b' are presented on table 4.23 below

Table 4.23: Regression Results to Estimate Path 'B' For Bancassurance versus Agents Cannibalization as Mediator.

(a)Significance of the Model

	Return on assets	Return on equity
Chi^2	17.45**	128.95**
$p>chi^2$	0.001	0.021

(b) **Individual Significance Variables**

	Return on Asset			
	Coef.	Std Error	Z statistics	p-value
Conglomerate diversification	-0.057**	0.028	2.00	0.021
Concentric diversification	0.657	0.663	0.99	0.47
Vertical diversification	0.846	0.829	1.02	0.493
Geographical diversification	-0.067**	0.034	1.97	0.042
Bancassurance vs agent cannibalization	-0.756**	0.255	2.96	0.013
Path 'b' estimated	-0.002			
Product'ab' estimated	-0.009			

*Return on assets, return on equity were the dependent variables; * denotes statistical significance at 5%..*

Results presented on table 4.23 (a) indicated a significant chi^2 statistics when return on assets (17.45, P-value 0.001) and return on equity (128.95, P-value 0.021) were used as measures of financial performance in insurance companies. This indicated that the model used was fit to estimate path 'b'. The results further indicated that when return on assets was employed as a measure of financial performance, path 'b was estimated as -0.002. Product 'ab' was therefore estimated as -0.009. This signified that bancasurrance versus agent cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya when return on asset was used as a measure of financial performance. The findings further implied that an increase in bancassurance versus agent cannibalization by 1% resulted into a 0.009 % reduction in the effects of diversification strategies on return on assets. The negative results were attributed to low productivity originating from agents as a results of banks taking away their customers. The results also showed that the more insurance companies partnered with banks in selling insurance, the higher the probability was of insurance

agents losing motivation to sell insurance. These findings supported Kong (2015) in his discussion that the companies entrenched sales outlets may lose motivation, and could thereby withdraw their support for the company's products if the newly introduced sales outlet offered more attractive features to potential customers

(c) **Individual Significance Variables**

Return on Equity				
	Coef.	Std Error	Z statistics	p-value
Conglomerate diversification	-0.067**	0.022	2.99	0.001
Concentric diversification	0.856	0.750	1.14	0.321
Vertical diversification	0.764	0.647	1.18	0.614
Geographical diversification	-0.087**	0.028	3.12	0.000
Bancassurance vs agent cannibalization	-0.764**	0.384	1.99	0.037
Path 'b' estimated	-0.004			
Product'ab' estimated	-0.002			

When return on equity was employed as a measure of financial performance, results in table 4.23 (a) showed a significant Chi^2 statistics (128.95, P-value 0.021<0.05). This implied that the model findings were reliable in estimation of path 'b', and therefore path 'b' was estimated as -0.004. A product of path 'a' and path 'b' was therefore obtained to estimate mediation effect of bancassurance versus agent cannibalization on the relationship between diversification strategies and return on equity. The results indicated that product 'ab' was estimated at -0.002. This showed that bancassurance versus agent cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya when performance was measured using return on equity. This implied that an increase in bancassurance versus agent cannibalization by 1% negatively affected the relationship between

diversification strategies and performance leading to a decline in return on equity by 0.205%. The negative mediation effect was linked to customers preferring to acquire insurance products from banks due to what Pietro and Vinay (2018) called appealing features, such as a quasi-unlimited amount of information on product attributes, increased customization, and time savings.

4.6.2.3 Mediation Effect of Bancassurance versus Online Cannibalization on the Relationship Between Diversification Strategies and Financial Performance of Insurance Companies.

Results on the mediation effect of bancassurance versus online Cannibalization on the Relationship between diversification strategies and financial performance of insurance companies were presented on table 4.24.

Table 4.24: **Mediation Effect of Bancassurance versus online Cannibalization on the Relationship between Diversification Strategies and Performance of Insurance Companies**

(a) **Significance of the Model**

	Return on assets	Return on equity
Chi^2	14.45**	19.95**
$p>chi^2$	0.000	0.011

(b) Individual Variable Significance

Return on Asset				
	Coef.	Std Error	Z statistics	p-value
Conglomerate diversification	0.056**	0.021	2.61	0.001
Concentric diversification	0. 056**	0.028	1.96	0.047
Vertical diversification	0.846	1.800	0.47	0.493
Geographical diversification	0.046**	0.021	2.14	0.020
Bancassurance vs online cannibalization	0.756	0.614	1.23	0.330
Path ‘b’ estimated	0.0001			
Product‘ab’ estimated	0.0008			

*Return on assets, return on equity were the dependent variables; * statistical significance at 5%.*

Results in table 4.24(a) indicated a significant Chi^2 statistics when return on asset (14.45.P-value 0.000<0.05) and return on equity (19.95, P-value 0.0116<0.05) were employed as measures of financial performance in insurance companies. This implied that the model results were fit in estimation of path 'b'. When return on asset was employed as a measure of financial performance, table 4.24 (b) indicated that path 'b' was estimated at 0.0001. Product of 'ab' was further estimated at 0.0008. This implied that bancassurance versus online cannibalization had a positive mediating effect on the relationship between diversification strategies and financial performance of insurance companies when performance was measured using return on assets. This finding implied that an increase in bancassurance versus online cannibalization rate by 1% positively mediated on the relationship between diversification strategies and financial performance of insurance companies to an increase by 0.008%. The positive cannibalistic effect between bancassurance and insurance agents was attributed to low cost incurred by insurance companies in creating a bancassurance contract or promoting sales through online selling. This therefore indicated that any customer brought in from any of the two channel was a benefit to the insurance company as the company did not incur any direct cost.

(c) Individual Variable Significance

Return on Equity				
	Coef.	Std error	Z statistics	p-value
Conglomerate diversification	0.073**	0.032	2.26	0.025
Concentric diversification	0. 068	0.070	0.97	0.923
Vertical diversification	0.764	1.157	0.66	0.614
Geographical diversification	0.048**	0.022	2.21	0.000
Bancassurance vs online cannibalization	0. 057**	0.028	2.01	0.015
Path 'b' estimated	0.0002			
Product'ab' estimated	0.0001			

Table 4.24(c) showed that return on equity had a significant chi^2 statistics and that the model results were reliable in estimation of path 'b' (0.0002). Further, results of path 'ab' were estimated at 0.0001. This indicated that bancassurance versus agent cannibalization had a positive mediation effect on the relationship between diversification strategies and financial performance of insurance companies when return on equity was employed. The findings implied that a 1% change in bancassurance versus online cannibalization resulted into a 0.001% increase in the mediation effect on the relationship between diversification strategies and return on equity. The positive cannibalistic effects were attributed to both banks and online channels competing to source customers for insurance companies yet the insurance company incurred very little or no cost in the whole transaction. The results supported revelations of Pauwels and Neslin (2015) that even though some quotas regard cannibalization as negative, it may be considered positive if it improves the market value of the company by stabilizing income, or if the cannibalizing product or service is able to attracts new potential clients who otherwise could have opted for a competing product.

4.6.2.4 Mediation Effect of Branch versus Main Office Cannibalization on the Relationship Between Diversification Strategies and Financial Performance of Insurance Companies.

The results of an insurance company branch cannibalizing on the main office businesses and its effect on the relationship between diversification strategies and financial performance were presented in table 4.25.

Table 4.25: **Mediation Effect of Branch versus Main Office Cannibalization on the Relationship Between Diversification Strategies and Financial Performance of Insurance Companies.**

(a)Significance of the model

	Return on assets	Return on equity
Chi^2	194.5**	29.9
$p>chi^2$	0.013	0.033

(b)Individual Significance

	Return on Asset			
	Coef.	Std error	Z statistics	p-value
Conglomerate diversification	-0.086**	0.043	2.01	0.021
Concentric diversification	0. 705**	0.358	1.97	0.047
Vertical diversification	0.926	0.955	0.97	0. 943
Geographical diversification	0. 060**	0.027	2.21	0.004
Branch vs main office cannibalization	0.845	0.518	1.63	0.453
Path 'b' estimated	-0.0036			
Product'ab' estimated	-0.0021			

*Return on assets, return on equity were the dependent variables; * statistical significance at 5%*

Results presented in table 4.25(a) indicated a significant Chi^2 statistics when return on asset (194.5, P-value 0.013<0.05) and return on equity (29.9, P-value 0.033<0.05) were used as a measure of insurance financial performance. This implied that the model results were fit for estimation of path 'b'. When return on asset was used as a measure of financial performance, results in table 4.25(b) indicated that the estimated path 'b' was -0.0036. Further, the estimated path 'ab' was -0.0021. This implied that branch versus main office cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies using return on asset as a measure of performance. The findings implied that a 1% increase on branch versus main office cannibalization resulted into a 0.211% decline in the effect of diversification strategies on return on assets. The negative cannibalistic effects were attributed to increased cost of diversification on which the diversified units were competing for the same customer thus no change in income. These findings were in agreement with the transaction cost theory that diversification will incur heavy costs including market entry costs, coordination costs, and information-processing costs that might surpass the benefits.

