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SERVICE QUALITY MANAGEMENT PRACTICES, INDUSTRY COMPETITION AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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ABSTRACT

The general objective of this study was to establish the effect of service quality management practices and industry competition on performance of insurance companies in Kenya. The study adopted a descriptive cross-sectional survey with primary data collected through semi-structured questionnaires. The Cronbach's Alpha Coefficient ranged from 0.783 to 0.853 showing the reliability of all the scales used in the study. Data was analyzed using descriptive statistics, factor analysis and regression analysis. The results of the study revealed a statistically significant relationship between service quality management practices and performance of insurance companies in Kenya. The results further revealed that industry competition has no statistically significant moderating effect on the relationship between service quality management practices and performance of insurance companies. The results of the study extends the frontiers of Service Quality Theory which contends that service quality depends on the nature of the discrepancy between expected service and what is perceived. Adoptions of service quality management practices appear to render the influence of industry competition on the relationship between service quality management practices and performance irrelevant. The implementation of service quality management practices by the policy makers assist in meeting the dual responsibility of insurance companies which are risk mitigation measures and national economic growth.

1. INTRODUCTION

1.1 Background of the Study

Explaining why performance of firms in the same industry differs has remained a fundamental question within strategic management circles (Teece et al., 1997). Such a variation can partly be explained by a number of variables like service quality management practices and industry competition. According to Bloom and Van Reenen (2010) service quality management practices are positively correlated to performance. Stevenson (2002) supports this view and asserts that improving service quality will result to customer satisfaction and effective cost management that will lead to improved performance. Wang et al. (2012) concluded that service quality has become one of the major concerns of both manufacturing and service organizations due to increasingly intensified competition for customers in today's customer centered era resulting to many organizations paying increasing attention to improve service quality management practices. Patier et al. (2012) in their study to investigate the joint influence of total quality management and industry competition on performance of hotels in Australia and India found a direct significant influence of Total Quality Management (TQM) on their non-financial performance but an indirect influence on the relationship between total quality management and industry competition on financial performance.

Risk management is the process of evaluating the risks faced by an organization or an individual and then minimizing the costs involved with those risks (Abor & Akotey, 2013). The two authors appreciate that any risk entails two types of costs. The first cost is incurred if a potential loss becomes an actual loss while the second cost consists of reducing or eliminating the risk of potential loss through transferring it to an external institution like an insurance company. However, insurance, though an important part of risk management, is not the only means of dealing with risks as other methods may be less costly while some risks are uninsurable (Skipper & Klein, 2002). Insurance companies are therefore important as they assume financial responsibility for losses that may result from specific risks at a fee. In addition, the insurance industry in Kenya is among the sectors that are expected to spur economic growth and help in realization of Vision 2030 whose aim is to achieve an average economic growth rate of 10% of the country's GDP (Kenya Vision 2030, 2007). However, this industry only contributes 2.9% compared to the expected 6.7% of the Gross Domestic Product (GDP) (Economic Survey, 2015). Insurance companies must address current challenges on quality management practices while closely monitoring actions of competition if they are to realize the anticipated growth (AKI, 2015).

Empirical studies on service quality management practices (SQMP) and performance have focused on direct linkage besides finding mixed results. At the global level for example, Sim et al. (2015) carried out a study on service quality, service recovery and financial performance using longitudinal research design and established that the recovery efforts in reducing mishandled baggage in the United States (US) airline industry were associated with improved financial and non-financial Performance. On the contrary, Friebel and Schwiger (2011) established that service quality management practices had no significant influence on performance of manufacturing companies in their study on the effect of management quality, performance and market forces in Russia while Patier et al. (2012) found a direct and significant influence of Total Quality Management (TQM) on their non-financial performance.

Locally, Ochola et al. (2006) carried out a study in Nairobi City County to find out the influence of weather conditions on the performance of insurance companies and concluded that extreme weather conditions have a direct impact on the performance of

insurance companies due to increase in claims on fire and related perils. On the other hand Mose (2014) investigated the effect of service quality management practices, market productivity, firm characteristics and industry competition on the hotels performance in Kenya and found a significant influence of quality management practices and industry competition on performance.

