Innovation Strategy and Dynamic Capability of Insurance Companies in Port Harcourt

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Abstract
This study examined the relationship between Innovation Strategy (IS) and dynamic capability of the insurance industry in Port Harcourt. The study used a cross sectional design involving managers, supervisors and unit heads. Primary data was obtained using questionnaire as the research instrument. The target population of Insurance companies in Rivers State is 40 obtained from the 2016 Directory of the Rivers State Ministry of Commerce and Industry. The population managers from the various insurance companies are 221 obtained from the Human Resources Department of the various companies. The sample size for the study was 140 obtained through the Kjejcie and Morgan (1970) table for determining minimum returned sample size for a given population. The internal reliability of the research instrument was tested using Cronbach Alpha Coefficient and only items that have an alpha reading of 0.70 and above were considered. After data cleaning, only data of 117 respondents were finally used for data analysis. Descriptive statistics and Spearman's rank correlation were used for data analysis and hypothesis testing. The study findings confirm that there is a positive significant relationship between innovation strategy and dynamic capability. The study concluded that innovation strategy bears a positive and significant influence and dynamic capability. The study recommended that insurance companies should embrace innovation towards service quality improvement, better service delivery, process improvement, efficient organizational management and finally to ensure customer satisfaction.

Key Words: *Innovation, Strategy, dynamic capability, insurance companies*

Introduction

It is no longer in vogue to argue that change is permanent, rather one will be taken more seriously on the grounds of a realization that change is now more rapid, fast occurring and devastating than ever before. The business and social environment is complex, dynamic and turbulent which means that today's success formula can become tomorrow's liability nearly overnight. One thing has become clear-the world is becoming more turbulent at a faster pace than organizations are becoming resilient enough to handle that change. Thriving or even surviving in this context requires a fundamental re-thinking of the meaning and application of our most basic assumptions about leading, and managing, business growth and survival. Nigerian organizations are scarcely prepared for challenges, particularly in the wake of current socio-political and economic quandaries like: Niger Delta militancy, Boko Haram

Islamic sect, sophisticated robberies, kidnapping and its multiplier effects on corporate survival (Gabriel, 2015).

The insurance sector is a key part of the financial service sector in Nigeria. In other emerging economies it has been identified as being critical to the ability of markets to grow and develop, simultaneously providing an opportunity to hedge against possible risks of private, social and economic development. Since the post Structural Adjustment Programme era, numerous insurance companies have sprang up, however their relevance and impact on the growth of the economy has been minimal. This is due to various reasons such as loss of focus on their traditional function of insuring risk and paying indemnity for losses thus leading to loss of confidence on the parts of the customers on the industry. Furthermore, premium mobilized are invested in non-productive sectors such as the oil market and the preferred sectors such agriculture, manufacturing. Mining etc. are neglected. Insurance companies management are also found to have less knowledge and experience in insuring risks provided by customers, this has further reduced their effectiveness and efficiency in the industry.

In the last two decades, the industry has witnessed series of reforms in order to restructure them for better performance in providing indemnity for loss and increasing capital formation in Nigeria. Between 1999 and 2009 most especially the sector has been restructured over three times which includes merging and acquisition, rising of their capital base, among others in 2003, 2005 and 2008. This sector represents the backbone of Nigeria's risk management system, as it mitigates the impact of risk and positively correlates to growth as entrepreneurs cover their exposures, otherwise risk-taking abilities are hampered. In 2003, the capital base of life businesses was increased from ₦20 million to ₦150 million, ₦70 million to ₦300 million for Non-life business, and ₦150 million to ₦ 350 million for Reinsurance businesses. There were 117 insurances companies before the recapitalization in December 2002, 14 of them did not make it and were liquidated. In September 2005, a new capitalization requirement was announced, increasing the capital base to ₦2 billion for life insurance business, ₦3 billion for Reinsurance businesses. Following the completion of the 2005/ 2006 recapitalization exercise, which also involved quite a number of consolations, the number of insurance companies dropped from 101 to 49.