(c)Individual Significance

	Return on Equity			
	Coef.	Std error	Z statistics	p-value
Conglomerate diversification	-0.431**	0.192	2.24	0.015
Concentric diversification	0. 068	0.107	0.64	0.923
Vertical diversification	0.867	0.442	1.96	0.345
Geographical diversification	0. 080**	0.036	2.21	0.019
Branch vs main office cannibalization	0. 764	0.749	1.02	0. 301
Path ‘b’ estimated	-0.034			
Product‘ab’ estimated	-0.019			

Table 4.25(c) showed that the model results were reliable in estimating path ‘b’ which was estimated at -0.034 when return on equity was used as a measure of insurance companies’ financial performance. Further, the results indicated that product ‘ab’ was estimated at -0.019. This indicated that branch versus main office cannibalization exhibited a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies using return on equity. The results implied that a 1 % change in branch versus main office cannibalization resulted into a 1.9% decline in the effect of diversification strategies on financial performance of insurance companies.

4.7. Effect of Environmental Munificence on Financial Performance of Insurance Companies

This study also sought to establish the effect of environmental munificence on financial performance measured through return on assets and return on equity. The results were presented below.

4.7.1 Econometrics Tests

Econometrics test were done in order to determine the appropriate analytical model. The test were heteroscedasticity, normality test, test for auto correlation and hausman test. The results of diagnostic test were presented below.

Table 4.26 Results for Heteroskedasticity Test

	Environmental munificence	P-values
Variables: fitted values of ROA	24.3	0.189
Variables: fitted values of ROE	25.4	0.121

P values are enclosed in the brackets

To test for heteroskedasticity, the Breusch-pagan test was used.The decision criteria was that when p –values <0.05, the null hypothesis would be rejected and a conclusion made that there is presence of heteroscedasticity. Table 4.26 indicated that all the p values were greater than the critical value of 0.05. This signified absence of heteroskedasticity.

Table 4.27: Shapiro Wilk Test Results

Variable	W	V	Z	Prob>z
Market share	0.357	212.564	13.150	0.268
Market orientation	0.053	173.049	11.122	0.345
Sales growth	0.079	99.563	14.213	0.060
Return on asset	0.426	20.971	9.099	0.110
Return on equity	0.842	102.567	12.745	0.073

Analysis to assess normality of data was done using shapiro wilk test. The results were presented in table 4.27.. The null hypothesis was that data was normally distributed. The decision criteria were that where P value <0.05, the null hypothesis would be rejected implying that data is not

normally distributed. The results from table 4.27 above indicated that the sample data come from a normally distributed population.

Table 4.28 Durbin –Watson Statistics Results

DV USED	R Squared	Adjusted Squared	R Std. error	Durbin-Watson
Return on asset	0.217	0.461	0.028	2.873
Return on equity	0.548	0.186	0.054	2.113

To test the presence of autocorrelation the study used Durbin –Watson test. The results were presented in table 4.28. The results indicated that the Durbin Watson statistics were within the range, implying that there was no autocorrelation problem.

Table 4.29: Hausman Test Results

DV used	Statistics	P value
ROA	6.88	0.346
ROE	4. 76	0. 658

munificence was the independent variables

Hausman test was used to arrive at the best choice of the model between fixed effects and random effects when testing the effects of environmental munificence on performance of insurance companies. The null hypothesis was that the preferred model was random effect and that when p-value was less than 0.05, the null hypothesis would be rejected. Results in table 4.29 showed that the p-values were greater than 0.05 hence the null hypotheses that the preferred model was random effects failed to be rejected, and a conclusion was drawn that the preferred model was random effects model.

4.7.2 Regression results

The results on the effect of environmental munificence on financial performance of insurance companies measured through return on asset and return on equity were presented as shown below.

4.7.2.1 Effect of Environmental Munificence on Return on Asset

The results for the effect of environmental munificence on return on assets were presented in table 4.30 .

Table 4.30: Effect of Environmental Munificence on Return on Asset

	Coef	Std Dev	Z statistic	P-value
Sales Growth	-0.201**	0.101	1.98	0.000
Market orientation	0.043	0.030	-1.41	0.221
Market share	0.034**	0.017	2.02	0.002
R^2 within	0.003			
R^2 between	0.045			
Corr	0.126			
R squared overall	0.015			
Chi^2	5631276.39			0.000

*** indicates statistical significance at 5%, no of groups 50, no of obs 250*

Table 4.30 showed a statistically significant correlation coefficient (0.126) implying that environmental munificence had a positive significant effect on financial performance indicated by return on assets. R squared overall was 0.015. This implied that 1.5% change in return on assets was accounted for by the change in environmental munificence. The results in table 4.13 indicated that the regression model used was fit for estimating the effects of environmental munificence on return on assets. This was indicated by a coefficient of 5631276.39 and a p value of 0.000 < 0.05. Further table 4.30 presented result of various variables of the environment and their effect on return on asset. Results on sales growth indicated a statistically significant negative effect (Coeff -0.201, p-0.000<0.05) on return on assets. This implied that a 1% change in sales growth would lead to a 20.114% decrease in return on assets. This therefore means that a lot of resources were used to promote insurance products but the sales made were less compared to the asset used in the period under review. This was attributed to the Kenyan election held in 2017 and Covid 19 global pandemic that destabilized the economy hence increasing operation costs that lowered the after tax income (IRA, 2020).

The results in table 4.30 above indicated that market orientations were statistically insignificant on return on assets (0.043, p 0.221). This implied that a 1% change in market orientation did not

influence return on assets. This was despite the IRA, (2020) observing that there was continuous effort in empowering the public by undertaking consumer education activities nationwide. The findings agreed with Singh, (2009) that firm performance could not necessarily be directly affected by market orientation but rather the variations could result from other mediating variables. The study results further contradicted Julian, (2010) who established a positive and significant relationships of market orientation and performance.

The results also showed that Market share was statistically significant (0.034, p 0.002). The results further indicated that market share had a positive effect on return on assets. This implied that a 1% change in market share resulted into a 3.465% increase in return on assets. This meant that in the insurance services sector, when the number of customers increased relative to competitor, the return on assets also increased. This was attributed to an increase in sales resulting to an increase in after tax profits. These findings agreed with Kohli and Venkatraman (1986), who found that market share had a significant and positive effect on business profits.

4.7.2.2 Effect of Environmental Munificence on Return on Equity

This study also sought to find out the effect of environmental munificence on financial performance of insurance companies measured through return on equity. The results were presented on table 4.31.

Table 4.31: Effect of Environmental Munificence on Return on Equity

	Coef	Std Dev	Z statistic	P-value
Sales Growth	-0.256	0.128	1.09	0.003
Market orientation	0.348	0.645	0.539	0.623
Market share	-0.456**	0.227	2.01	0.000
R^2 within	0.026			
R^2 between	0.093			
R squared overall	0.159			
Corr	0.112			
Chi^2	3467.63			0.000

*** indicates statistical significance at 5%, no of groups 50, no of obs 250*

The overall correlation coefficient (corr 0.112) indicated environmental munificence had a significant positive effect on insurance financial performance measured by return on equity. The results in table 4.31 further showed that the regression model used was significant and fit for use indicated by chi^2 value of p-value 0.000 and coefficient of 3467.63. The results further indicates that sales growth exhibited a significant statistical results (coef;- 0.256, p-0.003).

The results also indicated that sales growth had a negative effect on return on equity. This implied that a 1% increase in sales growth resulted into a 25.6% loss on return on equity. This showed that the environment in which the Kenyan insurance companies were operating in was not munificence. These findings supported the work of Agrawal, (2014) which revealed that situational factors can affect the relationships between dependent and independent variables in the work environment, which in turn will affect employee behavior, motivation, and effectiveness affecting the overall performance. The findings also supported the belief poised by contingency theory that there is "no one best way" of managing or organizing but it depends on the "fit" between the organization and the environment.