There have been several studies that have been conducted on service quality management practices and performance in the past. However, there still remain unresolved issues along the conceptual, contextual and methodological spheres in the relationship among the variables. Furthermore, there is an absence of an integrated framework that relates service quality management practices, industry competition and performance besides the mixed findings. From the foregoing, it is apparent that the effect of service quality management practices, industry competition and performance has received inadequate attention. The study was guided by the following research question: What is the effect of service quality management practices and industry competition on performance of insurance companies in Kenya?

1.2 Literature Review

1.2.1Theoretical foundation of the Study

This study was founded on the Service Quality Theory and supported by Competitive Advantage Theory. The Service Quality Theory contends that service quality is the discrepancy between the perception of consumer on the service offered by a particular firm and their expectations (Parasuraman et al., 1985) while the The Competitive Advantage Theory examines why some firms within the same industry are more competitive than others (Porter, 1990).

1.2.2 Service Quality Theory

Service quality theory was advocated by Gronoroos (1982) before being publicized by Parasuraman et al. (1985). It is founded on the consumer behaviour theory fronted by Howard and Sheth (1969) which posits that the buyer decision making process can be explained through different approaches among them, the psychodynamic, behavioural, cognitive and humanistic approaches (Bray, 2008). Gronoroos (1984) classified service quality into three components which were technical, functional and image. Technical component is concerned on what service is delivered to the consumer, functional component confine itself to how the service is delivered. Parasuraman et al. (1985) underscored the importance of SERVQUAL as the mostly used approach for measuring service quality and it compared the customers' expectations before a service encounter and their perceptions after the actual service delivery.

Parasuraman et al. (1985) proposed a generic determinant of service quality as; reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the customer and tangibility. After discovering a high degree of correlation in some of the elements, Parasuraman, Bery and Zeithaml (1989) consolidated them into five determinants; responsiveness, reliability, assurance, empathy and responsiveness. Identification of quality gaps guides redeployment of resources into areas that are underperforming for optimum competitive advantage. This theory has however been criticized for focusing on the service delivery and failing to address the service- encounter outcomes (Gronroos, 1990).

1.2.3 Competitive Advatage Theory

Porter (1980) offered a model that examines why some firms within the same industry are more competitive than others. He discusses four determinants of competitive advantage namely factor conditions and asserts that these factors interact with each other to form conditions where innovation and competitiveness occur. These determinants are, demand conditions, related and supporting industries and the firm's strategy, structure and rivalry. The Competitive Advantage Theory states that these factors are complemented by the government and chance (Van den Bosch, 1994). Government factors include subvention, investment in education, regulating the market, creating competitive infrastructure and being a major consumer of the industry goods and services. Chance factors include wars, major changes in international financial markets, and changes in cost of production, political decisions and pure inventions.

According to Porter (1991), the first determinant consists of the production factors which can either be basic or advanced with advanced factors being preferred as they are hard to imitate. Demand conditions on the other hand are forces imposed by buyers' demanding improved quality at competitive prices for services in a particular industry. The existence of related industries which interact with the target sector is an important determinant of a firm's competitiveness and firms strategies must be in congruent with such interactions. The pattern of rivalry is also considered as major attribute that shape competitive advantage as competing firms stimulate companies to upgrade their production process.

1.2.4 Service Quality Management Practices and Firm Performance

Extant literature reveals enhanced performance resulting from implementation of quality management practices (Kaynak, 2003). The focus of firms that implement quality management practices are customer satisfaction, process efficiency, improvement of quality offered, enhanced productivity, decrease in costs, boost in sales and market share and better image (York & Miree, 2004). A review of literature indicates that senior management involvement to quality, staff involvement in quality matters, information analysis, focus on customers, leadership, product and service design process are the most cited measures of Service Quality Management Practices (Jose et al., 2009).

