The Impact of Knowledge Management on The Competitiveness of Insurance Firms in Kenya

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Abstract

The purpose of this chapter is to investigate and present the impact of knowledge management strategies on insurance firms in Kenya. The objectives of the study, that informs this chapter, were to examine the current knowledge management strategies used in insurance firms; analyse how the knowledge management strategies used have contributed to the competitiveness of the firms; determine the challenges insurance firms face while using knowledge management as a strategic tool for achieving competitive advantage; and to suggest possible solutions to the identified challenges. The study is a case study of UAP Insurance Company. Data were collected using interviews from 105 respondents selected through information-oriented purposive sampling. The data were analysed through descriptive statistics. The findings indicate that knowledge management strategies are being used as tools for gaining competitive advantage in the insurance industry in Kenya. The authors also reveal weaknesses in the management of knowledge in the insurance sector, and suggest that the industry should embrace structured knowledge management techniques. This will enhance their competitiveness and potential to remain relevant in the business world. The authors recommend that the insurance firms in Kenya should benchmark with other industries which already have established knowledge management systems to enhance their competitiveness.

Keywords*: Knowledge management, knowledge management strategies, insurance industry, competitive advantage, Kenya*

Introduction

Globalisation is currently affecting the competitiveness of many firms in the private sector. Consequently, many firms have focused in building their competitive advantage (CA) which is exemplified in terms of cost leadership, market differentiation, and niche orientation (Porter, 1985). The situation is graver because globalisation and technological advancements have eroded the traditional sources of CA forcing firms to seek alternatives (Jackson *et al.*, 2003).

One of the common approaches used to understand competitive dynamics is the resource-based view (RBV) of the firm. Jackson *et al*. (2003) argue that intangible resources are likely to generate greater competitive advantage in any competitive environment. These competitive assets include human capital which is usually the most important because it is the most difficult to replicate. Tangible assets have become easily accessible, replicable and substitute-able because of advancements in technology and other changes in the current business environment. Consequently, the foundations of organisational competitiveness have been sliding towards an emphasis on knowledge-based resources (Riahi-Belkaoui, 2003). These authors reviewed relevant issues in strategic management and knowledge management to draw a comprehensive picture of knowledge management capability-based competitive advantage of institutions.

Dalkir (2011) explains that hundreds of definitions of knowledge management exist in diverse scholarly and social literature. He further explains that knowledge management suffers from what he terms as the "Three Blind Men and an Elephant" syndrome in which every person defines it from their own perspectives leading to myriads and sometimes contradicting definitions. In this study knowledge management is defined as the multifaceted mix of strategies, techniques and tools which organisations, groups or individuals utilise to generate optimum value from their intellectual assets. Beijerse (1999) explains that the essence of knowledge management is to achieve organisational goals through strategy-driven motivation and facilitation of workers to develop, enhance and use their capability to interpret data and information. This can be achieved by using available sources of information, experience, skills, culture, and character. Thus, organisational knowledge management involves identifying, capturing, structuring, leveraging and sharing an organisation's intellectual assets to enhance its performance and competitiveness. Earl (2003) argues that the core knowledge management practices in an organisation include leadership, knowledge capture and acquisition, training and mentoring, policies and strategies as well as communication and incentives.

Knowledge management is not only a collaborative and multidisciplinary process; it is also human centred (Brooking, 1999). Gery (1991) explains that knowledge management uses a “surprising mix of strategies” such as storytelling, peer-to-peer mentoring and techno-based knowledge systems, among others. Ruggles and Holtshouse (1999) further explain that the key attributes of knowledge management include generating new knowledge; accessing valuable knowledge from outside sources; using accessible knowledge in decision making; embedding knowledge in processes, products and services; representing knowledge in documents, databases and software; facilitating knowledge growth through culture and incentives; transferring existing knowledge into other parts of the organisation and measuring the value of knowledge assets and/or the impact of knowledge management.

Several scholars have proposed diverse dimensions to elucidate what knowledge is. One of these is the dichotomy between the tacit and explicit knowledge (Sanchez, 1999). Whereas tacit knowledge is perceived to represent the internalised un-codified knowledge, explicit knowledge represents knowledge that the individual holds consciously in mental focus, in a form that can easily be communicated to others (Alavi & Leidner, 2001). Nickols (2010) also argues that knowledge can also be implicit. He explains that this is knowledge which can be articulated but has not been articulated; it is implied or inferred from observable behaviour and performance. On the other hand, Hayes and Walsham (2003) propose a content/relational perspective of knowledge and knowledge management. In this school of thought, content perspective suggests that knowledge is easily stored because it may be codified; while the relational perspective recognises the contextual and relational aspects of knowledge which can make it difficult to share outside the context in which it was developed. Sensky (2002) proposes a distinction between embedded and embodied knowledge. He describes the former as knowledge outside a human individual and the latter as knowledge representing a learned capability of a human body’s nervous and endocrine systems.