Table 4.31 further showed that market orientation was statistically insignificant (0.348, P-0.623). This implied that market orientation had no significant effect on return on asset. This shows that resources used in training and public relations did not yield significant effect on return on equity. The findings of this study contradicted the results by Julian, (2010) who found positive and significant relationships between market orientation and financial performance. Further, the findings were in agreement with Rose and Shoham,(2002),that market orientation was related to firm performance only for certain subjective measures.

Results presented on table 4.31 indicated that market share was statistically significant (p –0.000). Also the results showed that market share was negatively affecting return on equity (-0.456). This indicated that a 1% increase in market share resulted into a 45.6% loss on return on equity. The results showed that during the period under study, any investment that was meant to promote market penetration yielded negative results. This was attributed to unfavorable economic conditions experienced in Kenya i.e. covid 19 pandemic, long campaigning period for 2022 general elections, drought and prolonged lack of rainfall that affected negatively disposable income. The findings supported the contingency theory that situational factors can affect the

relationships between dependent and independent variables in the work environment, which in turn will affect employee behavior, motivation, and effectiveness affecting the overall performance.

Joint Effect of Diversification Strategies, Corporate Cannibalization and Environmental Munificence on Financial Performance of Insurance Companies in Kenya.

The fourth objective of the study was to determine the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. To determine the joint effect, Kiptoo (2022) recommended that all the variables should be considered as independent variables. Therefore, diversification strategies, corporate cannibalization and environmental munificence were all considered independent variables.

The following null hypothesis was tested.

$H0_4$**:** Diversification strategies, corporate cannibalization and environmental munificence had no significant joint effects on financial performance of insurance companies in Kenya.

The null hypothesis was tested using the following multiple linear regression model;

Model:

$$Y_{it} = \beta o + \beta_1 CGD_{it} + \beta_2 CCD_{it} + \beta_3 GD_{it} + \beta_4 VD_{it} + \beta_5 OA_{it} + \beta_6 BA_{it} + \beta_7 BO_{it} + \beta_8 OTM_{it} + \beta_9 EM_{it} + \beta_{10} SG + \beta_{11} MO + \beta_{12} MS + e_{it} \quad \text{.....equation 3.9}$$

Where:

Y was financial performance, β was the regression constant, i was 1, 2 …., 50 insurance companies, t was 1 …. 5 years, β_1, β_2 …., β_3 were coefficients estimated, CGD was conglomerate diversification, CCD was concentric diversification, GD was geographical diversification, VD was vertical diversification , OA was online versus insurance agent cannibalization, BA was bancassurance versus insurance agents' cannibalization, BO was bancassurance versus online marketing cannibalization and OTM was other branches versus main office cannibalization, SG was sales growth, MO was market orientation, MS was market share while *e* was the error term.

Econometric Test

Econometric tests were done in order to determine the appropriate analytical model. The results of econometric test were presented below.

Table 4.32: Heteroscedasticity Test

	Diversification strategies	Environmental munificence	Corporate cannibalization
Variables:fitted values of ROA	875.1 (0.146)	24.3 (0.189)	360.4 (0.307)
Variables:fitted values of ROE	22.4 (0.425)	25.4 (0.121)	256.1 (0.103)

P values are enclosed in the brackets

To test for heteroscedasticity, the Breusch-pagan test was used to test the null hypothesis that the variance of the residuals was homoscedastic (has a constant variance). Table 4.32 indicated that all the p values were greater than the critical value of 0.05. This signified absence of heteroskedasticity..

Table 4.33: Shapiro Wilk Test Results

Variable	W	V	Z	Prob>z
Conglomerate	0.597	76.581	10.121	0.068
Concentric	0.345	112.435	10.954	0.116
Geographical	0.053	178.278	12.085	0.679
Vertical	0.756	112.534	12.248	0.074
Agents	0.062	26.089	7.233	0.276
Online selling	0.210	42.318	8.901	0.962
Bancassurance	0.829	154.371	9.153	0.087
Main office	0.348	21.768	6.786	0.458
Other branches	0.563	125.89	9.345	0.054
Market share	0.357	212.564	13.150	0.268
Market orientation	0.053	173.049	11.122	0.345
Sales growth	0.079	99.563	14.213	0.060
Return on asset	0.426	20.971	9.099	0.110
Return on equity	0.842	102.567	12.745	0.073

Analysis to assess normality of data was done using shapiro wilk test and the results were presented in table 4.33 above. The null hypothesis was that data was normally distributed. The decision criteria were that where P value <0.05, the null hypothesis would be rejected implying that data was not normally distributed. The results from table 4.33 above indicated that the sample data come from a normally distributed population.

Table 4.34: Durbin –Watson Statistics Results

DV USED	R Squared	Adjusted Squared	R Std. error	Durbin-Watson
Return on asset	0.196	0.218	0.421	2.134
Return on equity	0.147	0.313	0.214	2.943

To test the presence of autocorrelation the study used Durbin –Watson test. The results of the test were presented in table 4.34. The results presented indicate that the Durbin Watson statistics were within the range, implying that there was no autocorrelation problem.

Table 4.35 Hausman Test Results

DV used	Statistics	P value
ROA	5.42	0.964
ROE	9.67	0.568

Independent variables were; diversification, munificence and cannibalization

Hausman test was used to arrive at the best choice of the model between fixed effects and random effects when testing the joint effects of diversification strategies, corpolate cannibalization, and environmental munificence on financial performance of insurance companies in Kenya. The null hypothesis was that the preferred model was random effect. Results in table 4.35 showed that the p-values were greater than 0.05 hence the null hypotheses that the preferred model was random effects failed to be rejected, and a conclusion was drawn that the preferred model was random effects.

Regression Results

The results of the joint effect were presented below on table 4.36 and 4.37 for return on assets and return on equity respectively.

Joint Effect of Diversification Strategies, Corporate Cannibalization and Environmental Munificence on Return on Assets.

Indicators	Coef	Std .Err	Z	p-value
Conglomerate	0.431	0.216	1.99	0.000
Concentric	0.071	0.049	1.43	0.476
Geographical	0.549	0.273	2.01	0.036
Vertical	0.046	0.023	1.98	0.013
Bancassurance vs Agents	-0.024	0.012	2.00	0.033
Bancassurance vs Online	0.054	0.027	1.97	0. 047
Online vsAgents	-0.005	0.002	1.97	0.048
Otherbranches vs main offices	-0.067	0.027	2.41	0.038
Market share	-0.056	0.018	2.97	0.002
Market orientation	0.084	0.077	1.08	0.673
Sales growth	-0.024	0.012	1.98	0.041
R^2 within	0.165			
R^2 between	0.034			
R squared overall	0.015			
Corr	-0.123			
Chi^2	19.37			*0.02*

Dependent variable: return on asset, no of groups 50, no of obs 250

The results indicated that the overall correlation coefficient was – 0.123. This implied a significant negative joint effect of diversification strategies, corporate cannibalization and environmental munificence on return on asset. The results indicated a statistically significant Ch^2 statistics (19.37, P-value 0.002<0.005). This statistic implied that the model used to estimate the joint effect was good and fit for the purpose. Further, R-squared overall was found to be 0.015. This indicated that 1.5% of variation on insurance companies return on assets was as a result of combined changes brought about by the joint effect of diversification strategies, corporate cannibalization and environmental munificence. The findings also indicated that conglomerate diversification was found to have had a positive and statistically significant chi-square statistics with a coefficient of 0.431 and a P-value of 0.000. This implied that a 1% increase in conglomerate diversification had a 43.1% positive effect on insurance companies return on asset. This further implied that if

insurance companies succeeded in selecting the best institutions to either acquire or enter in a strategic alliance with or a joint venture or a merger, that strategic decision would have a 43.1% increase on return on asset. On the other hand, the results also indicated a statistically insignificant statistic (0.071, P-value >0.05) of concentric diversification. This showed that concentric diversification did not influence significantly the financial performance of insurance companies measured by return on assets. This further implied that diversification into either use of internet to market insurance products or banc assurance agreements did not require significant resource to establish and thus no significant returns on assets due to no investment made on assets.