Belay and Takala (2001) scrutinized the effects of quality management practices and concurrent engineering on performance in Finland and found a direct link between the two variables. The study adopted a longitudinal research design with a case study of one of the Brewery Companies. It however used financial aspects to measure performance and ignored the non-financial part. On the contrary, Friebel and Schwiger (2011) established that service quality management practices had little influence on performance in Russia in their study on management quality, performance and forces. The study adopted a cross-sectional research design where one thousand and nine hundred manufacturing companies with less than 5,000 employees in ten transition countries were surveyed. This study was however carried out in the manufacturing industry leaving out the service industry. On her part, Kinoti (2012) investigated the effect of green marketing practices, corporate image, organizational characteristics on performance of ISO 9000 and 14000 certified organizations in Kenya and found that green marketing practices influence performance. The cross sectional descriptive research design study was a census on the ISO 9000 and 14000 certified organizations then. The non-ISO 9000 and 14000

certified organizations were however not considered. This study hypothesized that performance is influenced by service quality management practices adopted by an organization.

1.2.5 Service Quality Management Practices, Industry Competition and Firm Performance

Several studies have established a strong relationship among the constructs of Sercice quality management practices, industry competition and performance. For instance Mose (2014) confirmed the existence of this joint relationship on his study purposed to establish the influence of service quality management practices, firm characteristics and industry competition on the performance of hotels in Kenya. However, Sorensen (2008) in his study on why competitors matter for market operations found that competition is positively related to market share while customer focus is detrimental to a firms return on assets. The study was conducted in Denmark and adopted cross-sectional research design where 308 manufacturing firms were surveyed.

Mazzeo (2003) investigated the influence of competition on service quality in the United States Air-lines and established that the future profit consequences of deferred flights were less where the airline was the only carrier serving a particular route. However increase in competition provided incentives for the airlines whose short term objective was profit maximization to invest in delay prevention mechanisms as the cost of delays were higher where competition was stiff and consumers had options. Patiar et al. (2012) purposed to establish the joint influence of total quality management, industry competition and performance of hotels and found a direct interactive effect of total quality management and industry competition on hotel non financial performance but an indirect effect on the financial performance. The study targeted four and five star hotels in Australia and India through a cross sectional research design.

2.0 Methodolody

2.1Research Design and Population

This study used a descriptive cross-sectional survey. Cross-sectional study takes a snap-shot of a population at a certain point in time, allowing conclusions about the subject being studied across a wide population to be drawn (Cooper & Schindler, 2006). A descriptive study is undertaken in order to ascertain and describe characteristics of the variables of interest in a situation (Sekaran, 2003). According to Sultan and Wong (2010), descriptive cross-sectional survey allows for quantitative description of the antecedents of service quality management practices and hence found suitable for this study.

Kang and James (2004) refer to experiential literature as confirmation to the use of quantitative investigation techniques in examining functional quality of services. Cooper and Schindler (2006) confirm the appropriateness of cross-sectional studies where the general objective is to scrutinize the significance of relationships among the variables at a particular point in time. Cross-sectional design was used to inquire about the link among the study variables.

The target population comprised all the insurance companies in Kenya while the unit of analysis was the insurance company. The Insurance Regulatory Authority classifies insurance companies depending on the category of insurance intended to be transacted. There are broadly three classifications of insurance companies known as general, life and composite. An insurance company seeks license from the authority for the classes of insurance it intends to transact. General insurance companies are licensed to transact

short term insurance contracts for one year at most while Life insurance companies on the contrary, transact long term insurance contracts mostly from two years and beyond. Composite insurance companies transact both general and life business and they tend to hire more employees due to the different specialization required to transact business. According to IRA (2017), there were 50 insurance companies in Kenya as at 31st December 2016. According to IRA (2017) twenty four insurance companies were certified to transact short term business and therefore were general insurance companies, while fourteen underwrote life insurance only and only twelve were composite. This study adopted a census survey.

2.2 Data Collection

Data was gathered through semi-structured questionnaires which were designed on a five point likert- type scale ranging from 1 to 5 where 1= Not at all, 2= To a small extent, 3= To a moderate extent, 4= To a large extent and 5= To a very large extent. To enhance internal consistence, this study used scales previously used by other studies with slight modification to fit the context. For example, questions used in service quality management practices, were adopted from Wahjudi et al. (2011) while those used under organizational characteristics were adopted from Kinoti (2012) while part of those used in firm performance was adopted from Munyoki (2007).

