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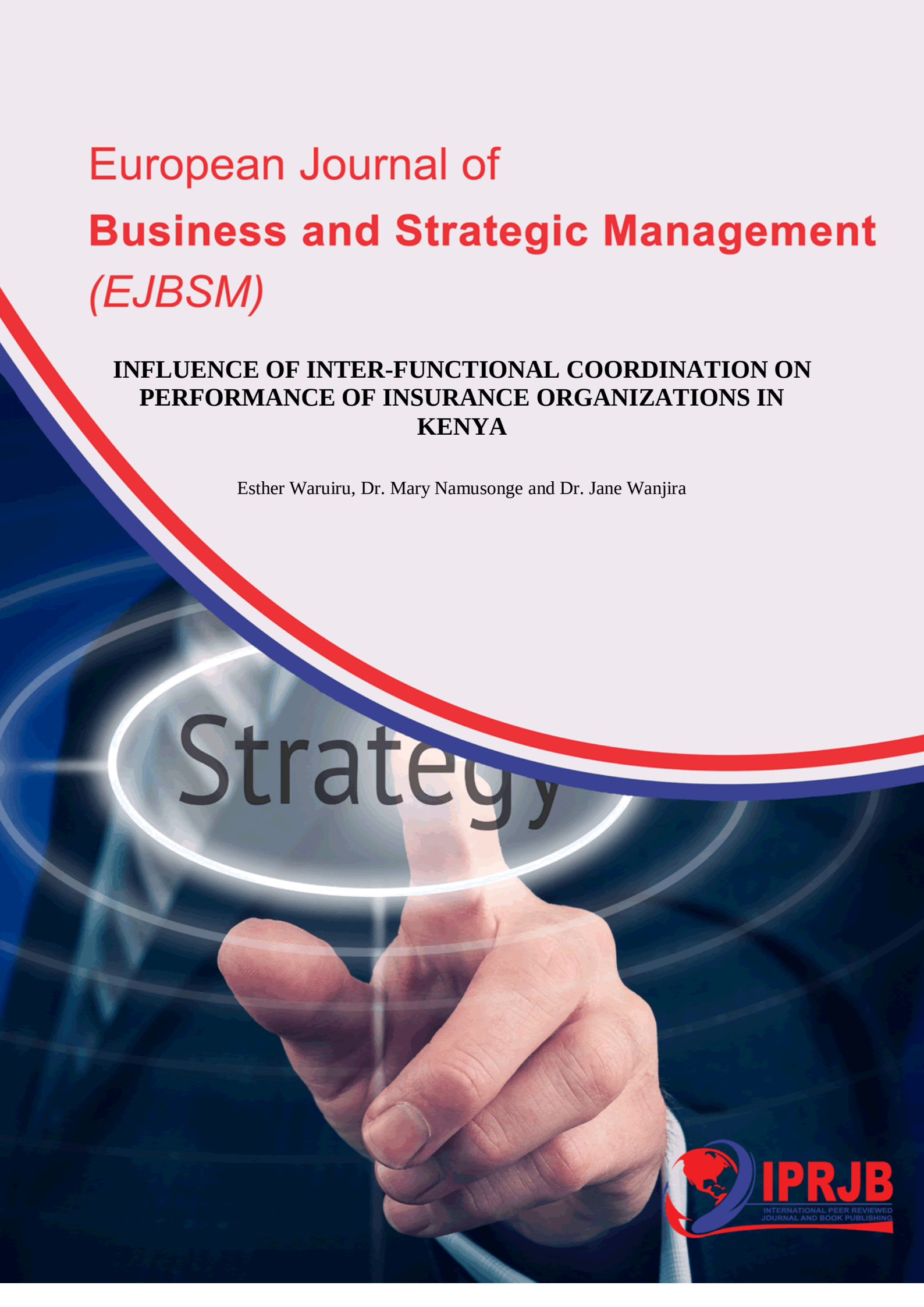

