STRATEGIC RESPONSES TO CHANGING ENVIRONMENTAL CONDITIONS: A CASE OF AAR HEALTH SERVICES LTD.

By

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university.

Signed: ___________________________  Date: 12th November, 2005

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This project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This study is dedicated to my loving husband Andrew and wonderful children Muriuki, Kaari and Muriithi, for their support and encouragement.

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AAR - Africa Air Rescue
CEO - Chief Executive Officer
COO - Chief Operations Officer
HMO - Health Management Organization
KEPSA - Kenya Private Sector Alliance
MIP - Medical Insurance Provider
NHIF - National Health Insurance Fund
NSHIF - National Social Health Insurance Fund
ABSTRACT

The study was about the responses of AAR Health Services to changing environmental conditions. Its objective was to document the challenges caused by these changes and AAR’s response to them. The study was conducted by carrying out in-depth interview with the Chief Operations Officer and General Managers. The findings confirmed that the company operates in a rapidly changing environment characterized by many challenges. These challenges include competition, change in government legislation, poor economic environment and limitations in technology.

The study established several responses by AAR to the changes in the business environment it operates in. New products to cater for all income groups have been developed and the company has been carrying out public relation exercises to communicate this. AAR has re-structured resulting in the formation of the Holding Company and nine subsidiary companies. Technology has been enhanced with the acquisition of new software.

AAR has not adequately responded to the changes and challenges it is facing in the external environment because it wants to increase both the scope of its products to cover HIV and pre-existing conditions and its geographical span. It hopes to improve its service delivery and develop even more affordable products.

The study recognizes that AAR is but one of several HMOs in the Kenyan market and it recommends that a study should be carried out to find out the kind of responses of other HMOs to changes in the business environment.
CHAPTER 1 INTRODUCTION

1.1 Background

The various types of organizations are there to serve the different needs of the society in which they exist. The key concern of these organizations is continued existence over time. Such continuous existence of organizations is not automatically guaranteed. The organizations have to justify their continued existence in society by their activities (Aosa 1998).

Organizations are environment dependent (Ansoff and Mc Donnell, 1990). They do not operate in a vacuum. They obtain their inputs from the environment and after transformation they discharge their outputs into the same environment (Porter, 1985). The organizations external environment consists of all the conditions and forces that affect its strategy options and defines its competitive situation (Pearce and Robinson, 1997).

The success of every organization is determined by its responsiveness to the environment. To be able to retain competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985).

The environment consists of variables that form the context within which firms exist (Hunger and Wheelen, 1999). Environmental conditions affect and influence strategies developed by an organization for survival and success. Environmental factors affect strategy management practices.
The environment within which companies operate is constantly changing and firms have to respond to these changes. Strategy planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. Strategy helps firms to cope with change by designing appropriate strategy responses (Pearce and Robinson, 1991). Successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect its operations (Ansoff and McDonnell, 1990). In every industry successful firms continuously reassess competitive factors which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or leaves the industry. Ansoff and McDonnell (1990) observed that strategy diagnosis helps determine the firm’s strategy responses which will ensure success.

According to Pearce and Robinson (1991) strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives. It is thus a reaction to what is happening in the environment of the organization. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provide groundwork for strategic agenda in action. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence level. Each level of turbulence has different characteristics and requires a different strategy to match. The strategy in turn has to be matched by appropriate organizational capability for survival, growth and development (Ansoff and McDonnell, 1990).

Although change is a fact of life, if organizations are to be effective, they can no longer be content to let change occur, as it will. They must be able to develop strategies to plan, direct and control change.
The Kenyan business environment has been undergoing drastic changes, which has affected most industries, more so since the early 1990s. The Government policy on liberalization outlined the reform measures to be undertaken in all sectors of the economy in order to accelerate growth and development. These changes include privatization and commercialization of the public sector, increased competition, and liberalization of the economy and accelerated implementation of reforms by the government as well as rapid technological advancement. Faced with the changing environment organizations have to adapt their activities and internal configurations to reflect the new external realities. Failure to do this may jeopardize future success of these organizations (Aosa, 1998).