The target respondents were either the Chief Executive Officers or head of marketing, strategy, risk or actuarial departments or any other manager in an equivalent position. Though some scholars support the use of multiple informants, other researchers argue that single informants provide data that are more reliable and valid (O'cass et al., 2004; Lin, 2011; Narver & Slater, 2000). This assists in providing reliable and valid data besides avoiding information inconsistencies that may arise from multiple responses from a single unit (Saunders et al., 2007). The top managers were approached to complete the questionnaires since they are assumed to participate in the firm's strategic planning and execution in line with Campell (1995). The survey inquest forms accompanied by the universities introduction letter were dropped and picked up later after an introduction telephone call.

2.3 Data Analysis

Statistical tests depend on assumptions about variables used in the analysis. Osborne and Waters (2002) observe that when these assumptions are not met, the results may not be valid. Assumptions of linearity, multicollinearity, normality and homogeneity were tested in this study as outlined by Osborne and Waters (2002). Linearity of data indicates that the values of the outcome variable for each increment of predictor variable lie along a straight line and were tested using scatter plots. Multicollinearity occurs when there is a high extent of connection between independent variables and was determined using Variance Inflation Factor (VIF) and tolerance test. Hair et al. (2010) assert that VIF should be less than 10 while tolerance should be more than (0.10).

Normality in this study was tested using Shapiro-Wilk test. According to Field (2009), when the Shapiro-Wilk significant value is less than 0.05 it indicates a deviation from normality otherwise data will be approximately normally distributed. Homoscedasticity occurs when the variance of the errors of the dependent variable is not the same across the data and it can lead to grave misrepresentation of the outcome increasing the chances of type 1 error (Hair et al., 2010). In this study the assumption of homoscedasticity was evaluated by using scatter plot residuals.

Data was analyzed using descriptive statistics such as average scores and standard deviation. Multivariate statistical analysis was used to test the patterns of relationships between constructs of Service Quality Manageemnt Practices, Orgazational Characteristics, and Firm Performance. Moderating effect of organizational characteristics on the relationship between service quality management practices and performance was tested using regression analysis (Baron & Kenny, 1986). In order to facilitate multivariate analysis including correlation and regression, a composite index was computed for all the variables.

2.4 Research Hypotheses

This study proposed the following null hypotheses which were derivative of the literature:

$H_{1:}$ Service Quality Management Practices have no significant influence on the performance of insurance companies in Kenya.

$H_{2:}$ Industry competition has no significant moderating effect on the relationship between Service Quality Management Practices and Performance of insurance companies in Kenya.

3. Findings

3.1 Response Rate

This study adopted a descriptive cross-sectional survey with insurance industry being the targeted population while insurance companies were the unit of analysis. Copies of the questionnaire were sent out to all the 50 insurance companies however, 33 responded representing 66% response rate. Notably one of the companies that failed to respond was under statutory management. The response rate of 66% was considered acceptable. Other studies had more or less the same response rates with 60% for Njeru (2013), 67.7% for Kinoti (2012) and 58.7% for Murgor (2014).

A response rate beyond 50% is considered sufficient for analyzing and presenting data (Mugenda and Mugenda, 1999). The study targeted one respondent who was either the Chief Executive Officer or head of marketing, strategy, risk, actuarial departments or any other manager in an equivalent position. Single informants provide data that are more reliable and valid (O'cass et al., 2004; Lin, 2011; Narver and Slater, 2000).

3.2 Reliability and Validity Tests

Reliability and validity tests are measures to confirm that the device developed to gauge a particular concept is precisely measuring that concept that was set out to be measured. This in return guarantees no important dimensions of perceptual and attitudinal variables are overlooked or irrelevant ones included during operationalization (Sekaran, 2003). Factor Analysis test was employed to measure construct validity where Factors were extracted using the Principal Component Analysis and rotated through Varimax rotation approach. It was observed that all of the variables in this study were un-dimensional which confirmed the validity of the measures of the construct used in this study. To enhance the reliability of the survey instrument, a pilot study was conducted to five organizations and Cronbach's Alpha Coefficient calculated to assess the device's consistency. Reliability of measurement scales was assessed by computing Cronbach Alpha coefficient and all the values were above 0.6 and therefore acceptable.

