

# **Effect of Cultural Factors on Strategic Planning in Insurance Industry in Kenya: A study of Insurance Companies in Nakuru CBD**

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## **Abstract**

The study was conducted to find out the effect of cultural factors on strategic planning in insurance companies in Nakuru CBD. A Correlation survey research design was adopted for the study. The target population was all the 21 insurance companies in Nakuru CBD. Census study was conducted for all the 21 insurance companies. Primary data was collected using close-ended questionnaires. The respondents were managers who are involved in strategic planning in the insurance companies. Data collected was analyzed using descriptive statistics, Pearson correlation analysis and multiple regression analysis. The results of the analysis were presented using charts and tables. The results revealed that perception of Cultural factors affects strategic planning in the firms. Since the results revealed that there is a positive relationship between cultural factors and strategic planning, the strategic planning managers need to align their strategic planning to Cultural factors.

**Key words:** Cultural Factors and Strategic Planning.

## **Introduction**

Firms and environment are related in one way or another; firms do not exist in a vacuum; they depend on and are part of the environment. They depend on the environment for their survival and also organizations obtain their raw materials from the environment, thus organizations must adapt their strategic planning to fit in the environment so as to be successful. External environment like economic environment, socio-cultural, technological and political environment aims to help an organization to obtain opportunities and threats that will affect the organization's competitive situation. Therefore, organizations must formulate appropriate strategies to take advantage of the opportunities while overcoming the threats in order to achieve their strategic goals.

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue a certain goal. It is a management tool that helps an organization focus its energy, to ensure that members of the organization are working toward the same goals, to assess and adjust the organization's direction in response to a changing environment. (Bryson, 2003).

## **Literature**

### **Cultural Factors**

Culture encompasses a set of beliefs, norms, moral values, traditions, language and rules of behavior held in common by a nation, a community, or other defined groups of people. Cultural Factors include religious affiliations, attitudes, consumerism and lifestyles. Many cultural characteristics are associated with education, occupation, income and social status. It is the culture of an individual which decides the way he/she behaves; culture is nothing but values of an individual (Paul, 1955).

Culturally determined characteristics include: the language spoken, religious observances; customs acceptable gender roles and occupations; dietary practices; intellectual, artistic, and leisure-time pursuits; and other aspects of behavior. Scholes and Whittington (2005), states that organizational culture can hinder or help the successful development of the organization's goals and objectives. Culture is an asset to an organization; it eases communication, facilitates organizational decisional making and control and results in increased productivity. Culture can also become a liability when important shared values and beliefs interfere with the organization's goals and objectives. Because of the influence of the cultural content on behavior, an individual or group, may not want to behave as called by the organization or may not understand how to behave efficiently and appropriately. Culture is also part of the internal environment of business. Business constitutes a discrete sphere of activity with distinctive roles, attitudes and behavior and thus the culture of a business organization can be an important factor influencing its success or failure and shaping this culture is a key managerial task.

### **Strategic Planning**

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue the goal. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Strategic Planning is a management tool that helps an organization focuses its energy, to ensure that members of the organization are working toward the same goals, to assess and adjust the organization's direction in response to a changing environment (Bryson's 2003).

Aserena (2005) added that for an organization's vision and mission to be effective, they must become assimilated into the organization's culture. They should also be assessed internally and externally. The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment, which includes all of the businesses stakeholders, is valuable since it offers a different perspective. The same author states that

among the most useful tools for strategic planning is swot analysis (strengths weaknesses opportunities and threats). The main objective of this tool is to analyze internal strategic factors, strengths and weaknesses attributed to the organization, and external factors beyond control of the organization such as opportunities and threats. Aserena (2005) also states that other tools include: balanced scorecards, which creates a systematic framework for strategic planning; scenario planning, which was originally used in the military and recently used by large corporations to analyze future scenarios; pest analysis (political, economic, social, and technological); steer analysis (socio-cultural, technological, economic, ecological, and regulatory factors); and epistle (environment, political, informatic, social, technological, economic and legal).