Several studies have been carried out to demonstrate the response of various organizations to the changing environment. Kombo (1997) found that the motor vehicle franchise holders responded to changes in the environment by improving on technology, investing in new equipment so as to make competitive products, adding new features to their products and enhancing customer service. Njau (2000) revealed that East African Breweries Limited had made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. It also changed the basic products by adding new features. The University of Nairobi responded to environmental changes by introducing new programs based on the needs of the stakeholders, ensuring staff had performance skills and conducting review exercises (Mutua, 2004). Tourist hotels responded to change in the environment by using restructuring, selective shrinking, marketing and cost management (Mugambi, 2003). Mwarania (2003) found that Kenya Reinsurance companies in Kenya developed focused staff training programs,
retrenched, invested in real estate to generate rental income, computerized and spread out their financial investments between short and long term ones in response to environmental changes.

AAR Health Services is one of the organizations in the Kenyan environment that may be under pressure to respond to a turbulent changing environment.

1.1.1 AAR HEALTH SERVICES LTD

AAR is a health management organization (HMO). A HMO is defined as "an organization that combines the provision of health insurance and the delivery of health services" (Given 1994). Early HMOs and HMO-like institutions developed in the 1930s as farmers’ cooperatives. The HMOs offered pre-paid health care to workers and their families. The main aim of HMOs was to provide healthcare to their members at costs they could better afford. One of the reasons HMOs did not grow rapidly at first was resistance from organized medicine. Leaders in the American Medical Association (AMA) and its affiliates believed that cooperative health plans would violate the integrity of medical decision-making and provide inferior care. However, the HMO movement overcame this medical resistance and a variety of other attacks and began to grow even outside America.

AAR was the first HMO in Kenya and was started by Bengt Beckmann in 1984. It was initially known as Africa Air Rescue because it was only providing rescue and evacuations for members of Nairobi’s business community. As its membership grew the requirements of its clients
expanded. Very soon the evacuation service became only one of the services offered to members and was no longer the core business of the company. In 1991, a strategic decision was taken to expand AAR’s range of products, offering services at different price ranges to suit a wider market. By the mid-1990s a portfolio of services had emerged giving its members in East Africa total health care worldwide. In line with the wide range of services offered, Africa Air Rescue changed its name to AAR Health Services Limited in 1996. AAR shareholders are the Bengt Beckmann family, Project Ventures International, management and other individuals.

Currently AAR provides managed health care to prepaying members and emergency medical services, including advice and education on health matters, counseling and medical examinations. AAR has a presence in the whole of Kenya, Tanzania and Uganda and has recently moved to Rwanda. In Kenya, AAR owns seven clinics (known as health centers), three in Nairobi, one each in Mombasa, Kisumu, Nakuru and Lokichoggio and three franchise clinics all situated in Nairobi. The Kenyan membership base stands at about 100,000 members.

In the last five years the HMO industry has had to deal with competition, advancement in technology, poor economic environment and changes in government legislation.

The changes in the economic environment have led to Kenyans having less purchasing power due to increased inflation and cost of living. Most Kenyans cannot afford medical insurance as they would rather use this money to purchase food or educate their children. Competition has increased greatly in the last five years. Currently there are nine companies
offering similar or modified products in the market and this has led to stiff competition.

Competition has increased as there are nine organizations in this industry as compared to one, ten years ago.

Government legislation has also led to changes in the operating environment. The Insurance Amendment Bill was passed in Parliament in 2003 and it led to amendment of the Insurance Act, Cap 487. It states that an organization cannot provide medical insurance and provides medical services at the same time as this will lead to a conflict of interest. The government gave such organizations up to July last year to abide by this legislation.


The survival and success of AAR to the changes in the environment depends on how it responds to these environmental changes. To respond to the changes, AAR needs to understand the environment factors that have changed. The success of its response depends on how it will tackle the constraints it encounters.
1.2 The statement of the problem

HMOs like all other organizations are environmental serving (Ansoff, 1984; Ansoff and Sullivan, 1993). They depend on the external environment for their survival. They have to understand requirements of this environment and adapt to them. Failure to do this will give rise to a serious strategic problem characterized by the maladjustment of the organization's output and the demand of the external environment (Ansoff 1984).