Competition ensures change in the way things are done and raise quality bar to international standard as well helps to achieve appropriate pricing level (Adesina, 2003). Many good ideas about how products and services should be offered, how they should be produced and delivered have suddenly become obsolete in the face of change. In the same way, many organizations find it difficult to cope in Nigeria; many businesses have packed up, staggered, collapsed, and relocated as a result of unfavourable conditions of the environment (Ogunro, 2014). Kalay and Lynn (2014) opined that in a highly competitive environment, innovation is the essential key to a firm obtaining a dominant position and gaining higher profits. Therefore, the understanding of Innovation culture is critical to an organization's dynamic capability.

Dynamic capability views are particularly suitable for companies that are operating in a dynamic and unpredictable environment and need routine modifications continuously (Teece et al., 1997). According to Bradley, Aldrich, Shepherd and Wiklund (2011), Wilson and Eilertsen (2010), in a study on accidental dynamic abilities, did not rely on previously implemented strategies, we need to pay great attention to it. Further studies by Helfat and Winter (2011); Barretto (2010); argued that dynamic capacity was a coincidence in dynamic capacity studies, an important factor both inside and outside of performance. Zahra, Sapienza

& Davidsson (2006) on chance factors, dynamic performance is related to the organization's performance in the context of contingency it shows that it has the ability to utilize resources that have serious influence. They claim that dynamic capability is an important aspect of the unexpected factors that indirectly influence business performance. Adner and Helfat (2003) confirmed that new ability can be created by adding new knowledge to corporate knowledge stock. Hitt (2011) also stated that the creation of capabilities by harmonizing the needs of the enterprise with the changing environment is a manufacturing company aiming to build dynamic capabilities for high performance in a rough business environment it can point out that we can provide usable knowledge. Dynamic ability is classified as absorption ability and desorption ability (Grant & Baden-Fuller, 2004; Lichtenthaler & Lichtenthaler, 2009). Both are related to knowledge transfer between companies. This study therefore, seeks to empirically examine the relationship between innovation strategy and dynamic capability of insurance companies in Port Harcourt. This study also seeks to provide answers to the research question: What is the relationship between innovation culture and dynamic capability?

Literature Review

Theoretical Foundation

The theory underlying this study will be based on the theory of Dynamic capacity. Teece et al. (1997) defines dynamic capacity as the ability to integrate, build and reconfigure internal and external competencies to cope with a rapidly changing environment. The concept of dynamic capacity arises from the main drawbacks of views based on business resources. RBV is criticized ignoring the factors surrounding the resources, assuming that it simply "exists." It is not known in the literature how resources are developed and how they are integrated into the company and how they are published. Dynamic capabilities address attempts to close these gaps by adopting a process approach by acting as a buffer between the company's resources and the changing business environment. Dynamic resources help companies coordinate the coordination of resources, thus maintaining the sustainability of the company's competitive advantage, or else, they erode quickly. RBV emphasizes the selection of resources and the selection of appropriate resources, but the dynamic functions focus on developing and updating resources. According to Wade and Hulland (2004), resources are likely to occupy many of the attributes of dynamic capacity, which is especially useful when operating companies in a rapidly changing environment. However, when reviewing important articles in this academic field, Zahra et al. (2006), Salvato (2003), reveal that the definition and discrepancy overlap to distinguish the dynamic ability of other skills. Zahara and George (2002) consider dynamic capabilities not as the capabilities of a company or as a process, but as the ability to meet customer requirements and competitive strategies. The general strategy of the company and the central concern of the administration are to maintain a dynamic adaptation between what the company must provide and what the environment specifies (Miles and Snow, 1978). To achieve this, once again, the company needs to be able to change the process. Therefore, in addition to increasing the chances of the company surviving, the company must have the dynamic capacity to provide a potential for organizational growth (Helfat et al., 2007). The root of dynamic capabilities is based on evolutionary economics (Nelson & Winter, 1982), the key to the dynamic capacity approach is that competitive success arises from the continued development, coordination and reconfiguration of the company's specific assets (Teece et al., 1997, Augier and Teece, 2006).