Miller & Laura (1994) provided support for the benefits of planning, identifying four roles of formal strategic planning. In the public relations role, formal strategic planning is intended to impress or influence outsiders. The information role provides input for management decisions. The group therapy role is intended to increase organizational commitment through the involvement of people at all levels of the organization in strategic planning. Finally, the direction and control role is fulfilled when plans serve to guide future decisions and activities toward some consistent ends.

Roach and Allen (1983) states that the strategic planning process is the product of the best minds inside and outside the corporation. The process considers future implications of current decisions, adjusts plans to the emerging business environment, manages the business analytically, and links, directs, and controls complex enterprises through a practical, working management system. This process plays a vital role in firm performance.

Kirimi (2008) states that strategic planning forces a company to look into the future and therefore provides an opportunity to influence the future, or assume a proactive posture. It also provides better awareness of needs and of the facilities related issues and environment. Strategic planning also helps define the overall mission of the organization and focuses on the objectives as it provides a sense of direction, continuity, and effective staffing and leadership. It also plugs everyone into the system and provides standards of accountability for people, programs, and allocated resources.

### **Cultural Factors and Strategic Planning**

Fisher (1992) maintains that an understanding of the organizational culture is important to ensure the organization's success in a rapidly changing environment. "A rapidly changing environment is part of the organization's environment. A Strategic plan is the organization's basic path to the future; the organization's strategic plan provides direction and it fosters co-ordination at the top.

Strategy development is seen as the development of long range plans for the effective management of the organization's environmental opportunities and threats while taking into account the organization's strengths and weaknesses. When the strengths and weaknesses of the organization are determined, special attention needs to be paid to the nature of an

organization's culture. Once the swot analysis is completed the organization sets goals and objectives (Gallie, 2000).

Scholes and Whittington (2005), states that organizational culture can hinder or help the successful development of the organization's goals and objectives. Culture is an asset to an organization; it eases communication, facilitates organizational decisional making and control and results in increased productivity. Culture can also become a liability when important shared values and beliefs interfere with the organization's goals and objectives. Because of the influence of the cultural content on behavior, an individual or group, may not want to behave as called by the organization or may not understand how to behave efficiently and appropriately. Culture is also part of the internal environment of business. Business constitutes a discrete sphere of activity with distinctive roles, attitudes and behavior and thus the culture of a business organization can be an important factor influencing its success or failure and shaping this culture is a key managerial task.

Minudi (2008) in his study states that customer perception analysis helps in building a strategy for an organization on strong foundations. It is imperative than an organization knows its clients and how also the clients view the organization. This will help the organization when preparing its strategic plan as it attempts to build a business strategy that delivers results. Consumers are often portrayed as 'rational maximizers', meaning that they allocate their spending so as to maximize their personal self-interest. The culture industries make up a significant part of business activity, reflecting the shift from manufacturing to service industries in the wealthy economies. Culture has become increasingly a big business as a growing share of consumer expenditure is dedicated to 'lifestyle' purchases rather than material necessities. This can be seen in the growth of the wide range of businesses concerned with leisure and tourism (Ashihundu, 2009).

By analyzing customers' perceptions, Mwema (2007) advices that an organization will be able to understand people and the business. Its management team should be able to carry out extensive interviewing and have customer management expertise thus, improving on its sector expertise. The organization's proprietary perception measurement models and techniques are vital for monitoring and evaluating such changes as part of the business environment.

### **Research Methodology**

The study adopted Correlational design. The design described the nature and strength of the relationship between the variables. The study also adopted a cross-sectional census survey. The target population comprised of 21 insurance companies (Municipal Council of Nakuru, 2012). These are companies that offer insurance services to individuals and organizations. There are only 21 insurance companies in Nakuru CBD. Given their small number, all the 21 firms were studied.