The business environment within which HMOs have been operating has experienced several changes. Changes in the economic environment, competition, advancements in technology and government legislation have brought change in the HMO industry and therefore to AAR Health Services. To achieve a suitable advantage when such changes occur, an organization must find a new position by making trade-offs and establishing a new system of complimentary activities.

Several studies have been carried out on strategic response of firms to the changes in the environment in a number of industries, Kombo (1997), Njau (2000), Mwarania (2003), Mugambi (2003) and Mutua (2004).

In these studies it was generally found that firms made adjustments to their strategic variables depending on their uniqueness to ensure survival. However, no study has been carried out on the factor changes in AAR and the strategic responses it has put in place. AAR has been in existence for the last twenty years. In the recent past several HMOs have had to wind
up their operations in the Kenyan market. AAR must be under pressure to adapt to the changes that have taken place. Has it adapted to these changes?

1.3 Objective of the study

The objective of the study is to establish the strategic responses of AAR to changes in the environment.

1.4 Importance of the study

It is expected that the findings of this study will be important to various stakeholders. First, to AAR as it will use the findings of this research to evaluate itself and forge forward with its new strategies. Second, the other HMOs operating in the Kenyan environment, as it will inform them of the pertinent change of environmental factors. Third, to prospective investors who will be interested in entering and investing in the HMO industry. Finally, to the academicians, the findings will lay foundation for understanding responses of AAR to changes in the environment and for further research in the HMO industry. It will also contribute to the body of knowledge on strategic responses.
CHAPTER 2  LITERATURE REVIEW

2.1 The environment and the organization

For survival, an organization must maintain a strategy fit with both the external and internal environment. An organization’s external environment includes economic forces, socio-cultural, demographic, political and technological, while its internal environment includes the organizations systems, policies, resource capabilities and corporate culture (Pearce and Robinson, 1991).

Porter (1985) sees the connection of the external environment and the organization as an input-throughput-output process where inputs are received from the environment and released back into the same environment after being processed by the organization. What is released back can only be censured by the environment if it fits the environmental requirements and needs.

Environmental turbulence is attributed to increasing amount of change and to the drastic nature of many of these changes especially those related to technology that make it increasingly difficult to identify causes or predict results of competitive initiatives with reasonable certainty (Bower and Christensen, 1995; D’Aveni, 1994). The approach to cope with the environmental turbulence and uncertainty may differ by the extent to which the environment is stable or dynamic, and also by the extent to which it is simple or complex (Johnson and Scholes 1999).
In static conditions the environment is said to be straight forward and not undergoing a lot of changes. If change occurs, it is predictable. When the environment is dynamic it is difficult to comprehend and this results in a condition of greatest uncertainty.

The diagnostic procedure is derived from the strategic success hypothesis, which states that a firm’s performance potential is optimum when the following three conditions are met: aggressiveness of the firm’s strategy behavior matches the turbulence of its environment, responsiveness of the firm’s capability matches the aggressiveness of its strategy and the components of the firm’s capability must be supportive of one another (Ansoff 1990).

2.2 The concept of strategy

The word “strategy” comes from the Greek word “strategos” which means the art of the general or commander-in-chief. Strategy is a much used and abused word and means different things to different people and organizations. Ansoff (1965) warned that strategy is an elusive and somewhat abstract concept. This is expected when dealing with an area that is constantly changing. Pearce and Robinson (1991) define strategy as large-scale future oriented plans for interacting with competitive environment to achieve company objectives. It is the company’s “game plan”. While it does not detail all future development of resources, it provides the framework for managerial decisions. A strategy reflects a company’s awareness of how, where and when it should compete and for what purpose it should compete.
Mintzberg and Quinn (1996) define a strategy as the pattern or plan that integrates organizations major goals, policies and action sequences into a cohesive whole. Porter (1996), states that strategy is creating a fit among a company’s activities. The success of a strategy depends on doing many things well – not just a few – and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability.