Innovation Strategy (IS)

According to Porter (1996), the strategy is to have a range of activities that would allow the company to differentiate from its competitors and maintain its competitive position. In general, research results show that companies with an innovation strategy are more successful than those without an innovation strategy (Oregon, Gbadian, Gallear, 2005). Innovation strategy is a guide that makes companies thinks about innovation before trying to innovate. The innovation strategy consists of financial purposes and growth areas in relation to a new commodity or service; general standards that provide a set of filters that must pass strategic role concepts and a new product or service, thereby defining the strategic task of new products or services. According to Lindell and Farmus (2011), the innovation strategy is to determine how strategies are formulated to focus on objectives, and methods to improve the company's innovative potential. The innovation strategy allows senior management to follow the activities of its competitors, achieve market information for customers, use company resources effectively, and invest effectively in research and development (Oke, Walumbwa and Myers, 2012). These activities have been found to have a positive impact on the performance of solid innovation (Verhees and Meulenberg, 2004). Companies operate permanently under internal and external emergencies. From an emergency perspective, to manage uncertainties, organizations can try to improve their performance by implementing effective strategies (Donaldson, 2001). For example, under the environmental conditions of an increasingly competitive environment and changing customer needs, managers will develop strategies and allocate resources appropriately to improve the performance of business innovation. In other words, implementing a company's innovation strategy can ensure successful innovations are implemented by reducing critical internal and external emergencies.

According to Tang (1998), there are three important questions that must be answered in relation to the innovation strategy: (1) What kinds of innovations will the company do? (2) How will the company make these innovations? (3) What are the ways in which the company will present its innovations to the market? Answers to these questions require regulations consistent with the strategy for all company resources, labor relations and production processes. Public opinion in the literature is that the innovation strategy has a positive impact on the quality of innovation and the performance of solid innovation (Wu and Lin, 2011).

Dynamic Capability

Dynamic capacity is the dynamic ability to change or reconfigure the routines of existing substantive capabilities and resources in the manner intended and considered appropriate by the main decision-makers of the company (Zahra, et al, 2006). According to Eisenhardt and Martin (2000) with dynamic capacity, companies can create new configurations of resources as markets emerge, collide, divide, evolve and die. The possession of dynamic capabilities alone does not necessarily provide any substantial advantage to companies, but being able to manage dynamic capabilities to achieve their strategic objectives provides performance-related benefits for companies.

Having dynamic capabilities to redeploy or configure those substantive capabilities in accordance with strategic objectives will help companies grow and survive as they face changes in the internal and external environment (Zahra, et al, 2006). David, et al.; (2010) defines dynamic capabilities as the ability of the company to integrate, build and reconfigure internal and external competencies to address rapidly changing environments. The dynamic capacity can be distinguished from the operating capacity, which is adjusted to the current operations of the organization. On the contrary, dynamic capabilities refer to the capacity of an organization to deliberately create, extend or modify its resource base (Helfat, et al, 2007 cited in David, et al, 2010).

Innovation strategy and dynamic capability

The relevance of an innovation strategy has been supported in empirical studies; in order to maximize the benefits of previous innovations, innovative activities must be given a strategic direction (Cottam *et al.*, 2001).The relationship between innovation and survival has been considered by a number of recent studies with contrasting results. Cefis and Marsili (2012), for example, examine the relationship between innovation and alternative forms of exit (closure, merger, acquisition) among Dutch manufacturing firms, and find that product and process innovations have mutually reinforcing negative effects on the probability of exit. Ortega-Argiles and Moreno (2007) using data on Spanish firms also find that both product and process innovation lead to a reduction in failure rates for smaller firms, although only process innovation is significant for larger firms. Other recent evidence for a very large panel of Australian firms, however, suggests that failures in more radical innovation projects may actually increase the probability of exit (Buddelmeyer et al., 2010).