Effect of geographical diversification on return om asset recorded a positively significant statistic with a statistical coefficient of 0.549 and a P-value of 0.036. This indicated that opening new branches either locally or outside the country significantly resulted to a positive increase in return on assets. The results also implied that a 1% increase in geographical diversification would results into a 54.9% increase in insurance performance when measured using return on assets. The findings were consistent with Contractor (2007) observations that performance of a company can be improved through embracing geographical diversification. This can be achieved by increasing sales in foreign markets, minimizing the possibility of economic downturn in the home market, reducing expenses by taking advantage of economies of scale, conducting research and development, improving on marketing and creating a reliable system of distribution. The findings of this study indicated that benefits of geographical diversification exceeded the cost. Therefore, the study findings differed with transaction cost theory suggestions that geographical diversification would attract huge costs including cost to enter a new market, cost to process and maintain smooth flow of information among diversified ventures and the cost of coordinating different departments or branches in different countries (Hill *et al*. 2014).

The results also presented that vertical diversification had a positive significant effect (0.046, P-value 0.013<0.05) on insurance financial performance measured through return on assets. The results indicated that a 1% change in concentric diversification would result into a 4.6% increase in return on assets. This results further indicated that diversifying of insurance product to add either life insurance or general insurance increased return on asset. This was attributed to provision of a variety of products each appealing to different customers thus increasing the sales which in return

increased insurance financial performance when measured through return on asset. The findings supported chen-ying, (2016) assertions that the strategy of introducing multiple lines of products may help the organization benefit from economies of scale and scope, encourage prudent use of resources, share key capabilities across businesses, and attain synergies from products or services that complement each other. The results were in conformity with the industrial organization theory that there was a causal link between the structure of a market in which a company operates, the behavior of the organization, and the performance of the organization. The industrial organization theory further poised that if a company focusses entirely on the market it operates in, identifies the customers need and satisfy them, then the net results would be increase in performance (Ramsey, 2001).

The results indicated that cannibalization effect between bancassurance and insurance agents on return on assets had a negative significant statistic. This was indicated by a coefficient of -0.024 and a P-value of 0.033< 0.05. This implied that a 1% change on cannibalistic effect between bancassurance and insurance agents would result into a 2.4% decline on insurance performance when measured on by return on assets. This further implied that when insurance companies increased the number of bancassurance contract with banks, then more insurance customers shifted their loyalty from insurance agents to banks. This resulted into increased job insecurity on insurance agents who perceive bancassurance a threat to their job. Also commissions earned by insurance agents will decline as a result of decline in number of customer. All this resulted into low motivation and thus the insurance agents yielded low production leading to decline on return on all the assets employed to support them. The findings supported the work of Vroom, (1964) through the expectancy theory assertion that motivation will negatively be affected if the effort exerted by employee's will not produce the expected results.

Cannibalization effect between bancassurance and online marketing was found to have a statistically significant effect on performance of insurance companies when return on asset was employed. This was indicated by a coefficient of 0.054 with a P-value of 0.047<0.05. This results as indicated further showed that the cannibalistic effect was positive. The findings further implied that a 1% change in cannibalization effect between bancassurance and online marketing would result into a 5.41% increase on return on asset. This results therefore indicated that insurance

companies used less resources to undertake bancassurance contracts or set up online marketing. Further, it was not material whether a customer paid premiums through bancassurance engagement or through online marketing. This was because the amount paid ended up with the insurance company thus increasing its return on asset in comparison with the low cost incurred. The study findings were found to confirm Pauwels and Neslin (2015) results that show that while cannibalism is seldom attractive, it may be considered as beneficial if it improves the value of the organization by streamlining income, or if the attacking product attracts new customers who alternatively could have preferred a competing product.

The results presented a negative statistical significance (-0.005, P-value 0.048<0.05) of the cannibalistic effect between online marketing and insurance agents on insurance performance measured through return on assets. The results showed a negative cannibalistic effect. This implied that a 1% change in cannibalization between online marketing and insurance agents would result into a 0.52% decline on return on assets. Further, the findings indicated that continued promotion of online insurance services led to some insurance customers shifting from seeking services from agents to internet. The loss of customers by insurance agents resulted into low morale. Borrowing from expectancy theory, Deci, and Ryan (2013) noted that the insurance agents' belief that favorable performance would result in a desirable reward, and if the reward will not satisfy an important need then the effort applied will not be worthwhile. This will result into low productivity and hence poor performance. The findings supported the work of Howard (2000) who found that when new sales channels were introduced it created fear among sales agents' who perceived emergence of service cannibalization. This would result into job insecurity thus reducing motivation, creating anxiety on the uncertainty of the future hence resulting into low productivity.

Findings on cannibalization effect between other branches and main office was found to be statistically significant (-0.067, P-value 0.038<0.05). The results further indicated a negative cannibalistic effect between branches and main office on performance of insurance companies when measured through return on assets. This implied that a 1% change in cannibalization between branch and main office would result into a 6.74% decline on return on asset of insurance companies. This implied that the cost incurred during opening and setting up new branches was more compared to the benefits the new branches brought to the insurance companies. The study

findings contradicted Cetorelli and Goldberg, (2012) recommendations that opening new branches could also bring about worth through operational elasticity which enables an organization to take advantage of market opportunities as and when they arise. Results presented indicated that market share had a statistically significant effect on return on assets (-0.056, P-value 0.002<0.05). The results also indicated a negative effect of market share on insurance performance when performance was measured using return on assets. This implied that a 1% change in market resulted into a 5.6% decline on return on assets. In other words, the results implied that the assets investments incurred by insurance companies geared towards increasing market share yielded negative results during the period under study. This was attributed to low market munificence due to economic slowdown during the period under study. Insurance regulatory authority (IRA,2021) associated the low munificence to the prolonged drought experienced in the country, Covid 19 effects and the electioneering period. The study findings agreed with Armstrong and Green (2007) arguments that pursuit of the highest possible market share was deeply rooted into formulating and achieving competitor-oriented objectives. Further, such objectives were harmful and misleading, and that attaining the highest market share relative to the competition reduces profitability and harms performance. This study also agreed with Prescott et al. (1986) suggestion that the relationship between market share and business profitability was context-specific.

The effects of market orientation on insurance financial performance was found to poses insignificant statistical results when measured through return on asset. This was indicated by a coefficient of 0.084 and a P-value of 0.673> 0.05. The findings implied that investments undertaken in identifying customers' needs and satisfying those needs in the manner desired by customers did not yield the expected results during the period under study. The study results confirmed Singh, (2009) suggestions that other mediating variables could influence firm performance directly. The findings contradicted the work of Ong, Yeap and Ismail (2015) who established that satisfying customers by tracking and responding to customer needs and preferences lead to increased market share and thus improved performance Lastly, the results indicated a negative significant statistics (-0.024, P-value 0.041<0,05) of the effect of sales growth and insurance financial performance measured through return on asset. The findings showed that a 1% investment increase to promote sales growth resulted into a 2.4% decline on return on assets. The results implied that the amount of assets invested to promote sales growth were not

commensurate with the returns during the period under review. This was attributed to low disposable income on the part of the customer during the period which the country was faced with hard economic times (AKI, 2021).

Joint Effect of Diversification Strategies, Corporate Cannibalization and Environmental Munificence on Return on Equity.

Indicators	Coef	Std .Err	Z	p-value
Conglomerate	0.673	0.460	1.46	0.081
Concentric	0.832	0.311	2.67	0.000
Geographical	0.056	0.028	1.99	0.033
Vertical	0.085	0.263	2.89	0.013
Bancassurance vs Agents	-0.065	0.118	2.88	0.013
Bancassurance vs Online	0. 031	0.015	1.99	0.037
Online vs Agents	-0.631	0.310	2.03	0.024
Otherbranches vs main offices	0.481	0.296	1.62	0.425
Market share	-0.043	0.020	2.11	0.002
Market orientation	-0.062	0.031	1.96	0.05
Sales growth	-0.014	0.004	2.97	0.023
R^2	0.492			
R^2	0.031			
R squared overall	0.071			
Corr	-0.267			
Chi2	22.53			*0.034*

Dependent variable: return on equity, no of obs 250, no of groups 50, significance level 0.005%.

The results indicated that the overall correlation coefficient was – 0.267. This implied a negative joint effect of diversification strategies, corporate cannibalization and environmental munificence on return on equity. Further, the results indicated a statistically significant Ch^2 statistics (22.53, P-value 0.034<0.05). This statistic implied that the model used to estimate the joint effect was good and fit for the purpose. Also, R-squared overall was found to be 0.071. This indicated that 7.1% of variation on insurance companies return on equity was as a result of combined changes brought about by the joint effect of diversification strategies, corporate cannibalization and environmental munificence.

