Competitive Strategies of Health Management Organizations (HMOs) in Kenya

By
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A Management Research Project Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration of the University of Nairobi, School of Business

October 2007
DECLARATION

I the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than University of Nairobi.

Signed: ___________________ Date___________________

Samson Kimeli Cherutich
Registration No D/61/P/8603/2001

The project has been presented for my examination with my approval as the University supervisor.

Signed: ___________________ Date___________________

Dr. Martin Ogutu
DEDICATION

I dedicate this work to all those who believe in knowledge and hard work.
ACKNOWLEDGEMENTS

Any accomplishment requires the efforts of many people and this research is not different. I would like to acknowledge the enormous support which I received in the course of this study. Foremost I thank my supervisor Dr. Martin Ogutu for his patience and persistence as he guided me throughout the research process. I recognise the contributions of the many lecturers who I interacted with in the course of my studies. I am grateful to the many managers of the various organisations for promptly completing the questionnaire. To my fellow MBA students I salute you for the comradeship that you displayed as we went through the program. Finally to my family, I thank you for your encouragement and for bearing with me during the various times that I was away from you when my company was needed.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>i</td>
</tr>
<tr>
<td>Dedication</td>
<td>ii</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>iii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>vi</td>
</tr>
<tr>
<td>Abstract</td>
<td>vii</td>
</tr>
<tr>
<td><strong>CHAPTER 1: INTRODUCTION</strong></td>
<td></td>
</tr>
<tr>
<td>1.1.1 Competitive Strategy</td>
<td>1</td>
</tr>
<tr>
<td>1.1.2 The Health Management Organisation Industry in Kenya</td>
<td>2</td>
</tr>
<tr>
<td>1.2 Statement of the Research Problem</td>
<td>3</td>
</tr>
<tr>
<td>1.3 Objective of the Study</td>
<td>4</td>
</tr>
<tr>
<td>1.4 Significance of the Study</td>
<td>4</td>
</tr>
<tr>
<td><strong>CHAPTER 2: LITERATURE REVIEW</strong></td>
<td></td>
</tr>
<tr>
<td>2.1 The Concept of Strategy</td>
<td>5</td>
</tr>
<tr>
<td>2.2 Competitive Strategies</td>
<td>9</td>
</tr>
<tr>
<td>2.3 Competitive Actions</td>
<td>16</td>
</tr>
<tr>
<td>2.4 Competitive Positions</td>
<td>18</td>
</tr>
<tr>
<td><strong>CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY</strong></td>
<td></td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>20</td>
</tr>
<tr>
<td>3.2 Research Design</td>
<td>20</td>
</tr>
<tr>
<td>3.3 Location of Study</td>
<td>20</td>
</tr>
<tr>
<td>3.4 Target Population</td>
<td>20</td>
</tr>
<tr>
<td>3.5 Sample Design</td>
<td>20</td>
</tr>
</tbody>
</table>
3.6 Data Analysis Procedure 21

**CHAPTER 4: DATA ANALYSIS AND FINDINGS** 22
4.1 Background Information 22
4.2 Competitive Strategies 27

**CHAPTER 5: CONCLUSIONS** 32
5.1 Summary, Discussions and Conclusions 32
5.2 Limitations of the Study 34
5.3 Recommendations for Further Research 35
5.4 Implications for Policy and Practice 35

**APPENDICES** 37
References 37
Appendix 1: Research Questionnaire 39
Appendix 2: List of HMOs 44
Appendix 3: Introduction Letter 45
Appendix 4: University of Nairobi Reference Letter 46
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2.1:</td>
<td>Porter’s Generic Strategies</td>
<td>10</td>
</tr>
<tr>
<td>Table 2.2:</td>
<td>Porter’s Generic Strategies and Industry Forces</td>
<td>14</td>
</tr>
<tr>
<td>Table 4.1:</td>
<td>Position of Respondents</td>
<td>22</td>
</tr>
<tr>
<td>Table 4.2:</td>
<td>Education Level of Respondents</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.3:</td>
<td>Year of Commencement of Operations</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.4:</td>
<td>Countries of Operation</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.5:</td>
<td>Ownership of HMOs</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.6:</td>
<td>Number of Members HMOs Have</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.7:</td>
<td>Channels of Service Delivery</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.8:</td>
<td>Services Offered by HMOs</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.9:</td>
<td>Objectives of Competitive Strategies</td>
<td>27</td>
</tr>
<tr>
<td>Table 4.10:</td>
<td>Competitive Strategies Adopted by HMOs</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.11:</td>
<td>Success of Competitive Strategies</td>
<td>29</td>
</tr>
<tr>
<td>Table 4.12:</td>
<td>Service Comparison</td>
<td>30</td>
</tr>
<tr>
<td>Table 4.13:</td>
<td>Price Comparison</td>
<td>31</td>
</tr>
<tr>
<td>Table 4.14:</td>
<td>Markets Served by HMOs</td>
<td>32</td>
</tr>
</tbody>
</table>
ABSTRACT

A basic premise of strategy is that superior profits occur when a corporation secures favourable positions in attractive industries, and pursues economies of scope across business units. Business strategies underlie decisions about business policies, operations, practices, technology investments and on and on. They are about choices such as who will be your target customers, what products or services to offer them and how you will do it. The key to formulating a strategy is to give an organisation a competitive advantage—something that sets it apart and gives it a competitive edge. A winning competitive strategy is founded on consistently understanding and predicting changing market conditions and customer needs and out performing your competitors in serving those needs.

From literature review we learn that competitive strategy is concerned with a fir’s position relative to its competitors in the market it has chosen. It seeks a competitive edge over rivals while slowing down the erosion of present advantages. In times of intense competition for market and wallet share, competitive strategies distinguish winners from also-rans and losers.

This research sought to find out the competitive strategies adopted by Health Management organizations (HMOs) in Kenya. It examined the strategies that have been deployed; the extent of application and the degree of success of each strategy in enabling the organizations achieve competitive advantage.

The study used a census survey using a structured questionnaire. All the 15 HMOs based in Nairobi were considered for the survey. However only 11 questionnaires were received and analyzed. The response rate was considered adequate for the purpose of the research.

The findings indicate that HMOs have various strategies in place which they have
employed with varying degrees of success. There appears to be an inconsistency between the extent to which some strategies are applied and the rate of success of those strategies. There are strategies that are extensively used but success rate is low and vice versa.

The study recommends that HMOs should raise their competitive strategies to a higher level through industry analysis, competitive analysis and competitive intelligence. As positions of superiority and the resulting market share are continuously subjected to erosion by competitor moves and changes in the market, the study further recommends that HMOs should be flexible and be ready to adjust their strategies to suit the changing times.
CHAPTER 1
INTRODUCTION

1.1 Background to the study

1.1.1 Competitive Strategy

Competition is at the core of the success or failure of firms. According to Porter (1985), competition determines the appropriateness of a firm’s activities that can contribute to its performance, such as innovations, a cohesive culture or good implementation. Within a given arena of competition, companies seek to build and sustain competitive advantages over rivals. Advantages are based on the assets and capabilities of the firm that yield superior competitive positions. In dynamic environments, companies must increasingly focus on strategies for renewing advantages.