Innovation of any given type – product or process, radical or incremental – can, however, be undertaken in very different ways with implications for the quality of innovation outputs, the riskiness of the activity, and the potential for organizational learning and strategy reformulation (Astebro and Michela, 2005). This suggests the possibility that survival and exit may be contingent not only on the type of innovation which firms are undertaking but also on *how* firms are undertaking that innovation, that is, the nature of firms' innovation strategies. We can then argue that the kind of innovation strategy undertaken by a firm to large extent impacts on its survival. Based on the foregoing, we hypothesized thus:

Ho: There is no significant relationship between innovation strategy and dynamic capability of insurance companies in Port Harcourt.

Methodology

The study adopted the cross-sectional survey method in the generation of data. The study used a cross sectional design involving managers, supervisors and unit heads. Primary data was obtained using questionnaire as the research instrument. The target population of Insurance companies in Rivers State is 40 obtained from the 2016 Directory of the Rivers State Ministry of Commerce and Industry. The population managers from the various insurance companies are 221 obtained from the Human Resources Department of the various companies. The sample size for the study was 140 obtained through the Kjejcie and Morgan (1970) table for determining minimum returned sample size for a given population. The internal reliability of the research instrument was tested using Cronbach Alpha Coefficient and only items that have an alpha reading of 0.70 and above were considered. After data cleaning, only data of 117 respondents were finally used for data analysis. Descriptive statistics and Spearman's rank correlation were used for data analysis and hypothesis testing. The sampling procedure to be used in this study is the purposive sampling technique. Descriptive statistics and Spearman's rank correlation were used for data analysis and hypothesis testing with the aid of the SPSS Package version 21. The internal reliability of the instrument is as shown below:

Table 1: Reliability statistics for the instruments

S/No	Dimensions/Measures of the study variable	Number of items	Number of cases	Cronbach's Alpha
1.	Innovation strategy	5	117	0.868
2.	Dynamic capability	5	117	0.906

Source: Research data, 2017

Results and Discussions

Bivariate Analysis

The secondary data analysis was carried out using the Spearman rank order correlation tool at a 95% confidence interval. Specifically, the test cover hypothesis stated in the null form. The study has relied on the Spearman Rank (*rho)* statistic to undertake the analysis. The 0.05 significance level is adopted as criterion for the probability of either accepting the null hypotheses at ($p>0.05$) or rejecting the null hypotheses at ($p<0.05$).

We shall commence by first presenting a proof of existing relationships.

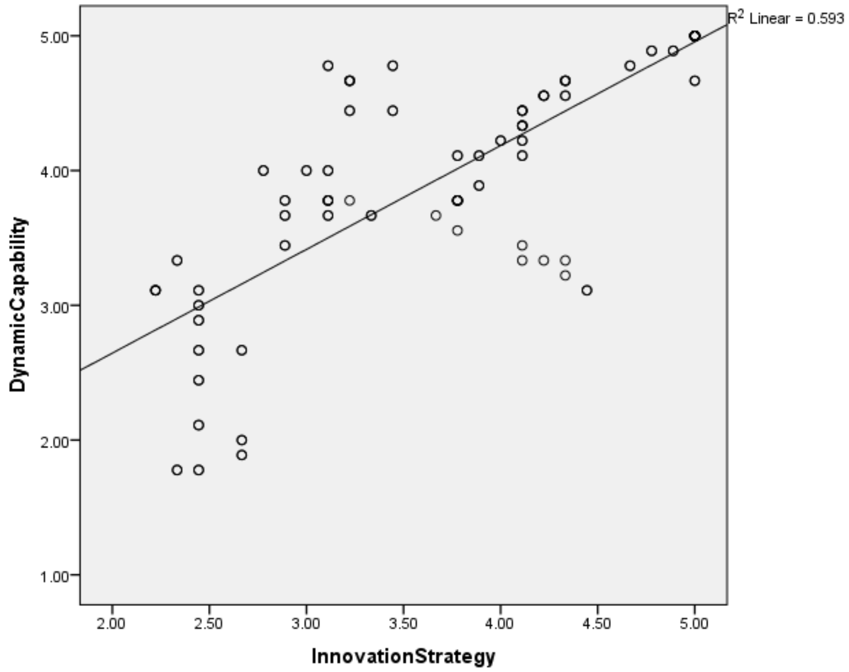

Figure 1: Scatter plot relationship between innovation structure and dynamic capability

