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STRATEGIC MANAGEMENT

STRATEGIC PARTNERSHIPS AND PERFORMANCE OF PRIVATE HEALTH INSURANCE SECTOR IN KENYA

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ABSTRACT

Purpose: The purpose of the study was to establish role of strategic partnerships on performance of private health insurance sector in Kenya.

Methodology: A descriptive survey design was adopted in the study where respondents were drawn from five departments, namely sales, strategy, finance, operations and customer service departments in the 19 private insurance companies where data was collected from a sample of 308 out of the 380 that were targeted. The data was analyzed and both descriptive and inferential results obtained and interpreted.

Results: The study found out that strategic partnerships had positive but insignificant predictive power on performance.

Conclusion: Firms that make use of strategic partnerships can be able to sustain it with long term ripple effects.

Unique contribution to policy and practice: The study recommends that firms should establish partnerships with other firms to improve cost-effective resource outsourcing, thereby boosting profitability. Additionally, it suggests adopting strategic partnerships to facilitate new market penetration and expedited growth through resource pooling.

Keywords: *Strategic partnership, performance, private health insurance.*

INTRODUCTION

A strategic partnership is a form of partnership entity, agency, or corporate affiliate relationship that can manifest in various forms, including verbal agreements, contract-based arrangements, equal partnerships, and joint ventures. The primary objective of these partnerships is to achieve mutually beneficial outcomes. Such strategic alliances encompass inter-firm collaborations such as joint ventures, business networks, subcontracting agreements, research and development partnerships, coproduction and marketing partnerships, as well as instances where firms in related industries or sectors collaborate to leverage combined strengths for competitive advantage (Culpan, 2014).

Other organizations which have goals and objectives which are aligned to those of the firm can help it realize its strategic objectives. Health Insurance companies have opportunities to *exploit* their potential by getting into strategic partnerships with financial institutions like banks or medical service providers like hospitals to exploit on the opportunities that exist.

Partnerships are formed when one firm has resources at its disposal that another one needs to improve its performance so as to increase competitive advantage over other firms in the same market. These strategic alliances capture a variety of inter-firm collaborations including joint ventures, business networks, subcontracting agreements, R&D partnerships, coproduction and marketing partnerships (Culpan, 2014). The partnerships have been an emerging trend where businesses seek opportunities to collaborate with other business with an aim of achieving a particular mutual goal.

Statement of the problem

Health insurance players in the industry continue to compete for the same client base without registering any significant improvement in the penetration levels (Kazungu & Barasa, 2017). The health insurance sector continues to face poor performance in terms of profitability driven by competition amongst insurance companies that has resulted into undercutting (Kituku & Amata, 2016). The health insurance industry was put on the spotlight following the collapse of Mediplus Insurance in 2003 and Strategies Health in 2005 (Gitau, 2013). Thus the researcher contend that strategic partnership have the capacity to prevent the health insurance organizations from financial distress. The study therefore sought to determine the role of strategic partnerships on performance in health insurance in Kenya.

LITERATURE REVIEW

This section presents the theoretical and empirical review that informs the study. The literature is presented in subsequent sections.

Theoretical Review

Institutional theory underpinned the study. Institutional theory has its foundations in 1948 when Philip Selznick wrote what is commonly referred to as the old institutional theory. He concluded that organizations are adaptable to threats in their external environment. He further propagated that the informal and formal structures in the organization are in a constant state of pressure and therefore to maintain legitimacy and survive, the organizations do everything possible to neutralize the threat and adapt to their environment. The new institutional theory has its foundations in 1977 through the works of Meyer and Rowan. They propagated that an organization's formal structure emerges from their adherence to institutional norms and beliefs from the larger environment in which it exists and that an institution has goals that drive and that it is also formalized and rational (Association of Religious Data Archives, 2018).