Primary data consisted of original data gathered by the researcher for the specific purpose of the study at hand (Mugenda & Mugenda, 1999).data was collected by use of questionnaires, administered by the researcher. The use of questionnaires was justified because this was the most effective an affordable way of collecting information from a small literal sample within a

short period of time. Data was collected at the firm level where the instruments were distributed to managers in charge of strategic planning. Two sets of questionnaires were administered to 2 managers. The data was analyzed using Statistical Package for Social Science (SPSS). Descriptive statistics aided in summarizing the collected data while Pearson correlation was used to examine the relationship between cultural factors and strategic planning.

### **Company's Profile**

The study targeted 21 insurance companies. Responses were obtained from 19 firms, representing a response of 90%. The characteristics of the respondents that were assessed by the study included respondents' job positions, products offered and the kind of markets served by the companies. An analysis of respondents' job position revealed that 46% were branch managers, 28% were finance managers and 26% were sales managers.

According to the results, the insurance companies offered various products which included medical insurance cover, education cover, life insurance cover and asset management cover. An assessment of the markets served by the respondents' insurance companies revealed that all the companies served domestic market as indicated by 100% of the respondents. However only 11 out of 19 companies had products that were destined to the international market as stated by 58% of the respondents. Table 1 below shows the markets served by the insurance companies which were involved in the study.

**Table 1: Markets served by the insurance companies**

| Markets served | Domestic  |            | International |            |
|----------------|-----------|------------|---------------|------------|
|                | Frequency | Percentage | Frequency     | Percentage |
| Yes            | 19        | 100.0      | 11            | 58         |
| No             | 0         | 0.0        | 8             | 42         |
| Total          | 19        | 100.0      | 19            | 100.0      |

Source: Field data

### **Perception of Cultural Factors**

The study sought to find out the perception of cultural factors among insurance companies within Nakuru CBD, in a scale of 1-5. To achieve this, the respondents were asked to indicate the extent to which they perceived the cultural factors listed in table 2 had changed in their environment.

**Table 2: Perception of Cultural factors**

| Rating \ Factor       | Not at all % | Low Extent % | Moderate extent % | High extent % | Very high extent % |
|-----------------------|--------------|--------------|-------------------|---------------|--------------------|
| Religious Affiliation | 34           | 11           | 40                | 13            | 3                  |
| Attitudes             | 0            | 21           | 24                | 34            | 21                 |
| Consumerism           | 0            | 11           | 40                | 29            | 21                 |
| Lifestyles            | 0            | 8            | 26                | 32            | 34                 |

**Source:** Field data (2013)

With regards to table 2 above attitudes, consumerism and lifestyle as indicated by the table above, had changed to a high extent and a very high extent while religious affiliations had not changed by not at all and low extent percentages.

### **Strategic Planning**

The study also assessed the status of strategic planning in insurance companies in Nakuru CBD and the assessment focused on formalization and extensiveness aspects.

#### **Formalization of Strategic Planning**

The study sought to find out the level of occurrence of a set of aspects of strategic planning. In a scale of 1-5 the respondents were asked to indicate the level the occurrence of a set of aspects as shown in table 3

**Table 3: Formalization of Strategic Planning**

| Rating<br>Factor  | Never<br>% | Rarely<br>% | Sometimes<br>% | Often<br>% | Very<br>Often % |
|---|------------|-------------|----------------|------------|-----------------|
| Involvement of staff in the planning process                      | 5          | 11          | 26             | 37         | 21              |
| Co-ordination of planning efforts in the organization             | 3          | 3           | 40             | 40         | 16              |
| Involvement of staff in formulation of corporate goals            | 3          | 8           | 40             | 24         | 26              |
| Analysis of the environment                                       | 3          | 0           | 37             | 40         | 21              |
| Review of your strategic plan                                     | 0          | 0           | 26             | 47         | 26              |
| Use of planning to show the company the right path for the future | 0          | 3           | 16             | 32         | 50              |

**Source:** Field data (2013)

As shown in table 3 above, the study findings reveals that according to 58% of the respondents, the insurance company staff were oftenly involved in the planning process. Co-ordination of planning efforts in the organization was also oftenly conducted as noted by 56% of the respondents.50% of the respondents further indicated that insurance companies’ staff members were oftenly involved in formulation of corporate goals. 61% of the respondents also confirmed that analysis of the environment was oftenly conducted. According to 73% of the respondents strategic plan was oftenly reviewed and lastly according to 82% of the respondents, planning was oftenly used to show the right path for the company’s future. Thus based on the findings, the use of planning to show the company the right path for the future was revealed by 82% of the respondents to be the most applicable in the insurance companies.