Porter (1985) argues that strategy is about seeking a competitive edge over rivals while slowing the erosion of present advantages. Few advantages can be sustained indefinitely, for time eventually renders them obsolete. Business strategies underlie decisions about business policies, operations, practices, and technology investment and on and on. The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm’s environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as strategies potentially available to the firm.

In times of intensive competition for market and wallet share, competitive strategies distinguish the winners from also-rans and losers. Among the positive outcomes of a successful competitive strategy are market share and profitability. Other measures of performance, such as customer satisfaction and loyalty are increasingly used because they directly reflect customer responses to positional advantages and thus can be leading indicators of changes in market share and profitability.
1.1.2 The Health Management Organisation (HMO) Industry in Kenya

Health Management Organizations (HMOs) are organised systems of healthcare that provide an array of medical services on a prepaid basis to voluntarily enrolled persons. They operate under the concept of managed care. This is a general term that refers to systems for organising doctors, hospitals, and other service providers into groups to enhance quality of healthcare services. This concept originated in the US, where HMOs also helped the government to disseminate preventive care messages to the public. Managed care co-ordinate all aspects of the delivery systems in order to manage all the costs in the system. Rather than bill the patients on a fee-for-services basis managed care systems set a pre-arranged fee structures and utilization review procedures agreed upon by a contract between healthcare providers and the managed care organisation. HMOs act like insurance companies in that they finance healthcare. However, unlike insurance companies, they also deliver medical services through ownership of health clinics, diagnostic laboratories and ambulance services.

In Kenya, the concept emerged in the 1990s when the Government provided healthcare was lapsing as a result of drastic budget cuts; HMOs were considered the saviour of Kenya’s healthcare system. It was a time of souring medical costs and HMOs were supposed to hold down prices while boosting quality. They are registered only under the Companies Act. However, in order to operate health clinics, diagnostic laboratories and pharmacies, they are required to be licensed under the Health Act. They provide an array of services, which include in-patient hospitalisation, outpatient cover, road and air evacuation funeral expenses, personal accident and dread disease (critical illness) cover. Some are engaged in scheme administrations. This entails verification of costs to ensure that only bonafide members benefit from the scheme.

The proliferation of HMOs in Kenya in the last five years has resulted in intensive competition among the players. Currently there are 12 firms in operation. These include AAR Health Services, Avenue Healthcare, Health Plan Services, Medical Expresss, Strategies Health Services, Health Management Solutions, Mediguard Limited, Mesco
Consultants and Health First International Limited. HOMOs compete with insurance companies and brokers who provide health insurance to their clients.

Today, a growing number of customer backlash against HMO’s level of care and the rate at which they become bankrupt has led many people to begin doubting the stability of those companies that claim to offer them medical cover. The intensity of the competition has led to massive price undercutting which has pushed some of the players to the edge of collapse (Oloo, 2004). It is understood that some HMOs are in a crisis management mode with the emphasis on day-to-day financial survival. They have recently come under increased scrutiny by regulators reflecting the growing role of these organisations in the financing of healthcare coverage in Kenya. The industry currently remains largely under-regulated.

1.2  Statement of the Research Problem

The business of HMOs, like insurance involve the public trust. They promise to provide their members with specific hospitalisation, medical treatment and other services should they require the services during the period of cover. It is therefore an important industry.

The notable failures of some health management organisations and the questionable financial strengths of others in operation are of significant concern. Failures, such as Mediplus Services Limited in mid-2003, disrupt service for employers and members and lead to substantial monetary loss. In the case of Mediplus Services Limited which had 40,000 members, doctors, hospitals and other service providers estimate losing close to Kshs 300 million (East African Standard, 2003). Prominent media coverage of these HMOs failures clouds the fact that there are some HMOs that are financially strong, with viable competitive position and long-term prospects. Not much study seems to have been done on the competitive strategies adopted by HMOs incorporated in Kenya. Studies that have been done on competitive strategies focused on industries/sectors other than HMOs. Studies that have been done in the health sector have focused on

1.3 Objective of the study
The objective of the study was to determine the competitive strategies adopted by HMOs in Kenya.

1.4 Significance of the Study
The study is important, as its results will shed some light on the various strategies that can be adopted by HMOs. It will also provide information on some industry practices that may be useful to various interested parties such as industry players who may want to enhance their competitive strategies; potential investors who are considering entering the market; Government and regulators.
2.1.1 The Concept of Strategy

Strategy is the direction and scope of an organisation over the long term; which achieves advantages for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations (Johnson and Scholes 2001). It is concerned with markets and products. It is about choosing where and how to compete, whom to appoint to senior positions and how to organise resources.

Strategic management consists of formulating strategies, designing the firm’s capability, and managing implementation of strategies and capabilities to achieve the objectives of an organisation. It includes determining the organisation’s mission, setting of objectives, assessment of the environment both internal and external and analysing the possible options available in the matching of the organisation’s profile the external environment.

Pearce and Robinson (1997) argue that strategic management involves the planning, directing, organising and controlling of the strategy-related decisions and actions of the business. It entails understanding the organisation’s position (strategic analysis), formulating possible courses of action, evaluating and choosing the best strategy (strategic choice) and planning how to implement and manage the changes required (strategy implementation).

The management of strategy can also be seen as “crafting” (Houlden, 1993). Here strategic management is not seen as a formal planning process but rather in terms of process by which strategies develop in organisations on the basis of manager’s experiences, their sensitivity to changes in their environment and what they learn from operating in their markets.
Houlden (1993) observes that strategic decisions cut across several of an organisation’s operations. Therefore, top management involvement in decision-making is imperative. Only at this level is there the perspective for understanding and anticipating broad implications and ramifications. This is because strategic decisions have the potential to affect the health or direction of a business in a profound way.

According to Johnson and Scholes (2001), strategic issues are important as they involve the allocation of large amounts of resources. These include people, physical assets and money. Strategic decisions commit a firm to a stream of actions over an extended period of time. This period ranges from five to ten years. Once a firm has committed itself to a particular strategic option in a major way, its competitive image and advantages are usually tied to that strategy. This means that strategic decisions have enduring effects on the firm. Strategic decisions tend to involve more than one functional department. They are not tactical decisions, which are made on routine corporate matters.

Generally strategic decisions are based on what managers anticipate rather than what they know. They are futuristic. The emphasis is on developing projections that will enable a firm to select the most promising options. In the turbulent and competitive environment, a firm must take a proactive stance towards change. Strategies should be changed to suit the changing environment. Organisations should therefore continue monitoring their business environment for opportunities and anticipate potential threats. This includes considering actions of others such as competitors, customers, suppliers and the government.