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INFLUENCE OF INTER-FUNCTIONAL COORDINATION ON PERFORMANCE OF INSURANCE ORGANIZATIONS IN KENYA

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Abstract

Purpose: Inter-functional coordination is one aspect that most of the modern day organizations are focusing on as a way of promoting their competitiveness through internal consistency. This involves the harmonization of the firm's operations to create a one uni-operative system. Through the inter-functional coordination, organizations are able to unify their operations and thus enhance better problem solving. The main purpose of the study was to establish the influence of inter-functional coordination on performance of insurance organizations in Kenya

Methodology: The philosophical foundation of the study was positivism, and descriptive cross-sectional survey research design was adopted. The target population for the study comprised all the 50 insurance firms while a sample of 384 employees was selected using stratified random sampling. Primary data was collected using questionnaires which were pretested for reliability and validity to determine it suitability for use in the study. Quantitative data was analysed using descriptive and inferential statistics and results presented using charts and tables while content analysis was used for qualitative data. Inferential statistics, corelation, multiple regression analysis were used establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationships.

Results: The study findings indicated that inter-functional coordination was statistically significant in explaining organization performance of insurance firms. The study concluded that insurance firms were market oriented through inter-functional coordination and are adopting all measures of marketing orientation to enhance performance.

Unique Contribution to Theory, Practice and Policy: The study, therefore, recommends that the insurance firms should ensure that there is a clear and effective organizational structure to enhance smooth flow of operations, ease of communication and sharing of information.

Key Words: *Inter-functional Coordination, Insurance organizations, Performance.*

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1.0 INTRODUCTION

1.1 Background to the Study

In the modern business set-up, marketing stands to be the main point of focus among many organizations in that it stands as a major enabler of firm performance, growth and expansion. Among the un-interchangeable marketing aspects is the inter-functional coordination. Inter-functional coordination is a significant marketing aspect in every organization in that it helps the firm to gather information targeting consumers' needs and competitors' abilities constantly and use this information to generate better consumer value repeatedly (Olivares and Labo, 2003). Organizations that are market-oriented through inter-functional coordination are knowledgeable in relation to the markets in which they operate in and have the capability to utilize the information advantages to make better value for their target consumers' thus increasing attention in the context of firm performance (Tschida, 2010).

Insurance industries in developed economies, such as Europe, operate subject to strict regulations and strong protection from international competition prior to liberalization (Lado, 2003). However, effective implementation of liberalization has sparked stiff competition in the backdrop of an underperforming economy and changes in consumer tastes and preferences. Closer home, the insurance industries of various African countries are experiencing similar challenges. Despite the enhanced growth in premiums from general and life sectors of the industry, insurance performance in terms of growth in penetration levels, market share and profitability continues to be unimpressive. The contribution of total insurance premiums to GDP, which measures performance in terms of penetration, in real terms, was 14.8 percent in South Africa; 7.3 percent in Namibia; 2.92 percent in Kenya and 4.8 percent in Malaysia (Swiss Re, 2010).

Every organization is focused on its performance through which it assures its sustainability and growth. Measuring organizational performance is not clear-cut specifically for organizations with many goals such as customer retention, productivity, profitability, ability to become accustomed to the ever varying environment, employee satisfaction, growth and social responsibility. Organization performance has mostly been conceptualized on the basis of financial measures. However, some scholars have urged for a wider performance construct that incorporate aspects of non-financial measures such as, effectiveness, efficiency, quality, company image, customer satisfaction, job satisfaction, and management control system (Malgharni et al., 2010; Waiganjo, Mukulu & Kahiri, 2012).

The insurance industry in Kenya consists of a number of players namely; insurance companies and reinsurance companies, intermediaries and other service providers. Over the years, the insurance industry has done a sequence of modifications through fiscal reforms, development of communications and information technologies, globalization of financial services and economic development. The insurance industry grew by 20.3% in 2014. However, the penetration of insurance in Kenya is still low at 2.92%. Investment earnings and other income increased by 6.5% from Sh 42.76 billion to Sh 45.55 billion. The insurance industry' total assets increased by 16.3% in 2014 to Sh 417.43 billion from Sh 358.82 billion in 2013.