**Extensiveness of Strategic Planning**

The study sought to find the level of occurrence of a set of aspects of strategic planning extensiveness. In a scale of 1-5, the respondents were asked to indicate the level of occurrences of various aspects as shown in table 4:

**Table 4: Extensiveness of Strategic Planning**

| Rating<br>Factor                     | Never<br>% | Rarely<br>% | Sometimes<br>% | Often<br>% | Very Often<br>% |
|--------------------------------------|------------|-------------|----------------|------------|-----------------|
| Change of the company's strategies   | 0          | 3           | 58             | 32         | 8               |
| Delegation of the planning staff     | 0          | 0           | 45             | 50         | 5               |
| Scanning of your environment         | 0          | 18          | 29             | 40         | 13              |
| Use of planning Techniques e.g. SWOT | 5          | 3           | 24             | 32         | 37              |

**Source:** Field data

As shown in table 4 above, the study findings reveals that 40% of the respondents indicated that the company's strategies were occasionally changed.55% indicated that planning was oftenly delegated to staff members, the environment was oftenly scanned as noted by 53% of the respondents. The results further indicated that planning techniques e.g. SWOT were oftenly being applied as indicated by 69% of the respondents. Thus based on the findings, use of planning techniques for example swot revealed by 69% of the respondents to be the most applicable in the insurance companies.

**Effect of Cultural Factors on Strategic Planning**

The hypothesis was that cultural factors had a positive effect on strategic planning among insurance companies within Nakuru CBD. The hypothesis was tested using Pearson's moment correlation coefficient. This test was used to establish whether there was a positive relationship between independent variable (cultural factors) and dependent variable (Strategic planning).The results are shown in table 5 below



**Table 5: Effect of Cultural Factors on Strategic Planning**

|                    |                     | Cultural factors | Strategic planning |
|--------------------|---------------------|------------------|--------------------|
| Cultural factors   | Pearson Correlation | 1                | .395               |
|                    | Sig. (1-tailed)     |                  | .014               |
|                    | N                   | 19               | 19                 |
| Strategic planning | Pearson Correlation | .395             | 1                  |
|                    | Sig. (1-tailed)     | .014             |                    |
|                    | N                   | 19               | 19                 |

Correlation is significant at the 0.05 level (1-tailed)

As shown in Table 5, the results show that there was a positive correlation (0.395) between cultural factors and strategic planning. The p-value is 0.014 and thus less than the alpha of 0.05 hence establishing a high significant relationship between variables. This means that cultural factors had a positive significant effect on strategic planning.

### **Conclusion**

Results revealed that strategic planning is affected by cultural factors. Based on the findings, strategic planning in the insurance industry is done in a participatory manner as all the staff members are involved in the planning process. The process is characterized by co-ordination of planning efforts, involvement of staff members in formulation of corporate goals, occasional changes in company's strategies, frequent scanning of the environment and application of the planning techniques.

### **Recommendations**

The findings revealed that cultural factors affect strategic planning; hence the strategic planning managers need to align their strategic planning to cultural factors. The findings revealed that the insurance companies have adapted strategic planning to different degrees hence further research on the challenges firms face in strategic planning is recommended. Successful strategic planning implementation requires commitment from executives and senior managers. Executives must lead, support, follow-up and live the results of the strategic planning implementation process. In addition there must be employee involvement, thorough organizational planning and competitive analysis and effective communication.

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