The institutional theory strives to understand how institutions operate. It focuses on the effect of a firm's surrounding and the business environment around it and how they work together. Over the years it has been improved to have 'old' and 'new' institutional theory. Though they both deal with adaptations to institutional environments to sustain undisputed credibility; the old institutional theory is deemed as reactive to its adaptation in that the organization is the conduit through which resources are garnered to facilitate adaptation. The new institutional theory on the other hand perceives the organization as a rational, formalized and goal driven entity (Association of Religious Data Archives, 2018).

The institutional theory posits that the internal environment of an institution significantly influences the progress of the organization more so than the external environment, particularly the market. Strategic partnerships within institutions help to establish and maintain legitimacy, thus ensuring the survival of the organization. When adopted early, strategic partnerships create technical and operational efficiency (Meyer & Rowan, 1977).

Empirical Review

According to Serrat (2012) "Self-relience is extremely difficult to have in the current market that requires flexibility and agility at the same time". Firms have to partner with other ones so as to achieve their objectives. Global competition, meeting customer expectations, shortened product life cycles, increased specialization of skills and the internet and communication technologies are some of the factors that have led to companies being unable to run business by themselves and hence calling for collaboration as a solution. It has become more difficult for companies to maintain advantage over their rivals in all levels of the value chain. Traditional methods of doing business are fast becoming obsolete therefore the need for modern ways of surviving in the current market (Serrat, 2012).

This complexity is evident in the challenges associated with gaining an advantage across the value chain. Market dynamics and global competition have compelled firms to set aside previous strategies and adopt modern ones in order to succeed in the current business landscape. Strategic partnerships are viewed as one method that can be employed to maintain an industry advantage and enhance productivity (Dze & Soldi, 2012). This is because controlling the value chain is assumed to provide organizations with several advantages over their competitors. It enables organizations to expand their distribution networks even in areas where they lack a physical presence, reduce costs, improve efficiency, and offer white-label products, thereby widening their product offerings.

This concept is based on the need to attain the objectives of a firm while making use of another's resources and thus serves to boost competitive advantage but since they are a number of variations of partnerships (between two firms, those between a private and public firm, those involving a number of stakeholders or a firm with an NGO) it is up to the firms to decide based on the prevailing market conditions.). Public private partnerships and multi-stakeholder partnerships are common in addressing social-economic development challenges (Maurrasse, 2013). This is premised on the realization that the government needs the private sector to succeed and also the realization that the private sector cannot succeed without the support of the government hence the now famous Public-Private Partnerships (PPP).

These partnerships can take either contractual or equity forms. Contractual forms do not require a formal management structure and encompass agreements such as franchising, licensing, joint research and development, turnkey projects, outsourcing, and other similar contractual arrangements. On the other hand, equity forms involve shares, which may entail purchasing equity shares or exchanging equity with existing entities (Zamir et al., 2014). They are crucial for a firm's survival in today's dynamic economic environment because they provide access to critical resources and enable firms to acquire and maintain a competitive advantage (Cobena, Gallego & Casanueva, 2017).

It has been highly likely for firms to form partnerships so as to survive the current competitive climate in the market. The battlefield in the market is slowly drifting from individual companies to partnerships between firms due to inadequate resources needed for maintaining competitive position in the market because of the external market conditions. Through alliances firms are therefore able to overcome internal shortfalls and cope with the difficulties in the market. They are important instruments to ensure sharing of information and availability of needed resources (Russo & Cessarani, 2017).

Emerging from the potential risks associated with coping in an increasingly complex environment, entrepreneurs choose to spread risk and gain a broader array of benefits through strategic partnerships. However, partners must understand any potential challenges that may arise and be willing to find common ground. These differences might become too significant on the global stage, resulting in failure (Russo & Cesarani, 2017). Strategic alliances are voluntary and collaborative inter-firm relationships intended to create value for the involved firms by leveraging advantages through information sharing, market influence, cost efficiencies, and the ability to develop new products, thus positively impacting the market standing and performance of both firms (Ferreira, Storopoli & Serra, 2014).