Regardless of the perspectives outlined above, knowledge is perceived as a blend of experiences, insights, expertise, intuition and judgment that exist in the mind of the knower (Cheruiyot, Jagongo & Owino 2012); understanding gained through experience or study enabling an individual to perform a specialised task (Awad & Ghaziri 2007); fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information (Davenport & Prusak 1998); and subjective and valuable information that has been validated and that has been organised into a mental model used to make sense of the world and which typically originates from accumulated experience and incorporates perceptions, beliefs and values (Dalkir, 2011).

Knowledge management promotes combined and cohesive approach to identifying, capturing, evaluating, retrieving, and sharing an institution's information resources. Karadsheh *et al*. (2009) define knowledge management as a systematic process with activities to capture, create, filter, evaluate, store and share knowledge from individuals to advance business processes. Thus knowledge management is perceived to consist of strategies and practices for sharing and capturing experience as well as opinions within and around an institution. The results vary from institution to institution depending on the strategies used and their operational circumstances. These results support the institutions in varying extents to boost their competitive advantage. Although the focus on structured knowledge management processes is recent, the underlying principles of knowledge management have been around for a while (Alvesson, 2004).

Nonetheless, institutions have started to realise that depending on the strategies used, knowledge management can define their continued existence (Bukh, 2005). Therefore, it is imperative for institutions to consider knowledge management as one of the vital and unique processes which buttress their competitive advantage and build this business niche (Stewart, 1999). This is because knowledge is an important factor for success that institutions need to enhance their operations, services and products. It is no wonder, therefore, that progressive institutions currently invest more resources towards knowledge management. Nonetheless, it is important that the decision and the initiative on working with knowledge have a well-defined approach right from the top leadership down to the operation-level staff so as to generate the much needed competitive advantage (Alvesson, 2004).

Institutions always try to employ knowledge management strategies to possess competitive advantage over their rivals and boost their profitability (Hill & Rothaermel, 2001). An institution's advanced competitive position allows it to achieve profitability than the industry's average. An institution can achieve a higher profit over a rival either when it supplies an identical product or service at a lower cost or when it can supply a product or service that is differentiated in such a way that the customer is able to pay a premium price that exceeds the additional cost of the differentiation advantage (Porter, 1985).

Research Problem

Knowledge management employs a set of strategies and practices in order to capture, create, store, and share knowledge and experience within an institution. There are no clear and precise ways of how an institution should manage its knowledge. As such, there is no best or tailor-made procedure or solution (Alvesson, 2004). This is because every institution is unique and exists in a unique context with its own culture, human resources, customers and competitors. Therefore, every institution should develop its own strategy for knowledge management and provide the resources needed to deploy it effectively (Alvesson, 2004).

Employees of insurance firms are highly specialised in various fields like general insurance, life insurance and medical insurance. It is these specialised skills and experiences which are applied by the companies to set them apart from their competitors. With the growth in the number of insurance firms as well as alternatives to insurance services, the competition for customers in the sector has increased exponentially. Therefore, most of the firms have embarked on strategies either to get or keep ahead of their competitors. One of these strategies is an investment in organisational knowledge management. This would enable the organisations to streamline operations, improve innovation and new product development, build closer ties with stakeholders, gather and make good use of business intelligence, enhance institutional memory, and increase profit margins. As the firms invest in knowledge management, they need to be aware of the potential impact and possible return on this investment.

This chapter therefore examines the current knowledge management strategies used by insurance firms; analyse how the knowledge management strategies used have contributed to the competitiveness of the firms; and explore the challenges the firms face while using knowledge management as a strategic tool for achieving competitive advantage. The authors also suggest possible solutions to the identified challenges so as to enable the firms to enhance the impact of knowledge management on their competitive advantage.

Methodology

The authors employed a descriptive research design. According to Imaana (2011) the descriptive research technique involves posing a series of questions to willing participants, summarising their responses with percentages, frequency counts, and other statistical indexes and then drawing inferences about a particular population from the responses of the sample. This research design was deemed appropriate for this study because the authors wanted to unravel the issues based on the perspectives of the respondents.

The study was conducted as a case study so as to gain in-depth data about the research issues. The case study used was UAP Insurance. The choice of UAP was based on its pre-eminence in the insurance sector in Kenya in terms of coverage as well as the scope of services. The population of study was all employees of UAP Insurance in Kenya. Although UAP Insurance operates countrywide, this study targeted its regional headquarters in Nairobi with a staff population of around 350.

According to Orodho (2005), sampling is a technique where the researcher seeks knowledge or information about a whole population, objects or events by observing a sample, and generalising the findings to the entire population. A sample size according to Kerlinger (2000) should not be too large as it is a waste of resource while it should not be too small. It should be between 10% - 30%. The researchers selected a sample size of 30% of the total target population of 350 employees, thus 30/100*350 = 105 respondents. The actual respondents were selected through simple random sampling.

The authors collected both the quantitative and qualitative data from the respondents using questionnaires. This was done through a drop and pick method where questionnaires were first distributed to the respondents with a view of collecting them later. The method was convenient to both the researchers and the respondents since the respondents filled the questionnaires at their convenient time (Adeyemo, 2012). The researchers were also able to agree with the respondents on the appropriate time to collect the filled questionnaires hence making it easy logistically to collect the required information (Akuku, 2009).