2.1.2 Strategy formulation
Formulation of company strategy requires analysis, judgment and decisions in the face of uncertainty by those responsible for the overall success of the organization. This responsibility ultimately rests in the board of directors and senior management team. According to Porter (1996), strategic positions can be based on customers’ needs,
customers’ accessibility or the variety of a company’s products and services.

The first step in the internal assessment is to examine the key elements of the current strategy. Decision-makers identify current goals and strategies and determine whether the organization is moving in the appropriate direction. This includes reviewing the organization mission. The company mission is the basic purpose and scope of its operation. It is a statement of the organization’s reasons to exist. The mission is often written in terms of the general set of products and services the company provides and the markets and clients it serves. Strategic goals evolve from the mission of the organization. The mission and the strategic goals influence everyone who has contact with the organization. It is therefore a very important element in strategic management.

Houlden (1993) argues the best strategy for a company depends on that company’s performance, its particular strengths and weaknesses and the opportunities and threats in its particular environment. This means that the best strategy is not the same for all companies; not even those at the same time and in the same industry.

2.1.3 Levels of Strategy
Organizations differ widely. Some are simple and consist of one business while others are complex with the group as a whole containing many businesses. GE for example comprised of 150 companies in 1993 (Houlden, 1993). Each business should have its strategy, which fits into the overall organization strategy. In general there are three levels of strategy.

Business Strategy-This is the strategy of a business which may be either completely independent or part of a large group of businesses.
Divisional/Functional Strategy- this is strategy across related businesses, which are part of a large group.
Group Strategy-This is the strategy across several businesses which may or may not be
related to each other and may or may not be clustered into divisions within the group. Corporate strategy-This is the strategy of the whole company. For a single independent business, corporate strategy is the same as business strategy. In a more complex group, corporate strategy embraces business strategy for each of the individual business (and individual strategy if there are divisions) as well as group strategy.

2.1.4 Strategy Implementation and Control
Formulating the appropriate strategy is not enough. Strategic managers must also ensure that the new strategies are implemented effectively and efficiently. The strategy should be supported by decisions regarding appropriate organization structure, technology, human resources, information systems, organization culture and leadership.

A strategic control system should be designed to support managers in evaluating the organization’s progress with its strategy and when discrepancies exist, in taking corrective action. The system should encourage efficient operations that are consistent with the plan while allowing the flexibility to adapt to changing conditions (Bateman and Zeithaml 1993).

Porter (1996) argues that it is important to distinguish between strategic positioning and operational effectiveness. The later arises from performing similar activities better than rivals do while strategic positioning means performing different activities from one’s rivals or performing similar activities in different ways. It used to be said that it was more important to “do the right thing” than to “do things right.” In other words strategy was more important than the management of the day-to-day operations. This was probably true in the 1960s and 1970s when economies were expanding and competition in most sectors was not intense. Since those times, the world has become more turbulent and more competitive. While it is still true that a strategy, which positions the company badly compared to a competitor, can lead to its failure, it is equally true that poor management of day-to-day activities can have the same effect. Both a good strategy and sound day-to-day management will therefore achieve
success. Porter (1996) observes that it was the difference in operation effectiveness that was central to the challenge of the Japanese firms to western companies in the 1980s. Jonhson and Scholes (2001) observe that the strategic management approach should emphasize interaction by managers at all levels of the organization planning and implementation. It has certain behavioural consequences that are characteristic of participate decision-making. A well-formulated and implemented strategy offers certain benefits to the firm: -

(i) Strategy guides organizations to superior performance through establishing competitive positions.
(ii) Strategy formulation activities should enhance the problem prevention capabilities of the firm.
(i) Group-based strategic decisions are most likely to reflect the best available alternatives.
(ii) Employee motivation should improve as employees better appreciate the productivity-reward relationships inherent in every strategic plan
(iii) Strategy acts as a vehicle for communication and co-ordination within organizations.

A firm’s performance will be optimal when its strategic behaviour matches the turbulence of the environment and the firm’s capability matches its strategies.

2.2 Competitive Strategies Adopted By Firms

Competitive strategy is concerned with a firm’s position relative to its competitors in the market it has chosen. What business strategy is all about is competitive advantage. The sole purpose of strategic planning is to enable an organization to gain as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter an organization’s strength relative to that of its competitors in the most efficient way. Porter (1996) argues that the essence of strategy is choosing to perform activities differently than rivals do. It means choosing a different set of activities to
deliver a unique mix of values. The key goal in formulating a strategy is to give an organization a competitive advantage—something that sets it apart and gives it a competitive edge. Competitive strategy is the choice of how an organization or business is going to compete in its particular industry or market.

2.2.1 Porter’s Generic Strategies

Porter (1985) sees three ways in which a firm can gain a competitive advantage: Cost leadership, differentiation or focus. He calls these generic strategies because they can be applied to a firm in any industry.

Cost leadership is one in which a firm strives to have the lowest cost in the industry and offers its products or services to a broad market at the lowest price. A firm that uses a differentiation strategy is one that tries to offer products or services with unique features that consumer’s value. The focus strategy can either be a cost leadership or differentiation strategy aimed toward a narrow focused market.

Table 2.1: Porter’s Generic Strategies

<table>
<thead>
<tr>
<th>Target Scope</th>
<th>Low Cost</th>
<th>Product Uniqueness</th>
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<tbody>
<tr>
<td>Broad (Industry Wide)</td>
<td>(a) Cost Leadership Strategy</td>
<td>(b) Differentiation Strategy</td>
</tr>
<tr>
<td>Narrow (Market Segment)</td>
<td>(c) (ii) Focus Strategy (Low Cost)</td>
<td>(c) (ii) Focus Strategy (Differentiation)</td>
</tr>
</tbody>
</table>


(a) Cost Leadership Strategies

This generic strategy calls for being low cost producer in an industry for a specified level of quality. The firm sells its products either at average industry price to earn a profit higher than that of rivals or below the average industry price to gain higher
market share. In the event of a price war, the firm can maintain some profitability while the competition suffers. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantage are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optional outsourcing and vertical integration decisions or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have a number of internal strengths. These include access to capital required to make significant investment in productive assets. This investment represents a barrier to entry that many firms may not overcome. They have skills in designing products for efficient manufacturing, for example small component count to shorten the assembly process. They have a high-level expertise in manufacturing process engineering and are efficient in distribution channel.

Firms that adopt cost leadership strategy have low level of differentiation and aim at the average customer. They use knowledge gained from past production to lower production costs. They add new product features only after market demands them.

Cost advantage protects from new entrants. Firms can reduce price to protect its market from new entrants. However, competitors may leapfrog the technology, thus nullifying the firm’s accumulated cost reductions. Competitors may imitate technology.

(b) Differentiation Strategy
According to Porter (1995), a differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.
The value added by the uniqueness of the product may allow the firm to charge a premium price on it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product’s unique attributes, if the suppliers increase their prices, the firm may be able to pass along the costs to the customers who cannot find substitute products easily.