In Kenya, many banks have got interest in insurance companies. The opposite is also true where many insurance companies have interests in banking institutions. This is because the organizations are in the finance sector and serve clients whose interests are shared and it is easy to cross sell. A client taking a mortgage would need insurance while some of the heavy insurance premiums may require financing through insurance premium financing agreements. Jubilee insurance is affiliated to Diamond Trust bank because they share common shareholders. UAP insurance belongs to the same group with Faulu bank and they are under the Old Mutual group. Barclays banks owns a stake in First Assurance while Cooperative Bank is a key stakeholder in CIC insurance. For a long time, Equity bank has had a significant shareholding in Britam as well.

Butigan and Banic (2017) Sought to determine effect of these partnerships on productivity of firms in the retail sector of eight countries (Croatia, Bosnia and Herzegovina, the Czech Republic, Slovakia, Slovenia, Poland, Hungary and Estonia). According to the researchers strategic alliances in the retail sector range from supply and marketing to knowledge sharing and branding. They contend that these alliances are a source of competitive advantage for their members. The results of the study indicated that participation in strategic alliances positively influences a firm's performance.

The information sharing between the strategic partners leads to new products, process improvement, gaining of new skills and identification of new opportunities (Waema, 2013).Free movement of relevant information allows industry players to find ways to save on unnecessary costs and have a competitive advantage. The strategic cost management among the firms supports better choice making mechanisms and analysis, helps set objectives, improves an organization's competitive advantage and results in a better allocation of resources. Several methods can be used to support the strategic partnerships including parties cost management techniques. The cost management increases the organizational competitive advantage among the firms.

Kasina (2012) conducted a study to determine the role of strategic partnerships as a source of competitive advantage. The study adopted a case study research design in which an interview guide was used to collect data and content analysis was used in analyzing the data. The study contended that there are several business factors leading to the need of the strategic partnership such as regulatory requirements, general economic conditions and the institutional frameworks in countries of operation, including legal requirements, macro-economic policies, price controls, financial capital markets, distribution channels, and methods of contract enforcement. Other factors leading to the strategic partnership include industrial and institutional factors.

Moh and Spekman (2014) conducted a study on the Characteristics of partnership success and partnership attributes. The study focused on vertical relationships between manufacturers and dealers and contended that these partnerships develop advantage in markets for participants. While the antecedents of partnership formation and the characteristics of the resulting cooperative working relationship have been explored in the literature, an understanding of characteristic associated with partnership success is lacking.

Such a comprehension is critical in reconciling the prescriptions to form partnerships with the truth being that most alliances due not even yield results. The study hypothesized that partnership attributes, communication behavior, and conflict resolution techniques are related to indicators of partnership success (satisfaction and sales volume in the relationship). The hypothesis was tested with vertical partnerships between manufacturers and dealers. Results indicated that the primary characteristics of partnership success are partnership attributes of commitment, coordination, and trust; communication quality and participation.

Ekawati (2014) sought to examine the impact of strategic partnerships on innovation capabilities and performance of the business of garment enterprises in the province of West Java - Indonesia. Among the objectives of the study was to investigate the direct and indirect impact of strategic partnership on business performance. The study collected data from 250 garment companies and analysed using inferential methods. The study revealed that strategic partnerships had an impact on innovation capabilities. The study also revealed that strategic partnerships directly had a positive and significant effect on business performance.

Conceptual framework

Figure 1 is a presentation of the factors of strategic partnerships affecting performance of private health insurance.