Results presented indicated that when testing the joint effects of diversification strategies, corporate cannibalization and environmental munificence on return on equity, conglomerate diversification was statistically insignificant (0.673, P-value 0.081>0.05). Further, concentric diversification was statistically significant (0.832, P-value 0.000<0.05). The results also indicated that geographic diversification also had a statistically significant effect on return on asset. This was indicated by a statistical coefficient of 0.056 having a P-value of 0.033<0.05. Regarding vertical diversification, the study found a significant statistical effect in return on equity indicated by a P-value of 0.013 and a positive statistical coefficient of 0. 085.The study also considered the cannibalistic effect among the combined effect of diversification strategies, corporate cannibalization and environmental munificence on return in equity.

The study established that cannibalistic effect between bancasssurance and insurance agents was statistically significant with a negative effect on return on equity (-0.065, P-value 0.013<0.05). Further, cannibalization between bancassurance and online marketing was found to be statistically significant registering a positive effect on return on equity (0.031, P-value 0.037<0.05). This indicated that a 1% change in cannibalization between bancassurance and online marketing would result into a 3.1% increase in return on equity. Results in table 4.37 also indicated that cannibalistic effect between online marketing and insurance agent was statistically significant and presented a negative effect on return in equity (-0.631, P-value 0.024<0.05).The results also indicated that market share was statistically significant with a negative effect on return on equity. This was indicated by a P-value of 0.002 and a coefficient of -0.043. The results further indicated that market orientation indicated a significant statistic with a negative effect on insurance companies return on equity. Further, when testing for joint effect between diversification strategies, corporate cannibalization and environmental munificence on return on equity, the study found that sales growth was statistically significant registering a negative effects (-0.014, P-value 0.023<0.05).

4.8 Summary of the hypothesis tested

The results of each hypothesis tested and the decision that was made were all presented in table 4.36

Table 4.36 Summary of Hypotheses Tested.

Objective	Research Hypothesis	Results	Decision
To evaluate the effect of diversification strategies on financial performance of insurance companies in Kenya	Diversification strategies had no significant effect on financial performance of insurance companies in Kenya.	Diversification strategies had a significant effect on financial performance of insurance companies in Kenya.	The null hypothesis was rejected
To determine the moderating effect of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya.	Environmental munificence had no moderating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya	Environmental munificence had a moderating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya	The null hypothesis was rejected
To evaluate the mediating effect of corporate cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya.	Corporate cannibalization had no mediation effect on the relationship between diversification strategies and financial performance of insurance companies Kenya	Corporate cannibalization had a mediation effect on the relationship between diversification strategies and financial performance of insurance companies Kenya	The null hypothesis was rejected
To assess the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya.	Diversification strategies, corporate cannibalization and environmental munificence had no significant joint effects on financial performance of insurance companies in Kenya.	Diversification strategies, corporate cannibalization and environmental munificence had a significant joint effects on financial performance of insurance companies in Kenya.	The null hypothesis was rejected

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of study findings and made conclusions based on the findings. The chapter also gave various recommendations and finally suggestions on possible areas for further research.

5.2 Summary of Findings

The general objective of this study was to investigate the effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. Specifically, the study sought to determine the effect of diversification strategies on financial performance of insurance companies in Kenya. In addition, the study sought to establish the moderations effect of environmental munificence on financial performance of insurance companies in Kenya. Further, the study sought to find out the mediating effect of corporate cannibalization on financial performance of insurance companies in Kenya. Insurance companies' financial performance was measured using return on assets and return on equity.

Four specific objectives were developed and addressed through testing hypotheses**.** The hypotheses were tested using data from the audited financial statements and reports from the registered and licensed insurance companies in Kenya for a period of 5 years from the year 2017 to the year 2021.Multiple linear regression model was employed to determine the effect of diversification strategies on financial performance of insurance companies in Kenya. Further, multiple and stepwise regression analysis was performed to determine whether environmental munificence had a moderating influence on the relationship between diversification strategies and financial performance of insurance companies. The stepwise regression was also used to determine whether corporate cannibalization had a mediating effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

The first objective sought to determine the effect of diversification strategies on financial performance of insurance companies in Kenya. Diversification strategies were found to have positive significant effects on financial performance of insurance companies. This study relied on

four diversification strategies namely conglomerate diversification, concentric diversification, geographic diversification and vertical diversification. The study findings further revealed that conglomerate diversification had a positive significant effect on return on asset and a negative significant effect on return on equity of insurance companies in Kenya. Concentric diversification was found to have a negative significant effect on return on assets of insurance companies in Kenya. When return on equity was used as a measure of insurance financial performance, concentric diversification was found to have a positive significant effect. The study results also indicated that geographical diversification exhibited a positive significant effects on return on assets of insurance companies. On the other hand, geographical diversification presented a negative statistical effect on financial performance of insurance when measured using return on equity. Lastly, vertical diversification indicated a positive effect on both return on equity and return on assets on the insurance companies in Kenya.

The second objective of the study was to determine the moderating effect of environmental munificence on the relationship between diversification strategies and performance of insurance companies in Kenya. The study established that the interaction on environmental munificence and diversification strategies had a negative significant effect on financial performance of insurance companies. The results further indicated that the interaction of environmental munificence and conglomerate diversification yielded a negative significant effect on return on assets of insurance companies in Kenya. Similarly, the interaction between environmental munificence and conglomerate diversification gave a negative significant effect on return on equity. The study found that the interaction between environmental munificence and concentric diversification had no significant effect on either return on assets or return on equity. The study further established that the interaction between environmental munificence and vertical diversification resulted into a negative effect on insurance companies return on assets. The same interaction of environmental munificence on vertical diversification yielded a negative effect on insurance when financial performance was measured using return on equity. Lastly on the second objective, the study findings revealed that the interaction between environmental munificence and geographical diversification had negative effect on financial performance of insurance companies when measured through return on assets. When using return on equity as a measure of financial

performance, the interaction between environmental munificence and diversification strategies were found to also have a negative effect.

The study third objective was to evaluate the mediating effect of corporate cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya. Four cannibalistic relationships were identified between online marketing and insurance agents, bancassurance and online marketing, bancassurance and insurance agents and between other company office branches and the main office. The study findings indicated a negative mediation effect of online marketing and agent cannibalization on the relationship between diversification strategies and financial performance of insurance companies measured through return on assets. The results also indicated a negative mediation effect of online marketing and insurace agent cannibalization on the relationship between diversification strategies and financial performance of insurance when financial performance was measured through return on equity. Further, the results signified that bancasurrance and insurance agent cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya when return on asset was employed as a measure of performance. Also, when return on equity was used as a measure of performance the study findings showed that bancassurance and insurance agent cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya.

Cannibalization between bancassurance and online marketing cannibalization was found to have a positive mediating effect on the relationship between diversification strategies and financial performance of insurance companies when financial performance was measured using return on assets. Similar results were established when return on equity was employed. Bancassurance and agent cannibalization was also found to have had a positive mediation effect on the relationship between diversification strategies and financial performance of insurance companies. Lastly, the findings of the study revealed that cannibalization between companies' other branches and the main branch had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies when using return on asset as a measure of

performance. The same results were replicated again when other branches cannibalized the main office and return on equity was used to measure insurance financial performance.

The fourth and last objective of the study was to assess the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. The findings of this study found a negative joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies when return on asset was employed. Similar results of a negative joint effect of diversification strategies, corporate cannibalization and environmental munificence were posted when insurance financial performance was measured using return on equity. Specifically, conglomerate diversification was found to have had a positive and statistically significant effect on return on asset when testing for the joint effect. However, when joint effect was tested using return on equity, conglomerate diversification was found to have no significant effect. Results on concentric diversification differed with those of conglomerate diversification. This was because concentric diversification was found to have insignificant effects on return on assets. On the other hand, concentric diversification registered a positive effect on return on equity of insurance companies. The joint effect results also revealed that geographical diversification had a positive effect on insurance financial performance when return on asset was used. Also the findings revealed that geographical diversification positively affected return on equity as a measure of insurance financial performance. Vertical diversification was found to have a positive significant effect on insurance when financial performance was measured through return on assets. Vertical diversification also presented significant statistics that indicated a positive effect on return on equity.