The scatter plot graph shows at R^2 linear value of (0.593) depicting a very strong viable and positive relationship between the two constructs. The implication is that an increase in innovation strategy simultaneously brings about an increase in the level of dynamic capability. The scatter diagram has provided vivid evaluation of the closeness of the relationship among the pairs of variables through the nature of their concentration.

Table 1 Correlations for innovation strategy and dynamic capability

			Innovation Strategy	Dynamic Capability
Spearman's rho	Innovation Strategy	Correlation Coefficient	1.000	.799**
		Sig. (2-tailed)	.	.000
		N	117	117
	Dynamic Capability	Correlation Coefficient	.799**	1.000
		Sig. (2-tailed)	.000	.
		N	117	117

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data June, 2017 (SPSS output, version 21.0)

The table above illustrates the test for the three previously postulated bivariate hypothetical statements.

Ho: *There is no significant relationship between innovation strategy and dynamic capability in hospitality firms in Port Harcourt*.

The correlation coefficient (r) shows that there is a significant and positive relationship between innovation strategy and adaptability. The *rho* value 0.799 indicates this relationship and it is significant at p 0.000<0.05. The correlation coefficient represents a high correlation indicating a very strong relationship. Therefore, based on findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between innovation strategy and dynamic capability.

Discussion of Findings

The findings revealed a strong and positive significant relationship between innovation strategy and organizational survival using the Spearman's rank order correlation tool and at a 95% confidence interval. The findings of this study confirmed that innovation strategy has a significant positive relationship with dynamic capability. Therefore, this revealed that a strong and positive relationship exists between innovation strategy and dynamic capability of insurance companies in Port Harcourt.

This implies that innovation strategy influences a firm's dynamic capability in the insurance industry in Port Harcourt. This agrees with previous findings that firms which thrive are those that are quick to read and act on signals of change with products, services, processes and strategies (Zhou & Li, 2009). This finding corroborates previous studies by McAdam and Keogh (2004) who investigated the relationship between firm's performance and its familiarity with innovation and research. They found out that firm's inclination to innovations was of vital importance in the competitive environment in order to obtain higher competitive advantage. Geroski (1995) examined the effects of the major innovations and patents to various corporate performance measures such as accounting profitability, stock market rates of return and corporate growth. The observed direct effects of innovations on firm performance are relatively small and the benefits from innovations are more likely indirect. However, innovative firms seem to be less susceptible to cyclical sectorial and environmental pressures than non- innovative firms.

Conclusion and Recommendations

In rapidly changing technology and business environment, companies across the insurance companies are experiencing major disruptions by new and disruptive technologies and business models. The most successful firms incorporate disruptive thinking into all their business and management practices to gain distinctive competitive value propositions (Heisterberg & Verma, 2014). Firms in the insurance industry need agile business processes that allow them to adapt quickly to evolving markets, customer needs and business environment. The study thus concludes that innovation strategy influences the dynamic capability of the insurance companies positively as it result in increased adaptability, dynamic capability, resource acquisition, and efficiency in serving customers. Based on this the following, recommendations are here proffered:

i. Firms in the insurance industry should embrace innovation towards service quality improvement, better service delivery, process improvement, efficient organizational management and finally to ensure customer satisfaction.

ii. To succeed in the insurance industry, managers must shift from producing the best products/services in the market to creatively deliver the most suitable product offering for their customers.

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