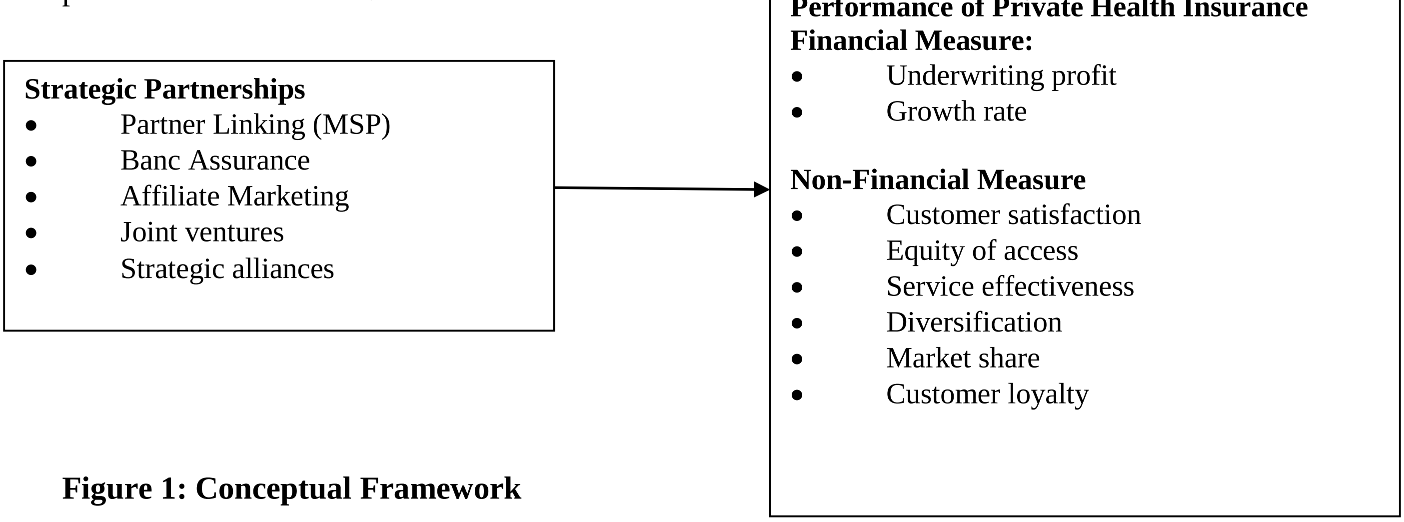

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study employed a descriptive survey research design. The target population comprised managers, assistant managers and supervisors. Four respondents were drawn from each of the five departments, namely sales, strategy, finance, operations and customer service departments in the 19 private insurance companies where data was collected from a sample of 308 out of the 380 that were targeted. The data were analyzed and both descriptive and inferential results obtained and interpreted.

RESULTS AND FINDINGS

The study findings and discussions are presented per objective.

Response rate

The number of questionnaires that were administered to the managers, assistant managers and supervisors of private health insurance companies were 380. The responses and non-responses are presented in Table1

Table 1: Response rate

Response	Frequency	Percentage
Returned	308	81.05%
Unreturned	72	18 .95%
Total	**380**	**100%**

A total of 308 questionnaires were properly filled and returned, representing an overall successful response rate of 81.05%. This aligns with Babbie (2014), who asserted that return rates of 50% are acceptable for analysis and publication, 60% is considered good, and 70% is considered very good. Therefore, a response rate of 81.05% was deemed adequate for the study.

89% of the respondents agreed that strategic partnerships had influence on firm performance. Existing literature is contradictory over whether strategic partnerships have influence on firm performance or not. While some (Butigan & Banic, 2017) found that strategic partnerships influence firm performance, some (Pervan *et al*., 2015; Rashid & Naeem, 2017) don’t find strategic partnerships influential to firm performance.

Homogeneity of variance on the role of strategic partnerships regarding performance.

ANOVA was performed on the role of strategic partnerships on performance across employee position (managers, assistant managers, and supervisors) to test for homogeneity of the views and the results are shown on Table 2.

Table 2: ANOVA of perception across employee positions

		Sum of Squares	Df	Mean Square	F	Sig.
Strategic partnerships	Between Groups	0.736	3	0.245	1.27	0.285
	Within Groups	58.732	304	0.193		
	Total	**59.468**	**307**			

Table 2 indicates that the p-value is 0.285, thus failing to reject the null hypothesis. Therefore, it can be concluded that there are no significant variations in responses across employee positions regarding how strategic partnerships affect the performance of health insurance firms.