Firms that succeed in a differentiation strategy often have a number of internal strengths which include access to leading scientific research, high skilled and creative product development team, and strong sales team with the ability to successfully communicate the perceived strengths of the product and corporate reputation for quality and innovation. The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. In addition, various firms pursuing focus strengths may be able to achieve even greater differentiation in their market segments.

The key is perceived quality whether it is real or not. The firm uses approaches such as after sales service develops brand loyalty. The perceived quality and brand loyalty insulate a firm from threats from any of the five forces. Price increases from powerful suppliers can be passed on to customers who are willing to pay. Buyers have only one source of supply. Brand loyalty protects from substitutes and is a barrier to new entrants. The risks associated with this strategy include imitations, which are more of a threat because of production technology. There is the question of how long can a firm sustain a particular differentiation advantage. The “shelf life” for such advantages is getting shorter and shorter. Customer tastes may change and wipe out competitive advantage. There is the limit of how high prices can be raised before customers switch loyalty.

(c) Focus Strategy (Cost or differentiation)
The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation (Porter, 1985). The
premise is that the needs of the group can be serviced by focusing entirely on it. A firm using a focus strategy often enjoys a higher degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation focus strategy may be able to pass higher costs to customers since close substitute products do not exist. Firms that succeed in focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know well.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments they can serve even better.

2.2.2 Generic Strategies and Industry Forces
Porter’s generic strategies each have attributes that can serve to defend against the five competitive forces. The following table compares some characteristics of the generic strategies in the context of Porter’s five forces.
<table>
<thead>
<tr>
<th>Industry Force</th>
<th>Cost Leadership</th>
<th>Differentiation</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Barriers</td>
<td>Ability to cut price in retaliation deters potential entry.</td>
<td>Customer loyalty discourages potential entrants.</td>
<td>Focusing develops core competencies that can act as entry barrier.</td>
</tr>
<tr>
<td>Buyer Power</td>
<td>Firm has ability to offer lower price to powerful buyers</td>
<td>Large buyers have less power to negotiate because of few close alternatives</td>
<td>Large buyers have less power to negotiate because of few close alternatives.</td>
</tr>
<tr>
<td>Supplier Power</td>
<td>The firm is better insulated from powerful suppliers.</td>
<td>The firm is better able to pass on supplier price increase to customers.</td>
<td>Suppliers have power because of low volumes but a differentiation-focused firm is better able to pass on supplier price increases.</td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td>Firm can use low prices to defend against substitutes.</td>
<td>Customer’s become attached to differentiating attributes, reducing threat of substitutes.</td>
<td>Specialized products and core competency protect against substitutes.</td>
</tr>
<tr>
<td>Industry Rivalry</td>
<td>The firm is better able to compete on price.</td>
<td>Brand loyalty keeps customers from rivals.</td>
<td>Rivals cannot meet differentiation-focused customer needs.</td>
</tr>
</tbody>
</table>
2.2.3 Resource-Based View

According to Hill and Jones (1992), the importance of a company’s distinctive competence is that they enable the company to outperform competitors and earn greater profits. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

Hill and Jones (1992) argue that distinctive competencies arise from two complementary sources: a company’s resources and its capabilities. The following diagram combines the resource-based and position views to illustrate the concept of competitive advantage.

**Figure 2: A Model of Competitive Advantage**

```
Resources

Value
Creation

Cost Advantage
or
Differentiation Advantage

Distinctive Competencies
```
According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors could replicate what the firm was doing and any advantage would quickly disappear.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can easily acquire. Examples of such resources are patents and trademarks, proprietary know-how, installed customer base, reputation of the firm and brand equity.

Capabilities refer to the firm’s ability to utilize its resources effectively. An example of capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus difficult for competitors to replicate.

The firm’s resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality and customer responsiveness, all of which can be leveraged to create a cost advantage or differentiation advantage.

### 2.2.4 Other Competitive Strategies

According to Dibb et al (1990), many times customers demand a mix of satisfaction. A single generic strategy is therefore not always the best choice. Customers demand Quality, reliability, style, novelty, convenience, service and price. A mixed strategy is required to satisfy them. Organizations could achieve competitive positions by ensuring that their systems are operating efficiently, working on their customer service.
programmes, improving their distribution systems, use of technology, research and development (innovation), globalization, delivery speed and reliability among others.

2.3 Competitive Actions
Kotler (2001) argues that once the strategy has been selected, the organization’s managers must decide how to implement it. They can use offensive or defensive tactics.

2.3.1 Offensive Moves
These are actions taken when an organization tries to exploit and strengthen its competitive position through attacks on competitor position.

(i) Frontal Assault-This entails going ahead against a competitor in price, promotion, product features and distribution channels. This requires financial and marketing strengths.

(ii) Attacking a competitor’s weakness-This can be done by placing products or offering services in geographical areas where competitors do not compete. It can also be done by serving market segments that competitors do not serve or do not serve well.

(iii) All-out attack-This entails hitting competitors with similar products in the same market segment. An all-out attack requires significant financial resources and may result in a market share at the expense of profits.

(iv) Maneuvering around competitors-A clever competitor sometimes can find away to change the rules of the game and circumvent its competitor. This may involve changing features of the products. Another ploy is to change the distribution channel.

(v) Guerrilla Tactics-This involves small intermittent, seemingly random attacks
which wear down a competitor. This keeps the competitors busy by countering and defending their position. They may distract them while the competing firm is developing something else that will give it a competitive advantage.

2.3.2 Defensive Moves

Kotler (2001) argues that an organization will not always attack. Sometimes it will be under attack by competitors, needing to defend its competitive advantage. This is when it will need defensive moves.

(i) Do not give competitors anything to attack—This occurs when a firm offers a full and competitive product line, protects its products with patents, and has exclusive contracts with suppliers. This does not leave much room for competitors to attack.

(ii) Make competitors believe they will suffer if they attack—Public signals that a competitive move will meet with strong retaliation may prevent the competitor from executing its plans. Matching a competitor price cut is away to signal that continued price cuts may lead to a long and unprofitable price war.

(iii) Counter Attacks—If a vital market is under attack, some form of counter attack may be necessary. An organization’s strategist should choose their battles carefully because retaliation may be expensive.

(iv) Lower the incentive to attack—Most attacks are launched because the attacking firm believes that high profits will result. There are ways for a defender to alter that belief. Some firms reduce the incentive for attack by constantly lowering their costs so that prices drop while margins remain constant. Managers in the attacking firm will know that their costs will be higher for sometime, and pricing competitively will result in a negative margin. This may discourage attack unless the attacker can ride through the loss period and believes that long-term returns will justify doing so.
2.4 Competitive Positions

According to (Kotler 2001), a company must continuously monitor its competitor’s strategies. Resourceful competitors revise their strategy through time. He argues that once a company has identified its main competitor and their strategies, it must ask: what is each competitor seeking in the market place?; what drives each competitor’s behaviour?