Thompson and Strickland (1993) define strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and pursue organizational mission. Strategy is the match between an organization’s resource and skills and the environmental opportunities it wishes to accomplish (Schendel and Hofer, 1979). It is important to provide guidance and direction for the activities of the organization. Strategy can also be seen as the process of deciding a future course for a business and has a role in organizing and steering the business in the attempt to bring that future course.

Aosa (1998), states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. The strategy problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of an organization’s core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment. Strategy creates a viable match between the external environment and organizations internal capabilities.
In essence, strategy has to do with understanding when an organization will go in the future and how it will get there through the configuration of its resources within a changing environment to meet the needs of the market and fulfill the stakeholders' expectations. As the environment is always changing, an organization must configure its resources to match the changes. The changes may be mild or turbulent but must be matched accordingly by appropriate strategy.

Most organizations owe their initial success to a unique strategy positioning that is usually acquired through clear trade-offs and in the alignment of activities to its positioning. However, through passage of time and pressure of growth, compromises are made and incremental additions of services or products and imitation of rivals become the norm. It is at this point that an organization begins to lose its clear competitive positive strategy. Strategic positioning is therefore, a continuous process that is often not obvious but requires insight and creativity on the part of managers (Porter, 1996).

An organization must configure its resource and strategies to result in the most appropriate response to environmental changes which often tend to be turbulent and discontinuous.

2.3 Strategic Management

Strategic management is concerned with arriving at decisions on what organizations ought to be doing and where they ought to be going (Howe, 1993). Pearce and Robinson (1991) define strategic management as the formulation, implementation, control and evaluation of business strategies
to achieve future objective. Strategic management includes strategic analysis, choice and implementation. Strategic analysis is where a strategist seeks to understand the organizations strategic position. Strategic choice involves the formulation of possible course of action, evaluating them and enabling a choice to be made between them. Strategic implementation is concerned with planning how the choice of the strategy can be put into effect and managing the changes required (Johnson and Scholes, 1999). Hoffman and Hegarty (1989) noted that the emergence of strategic management was out of necessity. Managers have been faced with enormous challenges to adapt increasingly complex organizations to rapidly changing environments. They have had to employ strategic management to achieve and maintain a fit between the environment, strategy and the internal capability.

According to Hunger and Wheelen (1999, P.3), “Strategic management is a set of management decisions and actions that determine the long run performance of an organization. It includes environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation”. Emphasis is on the monitoring and evaluation of external opportunities and threats in light of the organization’s strengths and weaknesses.

Strategy formulation, implementation and evaluation should occur at the corporate, divisional and the strategic business units of an organization. As a result of the environment being dynamic, the strategic management process should be dynamic and continuous. The organizations are required to be flexible in order to respond to competitive and market changes and ensure continuous operational effectiveness in the race to stay ahead of competitors (Porter, 1996).
Porter (1980) has summarized the benefits of strategic management. The first is that strategy provides the central purpose and direction to the activities of the organization; to the people who work in it (internal environment) and often the world outside (external environment). This can be summarized as the organizations vision, mission and objectives.

Secondly, strategic management enables organizations to adjust to different conditions or pressures because of changing environment. Organizations can and do often create their environments, by focusing on strategic issues. Thirdly, strategic management helps companies develop sustainable competitive advantage. To develop strategy, organizations carry out an analysis of external and internal environment and find out where they can outwit their competitors. This enables the organization to be proactive to the changing environment rather than reactive.

Fourthly, strategic management is important for the management of the organizations boundary interface. This enhances the quality of its relationship with the outside environment. Lastly, strategic management helps organizations focus their competitive efforts, be more effective in resource allocation and identify their key success factors. This ensures that organizations are looking at long term implications of their plans hence creating a culture of learning organizations.

Strategic management provides the basic direction and framework within which all the activities of an organization take place.
2.4 Strategic Response

Pearce and Robinson (1991) define strategic response as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction of what is happening in the environment of the organization. Aosa (1992) observed that the modern approach to strategic planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. Sneider and Meyer (1991) stated that the assessment of environmental threats and opportunities and organizational strengths and weaknesses are the core to developing strategic responses. Strategic diagnosis helps the organization in determining changes to be made to its strategies and internal capabilities. Restructuring, shrinking selectively, marketing and cost cutting constitute strategic responses that firms use when the environment changes.