Association between Strategic Partnerships and Performance

The association between Strategic Partnerships variables and performance of the private health insurance sector was assessed using Fisher's exact test procedure. The scores for strategic partnership were coded into binary and cross tabulated. The null hypothesis was:

H_0 : There is no association between strategic partnership and Performance.

Table 3 shows the cross-tabulation results.

Table 3: Performance vs Strategic Partnerships Cross tabulation

		stratpart_bin		Total	
		Low	High		
perf_bin	Poor	9	43	52	3679075400
	Good	29	227	256	1.50166E+38
Total		38	270	308	6.49039E+48
p-value					0.085121625

The results show that there was a slight significant ($p<0.1$) association between performance and strategic partnerships (perf_bin*stratpart_bin: p=0.0851<0.1). Therefore, the null hypothesis was rejected and alternative hypotheses that strategic partnership had a significant relationship with performance.

Effect of Strategic Partnership on Performance

Non-linear regression model (logit) was used to study the relationship between transient advantage and performance. In order to perform this analysis, performance scores were coded into binary as follows:

$$y* = \begin{cases} 1\ for\ y > 3.4\ \ represeinting\ \text{good}\ perfomanace \\ 0\ for\ y \leq 3.4\ representing\ \text{poor}\ perfomanace \end{cases}$$

Where ***y**** = binary representation of performance with ***1= "good"*** and ***0= "poor"*** while ***y*** represents the actual aggregate means scores of performance as reported by the respondents. The results of the logistic regression of the strategic partnerships and performance of private health insurance companies in Kenya are presented in Table 4.

Table 4: Summary Results of Logistic Regression

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)
Strategic partnerships	0.07	0.328	0.045	1	0.832	1.072
Constant	0.174	2.100	0.007	1	0.934	1.189

The results presented in Table 4 imply that strategic partnerships significantly influence the probability of satisfactory (good) performance in the health insurance sector in Kenya. Specifically, strategic partnerships increased the odds of good performance by 11.89%. (β= 0.07, wald=0.045, p=0,832>.05). However, this relationship was insignificant since the p-value was greater than 0.05.

Discussion

The study findings revealed that while strategic partnerships increased the odds of good performance by 11.89%, this relationship was deemed insignificant. Therefore, further research is warranted to confirm these results. These findings align with those of Butigan and Banic (2017), who investigated the influence of participation in strategic alliances on firm profitability and concluded that such participation positively impacts performance. However, there is a need for comparative research based on sector and consideration of cross-cultural differences. Additionally, Pervan, Visic, and Barnjak (2015) conducted a study to determine the consequences of mergers and acquisitions (M&A) on the performance of companies operating within Croatia. Their findings indicated statistically insignificant differences in target companies' performances before and after M&A activity. Nonetheless, the study suggested conducting further research in different countries and industries.

CONCLUSIONS

The study concludes that the formation of joint ventures with other firms aids in expanding the scope of reach and customer base. Additionally, it asserts that forming partnerships with other firms is essential for cheaper resource outsourcing. Furthermore, the study concludes that firms have established bancassurance partnerships to penetrate areas where banks are well represented. Moreover, it was found that bancassurance arrangements remain underutilized, especially regarding the distribution of health insurance products. Lastly, the study suggests that insurance companies forming strategic partnerships with other insurance firms to underwrite specific risks based on size, complexity, or tender requirements enhances their operational effectiveness and competitiveness in bidding processes.

RECOMMENDATIONS

The study recommends that insurers utilize strategic partnerships to reach all social classes effectively. Through such partnerships, insurers can reduce purchasing costs, expand their client base, and create opportunities for cross-selling. It emphasizes the importance for firms to collaborate with specific distributors to ensure profitability. In managing these distribution partnerships, insurers should prioritize commitment from all stakeholders and adopt a business model that is fair and equitable across all markets. Additionally, the study suggests adopting strategic partnerships to enhance new market penetration and achieve faster growth through resource pooling.

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