Insurance Regulatory Authority (IRA) records that there are 50 authorized companies to transact insurance business as insurers for the year 2015. Twenty five companies wrote non-life insurance business only, 15 wrote life insurance business only while 11were composite

(both life and non-life). There are 196 licensed insurance brokers, 28 medical insurance providers (MIPs) and 5,155 insurance agents. Other licensed players included 133 investigators, 108 motor assessors, 26 loss adjusters and 29 insurance surveyors (IRA, 2015). The Kenyan insurance industry experienced a wave of mergers and acquisitions in 2014 as local insurance firms and financial services firms flexed their acquisition muscle in order to grow their revenues, consolidate their market share and expand regionally. This study sought to establish the influence of market orientation on performance in order to explain why an industry with such a high potential of growth continues to record poor performance.

1.2 Statement of the Problem

The performance of the insurance industry in terms of penetration of insurance services and profitability remain low (AKI, 2015). Kiragu, (2014) noted that performance of the industry, in terms of penetration, computed as a ratio of Gross Premium to Gross Domestic Product (GDP) was 2.93% compared to 3.44% in 2014, pointing to a slump in growth of the industry by 0.51%. The overall insurance penetration in 2015 was 2.79% compared to 2.93% in 2014. Profitability of the industry declined to Sh15.5 billion in 2014 and Sh11.57 billion before tax in 2015 (AKI report, 2015). The transformation of potential policyholders to the actual insurance policyholders is a difficult task that depends upon the marketing professional excellence of the marketing personnel in convincing the customers to buy the insurance product and services. The low market penetration has been attributed to inefficient marketing of the insurance service by the firms. Given the complications in the markets, aggressive competition, globalization, varying customers' needs and wants, organizations need a strong market orientation and modern marketing practices to stay competitive.

Extant literature reveals that most of the studies on inter-functional coordination have been conducted in developed countries with a few from developing countries. The studies lack fundamental areas such as integration of a management information system, resources and innovation as sources of competitive advantage (Saeidi & Pahlevanlou, 2015). Udegbe and Udegbe (2015) in a previous empirical study observed that managing performance of effective marketing orientation measures have lacked precision and consistency. This study, therefore, proposed to fill this gap by carrying out an in-depth study on how each of the decomposed market orientation dimensions of customer, competitor and inter-functional coordination influenced performance of the Kenyan insurance organizations.

1.3 Research Objective

The motive of this study was to establish the influence of inter-functional coordination on the performance of insurance companies in Kenya.

1.4 Research Hypothesis

H0:Inter-functional coordination has no significant influence on organizational performance of insurance organizations in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Social Capital Theory

This theory supports inter- functional coordination variable. Menguc and Auh (2006) suggest that inter-functional coordination is a key form of internal social capital. Social capital theory states that networks within an organization generate value for the organization by providing the different departments of an organization access to social resources (Nahapiet & Ghoshal, 1998). An organizations social capital can be divided into three dimensions. These dimensions are structural, relational and cognitive. The structural dimension can be explained as the patterns of connections between the different departments of an organization. The relational dimension can be explained as the interaction between the different departments of on organization. The last dimension - the cognitive dimension - can be explained as the resources of an organization that contribute to a shared believe and interpretation between the departments of an organization (Menguc and Auh, 2006). This theory is relevant to this study as it suggest that inter-functional coordination reflects all of the above mentioned dimensions of social capital. This indicates that inter-functional coordination can be understood as mechanism within an organization for enhancing common goal within the organization. This suggests that inter-functional coordination can be seen as a way to better an organizations communication and collaboration between the different departments of an organization and hence improve performance.