3.4 Diagnostic Tests

3.4.1 Normality Test

Shapiro- Wilk test was used to evaluate whether the data was normally distributed. Statistical procedures require that the assumption of normality is tested. The lower limit of Shapiro- Wilk test is 0.05, above this cut off point then the data is normally distributed (Shapiro-Wilk, 1965). We confirmed that all the values were above 0.05 and therefore the data was normally distributed.

3.4.2 Linearity Test

Linearity of data implies that any adjustment in the predictor variable results to a corresponding adjustment in the dependent variable. The linearity of data was tested through plotting of a Quantile - Quantile (Q-Q) graph where any violation of the linearity assumption would lead to standardized residuals scattering randomly around the horizontal line. The results indicated that the values were along the best line- of- fit.

3.4.3 Multicollinearity

Multicollinearity occurs when there is a high extent of association between predictor variables and was determined through Tolerance and Variance Inflation Factor. The quantity of discrepancy in the predictor variable that is unexplained by other predictor variables is what is referred to as Tolerance while Variance of Inflation Factor (VIF) shows how much of the regression factors are affected by multicollinearity leading to overestimated errors. We confirmed that all the values of tolerance were more than (0.10) while those of Variance Inflation Factor were less than 10 implying that there was no multicollinearity among the predictor variables as recommended by Hair et al. (2010).

3.5 Regression Analysis and Hypotheses Testing

This study was founded on the understanding that service quality management practices influences firm performance but this relationship is moderated by organizational characteristics. To establish statistical significance of the respective hypotheses simple and multiple regression analysis were carried out at 95% confidence level.

3.5.1 Service Quality Management Practices and Firm Performance

The first objective was to find out the direct link between Sservice Quality Management Practices and performance of the insurance firms. The survey participants were requested to state their level of agreement with explicit statement on the way service quality management practices was managed in their respective institutions. To evaluate the direct link between SQMP and performance, following hypothesis was tested.

$H_{1:}$ *Service Quality Management Practices have no significant influence on the performance of insurance companies in Kenya.*

Service Quality Management Practices was regressed on firm performance and the outcome was summarized in Table 3.0.

Table 3.0: Regression of Service Quality Management Practices and Performance

(a) Model Summary						
Model		R	R Square		Std. Error of the Estimate	
1		.758[a]	.575		.39356	
(b) Goodness-of-fit (ANOVA)						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.812	1	4.812	31.066	.000[b]
	Residual	3.563	23	.155		
	Total	8.374	24			

(c) Beta Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T-Value	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.325	.678		-.479	.637
	SQMP	1.013	.182	.758	5.574	.000

a. Dependent Variable: FP
b. Predictors: (Constant), SQMP

Table 3.0 shows that Service Quality Management Practices has a strong and positive relationship on performance (R=0.758). It explains 57.5% (R-Square =0.575) of firm performance. Analysis of variance (ANOVA) was used to evaluate the significance of the regression analysis model. The results were F= 31.066, P<.05 which reflected the significance of the model at 95% confidence level. The Beta coefficients results show that a unit change in service quality management practices impacts firm performance by 0.758 and the change is significant (P<.05). Firm performance would be – 0.325 (Y- Intercept) when the service quality management practice is at zero. The model of the effect of SQMP and

Performance is as presented in the equation below.

FP= - 0.325+ 0.758 SQMP

Where FP= Composite Score of Firm Performance

-0.325 is the Y-Intercept (Constant)

SQMP= Composite Score of Service Quality Management Practices

0.758= Increase in FP for every one unit increase in SQMP

On the basis of the findings the first hypothesis was supported that Service Quality Management Practices has a significant positive effect on performance of the insurance companies in Kenya and therefore the null hypothesis H_1: Service Quality Management Practices have no significant influence on the performance of insurance companies in Kenya

rejected.

3.5.2 Moderating Effect of Industry Competition on Service Quality Management Practices and Firm Performance

The second hypothesis purposed to look into the moderating effect of industry competition on the relationship between service quality management practices and performance of insurance companies in Kenya. The respondents were requested to indicate to what extent they concurred with various attributes associated with industry competition indicators and rank their level of consensus

a long a 5-point-likert scale ranging from 1 to 5 where 1 represented “Not at all” and 5 “To a very large extent”

To assess the influence of the industry competition on the association of service quality management practices and firm performance of the insurance companies in Kenya, the following hypothesis was tested.