Data collected were checked for completeness, accuracy and meaning. This was done in order to improve data quality through cleansing and correction of detected errors and omissions. It was then analysed through descriptive statistics. Qualitative data were analysed by categorising responses obtained according to the research questions and objectives of the study for content analysis. Descriptive statistics was used because it was simple to understand and easier to make the results known to a variety of readers (Kothari, 2004).

Findings and Discussions

When asked how KM techniques are applied at UAP, 35% of the respondents said it was through technology, 37% said through corporate communication and the remaining 28% said through mutual trust. This shows that corporate communication technique has the greatest impact followed closely by technology. The respondents were also asked to give their opinion on how knowledge management strategies are best applied at UAP. The majority of the respondents (28%) said it is best applied through workshops. The other strategies identified included organisational communication (27%), organisational policies (26%), and team building (19%). Asked about the impact of these strategies, the majority (37%) said they have impact on corporate communication, 35% said the strategies impact the choice and use of technology while 28% were of the view that the strategies have an impact on mutual trust in the firm. These findings indicate that the knowledge management practices applied by UAP have had an influence on important aspects of the organisation's work and staff.

The authors also probed the general assessment of the knowledge management techniques at UAP insurance. Twenty nine per cent of respondents felt the techniques applied were excellent while 35% felt they were good; 27% of them said they were moderate while nine (9%) respondents held the view that the techniques were bad. The findings imply that more than half of the staff were comfortable with the knowledge management techniques applied in the company.

On the importance and impact of knowledge management to the company, 25% of the respondents were of the view that improved processes were a direct result of good knowledge management practices while 26% said they have enhanced competitive advantage. Another 25% felt that innovation was being brought about by the good knowledge management practices while the remaining 24% viewed knowledge creation as the biggest gainer from the knowledge management practices in the firm. Assessing the extent of impact, the majority of the respondents (32%) were of the view that it has been "great" while 27% thought it has been "very great". This implies that more than half (59%) thought the impact has been significant. Another 25% thought it was moderate while 16% thought the impact was little. It can thus be concluded that knowledge management practices at UAP have had a big impact on its competitive advantage in the market.

Challenges Faced by UAP in Knowledge Management

Respondents were asked to identify some of the challenges UAP employees are experiencing in knowledge management. The majority of the respondents (41%) identified individual's personality as a challenge hindering knowledge management efforts in the organisation; 32% of them associated these challenges with information and communication technology. The remaining 27% linked the challenges to bureaucratic leadership. Thus, it was evident that the knowledge management challenges UAP faces are human. This underscores the role of employees in knowledge management efforts. The firm should work to motivate the employees to readily share and learn as a means of improving its knowledge management status.

Recommendations on Knowledge Management Enhancement at UAP

The respondents were asked to make recommendations to alleviate the identified challenges. The respondents provided the following recommendations:

1. 33% recommended an improvement of the organisational culture to make it more facilitative of learning and sharing of knowledge than it is now;
2. 32% proposed an improvement of the technological infrastructure in the firm to make it adequate to support effective knowledge management; and
3. 35% recommended the improvement of the employees' individual commitment to knowledge management initiatives through a combination of appropriate rewards and incentives.

The researchers also make the following recommendations:

1. The insurance industry in Kenya should benchmark with the other industries in Kenya and beyond so as to share best practices in knowledge management.
2. The sector should encourage the creation of new knowledge by developing a safe working environment which facilitates the workers to experiment without the fear of being reprimanded or sacked if they make mistakes. Essentially, the organisations should make it easy for their staff to make safe mistakes which may result in new knowledge.
3. They should also recognise and manage the diverse interests of all the stakeholders to minimise resistance to knowledge management projects and activities. This may also imply involving as many stakeholders as possible in planning, designing and implementing knowledge management programmes.
4. The companies in the insurance sector in Kenya should also identify and mitigate knowledge management risks promptly. This can be achieved through comprehensive planning of projects and implementing new knowledge management systems in phases.
5. Although the insurance firms in Kenya compete against each other, they should seek opportunities to collaborate, network and build alliances which promote sector-wide knowledge creation, sharing and learning.

Conclusion

Insurance firms in Kenya have embraced knowledge management as a means of enhancing their competitive advantage. Similarly, their knowledge management initiatives have had a significant impact on their competitiveness. Nonetheless, the firms face several challenges that hamper the impact of their knowledge management projects. The greatest of the challenges is the lack of adequate commitment of individual employees in supporting learning and sharing of knowledge in the firms. Therefore, the firms should develop incentives to motivate their staff to learn and share knowledge freely. These findings demonstrate that knowledge management is a critical factor in competitiveness of private companies. They also assert that human resource is one of the greatest assets in knowledge management.

Practical Implications

The findings of this study can be used by private firms in Kenya to employ knowledge management more meaningfully to their competitive advantage. They may also be used to demonstrate the value of knowledge management in enhancing the capacity of private firms to survive in an increasingly competitive environment. These findings may also be used by knowledge management practitioners working in the private sector to select the strategies and techniques which are likely to generate a higher impact for their firms.

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