2.1.2 Open Systems Theory

This theory was pioneered by Von Bertalanffy (1950) who proposed that open systems are living systems; they maintain themselves in exchange of materials with the environment. Open systems theory refers basically to the notion that firms are powerfully persuaded by their environment. The environment comprises of additional firms that apply diverse forces of an economic, political, or social nature (Scott, 2002). The environment also offers major resources that maintain the firm and leads to changes and survival. Almost all recent theories of organization make use of the open systems perspective (Galbraith and Lawler, 1993).

In open system theory for organizations to be successful, they should continuously interact with the environment for inputs and outputs. These inputs should be efficiently converted in to outputs which should be accepted by the environment. Open and adaptive organizations possess a highly permeable boundary while closed organizations possess an impenetrable boundary. Even though there is vast diversity in the perceptions offered by open systems theories, they share the perspective that a firm's survival depends upon its association with the environment (Pfeffer and Salancik, 2003).

Open system theorists see the organization as adapting to the environment as dictated by its resource providers. Although there is a great variety in the perspectives provided by open systems theories, they share the perspective that an organization's survival is dependent upon its relationship with the environment. This theory is relevant since it highlights that the firms' performance is dictated by the kind of environment that it operates in. This theory thus emphasizes that for organizations to be successful, they should continuously interact with the environment for inputs and outputs. These inputs should be efficiently converted in to outputs which should be accepted by the environment.

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2.3 Empirical Review

Hussain, Ishamail and Shah (2015) did a study on the effect of market orientation and entrepreneurial orientation on firm organizational performance of small and medium sized enterprises in Johor, Malaysia. The study established that customer orientation, competitor orientation and inter-functional coordination dimensions of market orientation; risk taking, pro-activeness and innovativeness were have significant influence on firm performance, competitive aggressiveness and autonomy have insignificant influence on firm performance. The study however focused on a multi-industry study therefore giving much generalized findings and involved single respondents during data collection unlike the current study that focuses on insurance sector which operates in a different environment as compared to SMEs.