Whether competitors can carry out their strategies and reach their goals depends on their resources and capabilities. A Company needs to gather information on each competitor’s strengths and weaknesses. According to the Arther D Little Consulting, a firm will occupy one of six competitive positions in the target market (Kotler 2001). These are:-

(i) Dominant-The firm controls the behaviour of other competitors and has a wide choice of strategic options.

(ii) Strong-This firm can take independent action without endangering its long-term position and can maintain its long-term position regardless of competitor’s actions.

(iii) Favourable-This firm has an exploitative strength and more than average opportunity to improve its position.

(iv) Tenable-This firm is performing at sufficiently satisfactory level to warrant continuing in business but exists at the sufferance of the dominant company and has a less-than-average opportunity to improve its position.

(v) Weak-This firm has an unsatisfactory performance, but an opportunity to exist for improvements. The firm must change or else exit.

(vi) Non-viable-This firm has unsatisfactory performance and no opportunity for
improvement. It must exit the industry.
CHAPTER 3
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
This chapter presents research design and methodology used in carrying out the study on the competitive strategies of Health management Organizations (HMOs) in Kenya. It includes: introduction, research design, area of study, sample and sampling procedure, data collection instruments, data collection procedure and data analysis.

3.2 Research Design
This study used a census survey design. This method was chosen as it allowed for a comprehensive study of the issues. This design was chosen as it would enable the researcher to make appropriate comparison.

3.3 Location of the study
The study was carried out in Nairobi Province. This was because although some of the organizations in the study have branches in other towns and countries, all of them have their head offices within Nairobi.

3.4 Target population
The study covered all locally incorporated HMOs that are based in Nairobi. The population of these HMOs was obtained from Association of Kenya Insurers (AKI). Since not all HMOs are registered with AKI additional names were obtained from The Nairobi Hospital, as the hospital was considered the most appropriate given that virtually all HMOs have arrangements with the hospital. The compiled list was corroborated with the listings in the Daily Nation Business Directory, 2007 Edition. A complete list of these HMOs as at 15 September 2007 is attached as appendix 2.

3.5 Sample Design
In this study, a structured questionnaire was used. The questionnaire was used since it is straightforward and less time consuming for respondents.
The questionnaire was divided into different sections:

- Section A consists of the organisation information
- Section B: Competitive strategies HMOs adopt to gain competitive advantage.

Prior to data collection, the researcher obtained approval from the University to carry out field work. He then obtained a letters of recommendation to carry out the research. Thereafter he established contacts with the management of all the organizations that were included in the study. It was during this contact making time that the researcher fixed dates with the CEOs for dropping in the questionnaires and agree when they should be collected. The respondents were the CEOs of the HMOs as they are the ones who are most informed on strategies employed in the organization. A period of one week was allowed for the completion of the questionnaire

3.6 Data analysis procedures

Once the questionnaires were collected, they were reviewed for accuracy and completeness. The data was then entered into SPSS package version 12.0 for analysis. Before such analysis is done, the internal consistencies of the questionnaire was done followed by data cleaning to ensure that the entered data is of high quality, and that it is the same as the one in the questionnaires. The data was analysed using frequency tables, means, percentages and standard deviations.
CHAPTER 4

DATA ANALYSIS AND FINDINGS

4.0: Introduction
This chapter presents the findings and analysis of the study. The study was to determine the competitive strategies adopted by Kenya HMOs. The results are presented based on the research questions and in the format of the questionnaire with the data presented in frequency tables and percentages. Means and standard deviations are used where appropriate.

4.1: Background Information
There were 15 questionnaires send to various organizations. Only 11 responses were completed and collected. Three responded did not wish to participate citing various reasons. The researcher considered the response rate of 79% as reasonable.

4.1.1 Position of Respondents
The respondents were asked to indicate their positions by ticking from a list which was given. There was also an option to indicate their position if it was not among the listed ones. The results are shown in table 4.1 below.

Table 4.1: Position of Respondents

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>General Manager</td>
<td>3</td>
<td>27.3</td>
</tr>
<tr>
<td>Head of Marketing</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>
From the table 45.5% of the respondents were Chief Executive Officers and 9.1% was Head of Marketing.

4.1.2 Education Level of Respondents
The respondents were asked to indicate their level of education by selecting from a list of education levels. The results were summarized in frequency and percentages as given below.

Table 4.2: Level of education of Respondents

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PhD</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Masters</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>3</td>
<td>27.3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>

From the table above 9 out of 11 respondents had at least a university degree. This indicates that their education level is high.

4.1.3 Year When Business Commenced operation
The HMOs were asked to indicate the year in which they commenced operations in Kenya.

Table 4.3: Year when HMO Commenced Operation in Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>1984</td>
<td>1</td>
<td>9.2</td>
</tr>
<tr>
<td>1990</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>1993</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>1998</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Year</td>
<td>Frequency</td>
<td>Percent (%)</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>-------------</td>
</tr>
<tr>
<td>2002</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>2004</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>2005</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>2006</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>

From the results, the first HMO commenced operations in 1976 which means it is now over 30 years where as the most recent commenced operations in 2006. There has been a gradual entry into the industry over the years. This could point to the attractiveness of the industry or the ease of entry and exit.

4.1.4 Country of Operation
This question sought to find out the geographical presence of the HMOs. The respondents were asked to indicate in which other country they operated. This was a multiple choice question with options being Uganda, Tanzania and Other. The results are given in table 4.4 below.

**Table 4.4: Countries where Kenya based HMOs have operations**

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>None</td>
<td>10</td>
<td>90.0</td>
</tr>
</tbody>
</table>

The results indicate that only one HMO had a presence in Uganda, Tanzania and one other country. 10 out of 11 do not have a business presence outside Kenya. This indicates that, majority of them do not have regional or global presence.

4.1.5 Ownership of HMOs
In terms of ownership, respondents were asked to indicate whether their organizations were wholly locally owned, wholly foreign owned or partially locally and foreign owned.

**Table 4.5: Ownership of HMOs**

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Locally owned</td>
<td>6</td>
<td>54.5</td>
</tr>
<tr>
<td>Partially Foreign and locally owned</td>
<td>5</td>
<td>45.5</td>
</tr>
</tbody>
</table>

6 out of 11 HMOs are fully locally owned with the remaining 5 being partially foreign and locally owned with none being fully foreign owned.

**4.1.6 Number of Members HMOs has**

To determine the size of the HMOs the respondents were asked to indicate the range of the number of members they had. This was from a range already predetermined. The results are given in table 4.6 below.

**Table 4.6: Number of Members HMOs Have**

<table>
<thead>
<tr>
<th>Number of Members</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10,000</td>
<td>7</td>
<td>63.6</td>
</tr>
<tr>
<td>Between 10,000 and 20,000</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>Between 30,000 and 40,000</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Other (Over 100,000)</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>

The number of member per HMO varies with the majority (63.6%) having less than 10,000 members and only one has over 100,000 members.