In the quest to determine the joint effect of diversification strategies, corporate cannibalization and environmental munificence, this study found that cannibalization between bancassurance and insurance agents on return on assets had a negative significant effects. Further, this study used return on equity as a measure of financial performance. The study established that cannibalistic effect between bancasssurance and insurance agents negatively affected the return on equity of insurance companies in Kenya. Further, cannibalization effect between bancassurance and online marketing was found to have a statistically significant effect on financial performance of insurance

companies when return on asset was employed. Also, cannibalization between bancassurance and online marketing was found to be statistically significant registering a positive effect on return on equity. Cannibalistic effect between online marketing and insurance agents was found to have a negative statistical effect on insurance financial performance measured through return on assets and return on equity. Findings on cannibalization effect between other branches and main office were found to have negative effects on return on assets. The results further indicated a negative cannibalistic effect between branches and main office on financial performance of insurance companies measured through return on assets. Regarding environmental munificence, the study established that market share had a statistically negative significant effect on return on assets and return on equity. The effects of market orientation on insurance financial performance was found to poses insignificant statistical results when measured through return on asset but indicated a significant negative effect on insurance companies return on equity. Lastly, the study findings indicated a negative effect of sales growth on insurance financial performance measured through return on asset and return on equity.

5.3 Conclusions

The study analyzed the effect of diversification strategies on financial performance of insurance companies in Kenya. From the hypothesis test results, the study concluded that diversification strategies had a significant effect on financial performance of insurance companies in Kenya. On the specific diversification strategies indicators and in line with the study findings, the study concluded that conglomerate diversification had a positive significant effect on return on asset. On the contrary the study concluded that conglomerate diversification had a negative significant effect on return on equity of insurance companies in Kenya.

Based on the study findings, a conclusion was made that concentric diversification had a negative effect on return on assets and a positive effect on return on equity of insurance companies in Kenya. Further, the study concluded that geographical diversification had a positive effect on return on assets of insurance companies. On the other hand, the study concluded that geographical diversification had a negative effect on financial performance of insurance when measured using return on equity. Lastly, conclusion made on vertical diversification was that it positively affected both return on equity and return on assets of the insurance companies in Kenya.

The study sought to determine the moderating effect of environmental munificence on the relationship between diversification strategies and financial performance of insurance companies in Kenya. In line with the findings of the hypothesis results, the study concluded that environmental munificence had a significant moderating effect on the relationship between diversification strategies and financial performance of insurance companies. On the specific interactions of environmental munificence and diversification strategies, the study concluded that interaction of environmental munificence and conglomerate diversification yielded a negative effect on return on assets and return on equity of insurance companies in Kenya. Regarding the interaction between environmental munificence and concentric diversification the study concluded that it had no significant effect on either return on assets or return on equity. Further, the study concluded that the interaction between environmental munificence and vertical diversification resulted into a negative effect on both insurance companies return on assets and return on equity. Lastly, inferring from the findings of this study, a conclusion was made that the interaction between environmental munificence and geographical diversification had a negative effect on financial performance of insurance companies when measured through return on assets and return on equity.

The study also investigated the mediating effect of corporate cannibalization on the relationship between diversification strategies and financial performance of insurance companies in Kenya Based on the findings, the study concluded that corporate cannibalization had a significant mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya. Regarding specific cannibalistic effect, four cannibalistic relationships were identified between online marketing and insurance agents, bancassurance and online marketing, bancassurance and insurance agents and between other company office branches and the main office. The study concluded that there was a negative mediation effect of online marketing and agent cannibalization on the relationship between diversification strategies and financial performance of insurance companies measured through return on assets and return on equity. Further, a conclusion was made that bancasurrance and insurance agent cannibalization had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies in Kenya when return on asset and return on equity was employed as a measure of financial performance. Also, the study concluded that cannibalization

between bancassurance and online marketing had a positive mediating effect on the relationship between diversification strategies and financial performance of insurance companies when financial performance was measured using both return on assets and return on equity. Lastly, the study concluded that cannibalization between companies' other branches and the main branch had a negative mediation effect on the relationship between diversification strategies and financial performance of insurance companies when performance was measured using both return on asset and return on equity.

The last objective of the study was to assess the joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. From the findings, this study concluded that there was a significant joint effect of diversification strategies, corporate cannibalization and environmental munificence on financial performance of insurance companies in Kenya. Specifically, the study concluded that conglomerate diversification, geographical diversification and vertical diversification had a positive significant effect on return on asset of insurance companies in Kenya. However, when joint effect was tested using return on equity, the study concluded that conglomerate diversification had no significant effect. Also based on the findings, the study concluded that concentric diversification had insignificant effects on return on assets. Further when the study embraced return on equity as a measure of insurance financial performance, the study concluded that concentric diversification, geographical diversification and vertical diversification had a positive effect on return on equity of insurance companies.

Basing the decision on the findings from the joint effect, the study concluded that cannibalistic effect between bancasssurance and insurance agents negatively affected the return on equity of insurance companies in Kenya. Further, a conclusion was made that cannibalization effect between bancassurance and online marketing had a positive significant effect on financial performance of insurance companies when return on asset and return on equity were used. From the results of the joint effect, the study concluded that cannibalistic effect between online marketing and insurance agents had a negative statistical effect on insurance financial performance measured through return on assets and return on equity. Also the study concluded that cannibalization effect between other branches and main office had negative effects on return on assets and return on equity. On

environmental munificence, the study concluded that market share had a statistically negative significant effect on return on assets and return on equity. Further, the effects of market orientation on insurance performance were insignificant when measured through return on asset but negatively affected insurance companies return on equity. Lastly, the study concluded that sales growth exhibited a negative effect on insurance financial performance measured through return on asset and return on equity.

5.4 Recommendations

Based on the study findings, the study made the following recommendations. From the hypothesis test results, the study established that diversification strategies had an effect on financial performance of insurance companies in Kenya when return on equity and return on assets was employed as a measure of performance. Further, it was confirmed that conglomerate diversification, geographical diversification and vertical diversification had a positive significant effect on return on asset. In line with this, the study recommends that insurance companies should fully adopt conglomerate, geographical and vertical diversification to improve the company's return on assets. If the desire is to improve the return on assets, the study recommends that insurance companies should avoid concentric diversification. This is because the cost incurred would be more than the benefits expected. The study further recommends that to improve return on equity, insurance companies should adopt concentric and vertical diversification and avoid conglomerate and geographical diversification. Insurance companies' management should first assess the cost and benefits of any diversification strategy before adopting it. Further, the study recommends that Insurance companies should not adopt similar strategies or approaches with other companies but should analyze their own capabilities regarding the diversification strategies and customize them to fit their needs.

In line with the findings of the hypothesis test results, the study ascertained that environmental munificence had a moderating effect on the relationship between diversification and financial performance of insurance companies. Further, interaction of environmental munificence and conglomerate diversification, vertical diversification and geographical diversification had a negative effect on return on assets and return on equity of insurance companies in Kenya. The study therefore recommends that insurance companies should analyze the environment and only embrace diversification when sure the environment can absorb the new changes.

On the mediating effect of corporate cannibalization, the study established that corporate cannibalization had a negative mediation effect on insurance financial performance. Regarding specific cannibalistic effect, the study found that there was a negative mediation effect of online marketing and agent cannibalization, bancasurrance and insurance agent cannibalization, other branches and the main branch cannibalization on the relationship between diversification strategies and financial performance of insurance companies measured through return on assets and return on equity. Therefore, the study recommended that insurance companies should consider potential effect of cannibalization. This should be done before introducing new product, new services or entering new market. Due to the cost of sustaining the old product or service, the benefits acquired from new product or service must by far outweigh the cost if the company has to maintain high financial performance.

On recommendation for practice the study noted that most insurance agents perceived diversification as a threats. The study therefore recommended that insurance companies should develop incentive programs that minimizes negative feelings towards introduction of any new product or service. Specifically, when insurance companies undertake their businesses in areas that feature low sales opportunities, adequate measures should be considered to counteract salespersons' perceptions of cannibalization. For example, a firm could create effective motivation systems to minimize the negative feelings towards competing internet channels. One way of doing so is to provide incentives to sales agents who provide service to clients who have purchased insurance online. Another option is to train salespersons on how to customize their services and make the internet to be beneficial to their own sales operations. Since changes often necessitate acquisition of new skills, alteration in salespersons' repertoire and adaptability to cope, then this could become key determinants of whether the new channels help or hinders the goals of sales agents. Therefore, training salespersons to adapt to change may be critical to the overall success of both new and entrenched channels. The study further recommends that insurance managers should ensure that the environment was munificent enough before embracing diversification.