2.4 Conceptual Framework

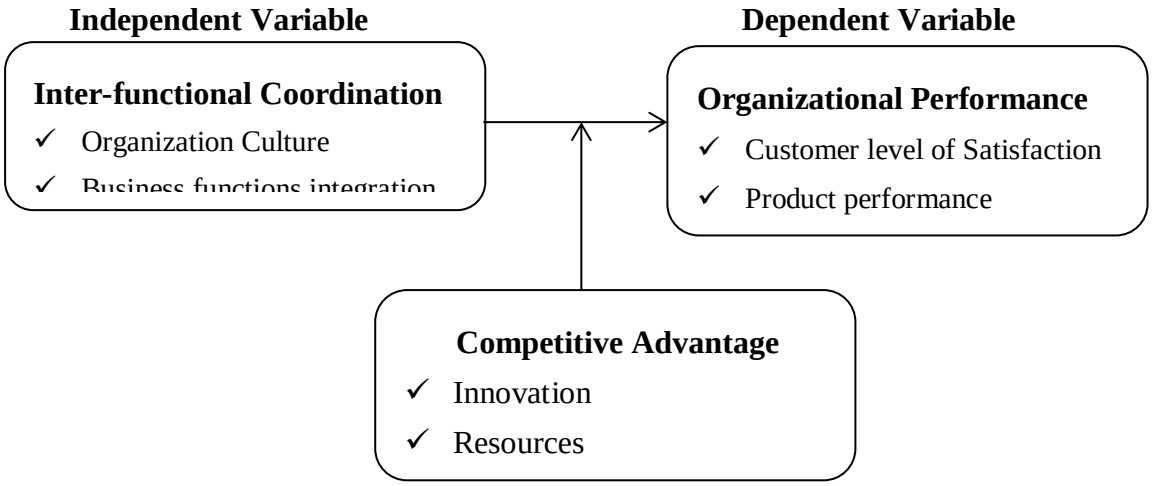

Figure 2.1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive cross-sectional survey. The target population for the study comprised of the insurance companies in Kenya. As at the end of 2015, there were 50 operating insurance companies (AKI, 2015). The firms are categorized into three; Composite Insurance firms, Life Assurance firms and General insurance firms. A census study was employed since all the 50 insurance firms were studied and categorized into three categories. This study used stratified random sampling method to sample 384 employees according to the category (strata) of the insurance firm they worked for. The strata were those of Composite Insurance firms, Life Assurance firms and General insurance firms. Within each of the stratas, simple random sampling was done to select individual employees who were issued with questionnaires to answer to research statements. Descriptive statistics was used to present the main characteristics of the sample and involved use of mean, measures of dispersion and percentages. Inferential statistics was used to test the hypotheses of the study; this included Pearson correlation analysis and regression analysis using SPSS version 22 software.

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4.0 FINDINGS

4.1 Respondent Rate

Out of the 384 questionnaires administered, 292 were filled and returned. This represented a response rate of 76%. Response rate results are presented in Table.1. According to Wimmer and Dominick (2006), a response rate of 21% – 70% is acceptable for self-administered questionnaires. It guarantees accuracy and minimizes bias.

Table 1: Response Rate

Response Rate	Frequency	Percent
Returned	292	76%
Unreturned	92	24%
Total	384	100%

4.2 Inter-functional Coordination

All the eleven (11) inter-functional coordination measures were subjected to factor analysis. Factor analysis was conducted using Principal Components Method (PCM) approach.

Table 2: Total Variance Explained for Inter-functional Coordination Factors

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.08	55.277	55.277	6.08	55.277	55.277
2	1.34	12.182	67.459	1.34	12.182	67.459
3	0.74	6.724	74.183			
4	0.516	4.691	78.874			
5	0.496	4.506	83.381			
6	0.453	4.116	87.497			
7	0.361	3.285	90.781			
8	0.356	3.238	94.019			
9	0.262	2.38	96.399			
10	0.213	1.938	98.337			
11	0.183	1.663	100			

Extraction Method: Principal Component Analysis.

Total Variance analysis indicates that the 11 statements on inter-functional coordination can be factored into 2 factors. The total variance explained by the extracted factors is 67.459%. Factor I had the highest variance of 55.277% while factor 2 had 12.182%. These two factors had the greatest influence on performance of insurance firms. The findings imply that all the eleven factors loaded to two factors namely organizational culture and business function integration. Factor one covered organizational culture where the organization has customer responsive culture, firm are customer oriented and the organization has clear flow of

communication while factor two addressed the business function integration which focused on departmental integration and all employees working as teams. When all the eleven factors were exposed to factor analysis all factors attracted coefficients of more than 0.4 hence were retained for further statistical analysis as shown in Appendix IV. According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate.

4.3 Competitive Advantage

All the ten (10) competitive advantage measures were subjected to factor analysis. Factor analysis was conducted using Principal Components Method (PCM) approach.

Table 3: Total Variance Explained for Competitive Advantage Factors

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.229	52.289	52.289	5.229	52.289	52.289
2	1.527	15.27	67.559	1.527	15.27	67.559
3	0.815	8.151	75.711			
4	0.776	7.762	83.473			
5	0.469	4.69	88.163			
6	0.351	3.507	91.67			
7	0.269	2.694	94.365			
8	0.216	2.163	96.528			
9	0.179	1.792	98.32			
10	0.168	1.68	100			

Extraction Method: Principal Component Analysis.

Results shows that total variance analysis for the 10 statements on competitive advantage can be factored into 2 factors. The total variance explained by the extracted factors is 67.559%. Factor I had the highest variance of 52.289% while factor 2 had 15.27%. These two factors had the greatest influence on performance of insurance firms. The findings imply that all the ten factors loaded to two factors namely resources and innovation. Factor one covered resources which included both financial and human resources while factor two addressed the innovation which focused on provision of new products due to firms being innovative. When all the eleven factors were exposed to factor analysis all factors attracted coefficients of more than 0.4 hence were retained for further statistical analysis as shown in Appendix IV. This was supported by Black (2002) who asserted that a factor loading of 0.4 has good factor stability and deemed to lead to desirable and acceptable solutions. Similarly, Rahn (2010) and Zandi (2006) opined that factor loadings equals to or greater than 0.4 was considered adequate.