Restructuring is based on the notion that some activities within a business value chain are more critical to the success of its strategy than others (Pearce and Robinson, 1991). Process restructuring aims at bringing the company to an acceptable level of performance. It covers activities like marketing, product development and service delivery with the aim of cutting costs. Functional restructuring involves laying off redundant staff or training the staff in functional skills where they are encouraged to acquire new skills. Downsizing may occur by reducing workload as well as eliminating functions. Downsizing helps firms to lower overheads, speed up response time and eliminate red tape (King, 1997).
When an environment changes significantly, a firm can undertake selective shrinking. Whiltington ([1989] observed that this could involve focusing on specific market segment that provides a profitable core of higher margins. It could also involve withdrawal from unprofitable market segment. Morine (1980) suggested sale of investment to get funds with higher rates of return in the principal activities of the business. Marketing is a more desirable alternative to increase volume instead of cutting profit margins or continually discounting prices (Morine, 1980).

In most businesses cost reduction is a faster method to achieve greater profits than increasing sales volume. The adoption of cost cutting strategies minimizes wastage and unnecessary expenditure during a down turn (Whiltington, 1989). The typical cost cutting measures are reduction of working hours and wages, human resource changes by retrenching unproductive employees, time management, overhead reduction and rationalizing personnel where the core personnel are retained.
CHAPTER 3 RESEARCH METHODOLOGY

3.1 Research Design

This research is a case study and is aimed at providing an in-depth understanding of the environmental changes that AAR has experienced and document any responses that it may have had to these changes. AAR is the oldest, largest and most successful HMO in Kenya and one would want to find out how it has survived for so long considering that several HMOs have wound up their operations in this environment.

3.2 Data Collection.

Personal interviews were conducted with the CEO and General Managers. Questionnaires with open-ended questions were used to avoid subjectivity resulting from limiting the respondents answer option.

3.3 Data Analysis

Data collected was analyzed using content analysis. This is a systematic, detailed qualitative description of the objectives of the study. It involves observation and detailed description of objects, items or things that comprise the study (Mugenda, 1999). This method will enable me to analyze and logically group the large quantity of data and compile the results of the study.
CHAPTER 4 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This section presents and discusses the findings of the study. The analysis was guided by the research objective which was to identify the responses that AAR Health Services may have had to the increased turbulence in the environment.

4.2 Environmental changes and challenges

In the last five years AAR has had several changes in the business environment. Competition has increased with new HMOs and Insurance companies entering the market. These new players in the market are offering lower priced products as compared to AAR. The challenge that this has posed to AAR is that it has lost a number of its members especially corporate clients to competitors. Apart from offering low priced products some of the competitors are covering HIV/AIDS. This has been a great challenge to AAR because the impact and outcome of this pandemic is unknown and therefore it is not possible to assess and manage the risk. AAR’s re-insurers have also been unable to cover this condition and its related complications.

The collapse of some of the HMOs has also been a challenge to AAR because clients are reluctant to buy products offered by such organizations because they are not sure of their future in the Kenyan business environment.
Government legislation in the form of the Insurance Amendment Bill passed in Parliament in 2003 which led to the amendment of the Insurance Act, Cap 487 is another change. It states that an organization cannot provide medical insurance and provide medical services at the same time. Such organizations were given until July last year to comply. AAR has had to restructure its business to comply with this regulation since there is no legislation governing HMOs in Kenya.

The National Social Health Insurance Fund (NSHIF) bill, 2004 intends to reform the National Health Insurance Fund (NHIF) Act of 1998 to provide every Kenyan with affordable, acceptable and accessible basic quality health care. If implemented, this will kill a large chunk of AAR’s business because clients will not buy the AAR products as they will be covered under the government scheme which will be compulsory. However, AAR can partner with the Government and be a provider for medical services for those covered under NSHIF and this may lead to increase in service provision for AAR.