$H_{2:}$ *Industry competition has no significant moderating effect on the relationship between Service Quality Management Practices and Performance of insurance companies in Kenya.*

A single score representing the product of Service Quality Management Practices (SQMP) and Industry Competition (IC) was calculated. However, the creation of such a sore though direct multiplication of Service Quality Management Practices and Industry Competition risked creating a multicollinearity problem which could influence the approximation of the regression coefficients for the major effect. This challenge was overcome by standardizing the sores of the two variables to Z- score which have a mean of zero and standard deviation of one. The two standard variables (SQMP and IC) were then multiplied to create the interaction variable (SQMP *IC). Table 4.32 presents the relevant analytical results

In testing moderation, this study assumed a method suggested by Baron and Kenny (1986) who contend that a moderator is a variable that influences both the direction and strength of the association between predictor and dependent variables. This method involves testing the consequence of the predictor variable (Service Quality Management Practices) and moderator variable (Organizational characteristics) on the dependent variable (Firm Performance) and the interaction between the Service Quality Management Practices and Organizational Characteristics. Moderation is assumed to take place if the interface between the Service Quality Management Practices and Organizational Characteristics is statistically significant. A single item indicator representing the product of Service Quality Management Practices was computed which was then multiplied by a composite score representing organizational characteristics.

Table 3.0: Regression of Firm Performance on Service Quality Management Practices, Industry Competition and Interaction Term (SQMP*IC)

(a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.563[a]	.317	.277	.37975	.317	7.892	1	17	.012
2	.736[a]	.542	.485	.32062	.225	7.849	1	16	.013
3	.743[a]	.552	.463	.32728	.011	.355	1	15	.560

(b)ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.38	1	1.138	7.892	.000[b]
	Residual	2.452	17	.144		
	Total	3.590	18			
2	Regression	1.945	2	.972	9.460	.002c
	Residual	1.645	16	.103		
	Total	3.590	18			
3	Regression	1.983	3		6.171	.006d
	Residual	1.607	15	.661		
	Total	3.590	18	.107		

(c) Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.068	.904		1.181	.254
	SQMP	.699	.238	.563	2.809	.012
2	(Constant)	3.235	.076		2.976	.009
	SQMP	.633		.533	3.14	.006
	IC	-.749	.094	-.475	-2.802	.03
3	Constant)	3.042	1.156		2.031	.009
	SQMP	.636	.206	.535	3.089	.007
	IC	-.683	.294	-.433	-2.322	.035
	SQMP*IC	-.073	.123	-.111	-.590	.560

a. Dependent variable: Firm Performance
b. Predictors: Constant, SQMP, IC
c. Predictors: Constant, SQMP, IC, SQMP*IC

Model 2 in Table 3.0 demonstrates that 48.5% (Adjusted R Square = .485) of the variations in firm performance was explained by service quality management practices and industry competition. The model was statistically significant at F=9.460 and P<.05. Model 3 indicate that 46.3% (Adjusted R Square =.463) of the variation in firm performance was explained by service quality management practices, industry competition and the interaction term (SQMP*IC). This implies that the inclusion of the interaction term in the model resulted in decrease of the Adjusted R square by 0.01 (0.48.5- 0.463). However model 3 was statistically not significant at F= 6.171 and P>.05. Thus the null hypothesis was not rejected that industry competition has no significant moderating effect on the association between SQMP and firm performance.

The regression model of testing firm performance given the joint effect of Service Quality Management Practices and Industry Competition was not significant with P>0.05.