On policy reccomendation, the study advices policymakers to come up with policies and regulations that provide a conducive environment for insurance companies to adopt appropriate

diversification strategies thus promoting performance. Further, to embrace diversification, a policy should be enacted by the insurance regulatory authority that ensures products or services have been clearly differentiated before they are introduced into the market. This would reduce the negative perception of cannibalization and also ensure that the benefit of the new product or service will not be overshadowed by the cost of maintaining the old products.

The study further contributes to knowledge. The hypothesis test result established that diversification strategies had an effect on financial performance of insurance companies. In line with this findings, the study contributed to the understanding and or applicability of the theories that guided this study in the insurance industry operations. The study contributes to resource based theory by confirming that a firm will be motivated to diversify if it is in control of the necessary, excess resources to make diversification economically viable. Further, the study informs that in embracing resource based theory, the organization must only consider strategic business units that have shared resource interdependence in order to benefit from synergy. The study findings also supported the transaction cost theory in alluding that insurance companies should analyze transaction that can be done at a minimal expense through the market or within the bureaucracy of the company in order to remain competitive.

The study also confirmed vrooms expectancy theory basic notions that people will be motivated to exert a high level of effort when they believe there are relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive. Regarding the uncertainty reduction theory, the study agreed that the greater the uncertainity level the more the sales agents will be able to predict behaviors and occurrences which perpetuates perceptions of insecurity. Lastly the study criticized the contribution made by contingency theory that organizations whose internal features best matched the demands of their environments achieved the best adaptation. The study found that the environment could be in demand but some factors like covid 19 and outbreak of wars between nations could influence targeted customers to postpone the need to satisfy the demand. This would imply that the company suffers to sustain its services in expectation that the environment will be munificent.

5.5 Suggestion for Further Research

This study focused on the Kenya insurance sector and thus there was a need to compare the findings from other sector in other industries to ascertain the effect of diversification strategies on performance. The study also suggest that a similar study should be conducted in other countries or economic regions to compare and contrast the effect of environmental munificence on performance when exposed to different environment. Further, the study suggests using other measures of performance to confirm the effect of diversification strategies on performance of insurance companies.

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APPENDICES

APPENDIX 1: INSURANCE COMPANIES (INSURERS)

1. AAR Insurance Company Limited
2. Africa Merchant Assurance Company Limited
3. AIG Kenya Insurance Company Limited
4. Allianz Insurance Company of Kenya Limited
5. APA Insurance Limited
6. APA Life Assurance Company Limited
7. Barclays Life Assurance Kenya Limited
8. Britam General Insurance Company (K) Limited
9. Britam Life Assurance Company (K) Limited
10. Cannon Assurance Company Limited
11. Capex Life Asssurance Company Limited
12. CIC General Insurance Company Limited
13. CIC Life Assurance Company Limited
14. Continental Reinsurance Limited (Kenya)
15. Corporate Insurance Company Limited
16. Directline Assurance Company Limited
17. East Africa Reinsurance Company Limited
18. Fidelity Shield Insurance Company Limited
19. First Assurance Company Limited
20. GA Insurance Limited
21. GA Life Assurance Limited
22. Geminia Insurance Co. Limited
23. ICEA Lion General Insurance Company Limited
24. ICEA LION Life Assurance Company Limited
25. Intra Africa Assurance Company Limited
26. Invesco Assurance Company Limited
27. Kenindia Assurance Company Limited
28. Kenya Orient Insurance Limited
29. Kenya Orient Life Assurance Limited

30. Kenya Reinsurance Corporation Limited
31. Liberty Life Assurance Kenya Limited
32. Madison Insurance Company Kenya Limited
33. Mayfair Insurance Company Limited
34. Metropolitan Cannon Life Assurance Limited
35. Occidental Insurance Company Limited
36. Old Mutual Assurance Company Limited
37. Pacis Insurance Company Limited
38. Phoenix of East Africa Assurance Co. Limited
39. Pioneer General Insurance Company Limited
40. Pioneer Assurance Company Limited
41. Prudential Life Assurance Company Limited
42. Resolution Insurance Company Limited
43. Saham Assurance Company Kenya Limited
44. Sanlam General Insurance Company Limited
45. Sanlam Life Assurance Company Limited
46. Takaful Insurance of Africa Limited
47. Tausi Assurance Company Limited
48. The Heritage Insurance Company Limited
49. The Jubilee Insurance Company of Kenya Limited
50. The Kenyan Alliance Insurance Company Limited
51. The Monarch Insurance Company Limited
52. Trident Insurance Company Limited
53. UAP Insurance Company Limited
54. UAP Life Assurance Company Limited
55. Xplico Insurer

APPENDIX II: SECONDARY DATA COLLECTION SCHEDULE

SCHEDULE A: DIVERSIFICATION STRATEGY

DIVERSIFICATION	INDICATOR	2017	2018	2019	2020	2021
Conglomerate	Premium from acquisitions					
	Premium from mergers					
Concentric	Premium from independent agents					
	Premium from insurance bancasuurnce					
	Premium from online marketing.					
Vertical	Premium from general insurance products					
	Premium from life assurance products					
Geographical	Premium from local branches					
	Premium from regional branches					

SCHEDULE B: PERFOMANCE

	INDICATOR	2017	2018	2019	2020	2021
Financial performance	Net income					
	Total assets					
	Total equity					

SCHEDULE C: ENVIRONMENTAL MUNIFICENCE

INDICATOR/YEAR	2017	2018	2019	2020	2021
Sales Volume (KES)					
Market share					
No. of new entrants					
Total assets value(KES)					

SCHEDULE D: CORPORATE CANNIBALIZATION

INDICATOR/YEAR	2017	2018	2019	2020	2021
Sales volume of general insurance customers (KES.)					
Sales volume of life assurance customers (KES.)					
No of general insurance customers					
No of life assurance customers					

APPENDICES I11: RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 310970

Date of Issue: 13/July/2020

RESEARCH LICENSE

This is to Certify that Mr.. john mutugi Gachoki of University of Embu, has been licensed to conduct research in Nairobi on the topic: DIVERSIFICATION STRATEGIES, CORPORATE CANNIBALIZATION,ENVIRONMENTAL MUNIFICENCE AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA for the period ending : 13/July/2021.

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APPENDIX IV: APPROVAL LETTER

UNIVERSITY OF EMBU

OFFICE OF THE DIRECTOR
BOARD OF POSTGRADUATE STUDIES

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Our Ref: D860/195/2017
Your Ref:

Date: 5th June 2020

Gachoki, John Mutugi
C/o
Department of Business and Economics

Dear Mr. Gachoki,

RE: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that the Board of Postgraduate Studies, at its meeting of 19th March 2020, approved your research proposal for the PhD Degree entitled "Diversification strategies, corporate cannibalisation, environmental munificence and performance of insurance companies in Kenya". Attached is a copy of the approval.

You may now proceed with your data collection subject to obtaining a research permit from NACOSTI.

As you embark on your data collection, please note that you are required to:

i. Consult your supervisor(s) at least once a month.
ii. Submit to the Board of Postgraduate Studies at least four (4) duly completed Postgraduate Progress Report Forms through the Chairman of Department and Dean of School every six (6) months.
iii. Give a minimum of four (4) seminar presentations before submission of thesis.
iv. Publish at least two (2) papers before the project report/thesis is submitted for examination.
v. Adhere to the University Plagiarism Policy and the prescribed similarity levels.
vi. Obtain other permits, permission or clearance such as ERC, IBC, KWS if required.

The Progress Report Forms, research project/thesis submission checklist and other important postgraduate documents are available at the University's website under Board of Postgraduate Studies webpage http://bps.embuni.ac.ke/ as downloads.

Thank you.