4.4 Organization Performance

Total Variance analysis indicates that the 11 statements on organization performance can be factored into 1 factor.

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Table 4: Total Variance Explained for Performance Factors

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.194	47.214	47.214	5.194	47.214	47.214
2	1.462	13.287	60.5			
3	1.16	10.549	71.05			
4	0.707	6.426	77.475			
5	0.56	5.094	82.569			
6	0.559	5.079	87.648			
7	0.416	3.78	91.428			
8	0.313	2.843	94.271			
9	0.268	2.434	96.705			
10	0.205	1.86	98.565			
11	0.158	1.435	100			

Extraction Method: Principal Component Analysis.

The total variance explained by the extracted factor is 47.214%. The findings imply that all the sub-constructs regarding performance were closely related and explained organization performance to a great extent. Further, when all the eleven factors were exposed to factor analysis all factors attracted coefficients of more than 0.4 hence were retained for further statistical analysis.

4.5 Test of Hypotheses

Hypotheses testing required the use of multiple regression analysis. This was performed using the field data and the results interpreted according to the R^2 and adjusted R^2values, beta coefficients and P values at $P < 0.005$ significance level.

4.5.1 H_{01}: Inter-functional coordination does not have an influence organizational performance of insurance organizations in Kenya

The third objective of the study was to determine the influence of inter-functional coordination on organizational performance of Kenya's insurance organizations.

Table 5: Linear Model Summary for Inter-functional coordination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.674a	0.454	0.452	0.50042

a Predictors: (Constant), Inter-functional Coordination

According to the model summary output, the variables were significantly correlated where R (coefficient of correlation) was a positive correlation of 0.674 indicating that inter functional coordination were strongly related to organizational performance. The study findings imply that inter functional coordination had a strong and positive relationship with organizational performance. The identified independent variable (inter functional coordination), explains only 45.4% variation in the dependent variable (organization performance). From the model

summary, the adjusted R^2 was 0.452 this indicates that inter functional coordination explains 45.2% of variations in organization performance. Therefore, the remaining percentage of 54.8% is explained by other variables such as, customer orientation, competitor orientation, competitive advantage and external environment.

To test for model fit, ANOVA model was used.

Table 6: ANOVA for Inter functional Coordination

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.328	1	60.328	240.909	.000b
	Residual	72.621	290	0.25		
	Total	132.948	291			

a Dependent Variable: Performance

b Predictors: (Constant), Inter-functional Cordination

From the ANOVA of the stepwise linear regression analysis, it is clear that the model is significant in predicting how inter functional coordination determines performance of Kenya'sinsurance firms. The regression model achieved a high degree of fit as reflected by an $R^2$of 0.454 (F = 240.909; P = 0.000 < 0.05). The relationship was significant at critical value (0.05) since the reported p-value (0.000) was less than the critical value. This means that the measures of inter functional coordination were significant at 95% confidence level which support previous findings from correlation analysis, which reported that there was a significant correlation among the variables (r = 0.674). Thus, it was important to test the significance of the predictor to determine its effect on performance.

Table 7: Regression Coefficients for Inter Functional Coordination

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.279	0.173		7.372	0.000
	Inter-functional Coordination	0.669	0.043	0.674	15.521	0.000

a Dependent Variable: Performance

In addition, the beta coefficient of inter-functional coordination was 0.669. This indicates that a unit increase in inter-functional coordination would result in 66.9% increase in organizational performance value in a direct relationship between inter-functional coordination and performance of Kenya's insurance firms. The t-statistic and corresponding p-value were 15.521 and 0.000 respectively. Therefore, at P < 0.005 level of significance the null hypothesis (H_0) is rejected and accepts the alternate hypotheses (H_A) implying that inter-