Limitations in technology have provided a major challenge to AAR in that although all the medical information of members is captured electronically, the various AAR clinics are not networked. This has led to poor patient follow up and therefore complaints from the clients because they have to keep repeating their medical history when they visit a different AAR clinic. Fraud in the form of patients picking drugs from different clinics on the same day for the same illness has also been occurring.

The Kenyan economy has been performing poorly and this has led to increased poverty. This has resulted in individual AAR clients not
renewing their memberships. Those members covered under corporate
have also decreased in number because several of them have had to
retrench their employees. Hence, despite the numbers of corporate that
have AAR membership remaining relatively the same, the number of
employees covered is less than before.

4.3 Responses

AAR has responded to these changes in the environment. It has
responded to increased competition and poor economic environment by
coming up with new products which cater for all income groups. AAR has
been perceived as a company that provides medical cover for the rich and
in order to change this perception, AAR has introduced new health plans.
On the one end of the spectrum there is the platinum card that allows a
member to be seen by his own doctor and seek medical treatment
anywhere in the world if need be as opposed to the Afya card that covers
one for medical treatment in a specific clinic only and to a limit of as little
as Kshs100,000/- per family per year. Most of the members with the latter
type of card are in the Jua Kali sector and they pay their premiums via
microfinance institutions like K-Rep. Bank. Hopefully this wide range of
products will lead to clients being able to pick the product that best suits
their pocket.

AAR has been negotiating with its re-insurers so that they can cover
HIV/AIDS. If this occurs then AAR will be able to meet the demand of a
lot of clients who require this service. AAR has now put in place better
performance measures for marketing representatives. Those bringing new
business get a larger commission as compared to those whose clients
renew their membership. There has been an increase in public relation
and communication activities in order to get the message across that if you think of an event, think AAR.

AAR has been in the forefront of lobbying the entire private sector to raise awareness of the economic impact of the proposed NSHIF bill. It has mobilized the entire private sector towards opposition to this bill and has successfully gotten it adopted as a Kenya Private Sector Alliance (KEPSA) agenda. This has resulted in the Kenyan Government suspending the passing of this Bill.

In order to comply with the amended Insurance Act, AAR has unbundled by restructuring and simplifying its business. This happened in July last year. AAR has split into various companies. AAR Holdings Ltd. is the umbrella company and the subsidiary companies are:

- AAR Health Services which is the one that deals with marketing of the various AAR products in Kenya and is now registered by the Commissioner of Insurance as a Medical Insurance Provider (MIP).
- AAR Health Care Ltd. which deals with provision of medical services in Kenya. All the clinics in Kenya are under this company.
- AAR Group Care Ltd. which is concerned with fund management and administration of claims.
- AAR Action Ltd. which is responsible for all rescues and evacuations.
- AAR Health Services (Uganda) Ltd. responsible for provision of both insurance and medical services in Uganda
- AAR Health Services (Tanzania) Ltd. which is responsible for marketing AAR products in Tanzania.
- AAR Prime Care Ltd. responsible for provision of health services in Tanzania.
- AAR Health Services (Rwanda) Ltd. which provides both insurance and medical services in Rwanda.
- AAR Credit Services Ltd that provides financing to clients who want to purchase AAR products.

Each company has a board of directors and is a business entity on its own. They are each headed by General Managers. Service level agreements have been drawn up between the various companies outlining how they will be providing services to each other. For example, AAR Group Care will only pay out claims from secondary providers which have an authorization number. Hence, when a patient is being referred from the clinic the doctor should get this number and quote it on the referral form.

**FIGURE 1: COMPANY STRUCTURE**
All the companies have a vision based on the one of AAR Holdings which is “AAR will be the household name in innovative integrated healthcare solutions primarily in Africa”. The mission statement is: “To be the preferred provider of effective integrated quality healthcare solutions in Africa. This will be achieved by customer focused, well-managed, highly motivated and caring teams. Through innovative use of technology, efforts of our staff, franchisees and other partners, AAR will continue to be the market leader. We will conduct a business which is invaluable to customers, rewarding to its staff, profitable to the shareholders and respectful of our environment”.