**4.1.7 Channels of Service Delivery**

HMOs have a range of options in terms of how to deliver services to their clients. This section identified the various methods through which services are provided.
Respondents were given a choice to select from and the results were summarized using frequencies and percentages as shown in table 4.8 below. The channels are not exclusive meaning that an HMO may have more than one channel.

**Table 4.7: Channels of Service Delivery**

<table>
<thead>
<tr>
<th>Channels of Service Delivery</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through own hospital</td>
<td>2</td>
<td>18.2</td>
</tr>
<tr>
<td>Through own clinics</td>
<td>3</td>
<td>27.3</td>
</tr>
<tr>
<td>Through franchised Clinics</td>
<td>3</td>
<td>27.3</td>
</tr>
<tr>
<td>Through 3rd party providers</td>
<td>4</td>
<td>36.4</td>
</tr>
</tbody>
</table>

4 HMOs provide services exclusively through third party providers. Two HMOs provide services through their own hospitals. Three HMOs have clinics through which they provide services to their clients. Three HMOs have franchised clinics. This is where clinics are operated by independent parties under an arrangement agreed with the HMOs.

**4.1.8 Services Provided by the HMOs**

This section sought to establish the type of services/products that HMOs offer. The respondents were asked to indicate the services they offer from a list of services. They were given the option of indicating any other service that was not listed. The results were analyzed using frequency tables and percentages.

**Table 4.8: Services offered by HMOs**

<table>
<thead>
<tr>
<th>Service Provided</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Patient Cover Separately</td>
<td>8</td>
<td>72.7</td>
</tr>
<tr>
<td>Outpatient Cover Separately</td>
<td>6</td>
<td>54.5</td>
</tr>
<tr>
<td>In Patient and Out Patient Covers a compulsory</td>
<td>4</td>
<td>36.4</td>
</tr>
<tr>
<td>Scheme/Fund Administration</td>
<td>6</td>
<td>54.5</td>
</tr>
</tbody>
</table>
Medical Services | 6 | 54.5
--- | --- | ---
Evacuation & Rescue Service | 4 | 36.4
Evacuation & Rescue Service | 4 | 36.4
Critical illness & Maternity | 1 | 9.1
Personal Accident & Funeral Expenses | 1 | 9.1
International Medical Insurance | 1 | 9.1
Advisory Services | 1 | 9.1
Home Based Care | 1 | 9.1
First Aid and CPR Training | 2 | 18.2
Benefits Design | 1 | 9.1
Laboratory Services | 1 | 9.1
Case Management | 1 | 9.1

8 out of 11 HMOs provide In Patient Cover as a separate product. 6 out of 11 offer Out Patient Cover as a separate product, Scheme/Fund Administration service and full medical service. Other HMOs have some complementary services in addition to what appears as the most common services.

### 4.2: Competitive Strategies

This section sought to identify the objectives of the various strategies, identify the strategies adopted and their success in enabling the various organizations to gain competitive advantage. The findings are detailed below.

#### 4.2.1 Objectives of Competitive Strategies

The respondents were given a list of possible objectives of their strategies. They were asked to select the ones that apply to them. The list was not exclusive meaning that a firm could select more than one. The results were analyzed using frequency tables and percentages as presented in table 4.9.
The table above indicates that out of the 11 responses received, the 9 aim to attract new members, 9 to retain existing members, 9 to increase market share and another 9 has the objective improving relationship with service providers. 4 indicated they wanted to achieve market leadership and achieve faster processing of claims.

4.2.2 Competitive Strategies

The respondents were given a list of competitive strategies. They were asked to indicate the extent to which they employed each of the strategies. The options were given on a 4-rating scale as follows: Extensively Used-1, fairly used-2, rarely used-3 and Not employed-4.

When the results were received they were given scores as follows: Extensively Used-4 points, fairly used-3 points, rarely used-2 points and not used-1 point. The scores were then added up and analyzed using mean scores and standard deviations. The results are as shown in table 4.10 below. The higher the mean the more extensively used is the strategy.
Table 4.10: Extent of use of competitive strategies

<table>
<thead>
<tr>
<th>Competitive Strategy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowering prices</td>
<td>2.80</td>
<td>1.033</td>
</tr>
<tr>
<td>Improvement of service quality</td>
<td>1.18</td>
<td>0.405</td>
</tr>
<tr>
<td>Widening of product range</td>
<td>1.70</td>
<td>0.483</td>
</tr>
<tr>
<td>Increased advertising</td>
<td>2.70</td>
<td>1.059</td>
</tr>
<tr>
<td>Increased member benefits</td>
<td>2.50</td>
<td>1.179</td>
</tr>
<tr>
<td>Increased number of service providers</td>
<td>2.18</td>
<td>1.250</td>
</tr>
<tr>
<td>Premium financing services</td>
<td>2.70</td>
<td>1.059</td>
</tr>
<tr>
<td>Vertical integration</td>
<td>2.86</td>
<td>0.900</td>
</tr>
<tr>
<td>Member Education</td>
<td>1.90</td>
<td>0.738</td>
</tr>
<tr>
<td>Increased outlets (branches)</td>
<td>2.70</td>
<td>1.059</td>
</tr>
<tr>
<td>Increased number of service providers</td>
<td>1.55</td>
<td>0.522</td>
</tr>
<tr>
<td>Investment in technology</td>
<td>1.56</td>
<td>1.014</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>1.67</td>
<td>1.118</td>
</tr>
<tr>
<td>Faster Processing of claims</td>
<td>1.09</td>
<td>0.302</td>
</tr>
</tbody>
</table>

Vertical integration has the highest mean at 2.86 followed closely with lowering of prices with a mean of 2.8. Improvement of service quality has the lowest mean of 1.18 indicating that it the least used.

4.2.3 Success of the various Competitive strategies

Having identified the various strategies adopted by the HMO, this section identifies the degree of success of the various strategies. The respondents were asked to rank the success of each strategy using a 5 scale rating as follows: Very Successful-5, Successful-4, neither successful nor failure-3, Failure-2 and Do not know-1. The results were given scores as follows:- Very Successful-5 points, Successful-4 points, Neither successful nor failure-3 points, Failure-2 points and Do not know-1 point. The scores were then tallied and means and standard deviations were computed. The
interpretation is that the higher the mean, the more successful the strategy was. The results are given in table 4.11 below.