functional coordination has a significant influence on performance of Kenya's insurance firms. It therefore means that when an organization is committed to customer responsive culture, remains customer oriented, enhances free flow of information, ensures that all functions are integrated in meeting the needs of their target markets then such an organization would have improved performance. On the basis of these statistics, the study concludes that there is significant positive relationship between inter-functional coordination and performance of Kenya's insurances firms. This implies that the insurance firms had put in place strategies to ensure that all the departments are well coordinated and worked as a team in realization of the firm's goals and objectives. This therefore means that the organizations activities in all functions and departments were well articulated and ensured free communication flow amongst the employees. These findings agree with those of Lähdevuori (2014) who emphasized that market orientation should not be confused with marketing concept. Market orientation is cross-functional in character and it involves business processes, and focuses on the marketing department and is concerned with the organizations products and customers, whereas a market orientation orients all employees toward the market (Bisp, 1999).

The regression equation obtained from this output is:-

Organizational Performance = 1.279 + 0.669 Inter-functional Coordination

4.6 Regression of Performance on Competitive Advantage

In step three, regression analysis was conducted with competitive advantage predicting performance of Kenya's insurance firms.

Table 8: Linear Model Summary of Competitive Advantage on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918a	0.843	0.842	0.26825

a Predictors: (Constant), Competitive Advantage

The coefficient of determination $R^2$and correlation coefficient (r) shows the degree of association between competitive advantage and organization performance. The results of the linear regression indicate R^2= 0.843 and R= 0.918. This is an indication that there is a significant relationship between independent variable (competitive advantage) and the dependent variable (performance). From the model summary table adjusted $R^2$was 0.842 this indicates that competitive advantage explains 84.2% of variations in organization performance in the regression model for step 3. To test for model fit, ANOVA model was used.

Table 9: ANOVA for Competitive Advantage on Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	112.08	1	112.08	1557.57	.000b
	Residual	20.868	290	0.072		
	Total	132.948	291			

a Dependent Variable: Performance

b Predictors: (Constant), Competitive Advantage

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From the ANOVA table of the stepwise linear regression analysis, it is clear that the model is significant in predicting how competitive advantage determines performance of Kenya's insurance firms. The regression model achieved a high degree of fit as reflected by an $R^2$of 0.843 (F = 1557.57; P = 0.000 < 0.05). The relationship was significant at critical value (0.05) since the reported p-value (0.000) was less than the critical value. This means that the measures of marketing orientation were significant at 95% confidence level which support previous findings from correlation analysis, which reported that there was a significant correlation among the variables (r = 0.914). Thus, it was important to test the significance of the predictor to determine its effect on performance.

Table 10: Regression of Competitive Advantage on Performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.618	0.085		7.228	0.000
	Competitive Advantage	0.849	0.022	0.918	39.466	0.000

a Dependent Variable: Performance

Regression of organizational performance on competitive advantage resulted in a significant beta coefficient of 0.849 with the t-statistic and corresponding p-value of 39.466 and 0.000 respectively. This indicates that a unit increase in competitive advantage would result in 84.9% increase in organizational performance of insurance firms in Kenya in regression model.

The linear regression model was:

Organization performance = 0.618+ 0.849 Competitive Advantage

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The study concludes that all the inter-functional coordination had a positive and significant effect on performance of the insurance firms. The study concludes that competitive advantage partially mediates the relationship between marketing orientation and organization performance of Kenya's insurance firms. Thus, organizations should put in place strategies to help them achieve competitive advantage, such as being innovative and having the right resources at the right time.

5.2 Recommendations

Inter-functional coordination was found to be statistically significant in explaining performance of insurance firms in Kenya. This, therefore, has helped to reinforce the view that regardless of the specific functions, every individual in the organization can contribute to the creation of superior value for the target buyers. For an organization to improve performance it should remain committed to promoting customer responsive culture, remains customer oriented, enhances free flow of information, ensures that all functions are integrated in meeting the needs of their target markets. The study, therefore, recommends that the insurance firms should ensure that there is a clear and effective organizational structure to enhance smooth flow of operations, ease of communication and sharing of information.

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