FP= 3.042 + 0.563 SQMP -0.111SQMP*IC

Where FP= Composite Score of Firm Performance

3.042 = Y-Intercept (Constant)

SQMP= Composite Score of Service Quality Management Practices

IC= Composite Score of Industry Competition

SQMP*IC= Interaction term of SQMP and IC

0.563 = an approximation of the change in performance for every unit increase of SQMP

- .111 = an approximation of the change in performance for every unit of the interaction of SQMP and IC

4. DISCUSSION

4.1 Service Quality Management Practices and Firm Performance

The study sought to scrutinize the association between service quality management practices and performance of insurance companies in Kenya and found that SQMP has a significant positive effect on performance of the insurance companies. These results are in line with other previous studies that reveal that adaption of SQMP leads to better performance (Belay & Takala, 2001; Bloom & Van Renenen, 2010; Kinoti, 2012; Mose 2014). Implementing quality management practices positively influence performance (Kaynak, 2003). The general aim of firms that implement quality management practices is provision of enhanced customer value, higher efficiency of processes, quality improvement, increased productivity, cost management, increase in market share and improved image (York & Miree, 2004). This study confirms the predictions of service quality theory that implementing service quality management practices enhances performance.

This study found that 57.5% of the firm performance was explained by SQMP demonstrating the importance of service quality management practices in enhancing performance. The study further revealed that top management commitment explained 40.9% of the performance. This study has unbundled service quality management practices and isolated evaluation of quality performance and involving major departments in an organization in quality improvement processes as key determinants to superior performance.

4.2 Service Quality Management Practices, Industry Competition and Firm Performance

The second objective of this study was to scrutinize the effect of industry competition on the affiliation between SQMP and performance of insurance companies in Kenya. This study did not find significant moderating effect of industry competition on the link between SQMP and performance of insurance companies. These results are congruent with those of Patia and Mia (2009) who found no relationship between competition and performance where competition could have been rendered insignificant by the highly differentiated products or through niche marketing strategies. They however contradicts the results of the studies carried out by Chong and Rundus (2001) and Owino, (2014) who found significant influence of competition on performance.

Porter (1980) offered a model that examines why some firms within the same industry are more competitive than others. This model has four factors that interact with each other to create environment conducive for innovation and competitiveness. These determinants are complemented by two influencing factors namely the government and chance (Van den Bosch, 1994). The determinants of demand have an important role to play in enhancing competitive advantage. For instance Porter (1980) states that strong demand forces companies to innovate more rapidly in order to outdo the competition and remain relevant. The insurance

services have low demand in Kenya as indicated by the low penetration levels and therefore unlikely to trigger innovation within the insurance industry where different companies are trying to outdo each other. The government regulatory policies especially on new entrants to the market could also be hindering competition. The findings of this study confirm the uniqueness of service quality management practices in influencing performance. If a company is very good in service quality management practices, then Porter's model of competition is not relevant. Service quality can be used to build relative competitive advantage that can be sustained for long.

5. Summary and Conclusion

5.1 Summary

The broad objective of this study was to investigate the effect of service quality management practices and industry competition on the performance of insurance companies in Kenya. To achieve this broad objective two specific objectives were derived and two hypotheses formulated and tested using regression analysis. Data for testing the hypotheses was obtained from primary sources through the use of questionnaires.. The collected data was analyzed through descriptive statistics, regression analysis and factor analysis. It was found that majority of the firms performed better in top management commitment to service quality practices while the power of buyers was perceived to be the major force among the five industry competitive forces. Most of the organizations surveyed were perceived to do better in financial viability among the indicators of financial performance. In summary, service quality management practices were highly rated among the three variables measured through the likert scale.

The testing of hypotheses reviewed that service quality management practices had statistical and significant influence on performance of insurance companies in Kenya leading to the rejection of null hypothesis. In contrast organizational characteristics and industry competition were found not have statistical significant moderating effect on the relationship between service quality management practices and performance of the insurance companies in Kenya showing the uniqueness of adopting service quality management practices that assists the firms to overcome the effects of organizational characteristics and industry competition.

5.2 Conclusion

The study investigated the relationship between service quality management practices, industry competition and performance of insurance companies in Kenya. The positive and significant relationship between service quality management practices and performance implies that insurance companies have to a moderate extent adapted service quality practices to improve performance. It was further established that industry competition has no significant moderating effect on the relationship between service quality management practices and performance.

It was concluded that service quality management practices is the main influencing factor of performance and that good service quality management practices makes industry competition appear to have little influence on performance. The outcome of the current study confirms the premises of Service Quality Theory and Competitive Advantage Theory that service quality depends on the nature of variation between anticipated and apparent service (Parasuraman et al., 1985).

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