**Table: 4.11: Degree of success of various competitive Strategies**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowering of prices</td>
<td>3.38</td>
<td>1.061</td>
</tr>
<tr>
<td>Improvement of service quality</td>
<td>4.45</td>
<td>0.522</td>
</tr>
<tr>
<td>Widening of product range</td>
<td>3.80</td>
<td>0.789</td>
</tr>
<tr>
<td>Increased advertising</td>
<td>2.90</td>
<td>1.449</td>
</tr>
<tr>
<td>Increased member benefits</td>
<td>3.60</td>
<td>1.174</td>
</tr>
<tr>
<td>Increased number of service providers</td>
<td>3.00</td>
<td>1.183</td>
</tr>
<tr>
<td>Premium financing services</td>
<td>2.88</td>
<td>1.246</td>
</tr>
<tr>
<td>Vertical integration</td>
<td>2.86</td>
<td>1.345</td>
</tr>
<tr>
<td>Member Education</td>
<td>3.89</td>
<td>0.782</td>
</tr>
<tr>
<td>Increased outlets (branches)</td>
<td>3.38</td>
<td>1.061</td>
</tr>
<tr>
<td>Investment in technology</td>
<td>4.09</td>
<td>0.831</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>4.00</td>
<td>1.000</td>
</tr>
<tr>
<td>Faster Processing of claims</td>
<td>3.60</td>
<td>1.578</td>
</tr>
<tr>
<td>Improvement of systems and processes</td>
<td>4.36</td>
<td>0.674</td>
</tr>
</tbody>
</table>

The table shows that improvement of service quality has the highest mean of 4.45 followed by improvement of systems and processes with a mean of 4.36. Vertical integration has the lowest mean of 2.86.

**4.2.4 Comparison of Services**

The respondents were asked to indicate how their services compared with those of their competitors. This was a multiple choice question with only two choices of unique or similar. The results were analyzed using frequency tables and percentages as summarized below.
Table 4.12: Service Comparison

<table>
<thead>
<tr>
<th>Comparison of Services</th>
<th>Frequency</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique</td>
<td>8</td>
<td>72.7</td>
</tr>
<tr>
<td>Similar</td>
<td>3</td>
<td>27.3</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100.0</td>
</tr>
</tbody>
</table>

8 of the 11 (72.7%) HMOs perceived their services to be unique in comparison with the competition whereas 3 thought that they offered similar products/services. This indicates that the majority of companies aim at projecting their products/services as different from those of the competition.

4.2.5 Comparison of Prices

This question sought to establish how the prices of services compared. Respondents were given a multiple choice question as were asked to compare their prices with those of their competitors. The choices were: Lower than competitors, Comparable to competition and higher than competitors. The results were analyzed using frequency tables and percentages. This is given on table 4.13 below.

Table 4.13: Price Comparative

<table>
<thead>
<tr>
<th>Comparison of Prices of services</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower than competitors</td>
<td>4</td>
<td>36.4</td>
</tr>
<tr>
<td>Comparable to competitors</td>
<td>6</td>
<td>54.5</td>
</tr>
<tr>
<td>Higher than competitors</td>
<td>1</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The table above indicates that 6 out of 11 HMOs perceive their prices to be comparable to the competition while only 1 thinks their prices are higher than those of their competitors.

### 4.2.6 Markets Served

This section sought to know the various markets served by the HMOs. Respondents given a list of markets and requested to indicate the ones that the served. The respondents were given a list of market segments and asked the ones that they served. The segments were not mutually exclusive meaning that a firm could select more than one segment.

**Table 4.14: Markets Served**

<table>
<thead>
<tr>
<th>Markets Served</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>9</td>
<td>81.8</td>
</tr>
<tr>
<td>Corporate Sector</td>
<td>9</td>
<td>81.8</td>
</tr>
<tr>
<td>Public Sector</td>
<td>4</td>
<td>36.4</td>
</tr>
<tr>
<td>Schools and NGOs</td>
<td>5</td>
<td>45.5</td>
</tr>
</tbody>
</table>

The majority of HMOs (81.8%) serve both individuals and corporate. Others 4 out of 11 and 5 out of 11 also serve the Public Sector and NGOs/Schools respectively.
CHAPTER 5

CONCLUSIONS

5.0 Summary, Discussions and Conclusion

This chapter summarizes the research findings, discusses the findings and draws conclusion.

This study had one research objective which was to determine the competitive strategies used by HMOs in Kenya. The research design was a census survey using a structured questionnaire which was self-administered. The findings were analyzed and results presented using frequency tables, percentages, means and standard deviations where appropriate.

Results indicate that the HMOs have various strategies in place which they have employed with varying degrees of success.

From the literature review we learn that competitive strategy is concerned with a firm’s position relative to its competitors in the market it has chosen. It seeks a competitive edge over rivals while slowing down the erosion of present advantages.

Among the positive outcomes of a successful competitive strategy are market share and profitability. Other measures of performance, such as customer satisfaction and loyalty are increasingly used because they directly reflect customer responses to positional advantages and thus can be leading indicators of changes in market share and profitability. The research showed that HMOs have certain expectations regarding their competitive strategies. Of the 11 responses that were received 9 of them indicated that their objectives were to attract new members, retain existing members and improve their business relationship with their approved service providers. 4 of the 11 firms indicated that they wanted to achieve market leadership.
Companies’ strategies for competing in an industry can differ in a wide variety of ways. A broad number of decisions involving products, markets, distribution channels, customers, prices and so on operationalise the competitive strategies.

A firm’s relative price position in the market can be used as a strategic variable but must be treated separately from other variables such as cost and quality. This research shows that 6 out of 11 HMOs consider their prices to be comparable to those of their competitors. Lowering of prices was not used extensively as it had a mean of 2.8 with a standard deviation of 1.033. This strategy appears to be moderately successful with a mean of 3.38.

The level of product quality in terms of service, specifications and features can play a significant role in positioning an organization. From the research we see that 8 out of 11 HMOs consider they services unique from those of their competitors. Improvement of service quality was considered to be a differentiator with a mean of 4.45 on a 1 to 5. Product differentiation was also ranked highly as a competitive strategy. It has a mean score of 4.0. Other features used to enhance service quality include faster processing of claims, increased number of service providers.

The extent of vertical integration can add value as reflected in the level of forward and backward integration including whether a firm has captive distribution, exclusive or owned retail outlets, and in-house service network and so on. The results indicate that HMOs have multiple channels of service delivery. They include use of own clinics and Hospitals, use of franchised clinics and accredited third party providers. The range of service provided also plays a significant role in the competitive position. The results show that in addition to the common services, some HMOs provide members with other services that they may require. The channels of distribution and the range of services provided give members flexibility as regards to access of service and are likely to enhance the competitive position of the HMO.
Some firms may seek to use technology as a competitive strategy. The degree to which a firm seeks technological leadership versus following or imitation matters a lot. Technology can be used to speed up service delivery, achieve efficiency, and reduce costs. This study showed that the use of technology was not extensive. However it was indicated as being successful in achieving competitive advantage.

The cultivation of markets served is affected by a number of decisions. The scope of market strategy includes depth and diversity of product mix, and breadth and depth of the distribution network. Managers must decide the degree of control over channels that it needs to represent its services to consumers. The control may range from ownership of the distribution system to using independent service providers. This study has shown that there is little variation in terms of markets served by the HMOs. 9 out of 11 indicated that they serve both the individual and the corporate segment. 4 out of 11 also serve the public sector while 5 serve schools and the NGO segment.

The study yielded significant information on various strategies adopted by HMOs and their success. From the foregoing discussions, the following conclusions may be drawn regarding competitive strategies of HMOs in Kenya.