05 JUN 2020

Prof. Nancy Budambula
DIRECTOR, BOARD OF POSTGRADUATE STUDIES
NB/lw

Copies to:
1. DVC (ARE)
2. Registrar, ARE
3. Dean, SBE
4. CoD, BE
5. Supervisors: Dr. Jesse Kinyua & Dr. Samuel Nduati

ISO 27001:2013 Certified *Knowledge Transforms* ISO 9001:2015 Certified

APPENDIX V:RESEARCH GAP

Paper title (author (s), year) International referred journal, recent ones.	Research gap identified	Research methodology used including model adopted	Key theories identified	Major findings
Ade Oyedijo (2012) Effects of Product – Market Diversification Strategy on Corporate Financial Performance and Growth: An Empirical Study of Some Companies in Nigeria. American International Journal of Contemporary Research.	This study focused on sales growth and financial performance measured by profit margin, return on assets and return on equity. This therefore creates a need to establish non-financial performance.	This study employed the triangulation analytical technique involving correlation, multiple regression, ANOVA, independent sample test and Scheffe Ad Hoc test	Economic theory and the absolute cost advantage theory	The study found out that there was a high, positive and statistically significant correlation between financial performance and sales growth and related diversification.
Archana Ravichandran and Saumitra Bhaduri (2015).Diversification and firm performance: A study of Indian manufacturing firms.Madras School of Economics.	The location of this study was in India targeting the manufacturing industries thus a need to conduct a similar study in Kenya targeting the insurance industry.	The study employed correlational research design and adopted a Regression model	Resource based theory	The results show that highly diversified firms perform poorly on account of vertical diversification while horizontal diversification has a positive effect on performance.
Burton CR, & Rycroft-Malone J.(2014).Resource based view of the firm as a theoretical lens	The study Investigated the degree to which resources help organizations to survive and thrive in the challenging contexts within			The study observed that the level of diversification and performance were significantly

on the organizational consequences of quality improvement. Int J Health Policy Manag; 3: 113–115. doi: 10.15171/ijhpm.2014.74.	healthcare and therefore there is a gap on how resources help organizations to survive and thrive in the context of insurance companies.			influenced by resources and capabilities.
Esteban López-Zapata / Fernando Enrique García-Muiña / Susana María García-Moreno (2019).Analyzing the relationship between diversification strategy and firm performance:the role of the economic cycle.	Future research with more detailed databases may involve a more dynamic analysis using continuous measures of diversification, such as the entropy index which would allow for more robust statistical analysis, or using market-based metrics for assessing performance, such as Tobin's Q, surplus values and the Sharpe, Treynor and Jensen ratios.	models underpinning the relationship were the linear positive (diversificati on premium), the linear negative(dive rsification discount), and the inverted U-shaped curvilinear model		The results reveal the need to consider the economic cycle as a contingent factor that affects the impact corporate strategies have on firm performance.
Ferdaws Ezzi,, Mouhamed Ali Azouzi and Anis Jarboui (2016).Does CEO emotional intelligence affect the performance of the diversifiable companies?	The study used Rumelt, (1974) approximation of the specialization ratio to measure diversification. There is therefore a need to use either the index of Berry–Herfindahl, the entropy measurement, Utton index or the number of sectors as diversification measurements	linear regression model		The results obtained from the linear regressions show well the significant and positive CEO emotional intelligent on the financial, social and environmental performance.

Grant Alexander Wilsona , Jason Perepelkinb and David Di Zhangc (2019)The roles of diversification and specialization strategies in the entrepreneurial orientation and performance relationship.	Frequencies, exploratory factor analysis (EFA), correlation analysis, mean comparisons, and regression analysis were performed using SPSS, and Amos was used for confirmatory factor analysis (CFA) and structural equation modeling.	structural equation modeling The ratio of chi-square to degrees of freedom (v2/df), comparative fit index (CFI), root mean square error of approximation (RMSEA), and standardized root mean square residual (SRMR) were used to assess model fit .Listwise deletion was used to treat missing data		The results of the structural equation model showed that an entrepreneurial oriented strategy was an antecedent to the implementation of diversification and specialization strategies, but only specialization was correlated with performance. Specifically, specialization was found to directly impact professional performance and indirectly influence financial performance.
Hyunwoo Kim, Suckwon Hong, Ohjin Kwon,	The study lay emphasis only on concentric diversification and negated other types of	This study employed association		The study found out that most successful companies achieve their growth by expanding into

Changyong Lee(2017). Concentric diversification based on technological capabilities: Link analysis of products and technologies, Technol. Forecast. Soc. Change.	diversification strategies e.g. conglomerate and geographical diversification. The study sought to establish whether there was a relationship between products and technologies thus creating a gap on whether there is a relationship between concentric diversification and performance. The study location was in Korea hence a need to undertake a similar study in Kenya.	rule mining and link prediction analysis to model the direction of the study.		logical adjacencies that have shared economies and not from unrelated diversification or moves into hot markets.
Jingbo Yuan, Zhimin Zhou and Nan Zhou (2018).Product market competition, market munificence and firms 'unethical behavior.	There is gap to determine the effects of market munificence on overall Performance of the firm.	Regression model	Market munificence was measured using Li and Greenwood (2010) scale.	market munificence positively Moderates the impact of firm's market power on firms unethical behavior, whereas, market munificence negatively moderates the impact of industrial market concentration on firms unethical behavior.
Khan Shahzad (2012) Concentric Diversification is a New Product Offering or Cannibalization. A Descriptive Study. International Review of Management and Business Research. Vol. 1 Issue 1.	This study sought to determine whether diversification leads to cannibalization thus negating to look at the effect on performance.	This study employed a descriptive research design, data was collected using questionnaire and analyzed using descriptive statistics		This study found out that use of product depends upon five independent demographic factors; age, gender, income, education and marital status and the use will describe that either the product is used a new offering or either it is competing with the same product of the company.
Lidija Stefanovska and Toni Soklevski (2014)Benefits of Using Balanced Scorecard in	The study focused on determining the benefits of balance scorecard therefore not addressing the question whether	The study relied on regression		The study found that there was transfer of experiences between employees in different

Strategic and Operational Planning.	diversification has any effect on performance.	analysis and used chi-square test to determine the relationship		organizations, through internal training or consultation.
Mashiri Eukeria & Sebele Favourate,(2014) .Diversification as a Corporate Strategy and Its Effect on Firm Performance: A Study of Zimbabwean Listed Conglomerates in the Food and Beverages Sector.	The study focused only on financial performance of the firms hence a need to relook on non-financial performance. This study focused on the food and beverage sector therefore a need arises to look on its effect on the insurance industry particularly in Kenya.	Multiple Linear Regression Analysis Rumelt specializatio n ratio model.	Markowitz' s portfolio theory Agency theories	The study established that through diversification the conglomerates created value and justified their existence as they were able to build and leverage the unique resources to gain competitive advantage, increase profitability, market value of the companies ultimately improving shareholder value.
Raed Ibrahim Saad & Zahran Daraghma (2016) Using of the Balanced Scorecard for Performance Evaluation: Empirical Evidence from the Listed Corporations in the Palestine Exchange (PEX) International Journal of Business and Management; Vol. 11, No. 3; 2016 ISSN 1833- 3850 E-ISSN 1833-8119.	The study aimed at testing the extent to which listed Palestinian corporations were using the four perspectives of the Balanced Scorecard (BSC) in evaluating the performance. There is therefore a need to test the balance scorecard perspectives on insurance companies in Kenya.	The study targeted managers and used questionnaire to collect information. Descriptive statistics were employed order to state the outcomes.		The study found that financial managers relied on the financial and customer perspectives for evaluating the performance of the listed corporations in the PEX and did not consider the other two perspectives.
Tiena J. Joseph and Yang S. Sharon, (2014). The Determinants of Life Insurer's Growth for a Developing	The study focused on Taiwan market hence a need to relook on both financial and non-financial performance of the Kenyan insurance companies.	Heckman's two-stage regression	Gibrat's law/ the law of	Empirical results reveal that different factors influence the growth of domestic and foreign life insurers in Taiwan. In

Insurance Market: Domestic vs Foreign Insurance Firms Geneva Papers, 2014, 39, (1–24).			proportionate effect	particular, lagged asset size, age and current profitability are determinants of growth and also determine foreign life insurers' growth. When domestic firms are smaller, younger and more profitable, their growth rate increases.
Walid Mensi a , Adel Boubaker a & Chaker Aloui (2013)Board effectiveness, conglomerate diversification, and firm performance: The Tunisian case.	The study focused on Board effectiveness thus a need to also look at environmental munificence.	Ordinary least square regression model.		Conglomerate diversification was negative and statistically significant to both board effectiveness and firm performance.
Washington O. Okeyo (2014)The Influence of Business Environmental Dynamism, Complexity and Munificence on Performance of Small and Medium Enterprises in Kenya.	To determine munificence respondent rated how favorable their organizations was to political, economic, technological, socio-cultural, ecological and legal factors focusing on small and medium enterprises in Kenya. There is therefore a need to determine munificence by considering environmental growth/ decline and the opportunity or threat posed by insurance companies in Kenya as at the year 2020..	Linear regressions approach	This study adopted a positivist philosophical approach.	Dynamism, complexity and munificence each were found to have a direct influence on the enterprises in the study. The combined effect on performance was found to be greater than that of dynamism and complexity but less than munificence.