AAR has acquired a new IT system from a strategic partner from South Africa – Project Ventures International. This has been installed in one of the clinics and will soon be rolled out to all the other clinics. The system is superior to what was there before in that it can produce various reports that can assist the clinic managers (Head Doctors) in performance evaluation of the staff and monitor costs. For example, the Head Doctor will be able to tell the number of patients seen by each doctor and the costs per prescription on a daily basis. Hence, remedial measures can be put in place immediately if deviation from set standards occurs. The IT system is capable of linking all the clinics and this will lead to better management of patients because their records will be available in any clinic that they visit.

Despite the above responses there is still more that AAR intends to do to stay competitive. It hopes to develop more affordable products and
improve on service delivery. Increasing the geographic span of its services and the scope of its products to cover both chronic and pre-existing conditions is also being considered.

The responses to changing environmental conditions have resulted in some improvements in certain areas. The profitability of the subsidiary companies and hence the Holding company have improved in the last few months. There is better customer service which has occurred because all the employees have been trained in this area. Internal communication is better than before and staff productivity has increased.

Shortage of capital is the main capability lacking and this can be acquired by bringing additional investors, by long term borrowing, private placement or/and listing the company in the stock exchange.
CHAPTER 5  SUMMARY AND CONCLUSION

5.1 Summary: Responses of AAR Health Services

The study was carried out as a case study of AAR Health Services which has been the leading HMO in Kenya. The external environment within which it has been performing its business has changed dramatically. From the findings it indicates that AAR has been affected greatly by these changes in the external environment which include increase in competition, advancement in technology, poor economic environment and government legislation. These changes mean that AAR has to respond in one way or the other in order to maintain its position and possibly increase its competitive advantage.

The challenges brought about by the changes in the environment according to the findings include having affordable products, complying with government legislation and including HIV/AIDS cover in the AAR products.

Responses to change in the external environment have taken place by introduction of new products, enhancing the IT system and restructuring the company. However, with availability of capital AAR hopes to increase its geographic span of its services and improve service delivery.

5.2 Conclusion

In conclusion, the objective of the study was to document AAR’s responses to the environmental changes. From the findings, it has become apparent that AAR is facing a number of challenges. The study was able
to find that AAR has responded to these changes and challenges by coming up with several measures. These measures include development of new products, installation of new IT system and restructuring the company in order to simplifying the business.

5.3 Limitations of study

The limitation of the study is that generalization is not possible and therefore the findings may not apply to other HMOs.

5.4 Recommendation for further study

It is recommended that a similar study be conducted to find out how the other HMOs in the Kenyan market are responding to the environmental changes.
APPENDIX 1

LETTER OF INTRODUCTION

April, 2005

Dear Respondent

MBA RESEARCH PROJECT

I am a postgraduate student in the faculty of Commerce, University of Nairobi. I am conducting a management research on the effects of environmental changes and the responses used by AAR Health Services.

In order to undertake the research you have been selected to form part of the study. This letter is therefore to request your assistance in filling the attached questionnaire. The information you give will be treated with strict confidentiality and is needed purely for academic purposes; even where a name has been provided, it will not under any circumstance appear in the final report.

A copy of the final report will be available to you upon request.

Your assistance and co-operation will be highly appreciated.

Yours sincerely

Anastasia M. Mpungu
Student

Professor E. Aosa
Supervisor
APPENDIX 2

QUESTIONNAIRE

Please answer the following questions.

SECTION A: RESPONDENT'S PROFILE

Position held

How long have you worked in this position?

SECTION B: CHALLENGES FACING AAR HEALTH SERVICES

1) Please describe the changes that have taken place in the last 5 years in the business environment which affect AAR.

2) What challenges have these changes posed to AAR.

SECTION C: RESPONSES

3) Has AAR responded to the above environmental changes? Yes/No

4) Please explain in detail how AAR has responded, if at all, to each of the changes.

5) Are there some changes that AAR has not responded to and why?

6) Is there anything else that AAR can do to stay competitive?

7) What areas have improved in the company?

8) In your assessment, does AAR currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?
   If not, please indicate the possible means by which AAR can acquire these capabilities.

THANK YOU FOR YOUR TIME AND COOPERATION.
REFERENCES