(i) All HMOs have clear expectations of the outcome of their competitive strategies.  
(ii) They have applied various strategies but the emphasis differs from firm to firm.  
(iii) There appears to be an inconsistency between the extent to which some strategies are applied and the rate of success. There are strategies that are extensively used but success rate is low and vice versa.

5.2 Limitations of The Study  
This study was carried out in Nairobi where the identified HMOs have their main offices. There may be other HMOs in the country who were not considered. There was a challenge in defining the population of study. The objective was to identify all HMOs to
be included in the study. There were a number of organizations indicated that they were not HMOs but purely medical insurance providers. A number of HMOs that were initially considered were found not to be in business at the time of the research. The final limitation is in regard to the respondents. Out of the 15 questionnaires send out, only 11 of them were returned.

5.3 Recommendations for Further Research
This study forms the basis for further research. The study was based on HMOs in Kenya. Further research should be carried out to compare and contrast the competitive strategies of other HMOs in other countries.

Further research could be done in future given the ease of entry into the market of other HMOs. This could easily lead to changes in strategy. Looking at the age and size of the companies, it is clear that new HMOs are entering the market each year. As the industry matures, players are bound to change their strategies to gain competitive advantages.

There has been a change in legislation which requires that all HMOs should be registered with the Ministry of Finance as Medical Insurance Providers. They are required to have a minimum share capital and to be regulated by the Commissioner of Insurance just like insurance brokers, agents and underwriters. This is likely to cause significant change in the industry and presents an opportunity for research.

5.4 Implications for Policy and Practice
HMOs should raise their competitive strategies to a higher level through industry analysis, competitive analysis and competitive intelligence. They must become competitor oriented.

It is recognized that competition exists and that failure to adopt competitive strategies can have adverse effects on organizations ranging from decline in market share,
reduced profitability to total business failure. Each HMO should assess its competitive position relative to the competitors. It should then select its desired competitive position. This will enable it put in place appropriate strategies to position itself.

A position of superiority and the resulting market share and profits are continuously subjected to erosion by competitor moves and changes in the market. Over time competitors may copy strategies or acquire needed resources and thus erode certain competitive advantages of their competitors. The challenge to organizations is to place impediments in the way of competitors. This requires HMOs to be flexible and be ready to adjust strategy to changing times.
REFERENCES


Karanja, P, (2002). “Competitive Strategies of Real Estate Firms; The perspective of Porter’s Model”; Unpublished MBA Research Project of the University of Nairobi, Nairobi, Kenya


APPENDICES

Appendix 1: Research Questionnaire

SECTION A: Organisation Information

1. What is your organization’s name?

_____________________________________________

2. What is your position in the organization?

☐ Chief Executive Officer
☐ General Manager
☐ Head of Finance
☐ Head of Marketing
☐ Other (specify) _______________________________

3. Please indicate your level of education

☐ PhD
☐ Masters Degree
☐ Undergraduate Degree
☐ Other (specify) _______________________________
4. Which year did your organization commence operations in Kenya___________

5. Apart from Kenya which other country does your organization operate in?
   Uganda ( )  Tanzania ( )  Other specify ( )
   _______________________

6. How would you classify your organization in regard to ownership?
   [ ] Fully locally owned
   [ ] Fully foreign owned
   [ ] Partially foreign and locally owned
   [ ] Other (please specify) _________________________________

7. How many members does your organization have?
   [ ] Less than 10,000
   [ ] Between 10,000 and 20,000
   [ ] Between 20,000 and 30,000
   [ ] Between 30,000 and 40,000
Between 40,000 and 50,000

- [ ]

Over 50,000 members

- [ ]

Other (please specify) ________________________

8. What medical covers/services does your organization provide? (please tick all the appropriate options)

- [ ] Impatient covers Separately

- [ ] Outpatient covers Separately

- [ ] Both inpatient and outpatient covers (compulsory)

- [ ] Scheme/fund administration

- [ ] Medical Services

- [ ] Other (please specify) ________________________________

9. How do you deliver services to your members?

- [ ] Through own hospital

- [ ] Through own clinics

- [ ] Through franchised clinics
SECTION B: Competitive Strategies

10. What are the main objectives of your competitive strategies? (please tick only applicable options)

- Attract new customers
- Retain existing customers (sustain renewals)
- Increase market share
- Protect market share
- Improve profitability
- Reduce costs
- Differentiate your products
- Achieve market leadership
- Improve customer relations
11. To what extent does your organization employ the following strategies in response to competition (please rank them from 1-4 in the boxes provided, where 1=extensively, 2=fairly, 3=rarely and 4=not employed)?

- Lowering of prices
- Improvement of service quality
- Widening of product range
- Increased advertising
- Increased member benefits
- Increased number of service providers
- Premium financing services
- Vertical integration

Other (please specify) ________________________________
Member Education

- Increased outlets (branches)
- Investment in technology

- Product differentiation
- Faster Processing of claims
- Improvement of systems and processes
- Other (please specify) ________________________________

12. According to you what has been the success or failure of the strategies used (please rank them from 1-5 in the boxes provided where 1=Do not know, 2=failure, 3=Neither failure not success, 4=successful and 5=Very successful)

- Lowering of prices
- Improvement of service quality
- Widening of product range
- Increased advertising
- Increased member benefits
Increased number of service providers

- [ ] Premium financing services
- [ ] Vertical integration
- [ ] Member Education
- [ ] Increased outlets (branches)
- [ ] Investment in technology
- [ ] Product differentiation
- [ ] Faster Processing of claims
- [ ] Improvement of systems and processes
- [ ] Other (please specify) __________________________________________

13. How do you judge your services compared to those provided by the competitors?

- [ ] Unique
- [ ] Similar
- [ ] Other (please specify) __________________________
14. How do your prices compare to those of your competitors

☐ Lower than those of the competitors

☐ Comparable to those of the competitors

☐ Higher than those of the competitors

15. What market segment are you currently serving (tick all the appropriate segments)

☐ Individuals

☐ Corporate sector

☐ Public service (Government Departments and parastatals)

☐ Schools and NGOs

☐ Other (please specify)

Thank you for your cooperation
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Appendix 3: Introduction Letter

Samson K Cherutich

P O Box 20484 00200 Nairobi
Tel: 2846112, 0722-283996, 0724-104480
Email:cherutich@nbihosp.org


Dear Respondent

**MBA RESEARCH**

I am a postgraduate student at the University of Nairobi pursuing an MBA degree course majoring in Strategic Management. As part of the course, I am required to carry out research on strategic management practices in Kenya. My research is on the emerging Healthcare Management Organisations in Kenya.

I would appreciate if you could spare some time to provide the information as per the attached questionnaire. The questionnaire will be collected in a week’s time from today.

I have attached a copy of my reference letter from the University of Nairobi.

I would like to assure you that information provided will be kept confidential and that the information provided is not going to be used for any other purpose other than for the requirement of my research.

Thanking you in advance.

Yours faithfully

SAMSON K CHERUTICH